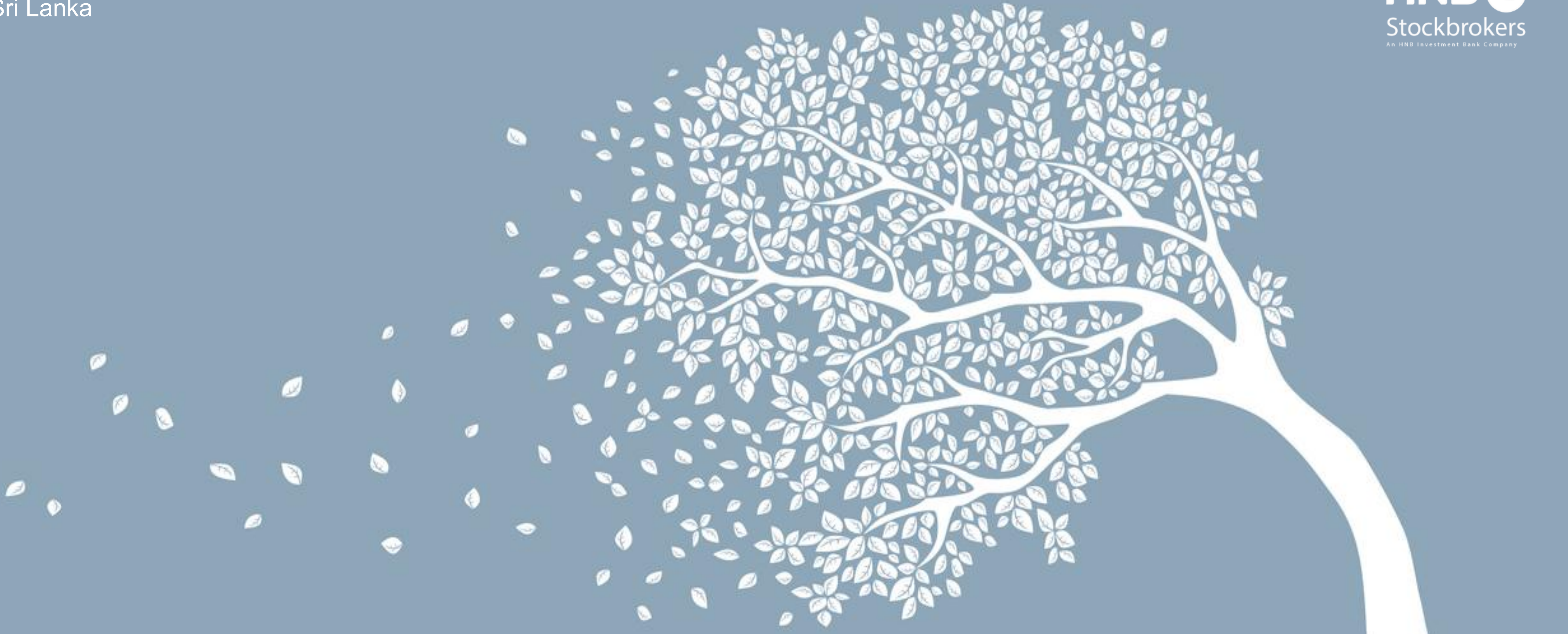
February 2026
Sri Lanka



Macro Outlook & Equity Strategy 2026

Recovery to Resilience

Sri Lanka | Economy & Strategy

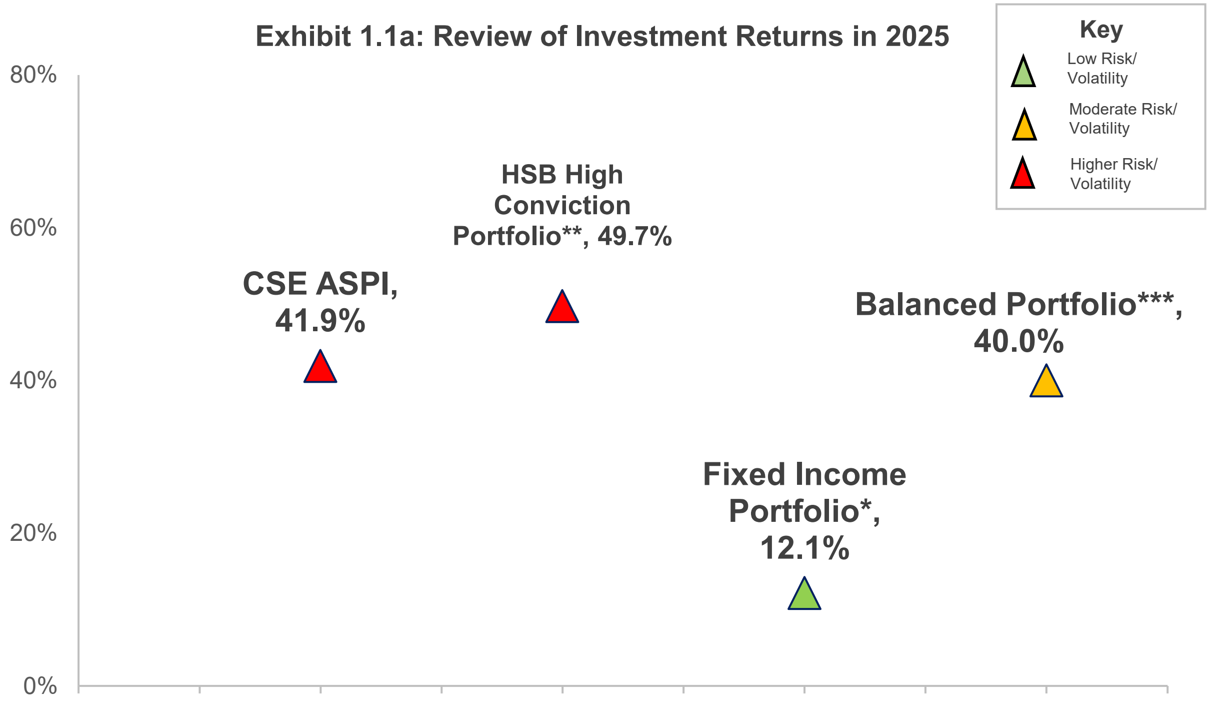
Review of Strategy Report 2025: outcomes mainly in-line with predictions

Our previous Strategy Report for 2025, titled **“The road ahead for economic recovery”** anticipated a phase of stable economic growth following on from the economic crisis and subsequent elections in 2024. We highlighted the potential for a moderate market rerating as macroeconomic conditions normalized whilst greater policy consistency reduced downside risk. Most outcomes in 2025 were in-line with our expectations.

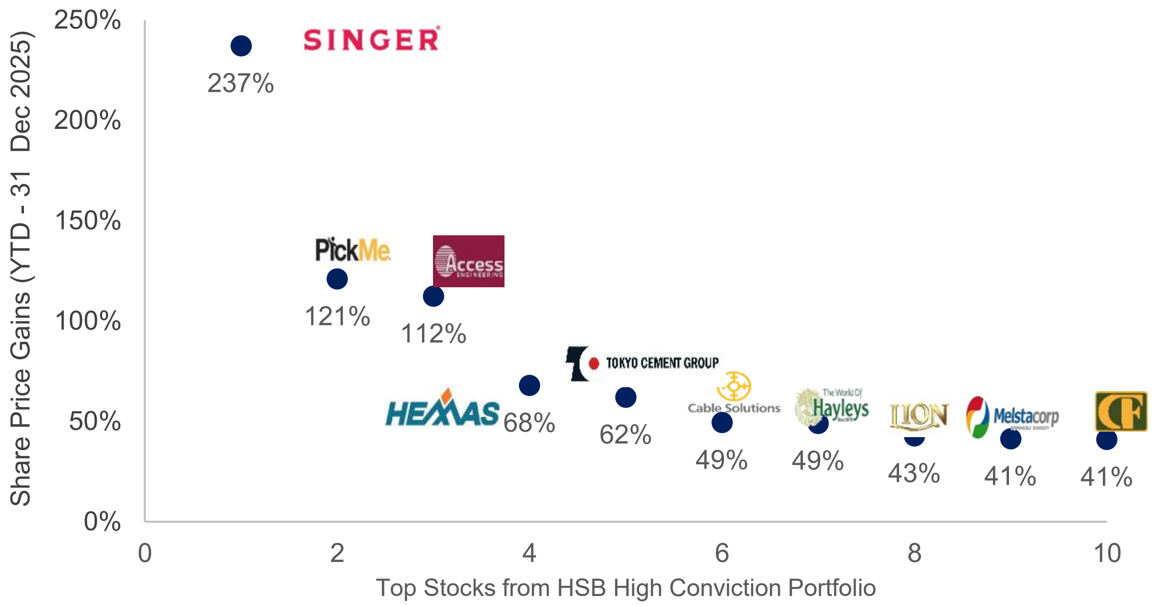
Prediction		Outcome
ASPI target of c. 20.5k points by year end	✓	ASPI exceeded upper end of our target
Inflation to pick up in 2H 2025 towards target range	✓	Inflation remained slightly below expectations
Fiscal performance likely to meet or exceed key targets	✓	Primary surplus exceeded expectations
External current a/c surplus despite vehicle imports	✓	Current account in-line with forecast
Limited space for policy rate reduction, longer end bond rates to remain range bound	✓	In-line with expectations, longer yields compressed more than expected

2025 stock picks and asset allocation framework outperformed the market

- In 2025, we recommended clients to maintain a comparatively higher exposure to equity to capitalize on earnings driven growth and moderate rerating of the market, in the backdrop of the improving macro environment.



Notes:
* For a fixed income portfolio with an average duration = 3 years and earning a 10% annual coupon.
** The return calculation for HSB High Conviction Portfolio assumes that investors had invested in the portfolio of stocks recommended by us (plus any new buy recommendations in 1Q 2025), equally weighted and held until end 2025.
*** For a fixed income portfolio as above, a stock portfolio consisting of the HSB High Conviction Portfolio, plus alternative assets, each asset class weighed by the asset allocation weightings in our Strategy Report 2025.



- HSB high conviction portfolio of recommended stocks significantly outperformed the overall market returning 50% upside during the year compared to the market return of 42%.

Source: HSB Research

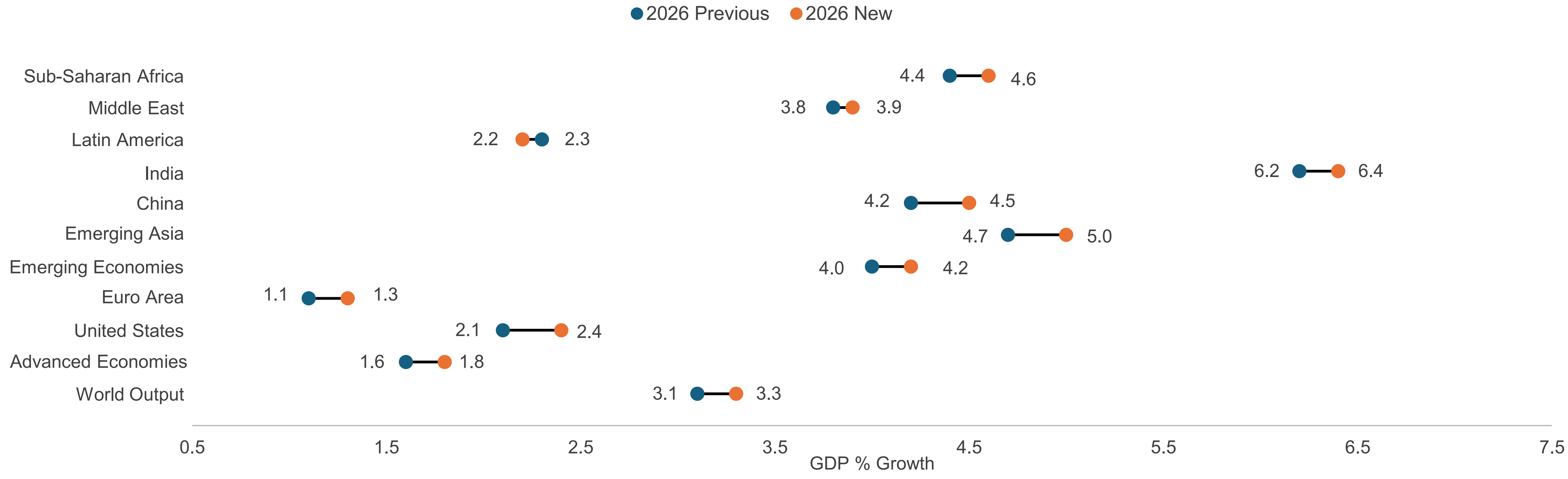
February 2026
Sri Lanka

Global Outlook

Sri Lanka | Economy & Strategy

Global economic outlook has improved marginally despite geopolitical tensions

Exhibit 1.2: IMF World Growth Outlook for 2026 has seen growth projections revised upwards for most regions



Notwithstanding geopolitical tensions and ongoing tariff uncertainty, the IMF global economic outlook has improved marginally with most emerging economies in the Asian region expected to post >4.0% growth in 2026.

The US economy is also expected to report strong growth of around 2.4% in 2026, higher than the average for other advanced economies.

Federal Reserve rate outlook and US economic sentiment

Exhibit 1.3a: Fed Dots Plot as at Dec 2025

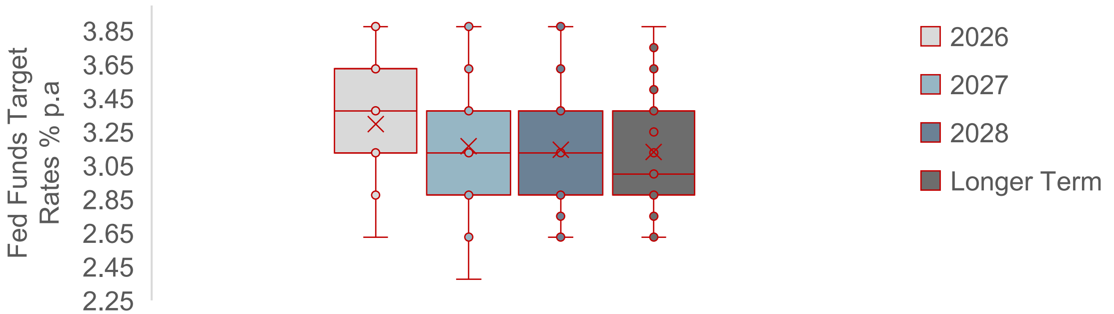
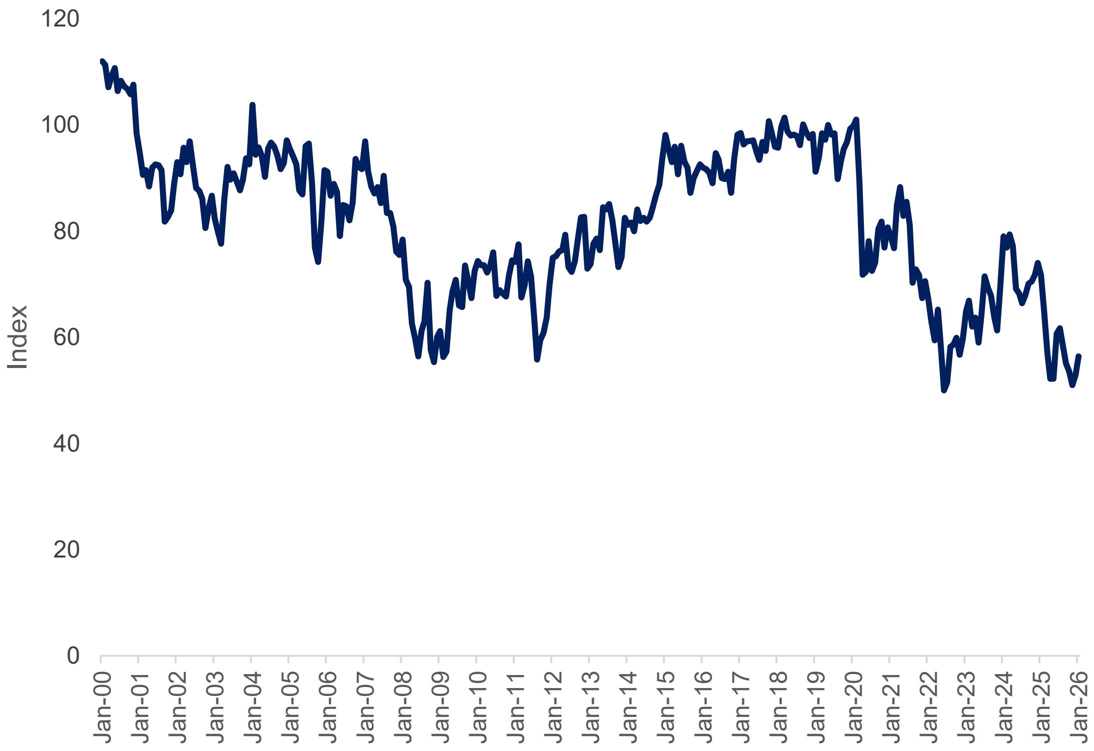


