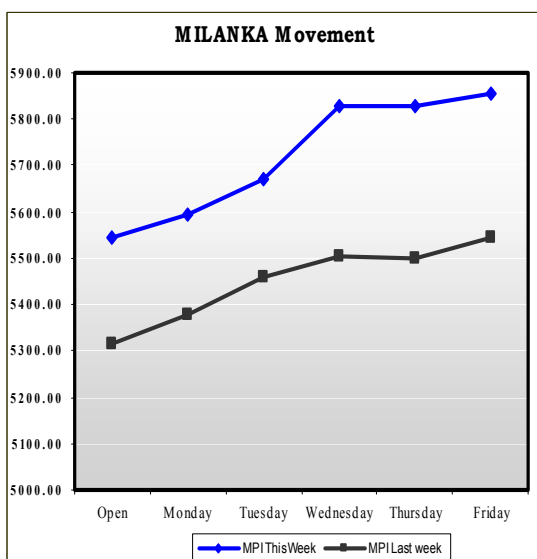
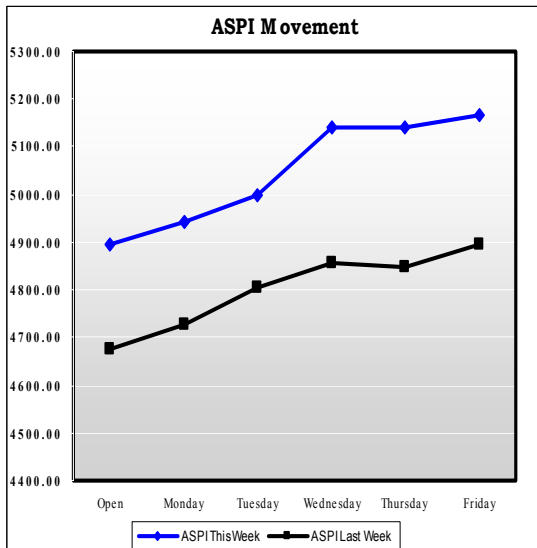


# The Market Roundup

For the Week ended 30<sup>th</sup> July 2010



Colombo bourse closed higher and passed the 5,100 point mark in ASI during the trading week as investors continued their buying trend, while there was a profit taking on selected high value and mid-cap counters.

Week on Week ASI gained by 319.01 points or 6.58% to close at 5168.18 while the most liquid Milanka gained 354.46 points or 6.44% to close at 5854.73 on Friday.

Market sentiments focused on counters that belong to Environmental Resources Investment PLC with the expectation of instant gains. GREG the holding company gained Rs.21.00 to close at Rs.128.50 while CLPL gained Rs.25.50 to close the week at Rs.256.75.

DPL the most recently acquired subsidiary of GERG gained Rs.25.00 during the week with the expectation of a right issue attached with warrants. DPL closed the week at Rs.83.25 on Friday.

Mid value counters such as MBSL and RICH traded heavily during the week owing to potential earning expectations. MBSL and RICH gained by Rs.2.50 and Rs.23.75 to close the week at Rs.31.00 and Rs.115.75 respectively.

Mobile giant DIAL hit Rs.11.00 on Tuesday after recording a net profit of Rs.2Bn for the first half of financial year 2010. SLTL the market leader in fixed lines closed the week at Rs.37.25 on Friday.

Market heavyweight JKH gained Rs.18.25 due to the growth in group June quarter. JKH closed at Rs.248.25 on Friday. Low value counters such as MULL, GLAS and REEF took the investor attention and they were accounted for mostly traded stocks of the week.

Market turnover amounted to Rs.16.23Bn against a total share volume of 627.6Mn, foreign participation resulted a net foreign inflow of Rs.358.2Mn.

## Corporate Announcements

Dividends	
Lanka Ventures Plc	Rs. 1.50 Final Dividends, date to be notified
Capitalization of Reserves	
Lanka Tile Plc	One Ordinary share for Four Shares Held

## Economic Indicators

	This Week	Last Week	Net change	%
ASPI	5168.18	4849.17	319.01	6.58%
MPI	5854.73	5500.27	354.46	6.44%
Total Turnover	16,230,618,006	13,443,000,042	2,787,617,964	21%
Average Daily Turnover	3,246,123,601	2,688,600,008	557,523,593	21%
Total Volume	627,612,853	597,276,259	30,336,594	5%
Average Daily volume	125,522,571	119,455,252	6,067,319	5%
Total Foreign Buying	2,145,112,322	3,381,986,384		
Total Foreign Selling	1,786,874,270	2,547,726,721		
Net Foreign Inflow / (Outflow)	358,238,052	834,259,663		

## Foreign Market Updates

Country	Foreign Markets	This Week	Last Week	Change	%
	Name of the index	Index	Index		
USA	INDU:IND DOW JONES INDUS. AVG	10,467.16	10,322.30	144.86	1.38%
China	SHSZ300:IND CSI 300 INDEX	2,868.85	2,793.08	75.77	2.64%
India	SENSEX:IND BSE SENSEX 30 INDEX	17,841.74	18,156.64	-314.90	-1.76%
Europe	SX5E:IND ESTX 50 € Pr	2,732.23	2,728.30	3.93	0.14%

