

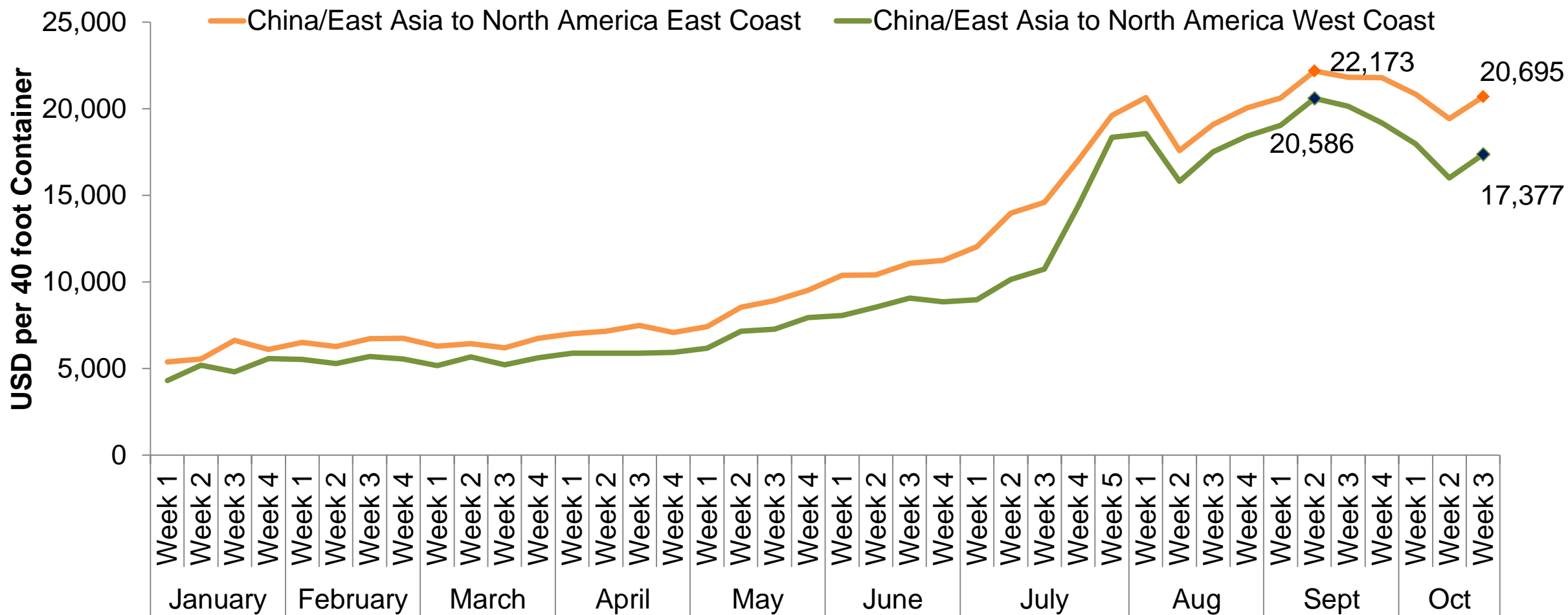


EXPOLANKA HOLDINGS PLC

CONSUMER SPENDING REMAINS STRONG DUE TO SEASONAL DEMAND

- American consumers have been spending less on services and spending more on goods such as Apparel, Electronics, Automobiles etc
- As **Thanksgiving, Christmas** and **Chinese New Year** approaches, **demand for Container Shipping** is expected to **increase in Q4 CY2021**.
- **Inventory levels** in Europe and US are at an **all time low**
- **IMF growth projections for the US economy** remains strong at **6% for 2021** and **5.2% for 2022**.
- **Cargo volumes** are expected to remain strong to **build up inventory**.

FREIGHT RATES REBOUND POST GOLDEN WEEK HOLIDAY (1st Oct to 7th Oct 2021)



