



Entrust Securities Limited

Entrust Securities Limited (ESL) was established in year 2000 as one of primary dealer companies to exclusively deal in government securities. ESL Operates under the supervision of the Public debt department of Central Bank of Sri Lanka (CBSL).

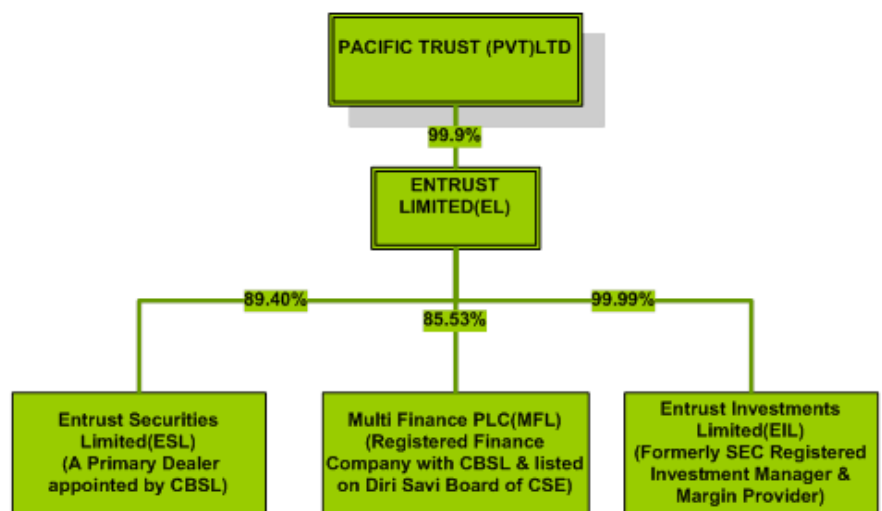
ESL accepts money in the form of Repurchase Agreements (Repo's) and allocates government securities as collateral. Funds are lent as Reverse Repurchase agreements (Reverse Repos) for which government securities are obtained as collateral. In addition to the above, ESL also carries out outright transactions (buying / selling) in government securities. ESL also acts as an agent in selling US Dollar denominated Sri Lankan Development bonds issued by the Central Bank of Sri Lanka to foreign customers.

Key Features	
Total No of Shares	33,000,014
CSE Listing	Dirisavi Board
Issue Type	Introduction
Listing Date	29th November 2011

Board Of Directors	
Mr. Nihal Rangala	
Mr. A.H.M. Riyaz	
Mrs. Lakmali Wickremesooriya	
Mrs. Romesha Senerath	
Mr. Nalin N P Jayasuriya	
Mr. Kishantha Nanayakkara	
Mr. Harsha De Silva	

Company Overview

Entrust Securities Limited (ESL) is a subsidiary of Entrust Limited which holds 89.40% of the shares of the Company as at 31st August 2011. The Company does not have any subsidiaries.



Top 05 Shareholders	
Shareholder	% Stake
Entrust Limited	89.40
Ms. A. P. Wickremesooriya	0.30
Ms. I. S. Perera	0.30
Mr. D. L. Wijesuriya	0.30
Mr. B. H. S. Mendis	0.30

