

# Macro Market Movers: LKR depreciation to benefit export counters and the Ukraine war aids local palm oil producers

## PBT impact on selected USD earning counters if LKR depreciates by 25%

Ticker	PBT FY21	FX gain LKR 200 -> 250	FX gain/PBT
TJL	2,599	968	37%
EXPO	17,273	3,670	21%
MGT	731	86	12%

FX gain = PBT boost if LKR depreciates by 25%

We have selected only FY21 PBT to show an indication on how LKR depreciation can benefit selected USD earnings counters. The sensitivity of the counters may vary based on the raw materials import cost as well, hence, above should be only seen as a guidance and not a guaranteed stream of income or increase in profitability.

Source: Company data/ SSB Research

### If market turns volatile due to soaring oil and commodity prices, SL palm oil producers may provide a decent hedge

Over the last couple of weeks, we have observed investors placing their bets on commodity producers when the equity market turns volatile. In the case of CSE, we believe local palm oil producers ELPL, WATA and NAMU may provide a reasonable hedge against this adverse development. We have also considered the strong balance sheet with a net cash position in picking such counters.

Yesterday Indonesia announced that it will further restrict exports (from 80% to 70% of local production) of local palm oil production to increase the local supplies. This is expected to keep the global palm oil supply at tightened levels in 2022.

Additionally, we also believe the recent LKR depreciation should allow the local palm oil producers to boost its earnings as local palm oil production is a direct substitute of imported palm oil.

### However, a possible escalation between Russia and Ukraine may increase the market volatility

A sustained rise in oil and food prices would have adverse impacts on SL's economy, manifesting through higher inflation, weaker current account and fiscal balances, and a squeeze on economic growth. The crude oil spike would add more pressure to the CPI. A higher CPI might further push the CBSL to change its dovish stance over the next one-two quarters.

Ukraine and Russia accounts for more than 25% of the global trade in wheat, as well as 20% of corn. Russia also a major exporter of nearly every kind of fertilizer. If global trade gets disrupted due to a further escalation of the war, it would mean higher costs for farmers across the globe, and in turn, more food inflation.

A rise in commodity prices are expected to take away a decent portion from consumers' discretionary spending. Given the adverse economic condition prevailing in SL we don't expect state workers and agricultural sector to get pay raises, hence priorities will be given to basic consumption leaving other sectors vulnerable to earnings volatility.

# Softlogic Research Guide to Investment Rating

<b>BUY</b>	:	Total return may exceed 15% over the next 12 months
<b>Trading BUY</b>	:	Total return may vary from 7.5% to 15% over the next 12 months
<b>Neutral</b>	:	Total return may fall within the range of +/- 7.5% over the next 12 months
<b>Take Profit</b>	:	Target price has been attained. Look to accumulate at lower levels
<b>Sell</b>	:	Total return may fall by more than 15% over the next 12 months

## Equity Sales

Dihan Dedigama	dihan@softlogic.lk	+94 11 7277010 / +94 117277955, +94 777689933
Hussain Gani	gani@softlogic.lk	+94 11 7277020 / +94 777992086
Prasanna Chandrasekera	prasanna.chandrasekera@equity.softlogic.lk	+94 11 7277056
Eardley Kern	l.kern@equity.softlogic.lk	+94 11 7277053, +94 777348018
Andre Lowe	andre.lowe@equity.softlogic.lk	+94 11 7277052, +94 777230040
Achindi De Silva	achindi@equity.softlogic.lk	+94 11 7277000, +94 77 3825087
Dilip Fernando	dilip.fernando@equity.softlogic.lk	+94 11 7277000, +94 77 3379730
Dinesh Rupasinghe	dinesh.rupasinghe@equity.softlogic.lk	+94 11 7277059, +94 77 2072397
Tharindu Senadheera	tharindu.senadeera@equity.Softlogic.lk	+ 94 11 7277000, +0773505094
Madushanka Rathnayaka	madushanka.rathnayaka@equity.softlogic.lk	+94 34 7451000, +94 773566465
Gratian Nirmal	gratain.nirmal@equity.softlogic.lk	+94 774510000/+94 21 7451 000
Krishan Williams	krishan.williams@equity.softlogic.lk	+94 31 7451000, +94 773569827
Lakshan Rathnapala	lakshan.rathnapala@softlogic.lk	+94 11 7277000, 077 8329698
Asitha Bandara	asitha.bandara@softlogic.lk	+ 0718740019
Asendra Wijesiri	asendra.wijesiri@softlogic.lk	+ 077 6470632, 077 3669108

## Equity Research

Mahesh Udugampala  
mahesh.udugampala@softlogic.lk  
+94 11 7277001, +94 71-5564612

Shadini Silva  
shadini.silva@softlogic.lk  
+94 11 7277033, +94 773627792

Thuvarakan Senthilmani  
thuvarakan.senthilmani@softlogic.lk  
+94 11 7277030, +94 11 77 5015637

Raynal Wickremeratne  
raynal.wickremeratne@softlogic.lk  
+94 11 7277033, +94 77 5268282

Nishanthi Hettiarachchi  
nisha.hettiarachchi@softlogic.lk  
+94 11 7277030, +94 11 77 1078499

Technical Analyst - Saditha Kaluarachchi  
saditha.kaluarachchi@softlogic.lk  
+94 11 7277033, +94 77 4244526

## Disclaimer

### Local & Non-USA based clients

*The information contained in this report is for general information purposes only. This report and its content is copyright of Softlogic Stockbrokers and all rights reserved. This report- in whole or in part- may not, except with the express written permission of Softlogic Stockbrokers be reproduced or distributed or commercially exploited in any material form by any means whether graphic, electronic, mechanical or any means. Nor may you transmit it or store it in any other website or other form of electronic retrieval system. Any unauthorised use of this report will result in immediate proceedings.*

*The report has been prepared by Softlogic Stockbrokers, Sri Lanka. The information and opinions contained herein has been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness, reliability or suitability. All such information and opinions are subject to change without notice. This document is for information purposes only, descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. In no event will Softlogic Stockbrokers be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising out of, or in connection with the use of this report and any reliance you place on such information is therefore strictly at your own risk.*

*Softlogic Stockbrokers may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their customers. Not all customers will receive the material at the same time. Softlogic Stockbrokers, their respective directors, officers, representatives, employees, related persons and/or Softlogic Stockbrokers may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principal or agent. Softlogic Stockbrokers may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. Softlogic Stockbrokers may have entirely underwritten the securities of an issuer mentioned herein.*