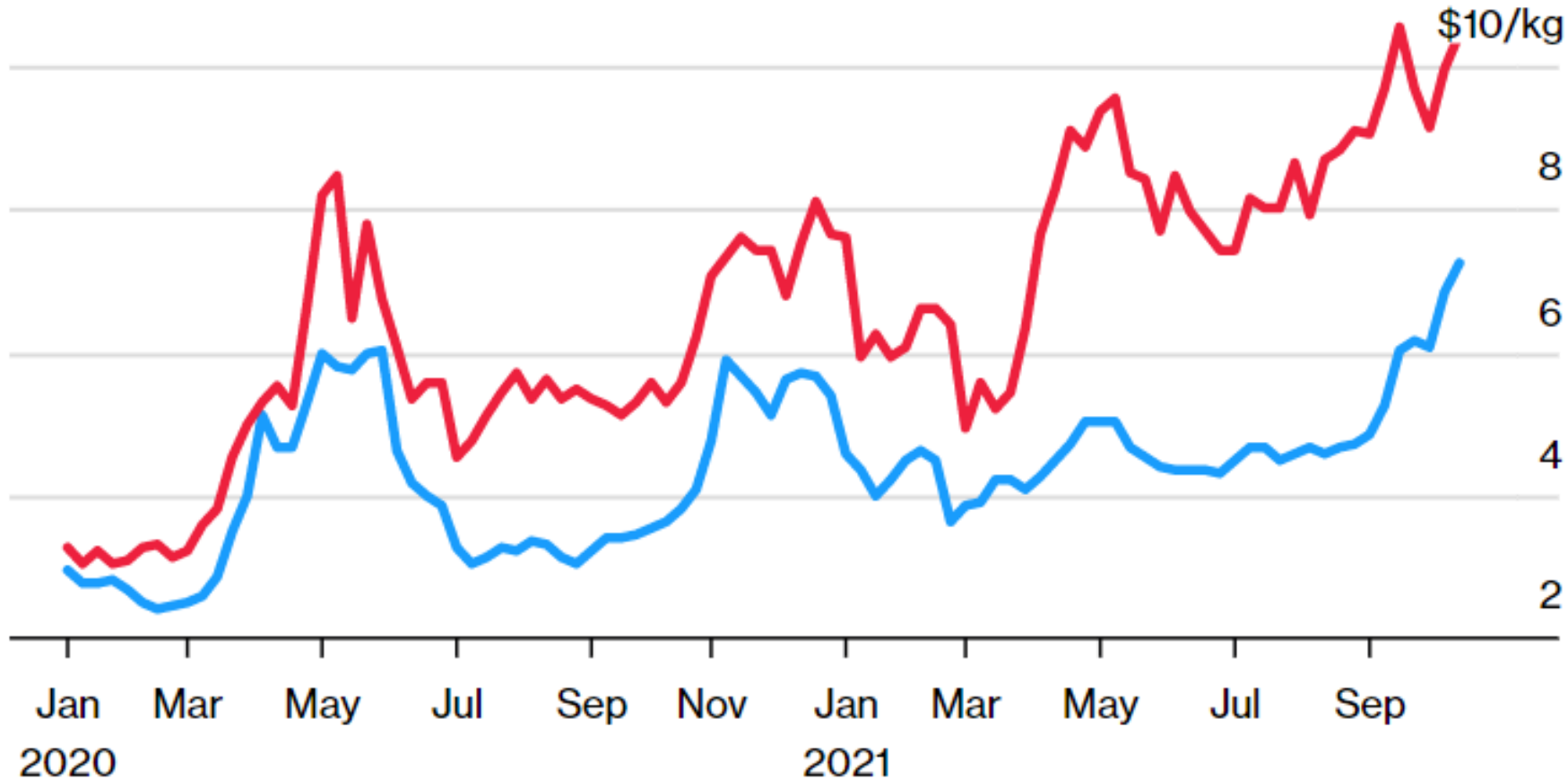
Source: Freightos Baltic Index Weekly Prices-- FBX01, FBX03 Weekly Prices

SEA FREIGHT RATES TO REMAIN HIGH OWING TO SUPPLY SIDE CONSTRAINTS

- **Continued delays** are observed at Ports of Los Angeles and Long Beach. 200,000 containers remain on ships off North Americas busiest port in LA due to Pandemic related grid lock
- **Congestion in origin ports in Asia** were further exacerbated by **inclement weather conditions** causing long turnaround times and container traffic.
- Previous **closures of Chinese Ports** Yantian and Ningbo-Zhoushan continues to have spillover effects of back log and longer lead times
- **Suez Canal blockage in March 2021** for six days took weeks to clear causing back up of over 400 vessels.
- Maersk expects global **container demand growth for 2021 at 6%-8%**, owing to the strong demand in the first half of the year and ongoing demand in US
- Due to consumer Demand for goods increasing and pandemic led disruptions causing backlogs to extend until end of CY2022, **rates** are expected to be **elevated until end of CY2022.**

INCREASED RELIANCE ON AIR FREIGHT RESULTS IN PEAK RATES IN OCTOBER 2021

Blue line: Hong Kong to Europe Red line: Hong Kong to North America



On the 18th of October rates from

- **Hong Kong to North America** rose to **USD10.4/kg** from **USD 9.1/kg** over a two week period.
- Rates from **Hong Kong to Europe** to **USD7.2/kg** from **USD 6.1/Kg** over a two week period.