Future Business Plans

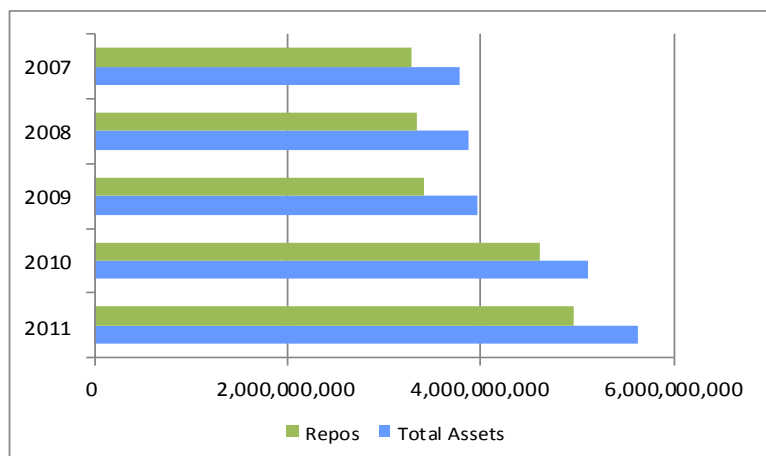
ESL will continue to engage in Government Securities secondary market activities more aggressively, observing an overall improvement in the economic condition of the country. It will also concentrate on attracting high net worth individuals and commercial entities that have been exposed to the government securities market with value addition services, as secondary market yield curve has been extended from a 4 year bond to a 15 year bond, which indicates the commitment and long term stability of the Sri Lanka Debt market. Foreign investors and the Diaspora community will be the second stage target market for ESL in order to extend the business turnover

during the financial year 2011, as upgrading on sovereign ratings from almost all reputed rating agencies has been created great momentum on the Sri Lanka money market.

Financial Highlights of Entrust Securities Limited

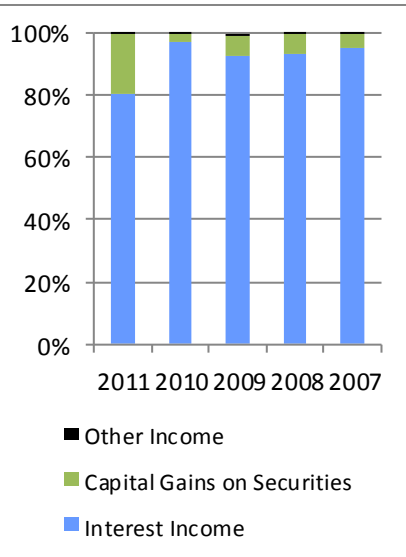
	2011	2010	2009	2008	2007
	Rs.	Rs.	Rs.	Rs.	Rs.
Income	686,170,840	545,129,461	789,994,865	581,464,557	672,854,837
Interest Income	551,981,095	528,741,627	732,941,532	542,599,063	643,400,588
Interest Expenses	445,417,631	434,092,597	658,363,628	488,610,692	604,803,421
Net Interest Income	106,563,464	94,649,030	74,577,904	53,988,371	38,597,167
Capital Gains on Securities	131,530,736	14,620,659	51,636,412	38,638,547	26,890,986
Other Income	2,659,009	1,767,175	5,416,921	226,947	2,563,263
Operating Cost	92,025,030	74,240,284	81,643,470	58,093,098	55,239,449
Profit from Activities(EBI)	148,728,179	36,796,580	49,987,767	34,760,767	12,811,967
Profit for the Year (PAI)	148,728,179	35,194,703	37,626,695	22,104,193	5,092,565
Reverse Repurchases	3,722,258,237	3,647,488,920	3,229,268,960	2,669,602,110	3,079,803,220
Total Assets	5,630,240,788	5,122,292,058	3,973,324,754	3,875,605,622	3,786,675,071
Repurchases	4,963,903,685	4,609,068,884	3,412,745,635	3,332,854,573	3,278,273,067
Equity	651,531,200	502,803,020	467,608,319	435,481,624	413,377,431
Key Performance Indicators					
Net Interest Margin	19.3%	17.9%	10.2%	9.9%	6.0%
EPS	4.51	1.07	1.14	0.67	0.15
NAVPS	19.74	15.24	14.17	13.20	12.53
ROE	22.8%	7.0%	8.0%	5.1%	1.2%
ROA	2.8%	0.8%	1.0%	0.6%	0.1%
Reverse Repurchases to Repurchases	75.0%	79.1%	94.6%	80.1%	93.9%
Cost to Income Ratio	38.2%	66.9%	62.0%	62.6%	81.2%
Repurchases to Equity Ratio	761.9%	916.7%	729.8%	765.3%	793.0%
Equity /Total Asset Ratio	11.6%	9.8%	11.8%	11.2%	10.9%

