

# SHAREMARKET REVIEW

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The years 1989 and 1990 have been years of extremes as the Colombo Stock Exchange hit both new lows and all time highs in these two years. The year 1990 was a year of particular significance for the Stock Market with many stock prices continuing to soar most of the year until it was taken aback following the invasion of Kuwait by Iraq on August 2, 1990. The impact of this scenario was felt as remittances by Sri Lankans (an estimated 100,000) working in Kuwait began to shrink. Another added worry was the continuing war risk surcharge and the bunker surcharge which was imposed in stages. Other threats that emanated from this crisis included fears that local exports, particularly tea which is a major foreign exchange earner would decline. Following the outbreak of a war in the Gulf by mid January 1991 and a ceasefire by late February 1991, the market began to recover from its depths once more. The heavy buying that followed had all the earmarks of a buying panic increasing the turnover registered during the first two weeks in March to Rs. 77.4 million which may exceed the turnover figures registered during the previous six months of market activity, see table I.

In order to assist in reckoning the market direction the Colombo Stock Exchange

computes on a daily basis a number of statistics. The most popular among them are the CSE All Share Price Index and the CSE Sensitive Price Index. These indices are capital weighted indices allowing the price movements of the larger companies to have a greater impact on the index. Such a weighting system was adopted on the assumption that the general economic situation has a greater influence on the larger companies than on the smaller ones. In preparing the CSE All Share Price Index the whole of the year 1985 was considered the base period, although it is customary to consider one day as the base date. The formula for computing the index entails adjustments to the base year figure in accordance with Rights Issues, New Listings, De-Listings and Bonus Issues. In March 1987 steps were taken to construct a Sensitive Price Index in order to monitor the general price trend of favourite shares in the market. Therefore in choosing a basket of shares for this purpose the issued capital, dividend policy, velocity of trading and earnings per share for the past three years were the criteria for listed companies, see table II. This requirement was fulfilled with the selection of twenty four blue chip companies and the base for this index too was set at 1985, and it is felt that relocations con-

cerning this basket of shares, will not be made till 1992. In addition the Exchange also computes on a daily basis Sectoral Indices, which in addition also takes into account relocations.

During the period 1985 to 1987 the market witnessed a steady rise, of course with ups and downs inbetween, and a culmination of share prices in November 1987 with the signing of the Peace Accord between Sri Lanka and India. However as the situation in the North did not subside as was expected, share prices began to drift to very disappointing levels. As a result 1988 which started with the CSE All Share Price Index and the CSE Sensitive Price Index reading 219.22 points and 308.25 points respectively dived to as low as 136.29 points and 208.40 points by December the same year. However after the Presidential Election in December, the Stock Market witnessed a resurgence in share prices during the tail end of the year 1988. And as the country situation remained bleak most of the year throughout 1989, share prices continued to remain depressed till October the same year. One can imagine how badly share prices had been effected if Hayleys Ltd's shares which now fetches Rs. 340/- was available at Rs. 97/- after being transacted at Rs. 200 in 1987. This was about the same time when John Keells Holdings sold at Rs. 15/- and Aitken Spence & Co Ltd fetched Rs. 20/-. The uptrend in share prices that was seen during the final quarter continued to persist till the time of the Gulf Crisis. The market began to pick up tremendously by April on rumours that foreigners would soon be permitted to buy equities. This materialised in June as the government lifted the restrictions and prices continued to soar taking the market's aggregate P/e to as much as 33 times from its earlier levels of 12 times, thus making it an overheated market with

Table I

		1990 August	September	October	November	December	1991 January	February	March (upto 15th)
Turnover	Rs. '000	318,000	73,197	81,179	56,344	28,333	69,341	75,722	77,498
CSE All share Price Index	points	439.55	415.88	407.31	365.83	384.39	372.82	387.33	411.77
CSE Sensitive Price Index	points	764.09	708.95	702.00	637.31	680.30	633.96	657.64	704.74
Price/Earnings Ratio	times	30.97	25.32	13.57	12.04	12.50	12.01	12.49	13.27
Dividend Yield	%	1.78	1.89	1.94	2.09	2.07	2.07	1.98	1.93

Source: Stock Market Daily (many issues).

some share prices exceedingly high resulting from a buying panic.

The most populace sector in the Stock Exchange is the Hotel & Travel Sector with as many as 31 listed companies in this category, while the manufacturing Sector has as many as 25 companies. Unlike the Manufacturing Sector, the Hotel & Travel Sector lacks the presence of blue chip stocks. This is chiefly because the sector is extremely sensitive to external factors and therefore has been effected from time to time resulting in disrupted flow of tourist arrivals. The most recent was the impact of the Gulf War resulting in a decline of air passenger movement to Colombo. Owing to such setbacks, the shares in this sector have had very little opportunity to mature and many of them are yet in a pre-recognition phase of their respective stock growth cycles, see table III.