Source: TAC Index

DEMAND FOR AIR CARGO SURGE DUE TO ONGOING SHIPPING DELAYS

- Demand supply imbalances even with airlines **converting passenger air craft into temporary cargo planes.**
- **Port Congestion**, limited capacity in shipping lines has elevated **regular air Freight Rates** and **Charter Costs** to **peak levels.**
- Many **Airlines** operating at **100% capacity** and adding extra capacity to meet the **unprecedented demand.**
- **Market outlook remains positive** for **Air Freight** as Q3 FY22 is expected to have a strong demand with rates set to increase further.

EXPO's LOGISTICS SECTOR STRATEGY



**Broaden
Regional
Foot Print**



**Diversification
to
New verticals**



**Organic and
Inorganic
Expansion**



**Investment
in
Technology**

ACQUISITIONS TO DRIVE GROWTH AND OFFER END TO END SOLUTIONS

- On 1st March 2021 EFL Global LLC – USA, a fully owned subsidiary of EXPO Lanka Holdings, acquired **Seville Container Freight Station, Inc., Seville Freight Systems Inc., and Seville Transfer Ltd.** for **USD 2.2mn**
- Seville is a **Bonded Container Freight Station** and a **Bonded Trucking company** located in the strategically important **John F. Kennedy Airport** in the USA.
- This acquisition adds to the Groups **bonded warehouse, storage and transportation** capabilities.
- Enables EXPO to provide more **space and solutions to clients, an end-to-end service** opportunity.

ACQUISITIONS TO DRIVE GROWTH AND ENHANCE SERVICE OFFERING

- On 8th September 2021, **COMPLETE TRANSPORT SYSTEM LLC** was acquired by EXPO for **USD6.1Mn.**
- This US based company offers **Bonded Container Freight Station** and **Trucking services.**
 - The Company offers **Airport pickup and delivery within New York City** and is a **TSA Homeland Security approved Ground Transport Carrier.**
 - Certified **Cargo screening facility** with US TSA approved security program.
 - Through its **strategic partnership** with **Direct Expedite** the company offers ground expedite services to anywhere in the **US and most of Canada.**
- The acquisitions allow EXPO to **strengthen its service offering** by providing **value added logistics services.**

ACQUISITIONS TO DEEPEN WALLETSHARE OF KEY STRATEGIC ACCOUNTS

- On August 10th 2021, EXPO acquired the **Central American IDEA Logistics LLC** and its group of companies.
- The Company has the **largest delivery fleet** of all free zone logistics companies in **Central America**
 - Operates own trucks and trailers in North and South Carolina. Domestic freight outside own asset base through partner UCW Logistics.
 - Distribution network between USA, Central America and Caribbean.
- The acquisition allows EXPO to **expand** operations in to **Central America** a popular and fast growing apparel manufacturing hub.

SIGNIFICANT BACKING BY STRONG PARENT COMPANY-SG HOLDINGS Co. Ltd, Japan



- SG Holdings Co Ltd is a leading logistics conglomerate **headquartered in Tokyo**
- The Company listed on the **Tokyo Stock Exchange** and included in **TOPIX and JPX-Nikkei 400 indexes.**
- **Global network of 28 countries** and regions including North America, Europe, Asia and Africa
- **128 Companies** within the Group
- **Total Logistics Solution Provider** leveraging on its network and infrastructure.
- In addition to delivery and logistics, the Group is in Real Estate development and management, Human resources, and IT consultancy.
- The Company recorded **Operating Revenues of USD 11.5bn** and **Net Profit for Equity Holders of USD 654.2mn** as at March 2021.
- **SG Holdings Net Assets Value as at 30th June 2021 was USD 3.66bn.**

SEA FREIGHT DRIVING PROFIT GROWTH

Sea freight contribution has increased QoQ since 2QFY21 and continues to drive profit growth.

Air Freight accounted for **86%** of Gross Profit and Sea Freight only accounted for **14%** of the Gross Profit in 1QFY21.

Sea freight contribution to Gross Profit increased to **23%** in 4QFY21 and almost doubled to **45%** in 1QFY22.