Valuation Indicators	
Total Earnings(LKR)	148,728,179
Equity	651,531,200
Total No. of Shares after Split	33,000,014
Diluted Trailing EPS	4.51
Diluted NAVPS	19.74
Current Banking & Finance Sector PER	12.90x
Current Banking & Finance Sector PBV	2.00x
Current Market PER	15.12x
Current Market PBV	1.91x



	2011	2010	2009	2008	2007
Capital Adequacy Ratios (%)	23.85	27.53	58.02	47.11	72.72
Leveraging times	7.62	9.17	7.30	7.65	7.93

Revenue Drivers of ESL



Industry Overview

Financial markets play an important role in the efficient allocation of financial resources and diversifying risks in the economy. The highest priority has been given to develop financial markets that help lower the cost of raising liquidity and capital.

Bond Market in Sri Lanka

The bond market in Sri Lanka commenced active operations in the 1990s with the issuance of medium- and long-term bonds, both by the Government and the corporate sector. This process has been accelerated with the financial sector reforms and restructuring programme implemented in the last decade. The debt management policy of the Government was substantially reformed by shifting from issuing non-marketable instruments (such as Rupee loans) and short-term marketable instruments (such as Treasury bills) to medium- and long-term marketable instruments.

Hence the Treasury bond was launched in 1997 to meet this demand and raise funds from the domestic market to finance government budgetary operations. Subsequently, government borrowings through non-marketable instruments and short-term marketable instruments have been gradually reduced. Furthermore, the Government has exercised the early retirement facility or ‘call option’ of the existing stock of non-marketable securities and replaced them with Treasury bonds to accelerate the development of the bond market. The gradual increase in the maturity structure of the Treasury bonds enabled the market to establish a medium-term yield curve which has provided a benchmark for the domestic corporate bond market.

Selected Money Market Rates					
					Per cent per annum
Period	Weighted Average Repo Auction Rate	Average Weighted Call Money Rate		SLIBOR- Overnight	
		End Period	Average for the Month	End Period	Average for the Month
2008 Dec	10.96	14.66	15.13	13.74	15.57
2009 Dec	8.24	9.07	9	9.03	9.1
2010 Mar	8.13	9.05	9.13	9.07	9.15
2010 June	8.18	8.89	9	9.07	9.06
2010 Sep	7.86	7.97	8.41	8.8	8.83
2010 Dec	**	8.03	8.13	8.15	8.17

** CBSL discontinued Repo auctions from 20 October 2010

Source: Central Bank of Sri Lanka

Yield Rates on Government Securities

Instrument	Per cent per annum	
	End 2009	End 2010
Primary Market Treasury Bills		
91 Day	7.73	7.24
182 Days	8.73	7.35
364 Days	9.33	7.55
Treasury Bonds		
2 years	9.55	8.27*
3 years	12.83**	8.15
4 years	9.78	8.6
Rupee Securities	12.6***	-
Secondary Market Treasury Bills		
91 Days	7.78	7.26
182 Days	8.78	7.36
364 Days	9.58	7.55
Treasury Bonds		
2 years	10	7.65
3 years	10.88	8.03
4 years	11.08	8.78

Source: Central Bank of Sri Lanka

* The last auction for 2-year Treasury Bonds was held in 2010
 ** The last auction for 3-year Treasury Bonds was held in July 2009
 *** Rupee Securities issued in March 2009

Development of the Bond Market

General Overview

In Sri Lanka, bonds issued in the domestic market could be broadly divided into three types by issuer: government bonds and debentures issued by public corporations and the corporate sector. The domestic bond market commenced its active operations only after the issuance of medium- and long-term tradable government bonds. This began with the issue of Treasury bonds in 1997 and was the result of the new public debt management strategy adopted by the Government to raise funds for government budgetary operations. The issuance of a marketable, liquid and long-term debt instrument such as a Treasury bond was a long felt need in the domestic market that enabled local investors to match their supply of long term funds with the demand for such funds from the Government. Although, the corporate bond market is relatively small, the development

of the government bond market and establishment of the long-term yield curve with a liquid secondary market provides a benchmark and guidance to the activities of the corporate bond market. Treasury bonds are tradable, medium- and long-term fixed income securities issued under the Registered Stock and Securities Ordinance (RSSO) carrying semi-annual coupon (interest) payments. These bonds are issued under a multiple bidding auction system in scrip less form.