Exhibit 1.3b: US 10-year Bond Yield, Constant Maturity

Exhibit 1.3c: US consumer sentiment remains weak as measured by the Michigan Consumer Sentiment Index



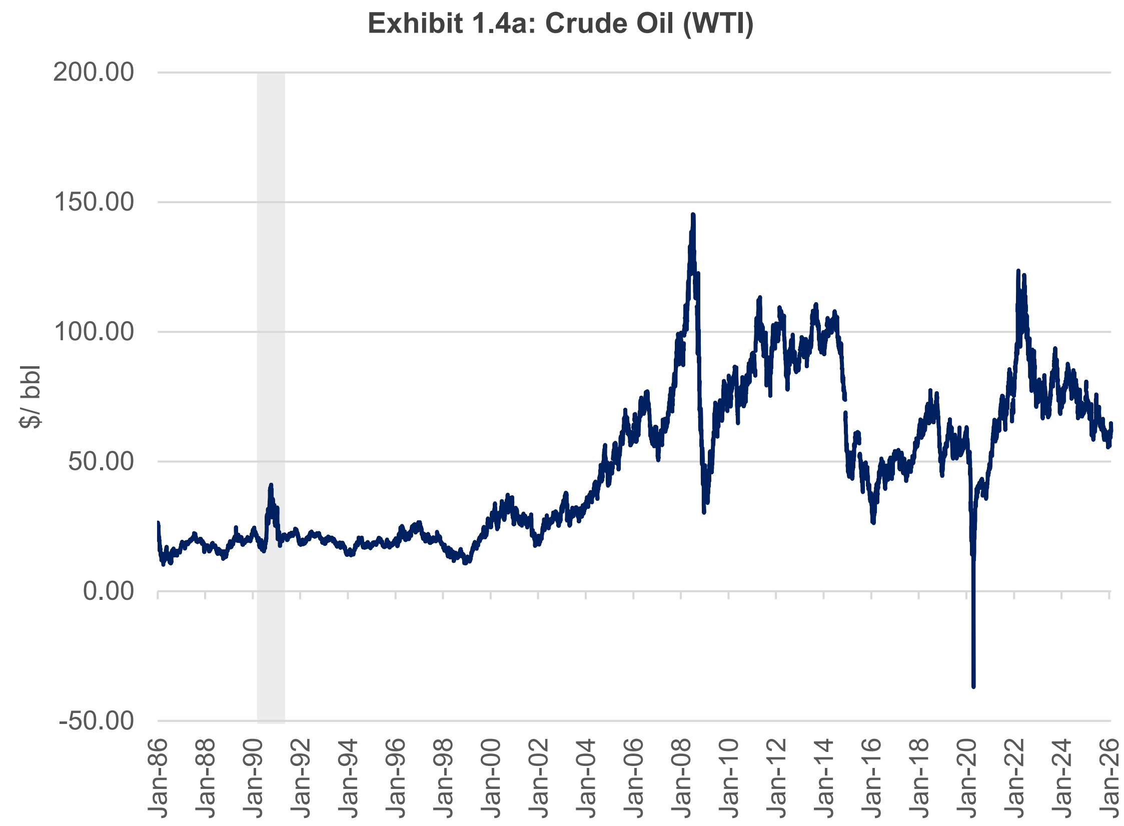
Whilst the Federal Reserve is widely expected to reduce the benchmark Fed Funds rate from current rate of 3.50% to 3.75% p.a. by 25-50 bps during 2026 (the median expectation based on the Fed Dots Plot which compiles the views of the Federal Reserve's policy making committee members shows a median expectation of 3.25% to 3.50% p.a.), longer term yields have increased based on numerous concerns including possibility of sustained inflationary pressure, higher government debt levels, rising risk premiums and possibly weaker demand for US government securities (see Exhibit 1.3a & b).

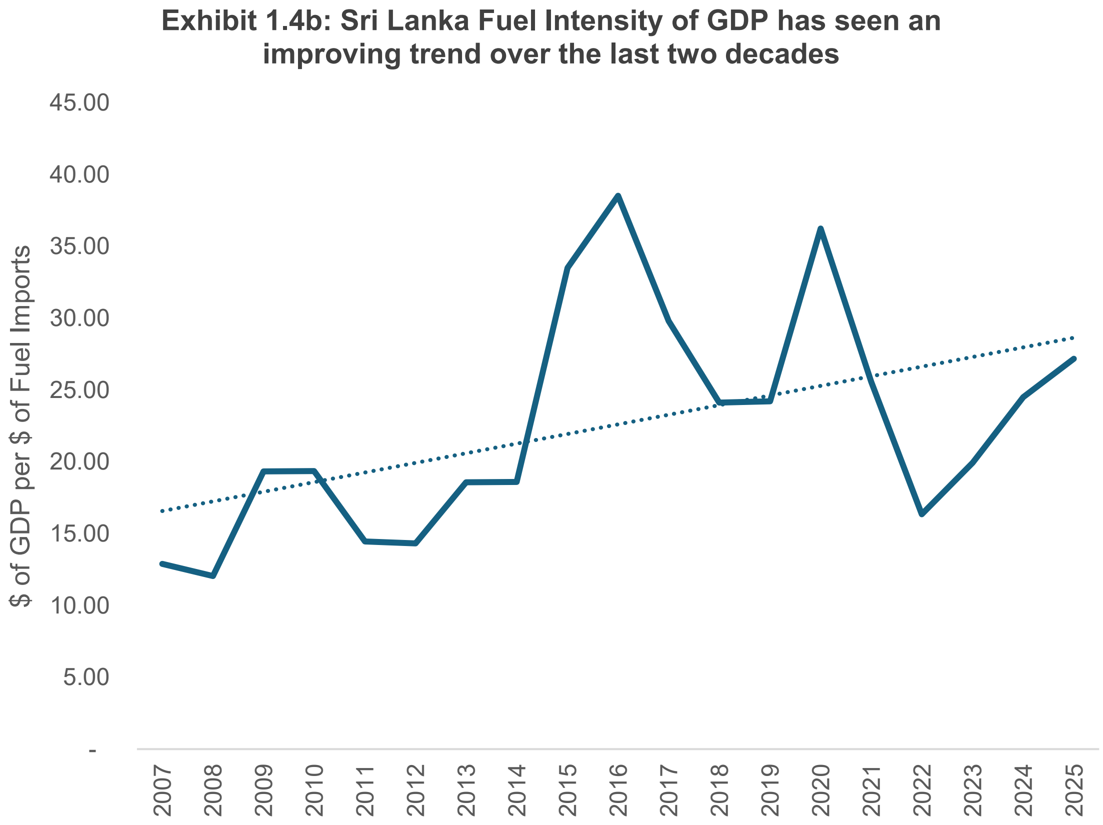
Falling short term interest rates in the US would typically equate to higher fund flows into emerging market debt and other assets. However, rising US bond yields at the longer end is a concern.

Although US economic growth remains strong, consumer sentiment remains weak as tracked by the Michigan Consumer Index and signals a weak outlook in terms of demand for exports from Sri Lanka and other emerging economies.

HNB Stockbrokers

Higher oil prices due to geopolitical unrest is most likely the main external risk factor for Sri Lanka in 2026





Oil prices remain at levels seen over 10 years ago as global supplies have increased with higher production from the Americas while demand has softened, particularly in China where GDP growth has weakened and which has seen a rapid shift to new energy vehicles. In the absence of recent tensions in the Middle East, oil prices were expected to fall below USD 50 bbl given the current supply glut of c. 4 Mn bbl/ per day.

Whilst the correlation of oil prices to geopolitical tensions has reduced compared to previous decades, any major conflict in the Middle East could still lead to a spike in oil prices if there is damage to oil infrastructure in the region and/ or if there is a blockade of the Straits of Hormuz (c. 20% of the worlds oil production flows through this critical choke point daily).

Notwithstanding recent improvements in fuel intensity of GDP (see Exhibit 1.4b), Sri Lanka remains exposed to an oil price shock given that fuel remains the single largest import item at over USD 4 billion annually.

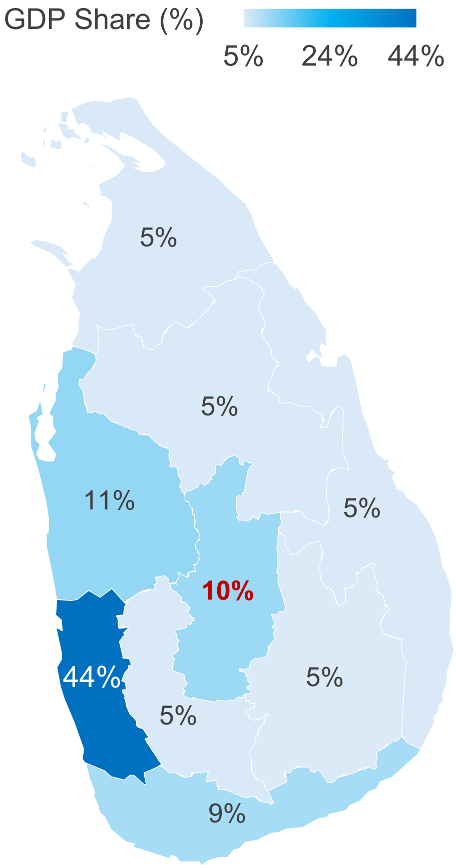
February 2026
Sri Lanka

Sri Lanka Economy

Sri Lanka | Economy & Strategy

Cyclone Ditwah impact expected to be moderate, supported by stronger economic buffers cf. past events

Exhibit 1.5: Highly impacted provinces account for only a small share of GDP/ industrial capacity



Economic indicators are stronger cf. 2005 Tsunami period					
	Unit	**2004**	**2005**	**2006**	**2025 TTM***
		Pre-Tsunami	Post Tsunami		Pre-Ditwah
National Accounts					
GDP	US Bn	19.4	23.2	26.0	103.5
GDP Growth	%	5.4	6.0	7.4	5.0
Spending Components					
Investment	% of GDP	25.0	26.5	28.7	28.4
Domestic Savings	% of GDP	15.9	17.3	17.1	29.4
External Sector					
Trade Balance	% of GDP	-11.2	-10.7	-12.5	-7.2
Current Account	**% of GDP**	**-3.2**	**-2.8**	**-4.9**	**1.1**
Official Reserves	US Mn	2,196	2,735	2,837	6,800
Tourist Earnings	US Mn	408.0	356.0	410.0	2,939.9
Fiscal Variables					
Govt Expenditure	% of GDP	23.5	24.7	25.4	20.7
Govt Revenue	% of GDP	15.4	16.1	17.0	16.2
Primary Balance	**% of GDP**	**-1.8**	**-2.1**	**-1.9**	**3.0**
Fiscal Balance	% of GDP	-8.2	-8.7	-8.4	-4.5
Govt Debt	% of GDP	105.8	93.9	93.0	95.0
Prices and Money					
Rate of Inflation	% Change	7.6	11.6	13.7	2.1
Broad Money	% Change	19.6	19.1	17.8	11.3

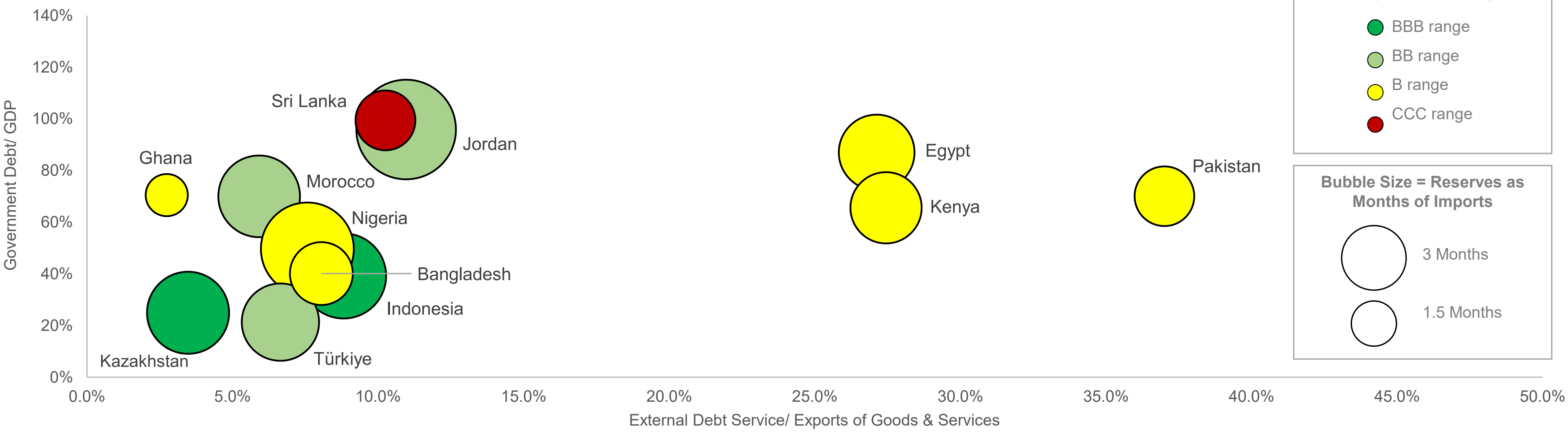
* Estimated based on latest available data

Compared to past external shocks, Sri Lanka is facing the recent natural disaster in the form of Cyclone Ditwah with significantly stronger buffers with both a fiscal primary balance and an external current account surplus. Furthermore, the highly impacted areas mainly in the Central Province account for a relatively small share of GDP. We expect that the bulk of damage is to the stock of housing rather than industrial capacity. Based on the above factors and past trends in relation to the 2004 Tsunami, where reconstruction activity boosted GDP growth in the immediate aftermath of the event, we expect only a moderate impact from Cyclone Ditwah for 2026 economic growth.

Next challenge over the following years will be attaining credit rating upgrades to regain market access

Exhibit 1.6: Sri Lanka debt servicing burden in-line with peers; stock of Debt/ GDP is still high

Select Emerging/ Frontier Market Debt Metrics & Credit Ratings



In our **Strategy Report 2025 (see here pages 11-12)**, we extensively covered the challenges of reducing government debt to safer levels. In the 2010-18 period when Sri Lanka last had market access, the average debt/ GDP was c. 73%. As a newly defaulted issuer, Sri Lanka would realistically need to achieve a debt/ GDP level in-line with peers and/ or at similar levels to 2010-18 period to attain credit ratings upgrades to levels consistent with access to international bond markets towards the end of the current IMF program. Whilst failure to improve credit ratings by the end of the program period to levels of peer Eurobond issuers does not necessarily imply another sovereign default (as other options such as future bilateral/ multilateral financing maybe available), it is nevertheless a necessity for the country to attract any sizeable and much needed FDI and portfolio investments into the equity markets.