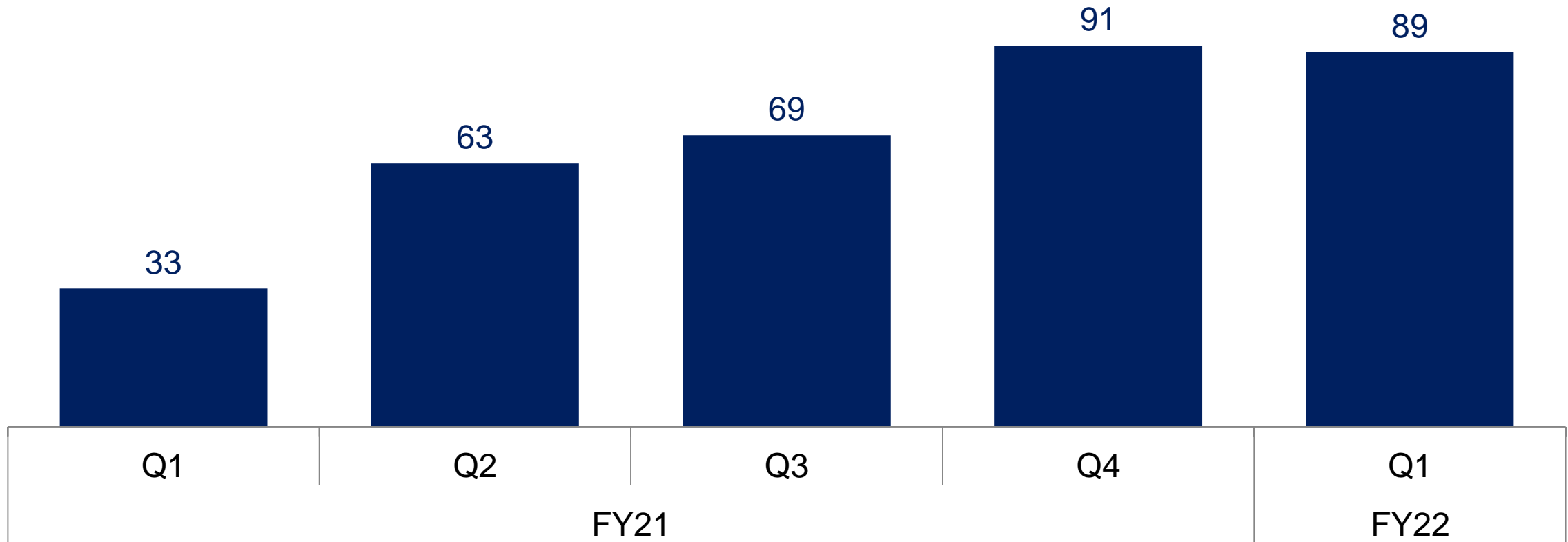
EFL was able to **increase its yields** through proactive procurement and capacity building initiatives in an increasing freight rate environment.

Leveraging off its relationship with SG Holdings, the Company has the ability to **forward book 12-month contract rates** with Liners and Airlines to ensure sustainable Yield Management.

EFL offers freight rates at a **10-15%** GP margin above the contract rate to its strategic customers to be price competitive and increase its volume and wallet shares.

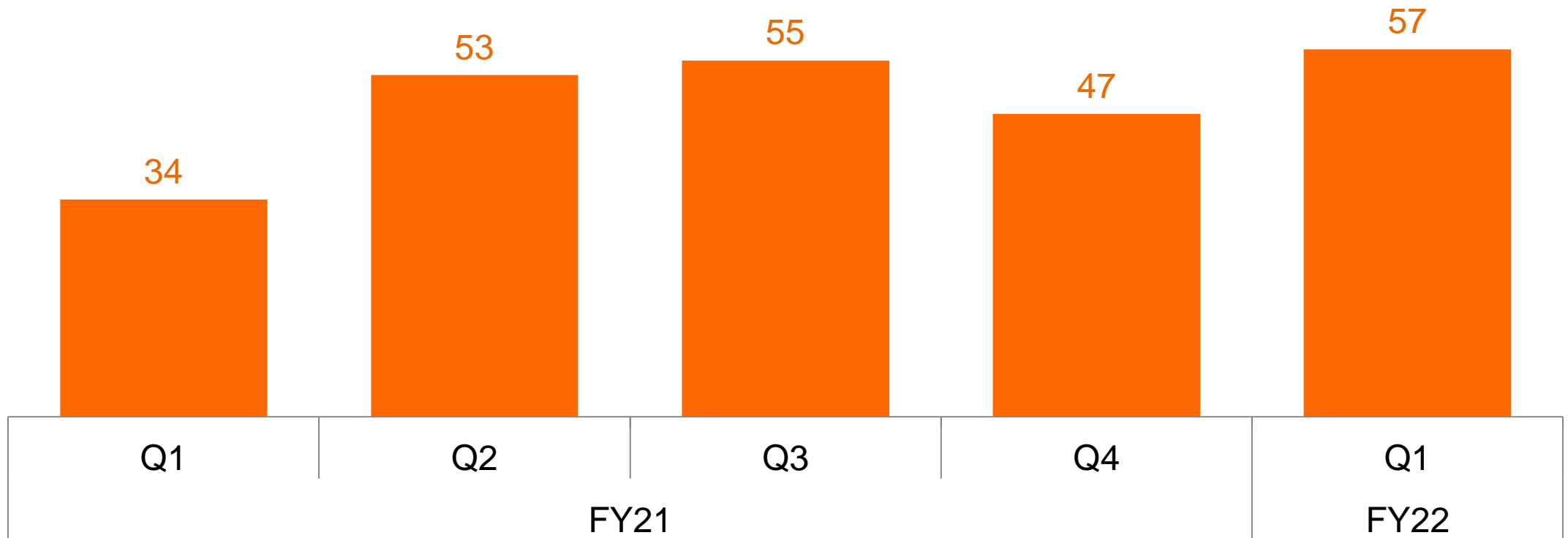
EXPO's SEA FREIGHT VOLUME AND YIELD ON THE RISE