The coupon rate is announced by the Central Bank prior to each auction and the auction in the primary market determines yield of the bond. Treasury bonds are considered a liquid asset and have been available at the Central Bank window for outright sales and purchases and Repo and Reverse Repo transactions since 1998. The opening of the government Treasury bond market to foreign investors in 2006 is a major milestone to improve competitiveness and expand the investor base in the bond market.

Money Market Transaction	Volume (Rs. Billion)			Interest/Yield Rates		
	2008	2009	2010	2008	2009	2010
Call Money	1,927	2,040	996	12.52-21.13	8.58-15.54	7.83-9.43
Inter-bank repo	932	1,162	1,128	12.03-21.76	8.29-15.01	7.05-8.53
Cantral bank repo	851	1,786	10,723	10.50-15.94	7.50-10.90	7.25-8.25
Cantral bank reverse repo	905	907	-	12.00-19.00	9.75-19.00	9.75-9.00
Central Bank Securities	176	1,781	1,467	10.50-16.25	7.50-9.62	7.25-8.85

Source: Central Bank of Sri Lanka

The Central Bank introduced a new foreign currency denominated debt instrument, the Sri Lanka Development Bond (SLDB) in 2001 to finance the growing fiscal deficit thereby lowering the pressure on the domestic rupee bond market. The issues of SLDBs are made under the Foreign Loans Act and made in scrip less form. It is a floating rate bond with the interest rate linked to the London inter-bank offered rate (LIBOR) plus a competitive margin. However, these are not issued on a regular basis as in the Treasury bond market. Consequently, the SLDBs are not considered as active, tradable and liquid debt instruments. The corporate bond market mainly consists of debentures issued by financial institutions and a few large companies in the domestic market. Although, the corporate bond market is relatively small, several types of debentures have been issued such as fixed and variable interest bonds, unsecured and secured bonds, capital guaranteed bonds, subordinated bonds, convertible bonds and callable bonds. The high degree of financial intermediation, complex issuance process, lack of proper risk reward structure and high issuance costs hinder the issuance of corporate bonds in the domestic market especially for small companies.

Issuers Characteristics

The Central Bank has the sole authority to issue Treasury bonds on behalf of the Government in the domestic market while subnational governments (provincial councils and local governments) are prohibited from issuing debt instruments to raise funds. According to the country’s constitution, the central government is responsible for funding the resource gap of subnational governments. In addition, the resource gap of most of the public corporations is also financed by the central government. In view of this, the central government has to raise funds for its own budgetary operations as well as to finance other public institutions.

Market Volumes of Government Securities			
	Rs. Billion		
Item	2008	2009	2010
Issued in the Primary Market	1268.3	1522.6	1508.6
Treasury bills	779.6	821.2	1000.1
Treasury bonds	488.7	701.4	508.6
Trading in the Secondary Market (as recorded in LankaSec)	17562.7	20542.5	41250
Treasury bills	7566	8048.6	21379.7
Treasury bonds	9996.8	12493.9	19870.3
No. of Investor Accounts at LankaSecure	56041	64680	73396

Source: Central Bank of Sri Lanka

Maturity structure

At the beginning of the government bond market in 1997, the maturity of Treasury bonds were limited to two years to test the market's appetite for tradable securities. Subsequently, the maturity was extended up to six years. However, the maturity of Treasury bonds could not be extended over six years until end 2002 due to the uncertain fiscal and macroeconomic environment in the economy. In 2003, government was able to extend the maturity to 20 years with considerable progress being made in both the fiscal and macroeconomic management in the economy. This momentum could not be maintained in the recent past due to rising inflation and the uncertain peace environment in the country, limiting the maturity of new bond issues below six years. In the corporate bond market, the original maturity period of most bonds was five years. However, the reputed companies are able to extend the maturity period of their bonds up to 10years. The existing stock of corporate bonds has an original maturity ranging from 2-10 years.