This sector, therefore belonged in the realm of speculative stocks for many years, and investors in these shares had no track record to go by in most instances, thereby making investments dicy and risky as is evident from the sectoral index. The estimates for tourist arrivals in 1990 stands at a little over 262,320 which would mean that the industry has been on an upward trend for the past three years. At present the Sectoral Index has risen to 336.14 points as on 15 March 1991. The highest drop in

Item	Year	1985	1986	1987	1988	1989
Tourist Arrivals	No	257,456	230,106	182,620	182,662	184,732
Industry Growth Rate	%	-19.0	-10.6	20.6	+0.02	+1.1
CSE Sectoral Index	points	94.55	84.63	128.10	93.01	109.96
CSE Sect. Index-change	%	-	-10.49	+51.36	-27.39	+18.22

Sources: CSE Stock Market Daily & Central Bank Annual Reports - 1987, 1988 & 1989

	1986	1987	1988	1989	
GDP at Constant (1982) Factor Cost Prices	%	4.3	1.5	2.7	2.7
GNP at Constant (1982) Factor Cost Prices	%	4.5	1.6	2.6	2.2

Sources: Central Bank Annual Reports 1987, 1988 & 1989.

tourist arrivals was seen in 1987. Total tourist arrivals during the year 1987 at 182,620 recorded a decline of 21% over the arrival in the previous year which was 230,106. This was 55% lower when compared to the all time high in arrivals of 407,230 registered in 1982.

Much emphasis has been placed on improving tourism in Sri Lanka. Amongst the many developments are refurbishing hotels and renovating resorts. The Tourist Hotels Association of Sri Lanka comprising a membership of 200 hotel units, has written to the Central Bank, requesting that all hotels hit by low tourist arrivals, be included in this bank's scheme of refinance for refurbishment. The Central Bank had excluded from this scheme hotels which had a lesser than 10% occupancy during 1990, and those with units comprising less than 20 rooms. In recent times the minimum charge on room rates

have been upped from US \$65 to US \$75 for five star hotels. The weak rupee with a conversion rate of Rs. 40/- to 1 US \$ is also an indirect benefit to tourists who are likely to have more spending power here than in other competing South East Asian destinations.

With Sri Lanka experiencing a welcome resurgence of tourist arrivals during the Winter season in 1989, Ahungalla Hotels Ltd, who own and operate Triton Hotel achieved its best ever results. The Fernweh Exclusive a prestigious Ger-

Table V - Growth in Industrial output

	1986	1987	1988	1989
In real terms %	+12	+8	+6	+6
In current terms %	-	+17	+11	+14

Source: Central Bank Annual Report - 1987, 1988, & 1989.

Table VI - Growth in Industrial output in real term sectorwise

Sector	1987	1988	1989	
Food, Beverage & Tobacco	%	+3	NA	+12
Textiles, wearing apparel and leather products	%	+23	+12	+16
Non metallic mineral products	%	+11	+5	-5
Fabricated metal products	%	+9	+9	+17
Wood and wood products	%	+4	-17	NA
Chemical products	%	+3	+5	-18
Paper and paper products	%	+1	NA	-20
Basic metal products	%	+11	-21	-11

Source: Central Bank Annual Reports - 1987, 1988, & 1989.

Table VII - Industrial output, growth in real terms

	1987	1988	1989
Private Sector %	+15	+11	+15
Public Sector %	-1	-1	-21

Table II

Name of Stock	Price as on 14/3/91	EPS	NAV	ROE	P/e	DPS
Central Finance Co Ltd	185.00	16.34	95.57	15.62	11.02	3.00
Shaw Wallace & Hedges Ltd	80.00	7.08	82.30	8.60	10.59	4.00
ACME Aluminium Co Ltd	88.00	16.30	54.38	40.22	5.21	3.00
Chemical Industries (Colombo) Ltd	94.00	6.02	20.82	29.63	15.61	2.50
Commercial Bank of Ceylon Ltd	135.00	28.64	98.79	28.99	4.71	3.00
Dipped Products Ltd	120.00	12.55	24.66	42.37	9.56	2.50
Mercantile Leasing Ltd	32.75	2.84	12.93	21.96	11.53	3.00
Ceylon Tobacco Co Ltd	39.00	3.88	16.23	23.30	10.05	2.95
Hayleys Ltd	340.00	29.75	117.30	20.85	11.43	3.30
Carson Cumberbatch & Co Ltd	365.00	7.46	299.17	2.49	48.93	3.95
Bata Shoe Co of Ceylon Ltd	48.00	2.69	17.65	15.24	17.84	1.00
Haycarb Ltd	125.00	15.22	43.60	43.59	8.21	5.00
Glaxo Ceylon Ltd	50.00	3.91	19.65	19.89	12.79	0.50
Ceylon Brewery Ltd	146.00	5.64	41.43	13.61	25.89	-2.25
Chemmanex Ltd	53.00	3.27	34.69	9.45	16.16	1.55
Reckitt & Colman of Ceylon Ltd	81.00	5.24	18.91	27.71	15.46	2.15
Hatton National Bank Ltd	195.25	19.58	89.89	21.77	9.97	2.50
Mercantile Credit Ltd	63.25	5.56	181.42	3.06	11.38	2.50
Ceylon Match Co Ltd	35.00	3.19	42.26	7.50	11.04	1.00
Pura Beverages Co Ltd	75.00	-	22.57	-	-	0.96
Lanka Orix Leasing Co Ltd	80.00	8.51	29.56	28.78	9.40	4.00
Singer (Sri Lanka) Ltd	45.00	4.32	14.57	29.64	10.42	3.00
Singer Industries Ltd	45.00	3.28	15.32	21.41	13.72	3.00
Lankem Ceylon Ltd	41.75	2.45	344.51	5.50	17.04	-