Sea Freight Volume (TEUs '000)



EXPO's AIR FREIGHT VOLUMES ON THE RISE, YIELDS EXPECTED TO INCREASE

Air Freight Volume (Kg mns)



* Gross Profit for Air freight / Air freight volume
Source : Company Annual Reports, Media Articles

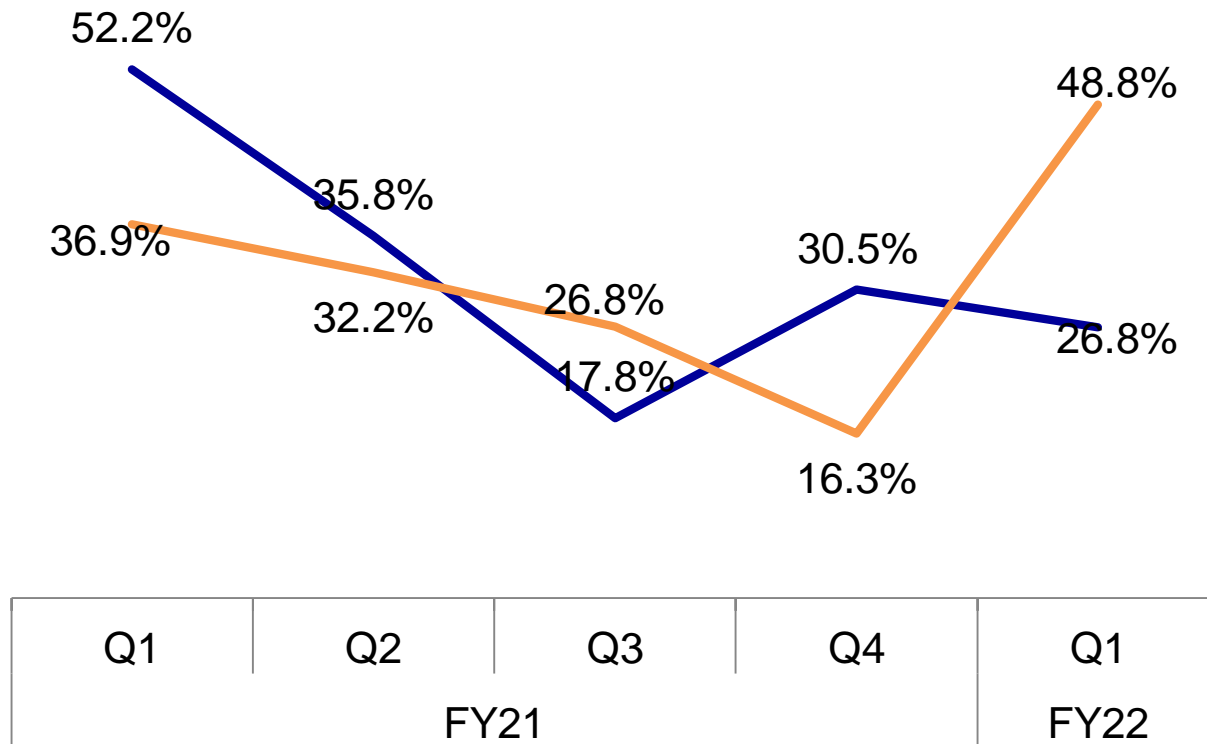
HIGH QUALITY DEBTORS LOWER DEFAULT RISK

- During **Q1FY22** EXPOs Debtors increased to **LKR 73,027mn (+48.8%)** from **LKR 49,089mn** in **March 2021**. This is in line with the Revenue increase of **26.8% QoQ**.
- Through its **Parent SG Holdings**, EXPO has access to **cheap sources of funding**.
- Therefore EXPO is able to provide **30-60 day credit periods** to gain **key strategic accounts**.
- EXPO extends these credit terms after **careful evaluation through a stringent credit appraisal process**.
- EXPO's customer profile, consists of **US Listed Multinational Global Brands with strong Credit Ratings**.
- Therefore we **don't expect debtor writes-offs** as a risk for the Company. Debtors are expected to increase to support revenue reflecting growth in freight rates.