In addition to disciplined fiscal management, high and sustained GDP growth over the next few years will be critical to reduce debt/ GDP to levels consistent with market access. Sustaining primary balance surpluses c. 2% of GDP alone will not suffice to significantly reduce debt/ GDP from >90% levels. Real GDP growth levels need to exceed real interest rates by a significant margin for debt levels to fall to safer levels as we have previously highlighted. The current high real interest rates on government debt and low/ moderate real GDP growth is the primary challenge for debt reduction going forward.

Source: Bloomberg

GDP growth in 2025 expected at c. 5%; recovery is mainly consumption driven with investment still lagging

Exhibit 1.7a: Real GDP expected to surpass 2018 peak in 2026
GDP at Constant Prices

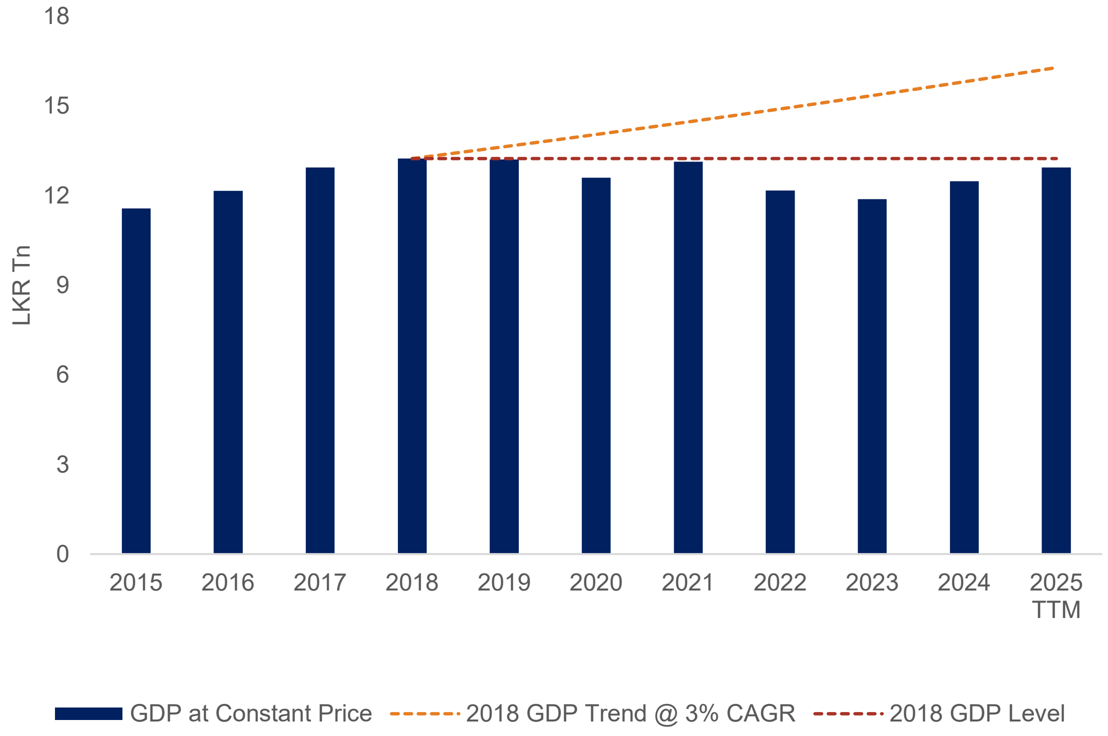
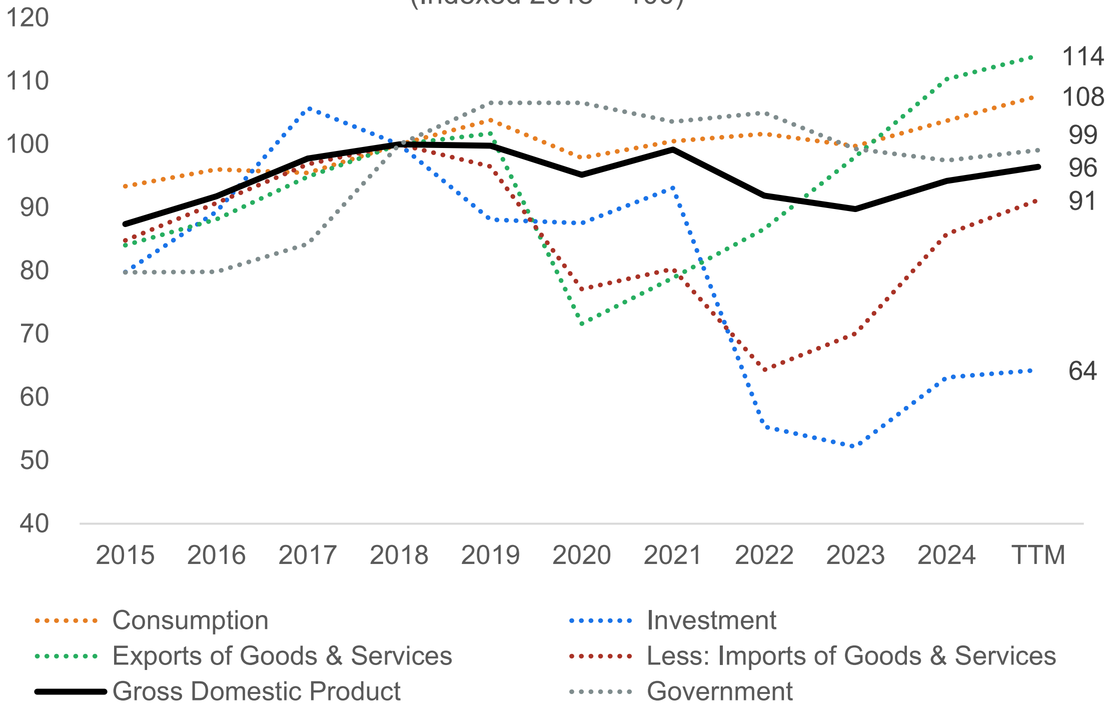


Exhibit 1.7b: Recovery driven by consumption & exports; investment remains below pre-crisis levels
Expenditure Components at Constant Prices
(Indexed 2018 = 100)



Given the importance of higher real GDP growth for debt sustainability, we feel it's worthwhile to take a deeper dive into Sri Lanka's GDP growth trends. Real GDP is expected to recover to 2018 levels on a TTM basis during 2026 (see Exhibit 1.7a). Whilst GDP has recovered to pre-crisis levels, the recovery has been led by consumption and government spending (see Exhibit 1.7b); exports have also increased, but the overall contribution of exports to GDP is relatively less given the low value of exports as a percentage of GDP. Notably, investment is >30% below pre-crisis levels in real terms. Lower investment reflects the impact of the economic crisis which has reduced the share of savings to GDP, which is to be expected during an economic crisis as household savings buffers are eroded whilst consumption and government expenditure is more rigid.

Savings and investment needs to increase for GDP growth to sustain at >5% beyond the recovery back to the pre-crisis high-water mark.

Source: CBSL, HSB Research

Current level of investment is well below pre-crisis levels; >30% investment/ GDP is required to elevate growth >6%

Exhibit 1.8a: Higher growth rates in the 2010's was the outcome of Investment/ GDP of >30%

5-year Moving Average (MA) GDP Growth & Investment

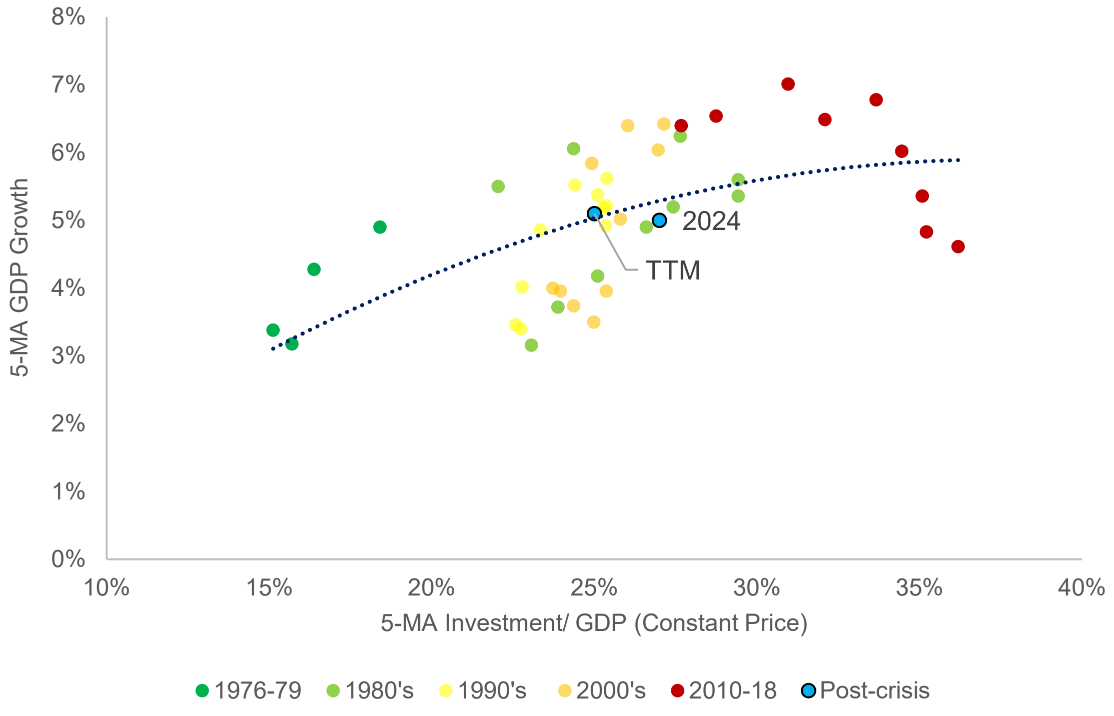
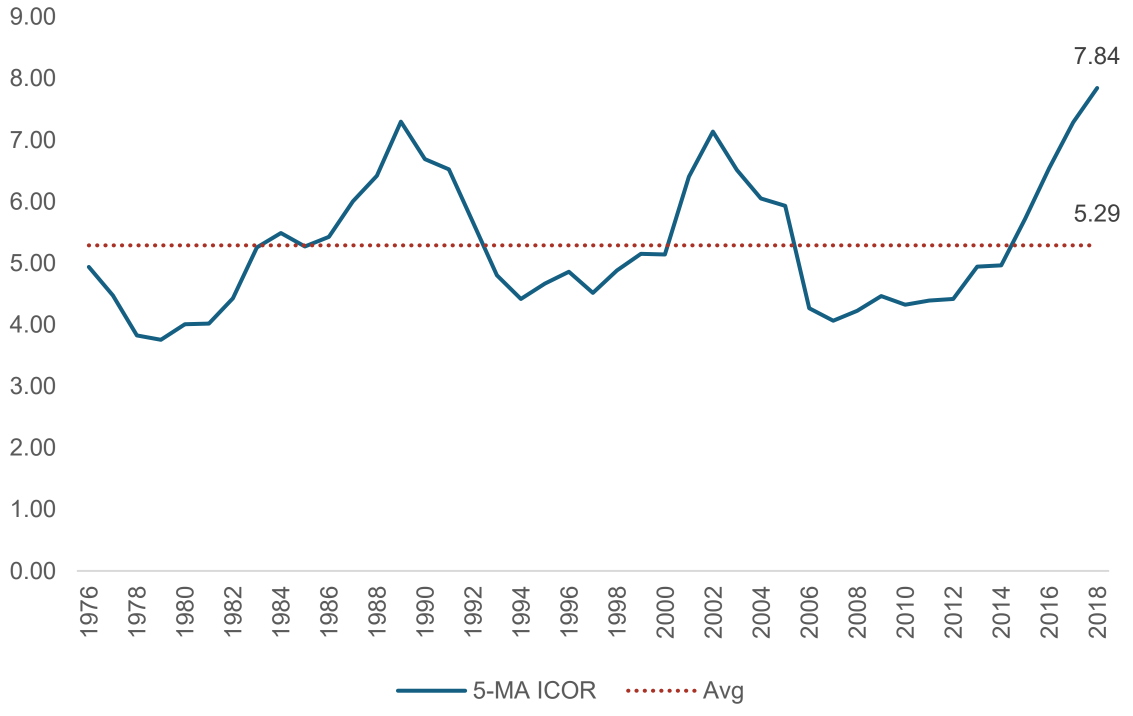


Exhibit 1.8b: Historical Incremental Capital Output Ratio (ICOR) > 5x

5-year Moving Average (MA) ICOR



Countries that achieved sustained high single digit economic growth rates universally had correspondingly high savings/ investment rates (well above 30% of GDP and in a few cases up to 50% of GDP for short periods of time), which is consistent with economic theory on the short-term causes of GDP growth This is mirrored in Sri Lanka's own recent economic history, with higher GDP growth levels in the 2010's post-war period being the outcome of sustained investment levels exceeding 30% of GDP (see Exhibit 1.8a). Towards the end of that period, we also see diminishing returns on investment with a heavy focus on non-tradeable and debt funded infrastructure led growth which has a lower return on investment.

Based on historical average incremental capital output ratio (ICOR) of c. 5.3x and negligible population growth, we estimate that investment levels would need to exceed 30% of GDP annually to elevate GDP growth even to a very modest 6% annually.

Source: World Bank, CBSL, HSB Research

External borrowing constraints imply that FDI will need to play a critical role to elevate the investment/ GDP ratio

Exhibit 1.9a: Savings & Investment levels remain well below 2015-18 avg

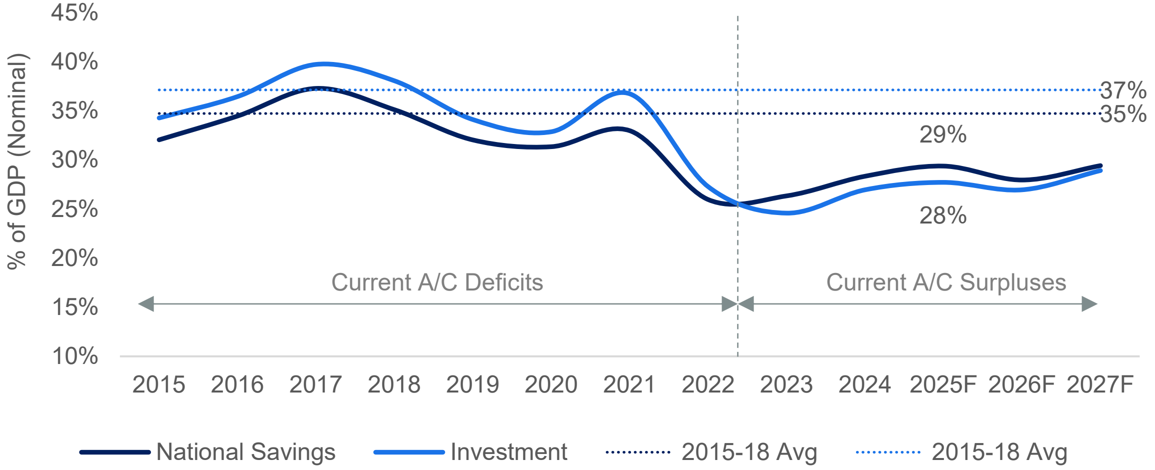
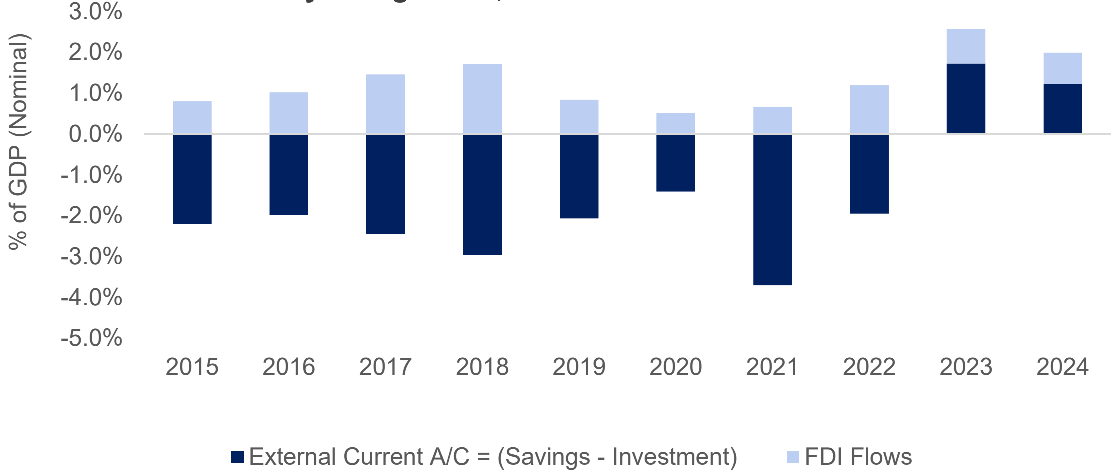


Exhibit 1.9b: Savings & Investment gap in the past mostly funded by foreign debt; FDI less than 1% of GDP



In the past few decades, the investment rate has typically exceeded the savings rate. The resulting savings & investment gap is equal to the deficit in the external current account as this forms a basic economic identity. High investment levels in the 2010's was mostly sustained through debt funded current account deficits of c. 2% of GDP. Whilst the external current account has been in surplus since the economic crisis, this is only partly a structural improvement in the economy. Reduction in fiscal imbalances through primary balance surpluses (and lower fiscal current account deficits) have contributed to a structural improvement in the external current account through a lower contribution by the government to the savings & investment gap. However, part of the external current account surpluses have come about through lower investment levels including lower private sector investments, as reflected in the investment rate falling below the savings rate.