Source: CSE Fact Book, Handbook of Listed Companies, Stock Market Daily.

man tourist magazine rated Triton as one of the best resort hotels in the world. In addition the BMW Tropical Beach Handbook published in 1989 rates Ahungalla Beach, as one of the twelve best beaches in the world and has referred to Triton as Sri Lanka's top beach hotel. In the meanwhile Keells Hotel Management Services Ltd, the hotel management subsidiary of John Keells Holdings is looking into prospects for developing its 6 1/2 acres of land in Ahungalla.

on share purchases and the 15% withholding tax on dividends and the revision of Capital gains tax by confining such taxes to re-sales within one year were salient among them.

On a macro scale, GDP registered a modest growth of 2.2% in 1989, see table IV. In real terms, the value of industrial output is estimated to have increased by 6% in 1989. The overall output in private sector industries recorded an increase of 15%, while that of public sector industry declined by 21%. See table V, VI.

The Greater Colombo Economic Commission (GCEC) which is the co-ordinating body in charge of Investment Promotion Zones (IPZs) approved 24 projects in 1989, bringing the total number of projects to 308 by the end of 1989. As at end of 1989, agreements had been signed in respect of 178 projects, of which 118 were in commercial production. Of those projects in production, 70 were in the Katunayaka Investment Promotion Zone, 23 in the Biyagama Investment Promotion Zone and 25 in various other parts of the country. The GCEC sponsored Investment Promotion meetings held in Colombo during February 1991 have been a success with over 50% of the projects discussed tipped to be materialised. The investors have showed great interest in setting up their ventures in the proposed free trade zone in Koggala and projects of boat manufacturing and TV assembling are likely to commence very soon. Several leading companies are in the process of getting approval to set up their ventures in Sri Lanka. Among them are Singapore Telecom, America's AT & T, Japan's Fujitsu Electronics which is the number two next to IBM. For private sector's growth in industrial output, see table VII.

An increased number of ventures in the investment promotion zones has enabled an increasing number of persons to find employment, and currently the figure stands at 61,429 in 1989 up from 1988's figure of 54,626. In the past few years the country's industrial exports has gained more dominance over other sectors, and an accelerated growth is seen in this sector in 1989, see tables VIII & IX.

The National Export Development Plan

for the period 1990 to 1994 says several sectors are poised for the take off and can achieve dramatically high growth rates. The report cited macro economic measures which result in high inflation and erode profit margins of exporters. Exports are estimated to grow by an average of 11% and 13% in the five year period to 1994. The ratio of export earnings to import payments has risen from 60% to 70% in 1989. By end February this year the Ministry of Finance informed leading Chambers that the Export Development and Investment Support Scheme (EDISS) would be abolished at the end of this year.

Table VIII - Composition of Exports - Percentage of total value

Category	1985	1986	1987	1988	1989
Agricultural Exports	52.5	46.3	42.4	42.8	39.2
Industrial Exports	39.5	46.6	48.6	48.3	50.7
Mineral Exports	2.4	3.5	4.4	5.6	4.8
Other Exports	5.6	3.7	4.6	3.3	5.3
Total Exports	100.0	100.0	100.0	100.0	100.0

Source: Central Bank Annual Report 1989.

Table IX - Export Growth in SDR terms

	1986	1987	1988	1989
Industrial Exports %	-6.7	+8.7	+1.0	+16.2
Total Exports %	-20.9	+4.2	-1.6	+10.8

Source: Central Bank Annual Report 1989.

The economic framework provided by the government, particularly through its new industrial strategy has enhanced the health of the capital market. The new strategy introduced in December 1989 intends to (a) transform the import substituting industry to an export oriented industry, (b) provide greater employment and income opportunities (c) diversify the economy and strengthen the balance of payments and (d) ensure a more equitable distribution of income and wealth. The strategy also includes policy measures aimed at mobilising resources for investment and exports; encouraging foreign and local investments; reforming public enterprises; establishing linkages between large and small industries; promoting research, training and marketing and removing administrative obstacles to investment, production and exports. The launch of this strategy has offered a series of fiscal incentives to stimulate the growth of the Capital Market. The withdrawal of the 1% ad valorem stamp duty