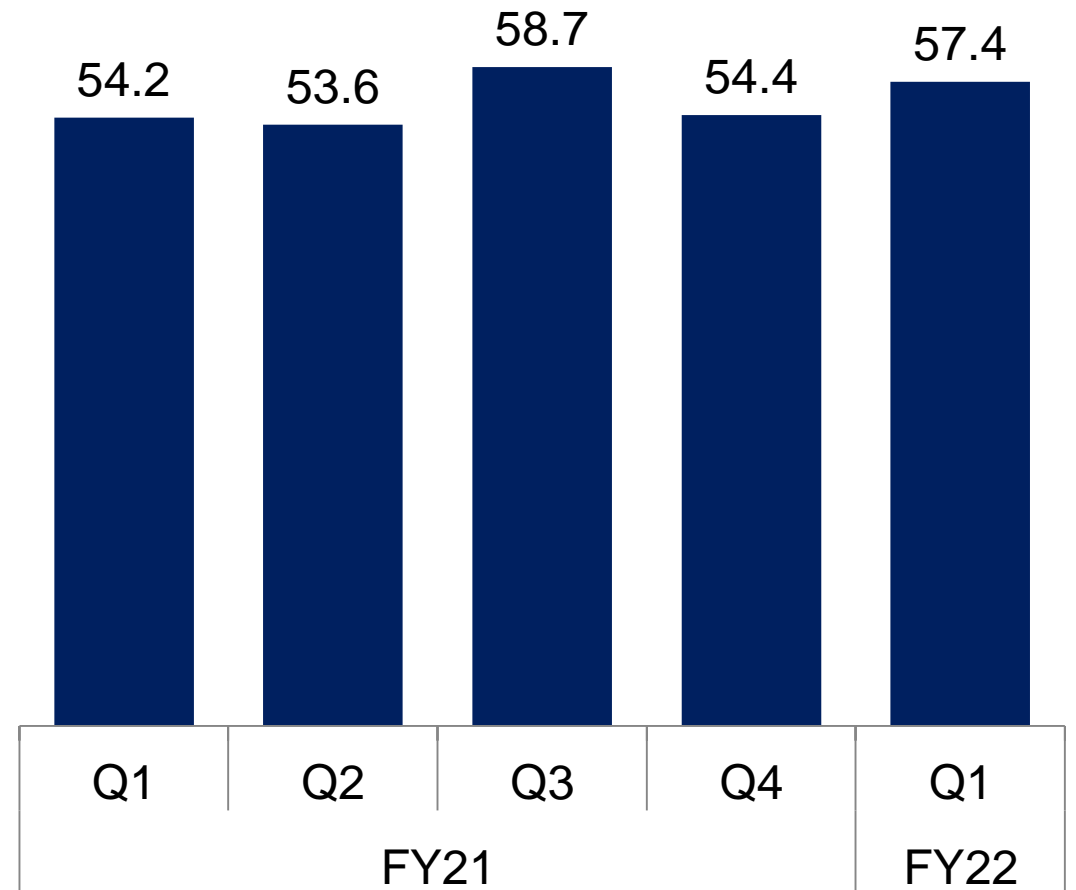
DEBTORS HAVE RISEN IN LINE WITH REVENUE GROWTH

Revenue and Receivables Growth

- QoQ Revenue Growth
- QoQ Trade and other Receivable Growth



Receivable Days*



*Receivable Days = Average Debtors for the quarter / Quarterly Revenue * 90
 Source : Company Annual and Quarterly Reports

EXPO MARGINS EXPECTED TO REMAIN STABLE WITH HIGHER YIELDS DURING FY22

- We expect EXPO's **Margins to strengthen** during 2QFY22 and FY22 due to higher yields from price gains in sea and air freight rates
- Earnings are further expected to be supported by gains from **LKR Depreciation**.
- We have assumed an average **Exchange Rate of LKR 215** for FY22 in all our forecasts.