In the event of a slow recovery in national savings back to 2015-18 levels, higher FDI will be necessary to increase the investment/ GDP ratio as large scale external debt funded investment is no longer a viable option given the constraints imposed by debt sustainability post the sovereign debt default.

Source: World Bank, CBSL, HSB Research

We expect GDP growth in the 4-5% range in the current year

Economic outlook for 2026F

	Unit	2018	2024	2025E	2026F	2027F
GDP at Constant Prices	LKR Bn	**13,235**	**12,472**	**13,084**	**13,672**	**14,288**
Y/Y growth	%	2.3%	5.0%	4.9%	4.5%	4.5%
GDP Deflator % change	%	4.3%	3.8%	3.0%	3.8%	3.3%
GDP at Market Price	LKR Bn	**15,352**	**29,899**	**32,290**	**35,035**	**37,838**
Y/Y growth	%	6.7%	9.0%	8.0%	8.5%	8.0%
Consumption	LKR Bn	**10,571**	**22,623**	**24,621**	**27,292**	**28,870**
National Savings	LKR Bn	**5,390**	**8,477**	**9,485**	**9,794**	**11,132**
Deficit / (Surplus) on Current Account	LKR Bn	**452**	**(413)**	**(536)**	**(350)**	**(189)**
Gross Capital Formation	LKR Bn	**5,842**	**8,060**	**8,949**	**9,444**	**10,943**
Consumption	% of GDP	68.9%	75.7%	76.3%	77.9%	76.3%
National Savings	% of GDP	35.1%	28.3%	29.4%	28.0%	29.4%
Deficit / (Surplus) on Current Account	% of GDP	2.9%	-1.4%	-1.7%	-1.0%	-0.5%
Gross Capital Formation	% of GDP	38.1%	27.0%	27.7%	27.0%	28.9%

Exhibit 1.10: Nominal GDP is expected to reach c. LKR 35 Tn in 2026

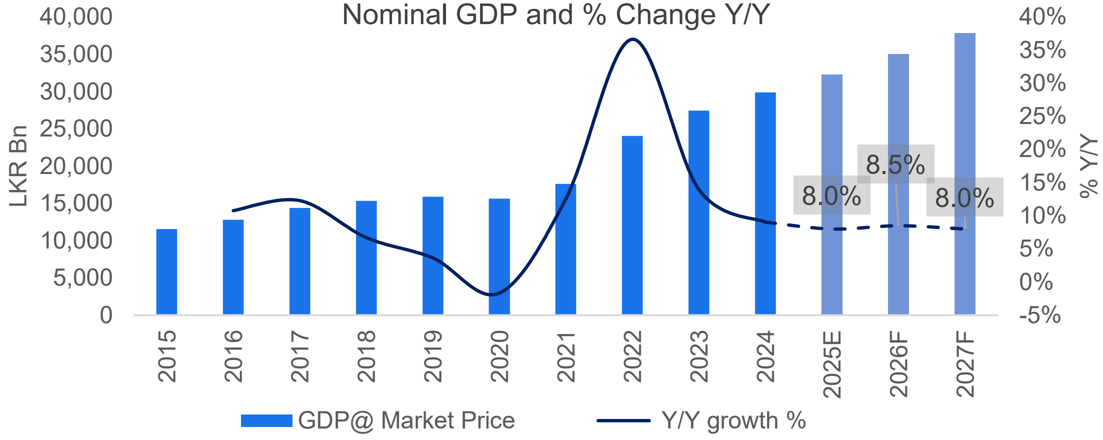
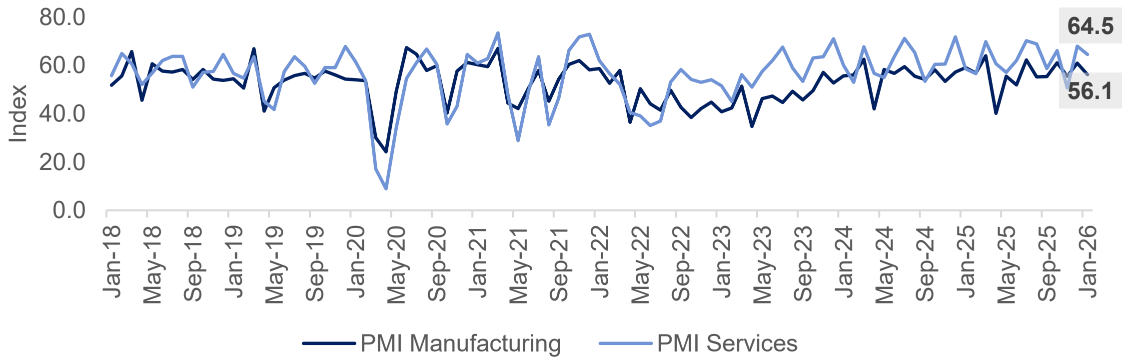


Exhibit 1.10b: High frequency indicators show continued expansion post Ditwah



We expect GDP growth of c. 4.5% in 2026, consistent with the current low levels of investment in the post-crisis period. Accordingly, we expect nominal GDP to reach around LKR 35 Tn in the current year accompanied by slightly higher inflation.

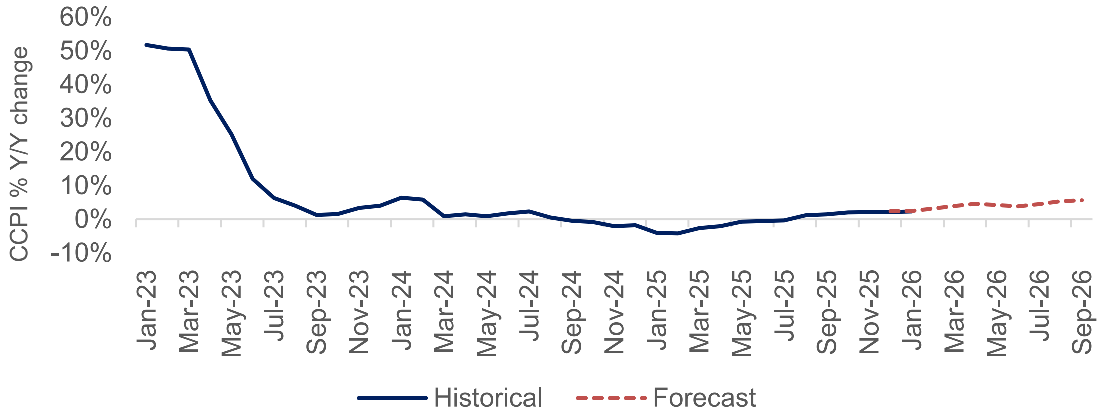
High frequency data from December and January does not show a significant downturn in economic activity in the manufacturing and services sectors, post-Cyclone Ditwah (see Exhibit 1.10b)

Slow uptick in inflation offset by private credit at c. 20% Y/Y; policy rates expected to remain around current levels

Taylor Rule implied policy rate band is c. 7.0% to 8.0%

If Current Inflation +/- Tolerance Range = 5% Target Inflation		Output Gap (Negative = GDP Below Potential Output)			
		-1%	**0%**	**1%**	**2%**
Equilibrium Real Interest Rate	**2% p.a.**	6.5% p.a.	7.0% p.a.	7.5% p.a.	8.0% p.a.
	3% p.a.	7.5% p.a.	8.0% p.a.	8.5% p.a.	9.0% p.a.

Exhibit 1.11a: CCPI Inflation Y/Y % change expected to gravitate towards target level of 5% in 2H 2026



Based on the current trajectory, inflation is expected to increase to the CBSL target rate of 5% p.a. in 2H 2026 (see Exhibit 1.11a). We believe policy rates will remain around current levels as the slow pick-up in inflation to target levels is offset by strong credit growth. Downside surprises to inflation/ private credit may influence policy rate decisions in 2H 2026 with the Taylor Rule implied policy rate band of 7-8% p.a. leaving space for further policy rate cuts from the current level of 7.75% p.a.

Exhibit 1.11b: Significant growth in private credit accommodated through lower credit to government

M/M Change in M2b Components and Y/Y Growth in Private Credit

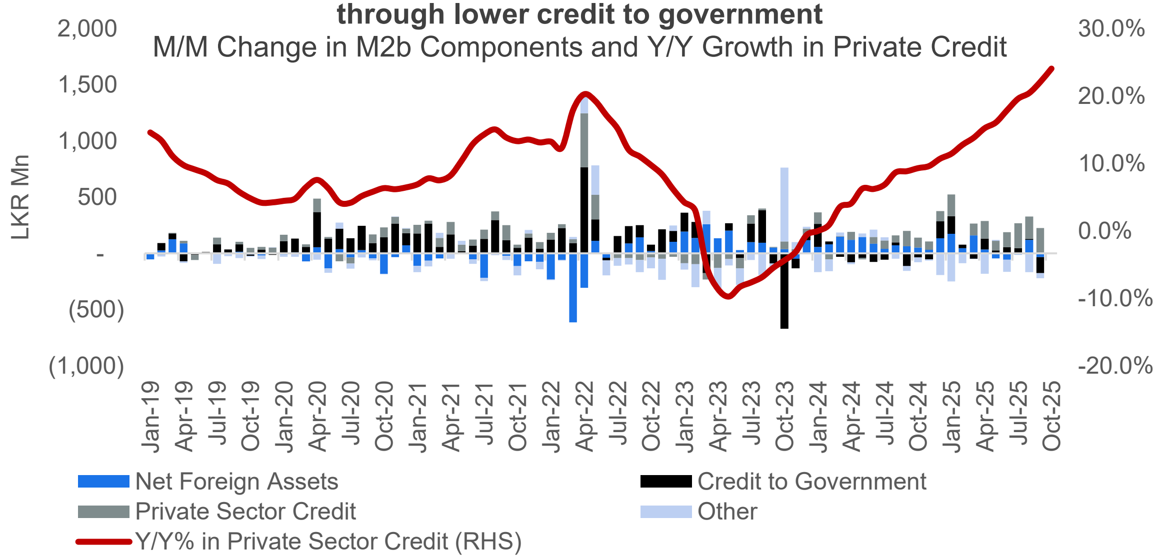
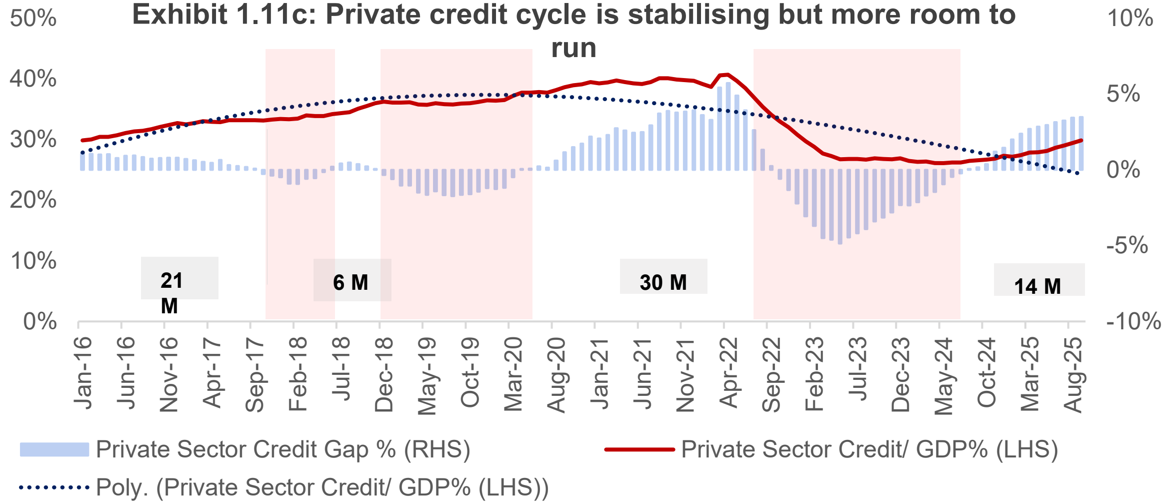


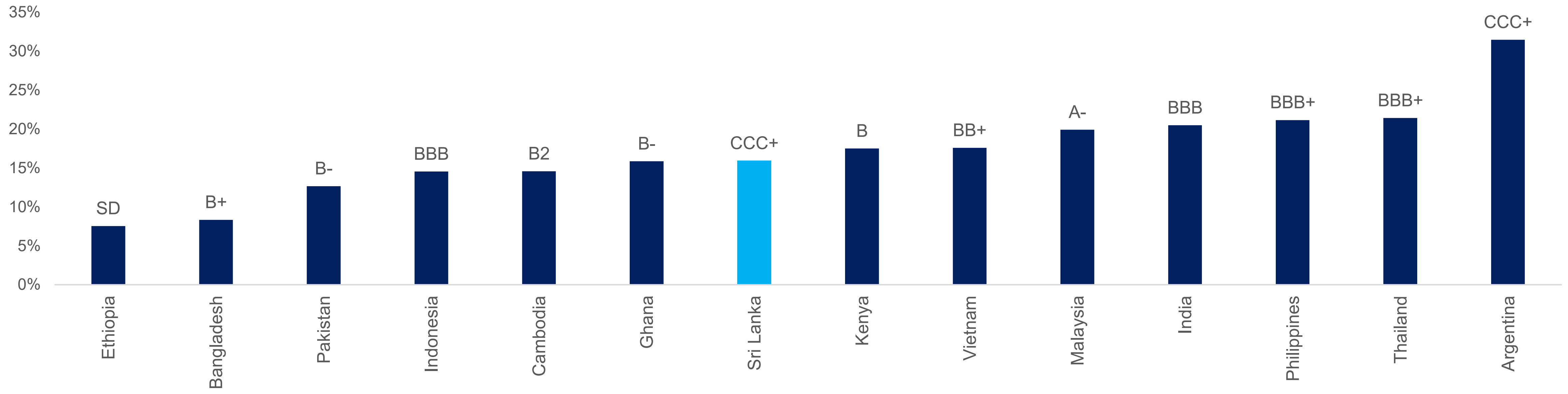
Exhibit 1.11c: Private credit cycle is stabilising but more room to run



Source: DCS, CBSL, HSB Research

Tax revenues normalised at c. peer levels; further revenue led consolidation would need to expand the tax base

Exhibit 1.12: Government Revenue % GDP & Sovereign Credit Ratings



Apart from policy rate decisions, private credit growth trends and fiscal outcomes in 2026 will influence secondary market interest rates. In relation to private credit growth, we believe that credit growth may have peaked towards end 2025 and early 2026, but will remain at elevated levels on a year-on-year basis through much of the year based on private credit/ GDP gradually reverting to 2017-18 levels after a period of crowding out by government borrowings during the economic crisis (see Exhibit 1.11c).

