



John Keells Holdings PLC

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Renuke Wijayawardhena
Chief Regulatory Officer
Colombo Stock Exchange
World Trade Centre
Echelon Square
Colombo 1

Dear Sir,

John Keells Holdings PLC (JKH: The Group) – Disclosure regarding impact of COVID-19

We write to inform you of the status of operations and provide insight into how JKH is navigating through the ongoing COVID-19 pandemic. The JKH Group has taken all recommended measures to ensure the safety and support of its employees, consumers and all its other stakeholders during this unprecedented challenging time and continues to adhere to the guidelines issued by the Government and health authorities.

Macro environment and operating conditions:

Following the diagnosis of COVID-19 patients in Sri Lanka, from mid-March 2020 onwards, the Government declared a state of “work from home” for the general public, post which island-wide curfew was imposed on 20 March 2020, with restrictions waived only for services classified as ‘essential’.

After a period of a month, the imposition of curfew has been eased in many parts of the country while the Colombo district and a few other districts continue to be under curfew as they have been identified as high risk zones. The most recent release by the Government state that curfew restrictions in these remaining districts maybe eased off by the 4th of May 2020.

Given the stringent lockdown measures, the different businesses of the Group actioned their respective business continuity plans to ensure that activities were maintained to the extent possible. The Group has evaluated all guidelines issued by the Government as well as international best practices and each of the Group businesses have developed individual health and safety guidelines to ensure suitable working arrangements and safe conditions for employees, customers and other stakeholders.

Business update and outlook:

Whilst the impact on the financial year 2020/21 cannot be ascertained at this point of time given the uncertain and evolving situation, the Group expects the impact on performance in the first and second quarter to be material, particularly for the tourism focused businesses.

In order to evaluate the financial position of each business, particularly over the next 12 months, each of the businesses were stress-tested under multiple operating scenarios, and, subsequently at a Group consolidated level, to ascertain the impact on the ability to sustain its operations with its cash reserves and banking facilities in place. Whilst the assumptions vary across the businesses, the Group is satisfied of the ability of the businesses to manage its operations even under an extreme stress-tested scenario.

In addition, with a view to focusing on cash management and liquidity, the Group has adopted weekly dashboards which cover financial and non-financial KPIs and revised targets, including monitoring of weekly cash targets and spend control initiatives including a freeze on all non-essential capital expenditure and stringent expense control measures, including a reduction in executive staff remuneration ranging from 5 to 60 per cent across the Group till June 2020, subject to further review depending on the macro and operating environment. The Government of Sri Lanka has also announced certain relief measures including a moratorium on repayment of loans and concessionary working capital facilities for eligible industries. Where relevant, Group companies have applied for such relief measures which will help ease the financial position further. While the forecasted liquidity position is comfortable, the Group is of the view that undertaking proactive steps ahead of further stresses will enable maintaining of a stronger balance sheet and facilitate a smoother and faster recovery trajectory.

The following outlines the current operating position and high-level impact to each of our businesses.

1. Transportation

The initial impact on the Colombo port was from the lockdown in China and subsequently from India, given the higher reliance on transshipment volumes. The degree of impact to overall port operations will largely depend on how regional trade will evolve post recovery. However, the recovery of trade in China has been encouraging where we are seeing a pick-up in Chinese vessel movement, although volumes in Colombo will also depend on trade in India and the South Asian region.

The reduction in global trade activity and vessel movements is expected to impact the Bunkering business in the short term. The near term risk to the business is the possible negative impact on oil prices despite prices falling drastically over the last one and a half months and the extreme volatility of prices. The business will carefully assess the outlook for oil prices when placing new orders given the lead time of 2-3 weeks for delivery of cargo.

2. Leisure

Given that there are no tourists arrivals to both Sri Lanka and the Maldives, operations of the City Hotels and the Resorts have been suspended, thereby saving on certain fixed overheads and other expenses. Depending on Government directives to ease restrictions, the hotels can re-commence operations within a week although business is not expected to pick up sharply in the short term due to stringent social distancing guidelines which are likely to be in place.

Given the high degree of correlation between global economic and tourism recovery with the performance of the industry, and given the dependency on multiple source markets, the Group expects the Leisure industry group to be significantly impacted in the short to medium term. The Sri Lanka Tourism Development Authority has initiated a post COVID-19 action plan to revive the tourism sector.

3. Consumer Foods

Volumes across the beverage, frozen confectionery and convenience foods markets has declined sharply due to the imposition of curfew and restrictions in movement. Manufacturing activities have commenced gradually with priority being the health and safety measures of staff and the manufacturing facilities. The Group expects volumes to improve with the lifting of the curfew, while the outlook beyond that will depend on the impact on the overall economy and resultant impacts on consumer spend.

4. Retail

Supermarket services are classified as an essential service by the Government. However, operations have been largely limited to delivery only, although outlets open when curfew restrictions are eased. Revenue is negatively impacted in the immediate term as most of our outlets are located in high-risk districts and remain closed to the public although this is expected to change from the 4th of May 2020 given the current announcement by the Government. While outlets will be opened once restrictions are eased, we expect to continuously ramp up our capability in serving our customers through online delivery platforms. Outlets which are open to customers will adhere to the new safety guideline issued by government and health authorities.

5. Property

The impact to the Property industry group earnings is relatively less in the short to medium term as revenue recognition was mainly from the Tri-Zen residential development project, which is still at early stages of construction. The construction sites of both Tri-Zen and Cinnamon Life remain closed as at date since the imposition of curfew.

Cinnamon Life witnessed delays in shipments since February mainly due to the shutdown of factories in China. However, we now note a gradual recovery in the arrival of materials with China opening up. The business is working closely with the contractor to understand the impact on the overall project to manage resources and deliverables. The Group expects sales momentum to be impacted by subdued consumer sentiment and discretionary spending. The funding of Cinnamon Life is in place with the unutilized component of the committed syndicated loan facility and availability of funds earmarked for the project at the parent company level.

6. Financial Services

Both the banking and insurance sectors are classified as essential services. A key focus of the Banking sector will be to manage liquidity, particularly given the debt moratorium announced by the Central Bank, where businesses can apply for eligibility before 30th April 2020.

The Insurance business has also witnessed a disruption to underwriting of new business and collections. The Insurance regulator announced an extension for payment of renewal premiums which has impacted collections in the short term. It is expected that business volumes will improve with the lifting of the curfew, while there will be a renewed focus on the transformation to digital platforms and other online methods of carrying out the business, particularly with regard to improving renewals and pursuing new policies.

Outlook:

Given the volatile and evolving landscape, the Group will continue to monitor the impacts to its operations and proactively take measures to ensure business continues as seamlessly as possible. At this moment, the focus is on transitioning to back-to-work arrangements ensuring all health and safety protocols are in place. While the Group has a strong cash position and availability of banking facilities, we will continue to focus on ensuring we preserve this position and obtain further banking lines ahead of any future requirements,

Any further material business decisions will be notified to shareholders, as relevant.

Yours faithfully,

John Keells Holdings PLC



Krishan Balendra
Chairman