Market Liquidity

A critical feature of a well-functioning bond market is the level of market liquidity that gives price signals and determines the size of the investor-base. In a liquid market, dealers and other market participants can buy, sell or maintain a bond portfolio at a price related to the prevailing market prices. A bondholder's ability to sell at the market price at any time is important for an investor when deciding to invest in a particular bond. Since a liquid and well-functioning bond market is a prerequisite to mobilize low-cost funds, a series of measures were taken in the past to enhance liquidity especially in the government bond market. Key measures included the consolidation of outstanding bond series mainly by introducing the reopening process, building liquid bond series of various maturities on a regular basis, developing an inter-dealer market, opening new bond series on a market friendly basis, conducting regular auctions for different maturities to develop a market-based yield structure, improving the exit mechanism and the participation of the Central Bank as a last resort to guarantee liquidity in the bond market.

Primary market

Treasury bonds are traded through competitive auctions conducted by the Central Bank on a regular basis. Primary dealers who have participated in the government debt market since 1992 have direct access to the primary auctions.

Secondary Market

Secondary market operations which were developed initially for trading Treasury bills were extended to the trading of Treasury bonds. Today market intermediaries can freely transact and intermediate in the secondary market for government bonds. Main participants or intermediaries in the secondary market are primary dealers, commercial banks, finance companies and institutional investors. The secondary market transactions of government securities include outright sales and purchases and Repo and Reverse Repo agreements. The thin spread maintained by primary dealers makes secondary market operations more attractive to investors. Further, the introduction of the SSSS could be recognized as major event to develop secondary market trading as it helps to solve the problem of time lag and the physical delivery and settlement risk. Trading in the secondary market takes place between primary dealers and the Central Bank, among primary dealers and between primary dealers and other institutions and investors. In the past, the Repo and Reverse Repo market has been more active compared to outright sales and purchases. Although wide participation of investors has contributed to enhance the liquidity situation in the secondary market, the dominance of captive investors inhibits the development of this market. In comparison to the government bond market, secondary market operations in the corporate bond market are at a marginal level.

(Industry Overview has been written based on the publication made by C.J.P Siriwardena, Central bank of Sri Lanka)

Market Yield Rates of Government Securities						
Item	Primary Market			Secondary Market		
	2008	2009	2010	2008	2009	2010
Treasury bills						
91 day	16.46-21.30	7.25-17.31	7.02-8.52	16.33-19.363	7.33-17.70	6.62-8.57
182 day	17.45-19.99	8.33-18.57	6.95-9.24	17.54-19.37	8.27-18.53	6.89-9.14
364 day	18.34-19.96	9.17-19.12	7.10-9.47	18.35-19.51	9.12-19.16	7.06-9.48
Treasury bonds						
2 yrs	17.79-20.53	9.55-21.00	8.27-9.60	17.50-20.86	9.56-20.25	7.53-10.68
3 yrs	16.90-20.34	12.83-20.10	8.15-9.78	17.19-20.00	9.81-19.70	7.78-11.48
4 yrs	16.89-19.09	9.78-18.10	9.09-9.80	16.21-20.25	9.69-20.08	8.18-12.01
5 yrs	17.00	10.32-13.00	8.76-9.90	16.00-19.74	9.99-19.67	8.79-12.05
6 yrs		9.92-16.50	8.93-9.92	15.61-19.50	10.05-19.67	8.87-12.25
10 yrs		13.09-13.74	9.30-9.80	14.63-18.19	10.08-18.63	9.04-12.61

Source: Central Bank of Sri Lanka

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