	Forecast Q2FY22	Forecast FY22	Forecast FY23
Operating Margin	9.25%	9.00%	7.76%
Profit Before Tax Margin	9.14%	8.94%	7.64%
Net Earnings (Equity Holders) Margin	7.75%	7.50%	6.48%

EARNINGS FORECAST REVISED UPWARDS

- Impact from broader service offerings and broad basing network operations is expected to drive volumes during **FY22-FY23**
- Margins expected to remain stable owing to capacity efficient pricing and proactive procurement strategies

	Forecast Q2FY22 LKRmn	YoY Growth	Forecast FY22 LKRmn	YoY Growth	Forecast FY23 LKRmn	YoY Growth
Revenue	167,530.41	240.85%	496,310.30	126.90%	645,545.01	30.07%
Operating Profit	15,497.76	179.50%	44,681.37	163.57%	50,064.42	12.05%
Profit Before Tax	15,316.40	180.97%	44,347.35	167.40%	49,338.99	11.26%
Net Earnings (Equity Holders)	12,986.08	186.55%	37,229.65	151.04%	41,832.30	12.36%

EXPO LANKA HOLDINGS TO CONTINUE TO RECORD STRONG EARNINGS GROWTH

Figures are in LKR mn	FY16	FY17	FY18	FY19	FY20	FY21	FY22F	FY23F
Revenue	56,014.97	63,492.15	77,532.80	95,454.90	103,245.67	218,735.35	496,310.30	645,545.01
<i>% change YoY</i>	6.39%	13.35%	22.11%	23.12%	8.16%	111.86%	126.90%	30.07%
EBIT	2,088.33	1,934.91	1,820.05	3,202.69	2,243.62	16,830.59	44,681.37	50,064.42
<i>% change YoY</i>	55.95%	-7.35%	-5.94%	75.97%	-29.95%	650.15%	165.48%	12.05%
<i>EBIT Margin (%)</i>	3.73%	3.05%	2.35%	3.36%	2.17%	7.75%	9.00%	7.76%
Net Profit (Equity Holders)	1,099.65	972.46	710.87	1,447.99	771.64	14,830.19	37,229.65	41,832.30
<i>% change YoY</i>	42.96%	-11.57%	-26.90%	103.69%	-46.71%	1821.91%	151.04%	12.36%
Market Price Per Share (LKR)	7.00	6.00	4.90	4.00	2.00	44.70	209.00	209.00
Earnings Per Share (LKR)	0.56	0.50	0.36	0.74	0.39	7.59	19.04	21.40
Price to Earnings Ratio (x)	12.44	12.06	13.48	5.40	5.07	5.89	10.97	9.77
Book Value Per Share (LKR)	6.06	6.27	6.54	7.30	6.47	13.89	27.60	44.34
Price to Book Value Ratio (x)	1.15	0.96	0.75	0.55	0.31	3.22	7.57	4.71
Dividend Payout (%)	21.33%	30.15%	41.25%	20.25%	0.00%	6.59%	22.00%	22.00%
Dividend Per Share (LKR)	0.12	0.15	0.15	0.15	-	0.50	4.19	4.71
Dividend Yield (%)	1.71%	2.50%	3.06%	3.75%	0.00%	1.12%	2.00%	2.25%
Return on Equity (%)	9.28%	7.94%	5.56%	10.14%	6.11%	54.62%	68.99%	48.26%
Debt to Equity (%)	15.12%	19.61%	32.90%	37.35%	96.49%	67.73%	67.31%	41.90%