## Economic Indicators

Treasury Bill							
Types	Jan	Feb	Mar	Apr	May	Jun	Jul
3 Months	7.95	8.26	8.45	8.40	8.10	8.07	7.90
6 Months	8.90	9.06	9.19	9.10	8.91	8.93	8.64
12 Months	9.46	9.47	9.47	9.30	9.26	9.29	9.00
Policy Rates (%)							
Central Bank Repurchase (Repo) Rate							7.25
Central Bank Reverse Repurchase (Reverse Repo) Rate							9.50
Bank Rate							15.00
Statutory Reserve Ratio (SRR)							7.00
Economic Indicators (%)							
Inflation (CCPI) June 2010 (Y on Y)							4.80
Commercial Banks Weighted Avg Lending Rates - 6 Months							10.68
Commercial Banks Weighted Avg Deposit Rates - 6 Months							7.26
Foreign Exchange Rates				Last Week		This Week	
Currency				Buying	Selling	Buying	Selling
Dollar (USA)				112.00	113.63	111.82	113.52
Pound (UK)				170.63	174.25	173.95	177.76
Euro (EU)				143.67	147.21	145.28	148.96
Yen (Japan)				1.28	1.32	1.29	1.32

## Commodity Prices

Commodity	Last Week	This Week	Change	%
	Price	Price		
Nymex Crude Future (\$/bbl)	79.35	77.7	(1.65)	-2.12%
COPPER FUTURE (USd/lb.)	320.05	325.5	5.45	1.67%
GOLD 100 OZ FUTR (USD/t oz.)	1,200.60	1172.6	(28.00)	-2.39%
WHEAT FUTURE(CBT) (USd/bu.)	600.50	636	35.50	5.58%
SUGAR #11 (WORLD) (USd/lb.)	18.45	19.42	0.97	4.99%
Rubber Prices - Brown Crepe 1X (LKR)	342.00	336.00	(6.00)	-1.79%

## PC House Limited – Initial Public Offer

Shares to be Offered	57,233,334
Introductory Price	Rs 11.00
Issue Proceeds	Rs 630mn
Shares in Issue	171,700,000
Total share subsequent to the IPO	228,933,334
Revenue	Rs 3,034 mn
PAT	Rs 124 mn
EPS	Rs 0.72
Diluted EPS	Rs 0.54
NBVPS	Rs 3.74
Market PER	25x
PER of PCH*	20x
PBV	2.94x

\* On the Diluted EPS

The company was founded in 1997, and was incorporated as a Private Limited Liability company on 2<sup>nd</sup> February 2000, with a market penetration rate of 5% in the IT industry in Sri Lanka, indicates the capability for greater expansion, that generates potential earnings. In addition a dynamic industry such as IT further enables organizations such as the PCH immense opportunities to add value to its current business.

Apart from the normal IT equipment such as Lap tops , branded computers, office automation products offered by the company, the business runs to the extent of supplying software applications, Auto Visual products Etc. Further with the proceeds obtain, PCH is extending its business on:

- ◆ Aggressively expand its business presence in rural arrears (Within SL) and capture additional revenues.
- ◆ Extended the business with cooperates and the GOSL partnering with reputed global brands.
- ◆ To establish a fully fledged BRO/KPO service company.

- ◆ Retire the expansive Short term borrowings to finance its working capital needs
- ◆ Improve their service quality to establish new product affiliations
- ◆ In addition PCH is further focusing on developing the working Capital requirement of the two subsidiaries
  - Greenwich Lanka ( Pvt) Limited – Fully owed
  - Procifinity Limited – 90% owned currently ( This will be increased to 99.99% with the investment in additional shares worth Rs 300mn @ Rs 1.00 each, through the proceed of the IPO )

### Financial Review

In thousands	2008/09	2009/10	2010/11F	2011/12F	2012/13F
Revenue	2,526,805	3,034,288	3,489,431	4,187,317	5,443,512
Cost of Sales	(2,039,662)	(2,403,024)	(2,791,545)	(3,391,727)	(4,463,680)
Gross Profit	487,142	631,264	697,886	795,590	979,832
Other Income	8,106	6,129	6,742	8,090	10,517
Negative Goodwill	-	5,218			
Selling and distribution Exp.	(49,928)	(42,516)	(46,768)	(56,121)	(72,958)
Administrative Expenses	(200,712)	(208,356)	(229,192)	(275,030)	(357,539)
Profit from operations	244,608	391,738	428,668	472,529	559,852
Finance Cost	(217,505)	(194,874)	(167,335)	(142,235)	(120,899)
PBT	27,103	196,864	261,333	330,294	438,953
Tax Expenses	(7,828)	(72,968)	(80,264)	(96,317)	(125,212)
PAT	19,275	123,897	181,069	233,977	313,740
EPS	0.11	0.72	0.79	1.02	1.37
PER	97.99	15.24	13.91	10.76	8.03

Current net asset value of PCH amounts to Rs.3.74 per share where the adjusted net asset value after the IPO would be Rs.5.55 per share. Therefore the investor has to pay a premium of 50% to the net asset value in order to purchase shares at the IPO.

PCH recorded Rs.123.8Mn profit for the financial year ended 2009/10 with an EPS of 72 cents per share. Based on historical earnings PCH offers shares to the market at a PER of 15.2 times. The adjusted forecasted EPS of 88 cents leads the offer towards a PER of 12.53 times which is well below the market PER of 25 times. Accordingly we recommend investors to subscribe PCH as Rs.11.00 based on its potential earnings

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