In relation to government finances, government revenue has recovered from lows of <10% of GDP post the 2019 tax cuts to c. 15% of GDP in 2025, in-line with peers (see Exhibit 1.12). This has been achieved mostly by raising tax rates back to pre-2018 levels or higher and some expansion of the tax base. Further revenue led fiscal consolidation would need to focus on expanding the tax base given the comparatively high direct and indirect tax rates that are prevailing.

Since elevating revenue/ GDP from current levels will be more gradual, disciplined fiscal expenditure management will be crucial going forward to sustain primary balance surpluses in-line with the IMF program parameters.

We expect that downward pressure on secondary market rates both at the shorter and longer end of the yield curve will be limited in the current year, given continued high gross financing needs and elevated credit growth. However, a faster deceleration in credit growth or a better than anticipated fiscal outcome could exert downward pressure on market rates towards the latter part of the year.

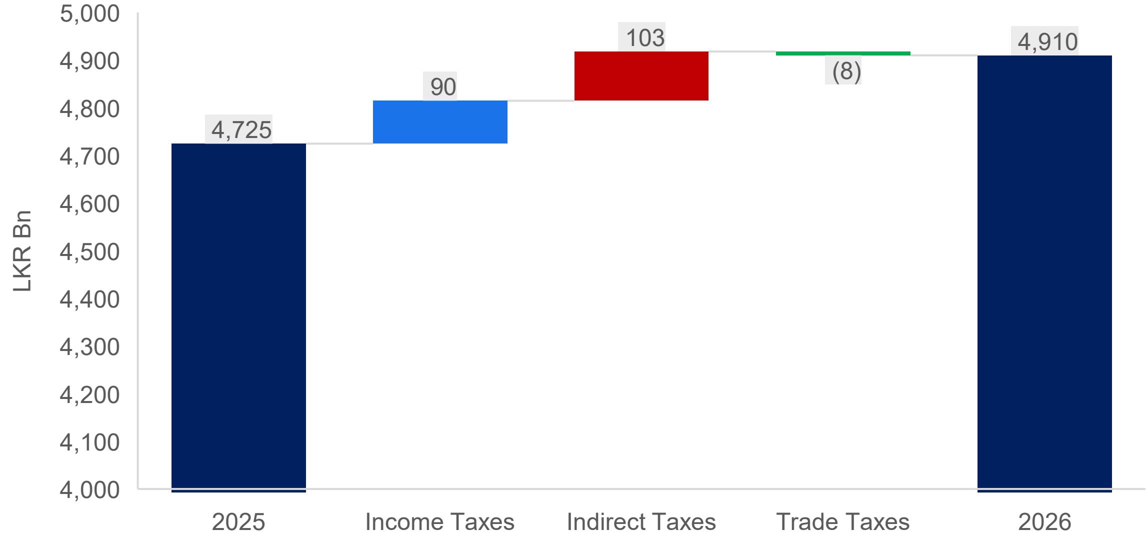
Source: World Bank

Incremental spending o/a Cyclone Ditwah is not expected to materially change the fiscal outlook

Large discretionary capex budget provides buffer to absorb Ditwah impact in the event of revenue shortfalls

Budget Summary (LKR Bn)	2025 (Revised)	2026 (Budgeted)	2026 (Post Ditwah)	Change
Recurrent Expenditure	**5,530**	**5,688**	**5,813**	**125**
Capital Expenditure	**1,033**	**1,380**	**1,755**	**375**
Total Expenditure	**6,548**	**7,057**	**7,557**	**500**
Tax Revenue	**4,725**	**4,910**	**4,910**	**-**
Total Revenue	**5,100**	**5,300**	**5,300**	**-**
Overall Deficit	(1,448)	(1,757)	(2,257)	**500**
Current Deficit	(430)	(388)	(513)	**125**
Primary Surplus	1,202	860	360	**500**
% of GDP				
Recurrent Expenditure	**17.3%**	**16.5%**	**16.9%**	**-1.5%**
- Interest cost	8.3%	7.6%	7.6%	-
- Other recurrent expenditure	9.0%	8.9%	9.3%	**-0.4%**
Capital Expenditure	3.2%	4.0%	5.0%	-
Total Expenditure	**20.5%**	**20.5%**	**21.9%**	**-1.4%**
Primary Expenditure	12.2%	12.9%	14.3%	**-1.4%**
Total Revenue	**15.9%**	**15.4%**	**15.4%**	**-**
Overall Deficit	**-4.5%**	**-5.1%**	**-6.5%**	**-1.4%**
Primary Surplus	**3.8%**	**2.5%**	**1.0%**	**-1.5%**

Exhibit 1.13: Fiscal revenue bridge from 2025 to 2026 envisages c. 10% growth in tax revenues (excl. taxes on motor vehicles) cf. nominal GDP growth of 8-9%



Budget 2026 envisages a 4% growth in tax revenue. We estimate that all other taxes excluding taxes on vehicles would need to yield c. 10% incremental revenue in 2026 (cf. estimated nominal GDP growth of 8-9%) to offset potentially lower revenues of c. LKR 250 Bn from taxes on vehicles.

Cyclone Ditwah impact on government finances is estimated at 1.5% of GDP as per the revised budget presented to parliament. The Treasury cash buffer of >LKR 1 Tn is expected to be used for Ditwah related expenditure with no incremental debt issuances anticipated. Discretionary capex budget of 4% of GDP provides an additional buffer to absorb Ditwah related spending as capex expenditure has typically fallen short of budgeted levels. Assuming there is no further supplementary spending, we expect that incremental spending from Cycole Ditwah will not materially change the fiscal outlook for the current year.

Source: Budget speech 2026

GFN expected to remain >20% in the current year and gradually reduce thereafter if primary surpluses are sustained

Exhibit 1.14a: Gross Financing Needs (GFN) remains at >20% of GDP

Assuming primary surplus of 2.3% p.a. and gradual reduction in interest cost to c. 6% of GDP

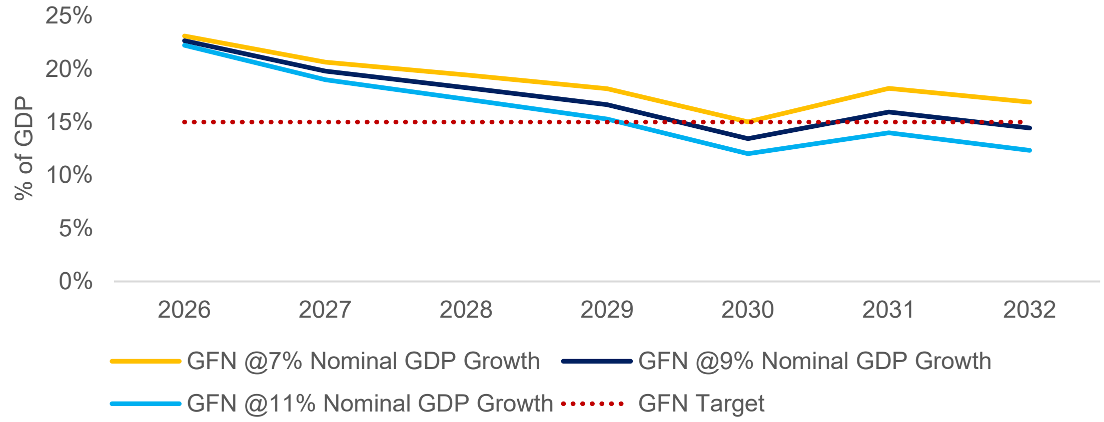
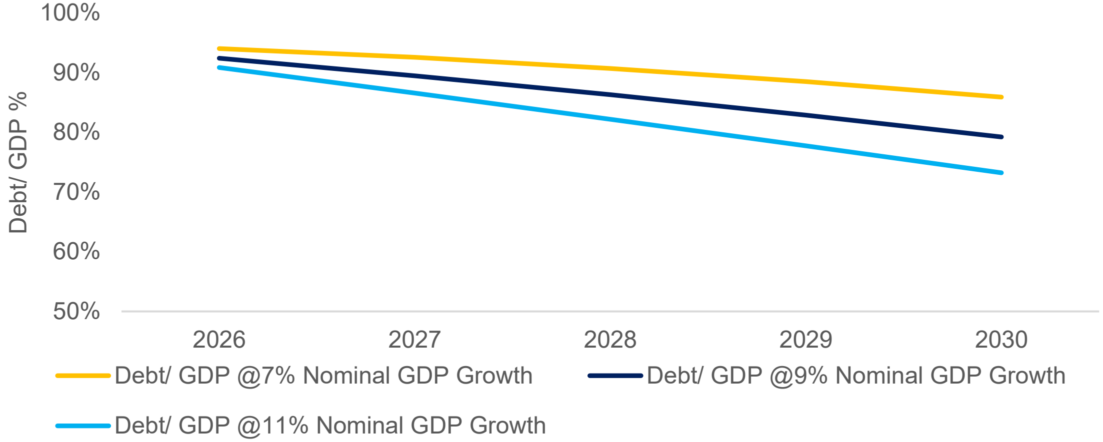


Exhibit 1.14b: Debt/ GDP

Assuming primary surplus of 2.3% p.a. and gradual reduction in interest cost to c. 6% of GDP



Gross Financing Needs (GFN) levels are expected to remain above 20% of GDP in the current year and gradually reduce thereafter if primary balance surpluses are maintained. High GFN levels will continue to pressure market interest rates, especially at the longer end of the yield curve.

Given the negative impact of high real interest rates on debt sustainability/ affordability and the reduction in debt/ GDP levels as discussed elsewhere herein, maintaining strict fiscal discipline with continued primary balance surpluses will be critical to lower GFN leading to sustainably lower real interest rates on government debt.

Source: HSB Research

Lower vehicle imports + services/ remittances growth will partly offset higher imports for reconstruction

External current account in 2026 may remain at a small surplus, notwithstanding higher imports for reconstruction

(USD Mn)	2024 Actual	2025E	2026F
Current Account	**1,206**	**1,723**	**1,098**
Balance on goods	**(6,069)**	**(7,909)**	**(9,233)**
Credit (exports)	12,772	13,571	14,056
Debit (imports)	(18,841)	(21,479)	(23,289)
Non-oil imports	(14,847)	(17,435)	(18,934)
Oil imports	(3,137)	(3,835)	(4,138)
Coal imports	(317)	(207)	(217)
Balance on Services	**3,435**	**3,707**	**3,899**
Credit (exports)	6,910	7,056	7,424
Of which: Tourism	3,169	3,219	3,380
Of which: Others	3,741	3,847	4,044
Debit (Imports)	(3,475)	(3,357)	(3,525)
Primary income, net	**(2,599)**	**(2,024)**	**(2,139)**
Secondary income, net	**6,439**	**7,949**	**8,572**
Of which: workers remittances (net)	6,429	8,076	8,582

Exhibit 15a: Vehicle imports >$1.9 Bn in 2025 accounted for the bulk of the expansion in the trade deficit

Growth in Imports by Type

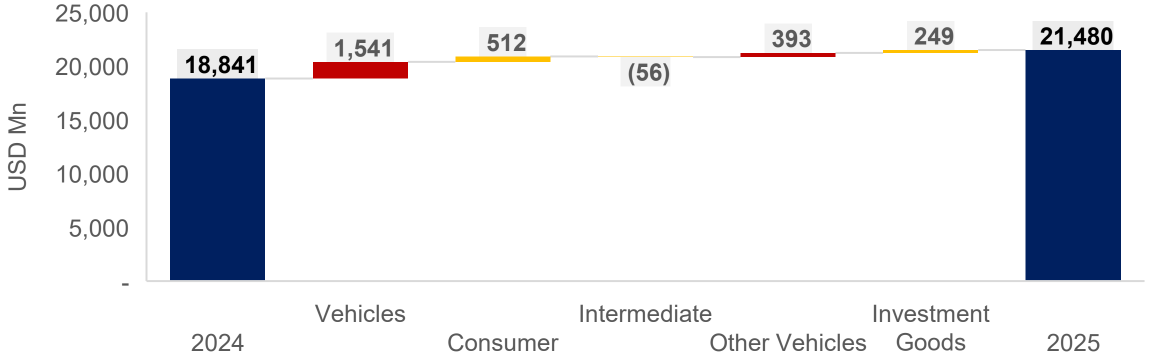
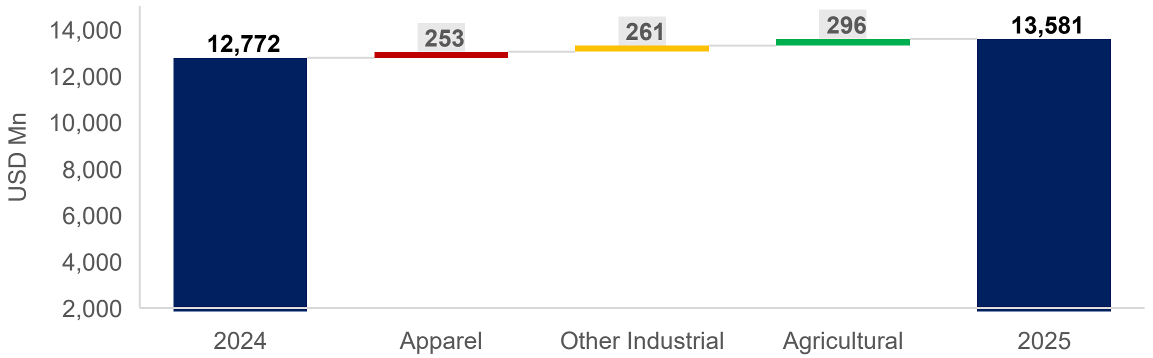


Exhibit 15b: Export growth expected to sustain c. same pace as 2025

Growth in Exports by Type



Notwithstanding possibly higher imports from Ditwah related reconstruction, we expect a current account surplus of c. 1% of GDP in the current year supported by continued subdued investment levels in the economy (refer pages 13-14). Lower vehicle imports as pent-up demand wanes is expected to partly offset higher import growth for consumption (including Ditwah related consumption and reconstruction expenditure).

Further growth in remittance inflows and services income is expected to boost gross national disposable income to accommodate higher consumption and intermediate goods imports whilst subdued investment levels will likely result in a current account surplus for the fourth consecutive year in 2026.