PEER MULTIPLES AND RETURNS COMPARISON

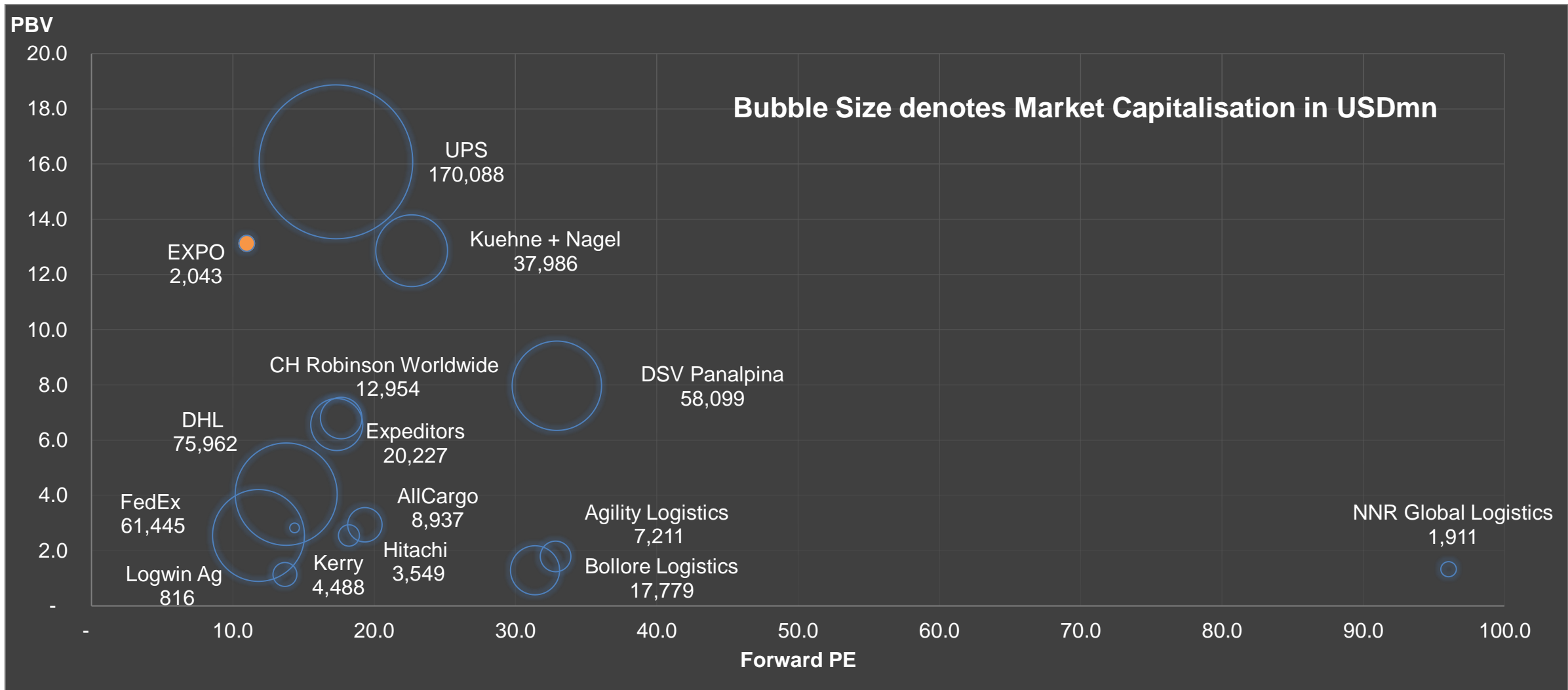
Company	Air Freight Forwarder	Sea Freight Forwarder	Forward PE	PBV	ROE
	Rank**	Rank**			
DHL Supply Chain & Global Forwarding	1	3	13.8	4.0	20.4%
Kuehne + Nagel	2	1	22.7	12.9	33.5%
DSV Panalpina	3	4	32.9	8.0	13.6%
UPS Supply Chain Solutions	5	23	17.3	16.1	201.5%
Expeditors International of Washington	6	9	17.3	6.6	27.5%
Bolloré Logistics	10	14	31.4	1.3	4.3%
Kerry Logistics	13	8	13.7	1.1	13.4%
Agility Logistics	15	15	32.9	1.8	6.7%
FedEx Logistics	20		11.8	2.5	14.0%
NNR Global Logistics	21		96.0	1.3	2.9%
C.H. Robinson Worldwide	23	6	17.7	6.8	36.9%
Hitachi Transport System	24		18.2	2.5	10.3%
Logwin AG		17	14.4	2.8	18.8%
AllCargo Logistics		18	19.3	2.9	10.5%
Average*			20.3	5.3	31.7%
Expo Lanka Holdings PLC	31	49	11.0	13.1	62.2%

*Average Excluding NNR Global Logistics

**Rank within the top 25 freight forwarders

Source: Investing.com, ttnews.com

PEER MARKET MULTIPLES COMPARISON



Source: Investing.com

EXPOLANKA HOLDINGS VALUATION ..

Fair Value of LKR 307.25(+47.01%)

- Currently trading at a PE of **10.97x** FY22F and a PE of **9.77x** FY23F respectively.
- We expect the counter to record **strong earnings growth** given elevated freight rates, growth in volumes ahead of US peak season, enhanced service offerings and expansion of reach through **several acquisitions**.
- With over **93% of Revenue in foreign currency** including **63%** from US, the Stock provides a natural hedge for investors against the **LKR depreciation**.
- We expect the counter to trade at a premium to the broader market PE as it provides investors **protection against the performance of the Sri Lankan Economy**, exposure to the US economy and a **global multinational with robust earnings growth**.
- Considering the **Peer Average PE of 20.25x Forward earnings** and **Market PE of 12.02x** on a 50% : 50% basis, we expect the Stock to trade at a PE of **16.13x FY22F** and a **Fair Value of LKR 307.25**

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