Source: CBSL, Forecast: HSB Research

Stable debt servicing outflows + lower current account balance could exert moderate pressure on LKR

Exhibit 1.16a: Debt servicing outflows at stable levels going forward

Total External Debt Service (Amortization + Interest)

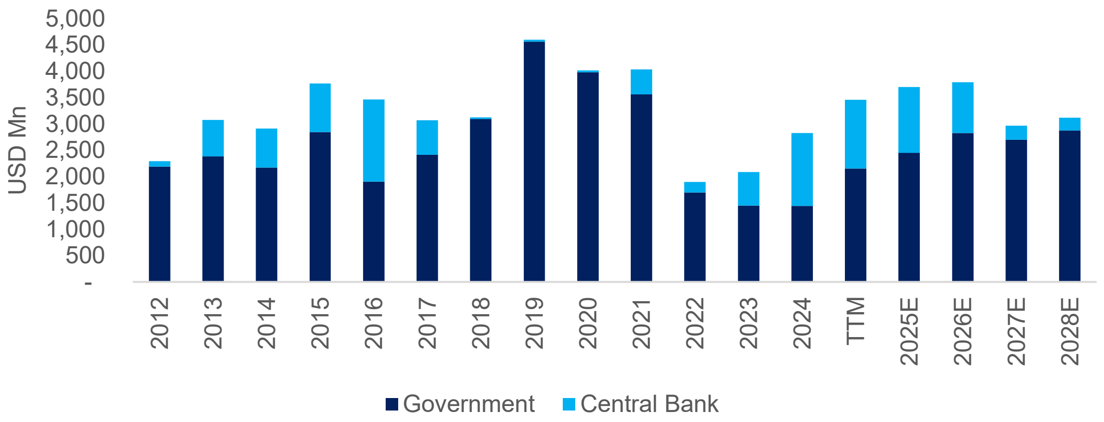
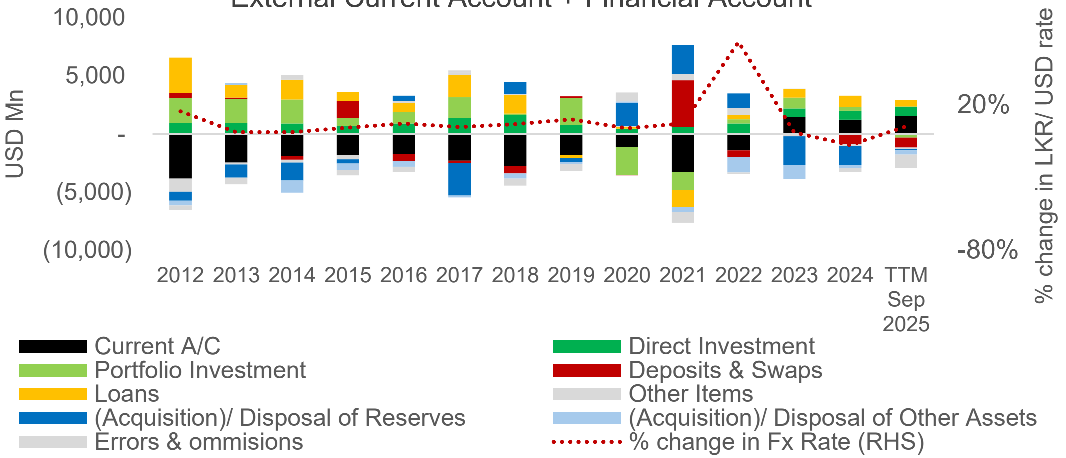


Exhibit 1.16b: Higher debt servicing + reserve accumulation likely pressured LKR in 2025

External Current Account + Financial Account



Debt servicing outflows including repayments in relation to swap transactions picked up in 2025. Higher debt servicing needs coupled with continued foreign exchange reserve accumulation (mostly in 2H 2025) in-line with IMF program parameters likely pressured the LKR/ USD exchange rate during the year, despite the significant current account surplus recorded in 2025 (see Exhibit 1.16a & b).

Lower current account surplus and external debt servicing commitments of c. USD 3.0 to 3.5 Bn per year (c. 2025 levels) over the next few years could exert moderate pressure on LKR/ USD exchange rate, leading to a 2-3% depreciation in the current year. Currency pressure could be less if Cyclone Ditwah related imports for reconstruction is lower than expected and/ or in the event of higher portfolio inflows into government debt securities.

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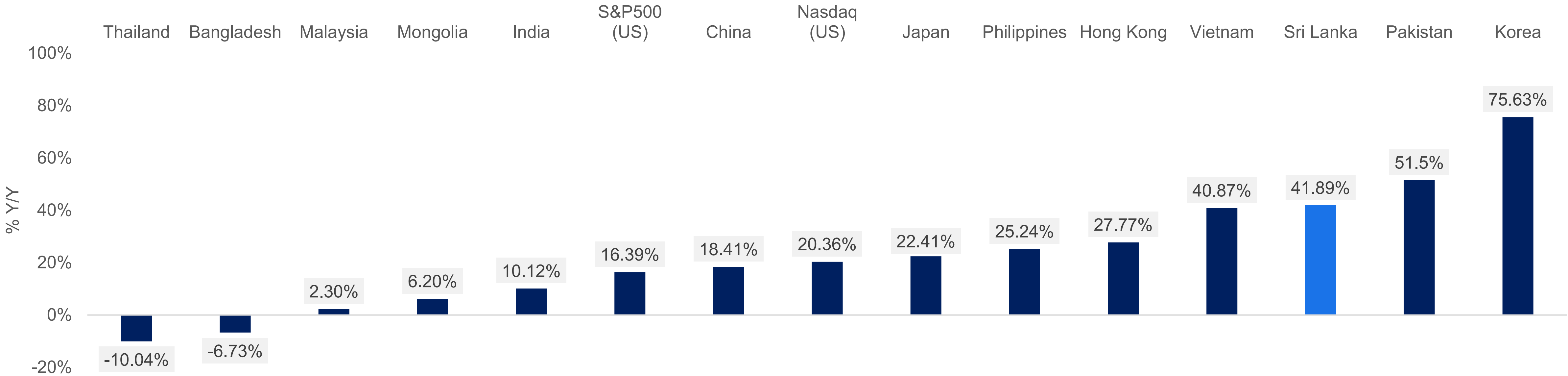
Stock Market Outlook

Sri Lanka | Economy & Strategy

CSE was among the leading performers in the region in 2025

Exhibit 1.17a: Market Performance of CSE and regional/ international peers in 2025
Y/Y % Change in 2025



In 2025, the Colombo Stock Exchange (CSE) emerged as a top global performer with a 41.9% full-year gain. The rally outpaced most developed indices, supported by record corporate earnings, a credit rating upgrade following debt restructuring, and a low-interest-rate environment.

While South Korea (+75.6%) led globally due to AI-driven semiconductor exports and Pakistan (+51.5%) surged on IMF-backed stabilization, Sri Lanka's success was defined by a broad-based recovery in Banking, Tourism, and Industrials. This diversified growth allowed the CSE to remain resilient despite external volatility that pressured other emerging markets.

Source: Bloomberg

Valuations are still reasonable relative to peers and below historical average

Exhibit 1.18a: CSE is cheaper relative to peers, although interest rates are still higher

Peer Market Valuations and Benchmarks

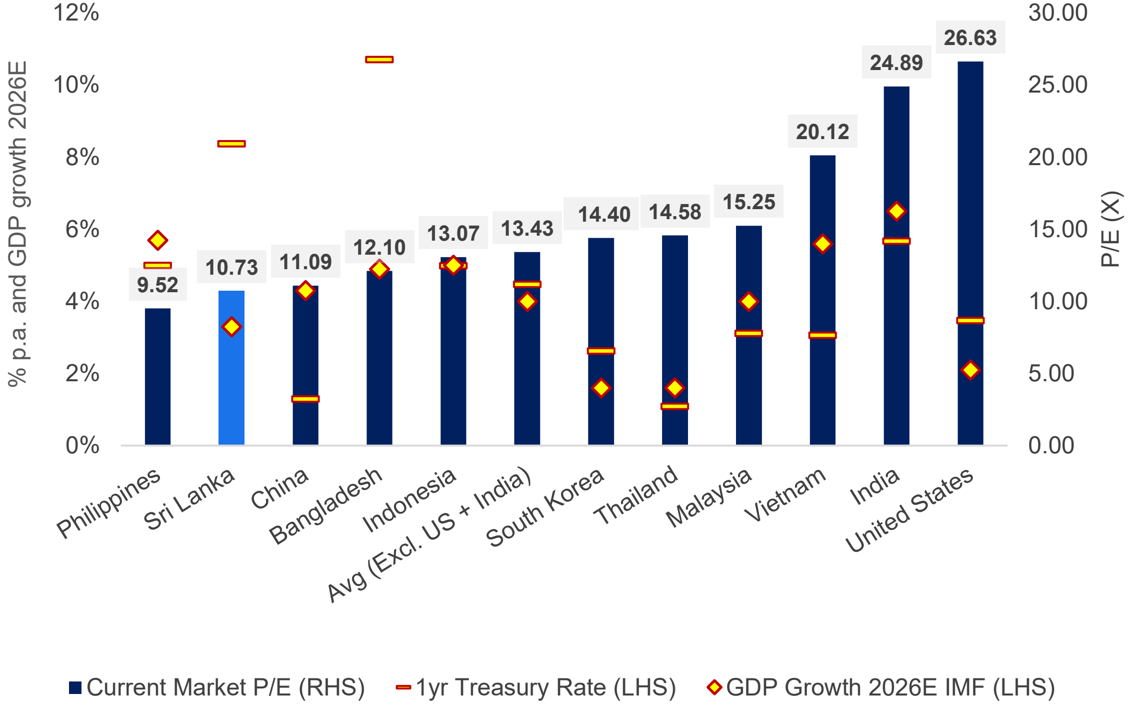
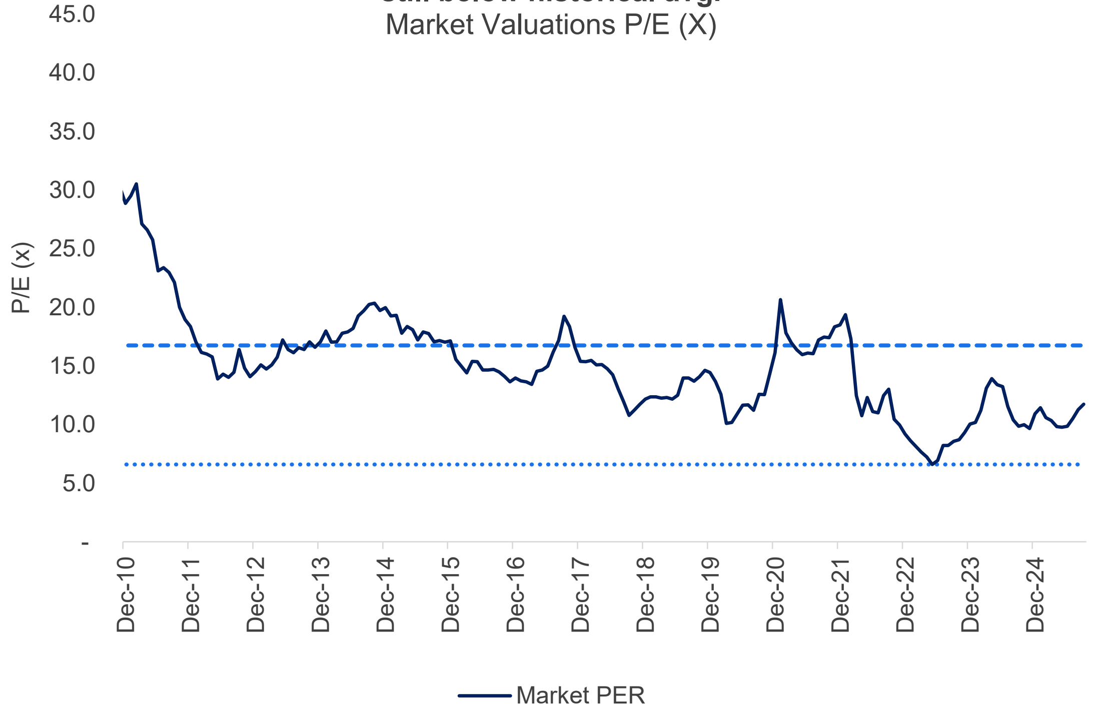


Exhibit 1.8b: Notwithstanding the recent run up, valuations are still below historical avg.

Market Valuations P/E (X)



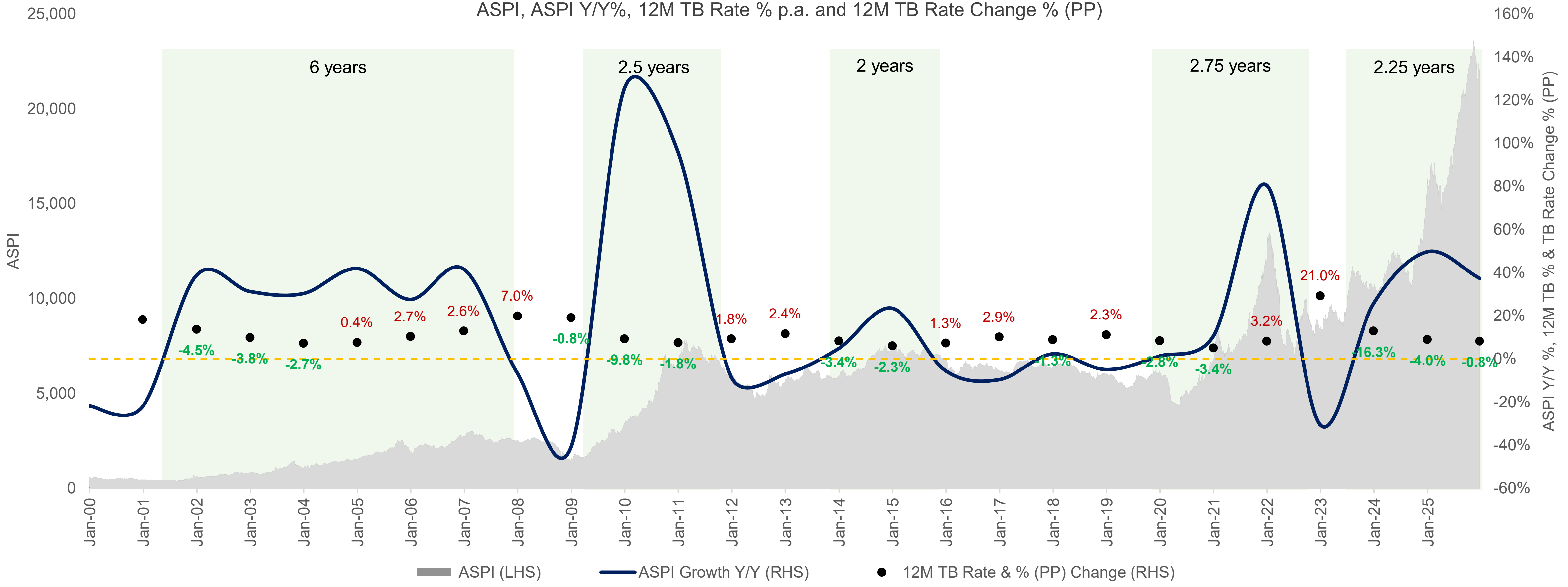
Nominally, the CSE trades at a lower valuation multiple than most regional peers. However, although multiples are lower, interest rates in Sri Lanka remain at levels much higher than the region at c. 8% p.a. at the shorter end of the yield curve compared with less than 5% p.a. in most regional markets (see Exhibit 1.18a). Since valuation multiples are a function of growth and discount rates, higher interest rates relative to peers is the primary constraint for valuation multiple expansion in Sri Lanka.

Source: CSE, HSB Research

Longer multi-year market cycle is possible if fiscal/ monetary stability leads to long-term decline in interest rates

Exhibit 1.19: Historically market has seen positive cycles primarily when interest rates are declining or stable

ASPI, ASPI Y/Y%, 12M TB Rate % p.a. and 12M TB Rate Change % (PP)



CSE bull runs have generally lasted around 2-3 years and have mostly coincided with periods during which interest rates were low and or a declining trend (see Exhibit 1.19). We believe that a longer multi-year bull run driven by both multiple expansion and earnings growth is possible if the fiscal/ monetary stability leads to economic stability accompanied by a gradual decline in interest rates.

Source: CSE, Bloomberg

Earnings outlook for 2026 remains favourable supported by economic recovery and credit growth

Exhibit 1.20a: Banks, Capital Goods and F&B sectors led earnings growth in 2025

CSE Market Earnings TTM as at 3Q 2025

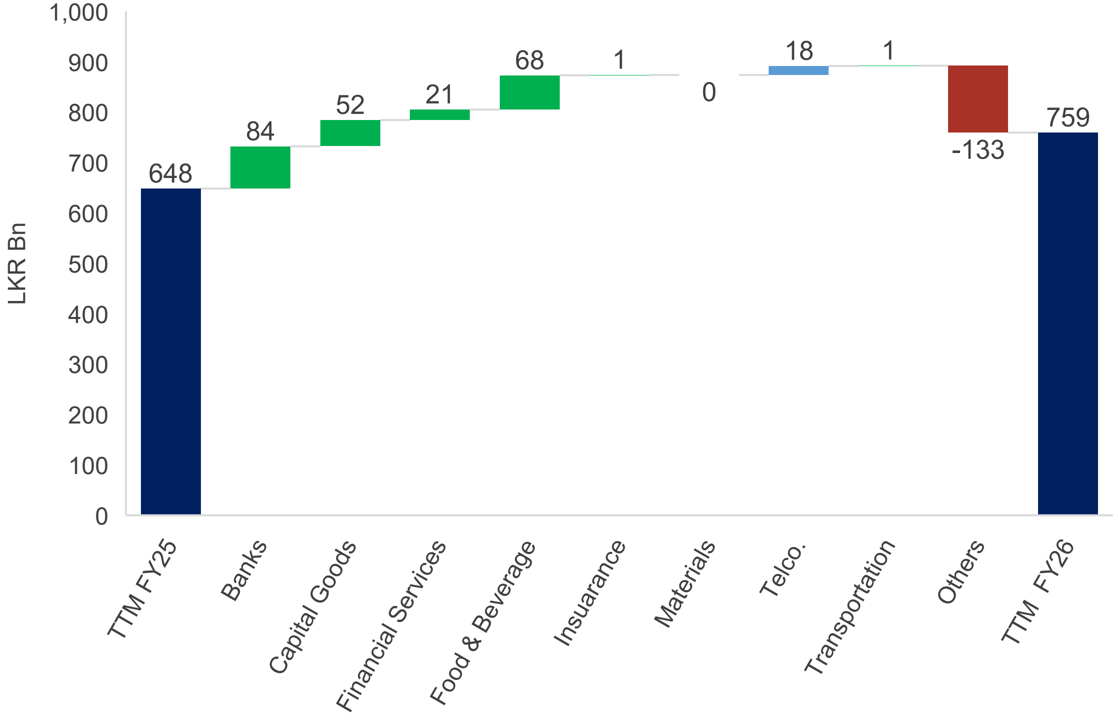
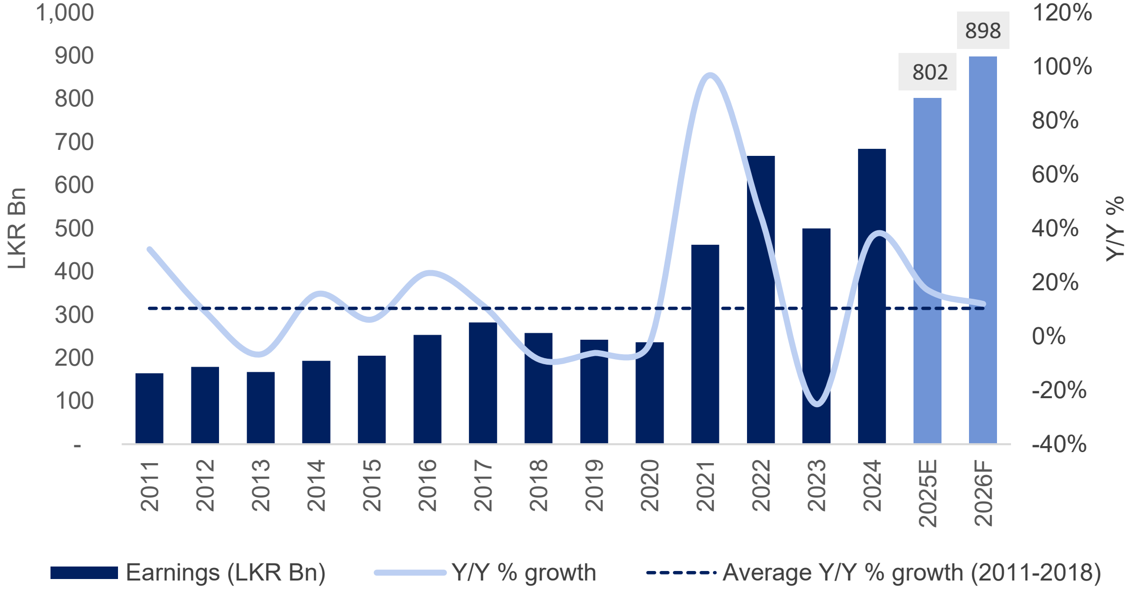


Exhibit 1.20b: Earnings growth is moderating but expected to remain at a positive pace in 2026

CSE Market Earnings & Y/Y Growth %



On a TTM basis, CSE market earnings recorded solid growth numbers with most of the key sectors showing positive growth. The banking sector was the leading contributor to earnings on a TTM basis, partly on account of significant non-recurring earnings reported in 4Q CY25 in relation to restructuring of international sovereign bonds. We expect CSE earnings to moderate to c. 12-14% Y/Y growth in 2026 compared with a TTM run rate of c. 17% Y/Y as earnings growth reverts to historical levels (see Exhibit 1.20b) and excluding the impact from non-recurring earnings in the banking sector.

Source: CSE, HSB Research

Our ASPI forecast for end 2026 is 26,000 to 27,700 points, representing an upside of 15-22%

ASPI Target by end 2026						
Earnings Growth	**9.5x P/E**	**10.0x P/E**	**10.5x P/E**	**11.0x P/E**	**11.5x P/E**	**12.0x P/E**
10%	22,100	24,300	25,500	26,700	27,900	29,100
12%	23,500	24,700	**26,000**	**27,200**	28,400	29,700
14%	23,900	25,200	**26,400**	**27,700**	28,900	30,200
16%	24.300	25,600	26,900	28,200	29,400	30,700

Upside/ Downside % from end 2025 ASPI Levels						
Earnings Growth	**9.5x P/E**	**10.0x P/E**	**10.5x P/E**	**11.0x P/E**	**11.5x P/E**	**12.0x P/E**
10%	2%	7%	13%	18%	23%	29%
12%	4%	9%	**15%**	**20%**	26%	31%
14%	6%	11%	**17%**	**22%**	28%	33%
16%	7%	13%	19%	25%	30%	36%

Based on 12-14% Y/Y earnings growth in 2026 and market valuation multiples holding around 10.5x to 11.0x, we expect 15-22% upside for the ASPI in the current year.

Source: HSB Research

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Sri Lanka

Strategy & Recommendations

Asset allocation for 2026; we recommend a higher exposure to equity as in the previous year

Exhibit 1.21a: HSB Recommended Asset Allocation Framework in 2025

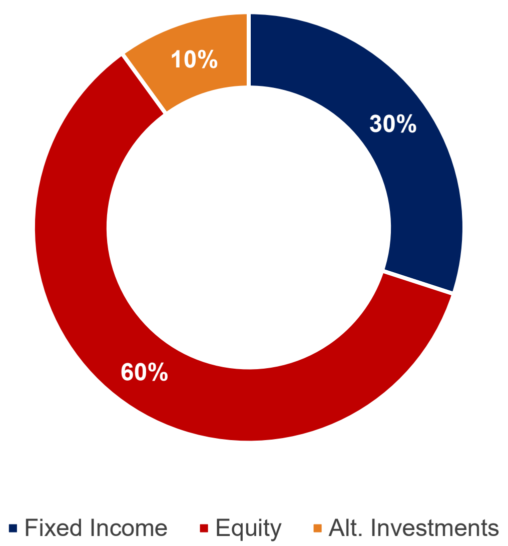
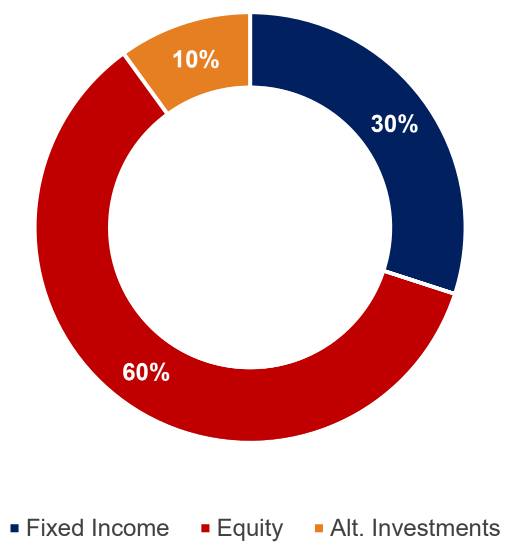


Exhibit 1.21b: HSB Recommended Asset Allocation Framework in 2026



We continue to recommend a higher exposure to equity in the current year given limited upside for fixed income.

Note/ Disclaimer:

* Our default asset allocation framework is for investors with moderate to moderately high, risk tolerance and having a long-term investment horizon. Investors should consult their investment advisors and determine their asset allocation framework/ stock picks based on individual risk tolerances and investment horizons.

Source: HSB Research

We expect broadly favourable conditions across a range of sectors in 2026

Exhibit 1.22: Market outlook is bullish for a range of sectors in the current year
Historical Sector Returns, Market Correlations & Sector Outlook for 2026

Sector	Outlook	Rationale
Banks	**Bullish**	Credit driven balance sheet expansion and earnings growth. Potential upside remains high based on moderate valuations relative to market/ regional peers.
Capital Goods	**Bullish**	Various catalysts across a range of industry segments. Hospitality exposed counters to benefit from the growth in tourist arrivals.
Consumer Services	**Bullish**	Growing tourist arrivals, a tailwind for hospitality counters. Valuations at more reasonable levels as profitability improves.
Consumer Staples	**Bullish**	Volume driven revenue and earnings growth potential.
Diversified Financials	**Moderately Bullish**	Credit driven balance sheet expansion and earnings growth, reopening of vehicle imports providing an additional catalyst.
Food, Beverage & Tobacco	**Bullish**	Volume driven revenue and earnings growth. Risk factors remain for the liquor industry from fiscal slippage translating into higher taxes.
Materials	**Bullish**	Recovery in volumes to pre-crisis levels in the medium term a tailwind for all construction materials counters.
Retailing	**Moderately Bullish**	Volume driven revenue and earnings growth potential.

Source: CSE, HSB Research

HSB high conviction portfolio for 2026

Company	Ticker	HSB Stock Rating	Current Share Price (LKR)	EPS (LKR)			PER (X)			12M Target Price (LKR)	Total Upside
				TTM	CY25E/FY26E	CY26E/FY27E	TTM	CY25/FY26E	CY26E/FY27E		
Melstacorp	MELS.N	Buy	176.3	16.2	18.0	20.1	10.9	9.8	8.8	260.0	48%
Hatton National Bank	HNB.N	Buy	425.3	94.5	76.4	91.7	4.5	5.6	4.6	575.0	35%
Hatton National Bank (NV)	HNB.X	Buy	350.5	94.5	76.4	91.7	3.7	4.6	3.8	469.0	34%
Aitken Spence Hotel Hldgs	AHUN.N	Buy	119.8	8.2	9.3	11.6	14.6	12.9	10.3	160.0	34%
John Keells Hotels	KHL.N	Buy	22.6	0.3	0.5	1.0	66.6	48.3	22.8	30.0	33%
Dipped Products	DIPD.N	Buy	62.4	6.8	7.1	7.8	9.1	8.8	8.0	78.0	25%
Nations Trust Bank	NTB.N	Buy	325.3	59.1	57.9	66.7	5.5	5.6	4.9	400.0	23%
John Keells Holdings	JKH.N	Buy	22.8	0.3	0.7	1.1	71.1	33.8	21.2	28.0	23%
LB Finance	LFIN.N	Buy	163.8	21.7	22.3	29.9	7.6	7.4	5.5	200.0	22%
Hayleys	HAYL.N	Buy	207.8	18.9	19.5	23.4	11.0	10.7	8.9	250.0	20%
Tokyo Cement (NV)	TKYO.X	Buy	95.2	7.6	6.3	7.8	12.6	15.0	12.2	114.0	20%
Tokyo Cement	TKYO.N	Moderate Buy	114.0	7.6	6.3	7.8	15.0	18.0	14.6	135.0	18%
Commercial Bank of Ceylon	COMB.N	Moderate Buy	218.3	43.7	36.3	45.8	5.0	6.0	4.8	253.0	16%
Haycarb	HAYC.N	Moderate Buy	121.3	11.6	12.0	13.4	10.5	10.1	9.1	140.0	15%
Ceylon Cold Stores	CCS.N	Moderate Buy	114.3	6.3	6.6	7.7	18.2	17.2	14.9	130.0	14%
Jetwing Symphony	JETS.N	Moderate Buy	19.7	0.9	1.1	1.3	21.2	18.7	15.6	22.3	13%
Digital Mobility Solutions	PKME.N	Moderate Buy	160.3	4.9	6.6	8.5	33.0	24.4	18.9	180.0	12%
Access Engineering	AEL.N	Moderate Buy	75.7	6.4	6.5	13.4	11.8	11.6	5.6	84.0	11%

*Valuation multiples are based on prices as of 09th January 2026

Selected high dividend yield stocks more attractive in the backdrop of lower interest rates

Company	Ticker	Share Price*	TTM DPS	Dividend Yield %*	TTM EPS Growth Y/Y (%)
Capital Alliance	CALT.N	52.80	16.00	30%	108%
First Capital Holdings	CFVF.N	62.10	14.50	23%	498%
First Capital Treasuries	FCT.N	37.50	7.60	20%	61%
Janashakthi Insurance	JINS.N	129.50	15.00	12%	90%

Company	Ticker	Share Price*	TTM DPS	Dividend Yield %*	TTM EPS Growth Y/Y (%)
Watawala Plantations	WATA.N	46.70	4.40	9%	52%
Chevron Lubricants Lanka	LLUB.N	184.00	17.00	9%	4%
Ceylon Tobacco Company	CTC.N	1,725.50	156.34	9%	-5%
CIC Holdings	CIC.N	34.80	2.50	7%	-46%
Kelani Tyres	TYRE.N	89.60	6.50	7%	-45%
Ceylon Tea Brokers	CTBL.N	8.90	0.60	7%	381%
Teejay Lanka	TJL.N	34.90	2.35	7%	15%
Sampath Bank	SAMP.N	146.50	9.35	6%	35%
Lanka IOC	LIOC.N	129.00	5.00	4%	-21%

Primary dealership related stocks are currently showing a high TTM dividend yield as they pay out large non-recurring profits made in the last few years arising from the sharp decline in interest rates since the crisis period. We expect further payouts are possible in the current year but will normalize thereafter.

*Share Prices as of 31st December 2025

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Banking & NBFI Sector

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Banking & Finance: Credit-driven loan book expansion support growth

The domestic macro environment has moved from recovery into an early expansion phase. In Q3 2025 lending across the banking sector grew 17.6% Y/Y (see Exhibit 2.1a). Improving business confidence, stabilising inflation, and stronger balance sheets are creating conditions supportive of sustained credit growth into 2026.

Non-bank financial institutions continue to outpace banks in loan growth, led by leasing and consumer finance (see Exhibit 2.1b). While growth is expected to remain healthy in 2026, the pace should moderate as pent-up vehicle demand normalises and underwriting standards become more selective.

On the margin side, a lower interest rate environment and intensifying competition for deposits are likely to compress NIMs(Net Interest Margins) across the sector (see Exhibit 2.1c). Earnings growth will therefore depend more on loan volume expansion, cost discipline, and advantages in funding mix.

Asset quality trends remain constructive despite the risk of a short-term uptick in delinquencies linked to Cyclone Ditwah (see Exhibit 2.1d). Over the medium term, credit metrics should improve further, contingent on sustained economic growth and continued fiscal discipline.

Exhibit 2.1a: Policy Easing Triggers Lending Pivot across Banks

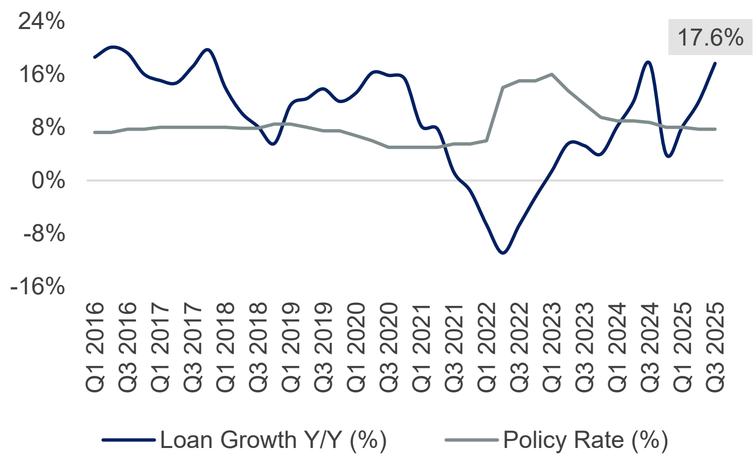


Exhibit 2.1b: Leasing & Gold Loans Drive Loan Book of NBFIs

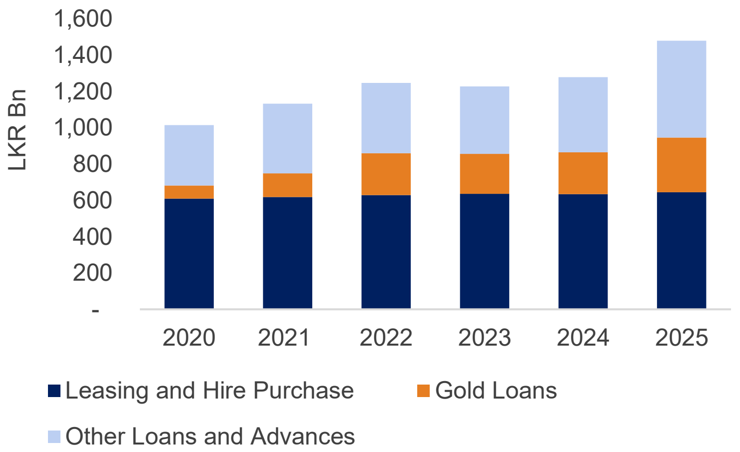


Exhibit 2.1c: Rate Cuts Have Led to NIM Compression

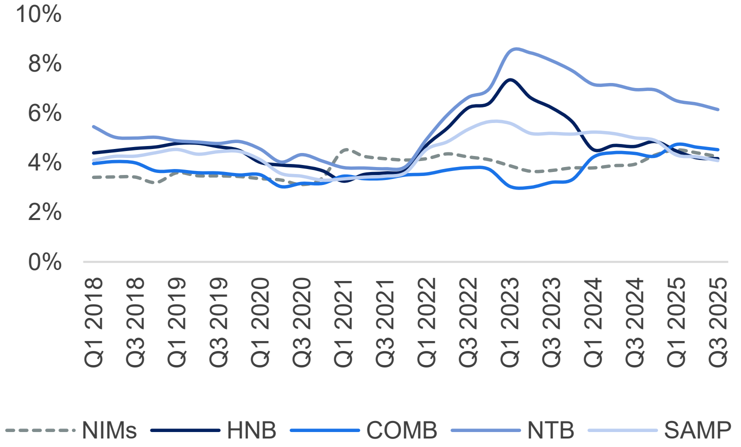
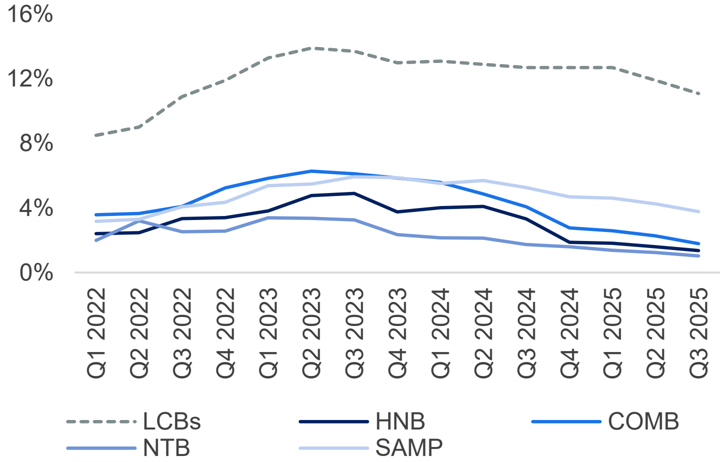


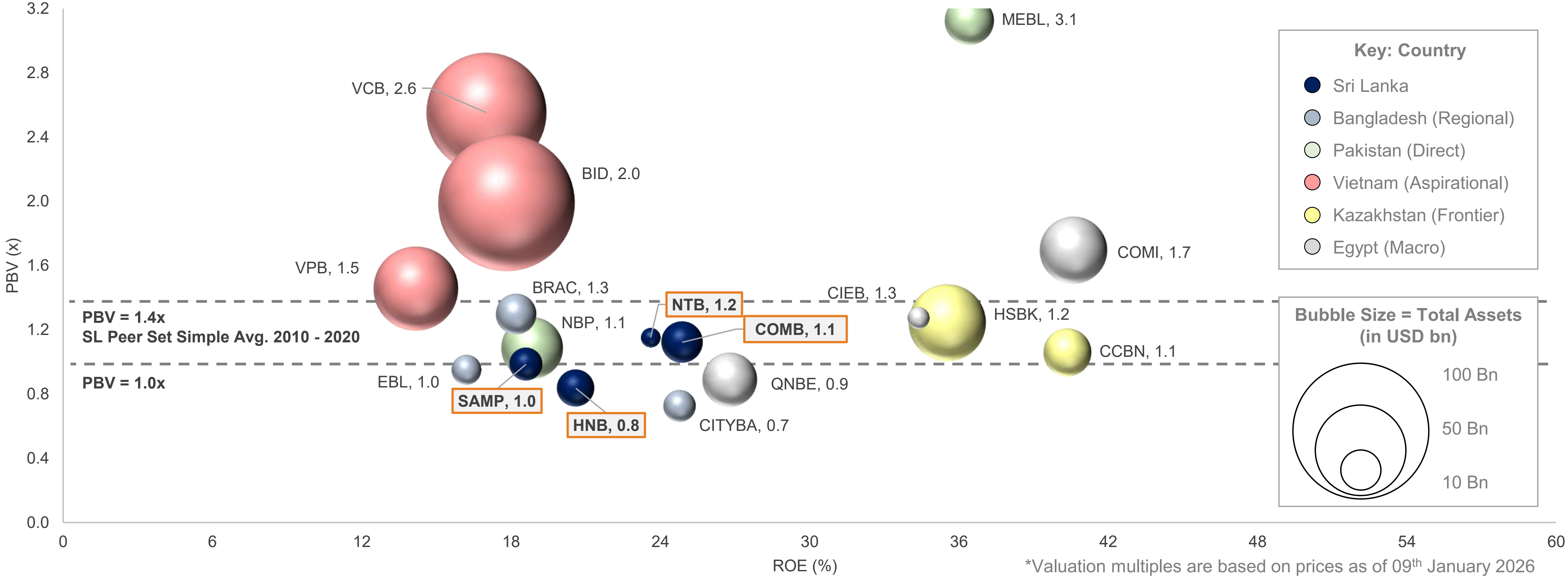
Exhibit 2.1d: Tier-1 Bank Asset Quality Outperforms Sector



Source: CBSL, Company Reports, Bloomberg, HSB Research

Banking & Finance: Historical and regional valuation arbitrage

Exhibit 2.2: Domestic Tier 1 Bank Valuations Remain Attractive cf. Historical & Regional Benchmarks



*Valuation multiples are based on prices as of 09th January 2026

Selected tier-1 banks continue to trade around 1.0x Price-to-Book Value (PBV), implying a meaningful discount to both their 2010–2020 historical average of ~1.4x and the regional frontier market average of ~1.6x (see Exhibit 2.2). This valuation gap reflects residual risk aversion rather than current fundamentals, creating scope for re-rating as earnings visibility improves.

At the frontier market level, Vietnam's expected reclassification to emerging market status under FTSE Russell is likely to prompt outflows from frontier-mandated funds. This transition could redirect capital toward smaller, high-growth frontier markets with improving macro stability and valuation support, positioning Sri Lanka as a potential beneficiary of incremental liquidity.

Banking & Finance: Prefer tier 1 banks with strong performance indicators

Performance Summary 3Q 2025	BOC	COMB	HNB	SAMP	NTB	SEYB	NDB	DFCC	PABC	SDB	UNION	AMANA
Net Interest Income (LKR'Mn)	51,750	**34,672**	**29,138**	**20,099**	**9,788**	9,390	9,069	7,821	3,258	2,172	1,729	2,255
Net Interest Income Q/Q%	-2.9%	**0.2%**	**10.8%**	**-3.7%**	**0.3%**	1.3%	5.7%	0.5%	0.9%	5.6%	5.4%	19.6%
Net Interest Income Y/Y%	35.8%	**14.2%**	**12.3%**	**-3.2%**	**14.0%**	7.2%	13.8%	11.2%	10.7%	-2.9%	39.6%	41.7%
Impairment Charge/ (Reversal) (LKR'Mn)	6,516	**3,040**	**-2,094**	**634**	**-945**	281	1,406	885	193	203	240	-256
Net Profit (LKR'Mn)	19,913	**16,596**	**11,036**	**7,521**	**6,118**	2,888	3,615	2,742	873	98	92	706
EPS (LKR.)	785.86	**10.18**	**19.3**	**6.41**	**18.5**	4.54	8.49	6.28	1.97	0.59	0.08	1.28
NAVPS (LKR.)	14,329.84	**194.53**	**508.51**	**157.17**	**282.35**	126.33	207.34	238.09	66.36	90.4	18.68	44.84
Performance Indicators												
Net Interest Margin [Bank]	3.9%	**4.5%**	**4.2%**	**4.1%**	**6.2%**	4.5%	4.1%	4.0%	4.6%	5.4%	3.3%	4.2%
Loans and Advances Growth Q/Q %	2.2%	**10.1%**	**11.0%**	**11.1%**	**14.5%**	7.2%	4.9%	5.3%	10.8%	4.0%	7.0%	7.3%
Stage 3 Loans (NPL) Ratio [Bank]	6.7%	**1.8%**	**1.4%**	**3.8%**	**1.0%**	1.5%	4.5%	4.8%	2.1%	5.7%	8.9%	1.1%
CASA Ratio	28.5%	**39.9%**	**33.5%**	**34.5%**	**30.6%**	29.0%	23.8%	25.3%	21.3%	21.7%	27.6%	43.2%
Cost to Income Ratio [Bank]	32.0%	**37.7%**	**38.9%**	**41.4%**	**31.1%**	48.8%	40.4%	35.1%	48.5%	75.1%	77.9%	51.0%
ROE	30.4%	**24.9%**	**20.6%**	**18.6%**	**23.6%**	15.9%	15.7%	12.4%	17.6%	2.0%	3.0%	10.0%
Valuation Multiples												
Trailing PER (x)	N/A	**5.0**	**4.5**	**5.5**	**5.5**	5.9	4.8	6.1	5.7	41.5	32.6	7.5
PBV (x)	N/A	**1.1**	**0.8**	**1.0**	**1.2**	0.9	0.7	0.7	1.0	0.7	0.8	0.7
Regulatory Capital Ratio												
Total Tier I capital ratio	12.9%	**13.1%**	**18.8%**	**14.3%**	**18.9%**	12.4%	12.0%	11.8%	15.4%	13.5%	13.3%	12.7%
Minimum requirement (Tier 1)	10.0%	**10.0%**	**9.5%**	**9.5%**	**8.5%**	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Capital Buffer (Tier 1)	2.9%	**3.1%**	**9.3%**	**4.8%**	**10.4%**	3.9%	3.5%	3.3%	6.9%	5.0%	4.8%	4.2%
Total capital ratio	16.6%	**16.8%**	**22.1%**	**17.3%**	**20.0%**	18.5%	15.8%	14.3%	17.1%	14.9%	14.3%	14.6%
Minimum requirement (Total capital)	15.0%	**14.0%**	**13.5%**	**13.5%**	**12.5%**	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%

Multiples are as of 09th January 2026

Source: Company Reports, Bloomberg, HSB Research

HNB is Sri Lanka's second-largest private sector bank and has been designated as a Systemically Important Bank (SIB). Beyond core banking, the Group operates across insurance, capital markets, finance, and real estate.

Favorable macro conditions are expected to support loan growth. Infrastructure-led expansion, easing of import restrictions are sustaining credit demand. Private sector credit grew 26.0% Y/Y in November 2025, reflecting the low-interest rate environment, with growth expected to moderate but remain supported as policy rates stay low. Against this backdrop, we forecast loan book growth of 15.0% in 2026E, taking the loan portfolio to LKR 1.6 Tn.

Sustained low policy rates and loan repricing at lower yields are expected to pressure margins. NIM has contracted by 49 bps to 4.2% over the 9M2025. To mitigate margin pressure, the Group has expanded non-fund-based income, with fee and commission income forecasted at LKR 25.7 Bn [+10.0% Y/Y] for 2026E, supported by digital initiatives and trading-related activities.

Asset Quality Improvement and Strong Capital Position. Credit quality improved, with the net Stage 3 ratio declining by 23 bps to 1.4% in 3Q2025. Stage 3 loans and impairment levels may remain elevated in the near term as the banks continue to assess the repayment capacity of customers affected by Ditwah. Capital buffers remained strong, with a CET1 ratio of 18.8% and a total capital ratio of 22.1% in 3Q2025, well above regulatory minimums of 8.0% and 13.5%. This capital surplus provides flexibility for deployment in higher-yielding ventures and/or pursuing selective balance sheet expansions.

We forecast earnings of LKR 52.4 Bn for 2026E, translating to an EPS of LKR 91.72. We assign a Buy rating, supported by a 12-month target price of LKR 575.00 for HNB.N, based on a DDM valuation, implying a 35.0% upside.

Exhibit 2.3a: Private Sector Credit

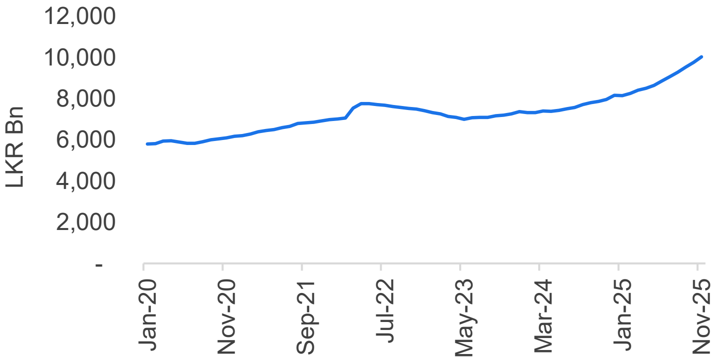
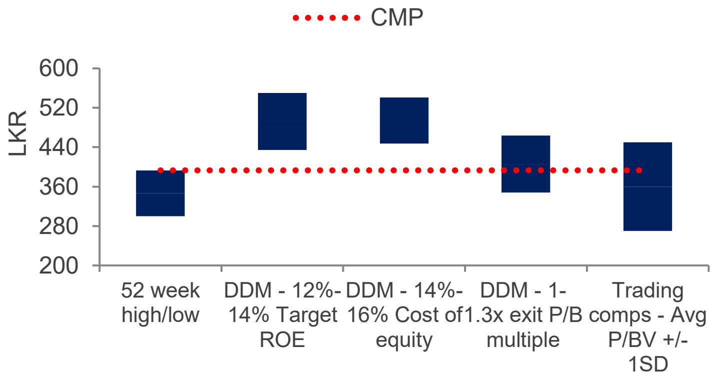


Exhibit 2.3b: HNB Valuation Chart



Rating: Buy	
12M Target Price	**LKR 575.00**
Previous Price	LKR 503.00
CMP	**LKR 425.25**
Dividend (2026E)	LKR 20.00
Upside/ Downside	**35.0%**

52w High | Low (LKR)	433.00 | 267.00
TTM P/E (X)	**4.5**

Summarised P&L Forecast

Year end 31 December	Actual		Forecast	
(LKR Mn)	**2023**	**2024**	**2025E**	**2026E**
NII	**118,075**	**109,765**	**129,299**	**149,386**
Impairment Charge	42,524	-77,456	-5,300	10,000
Non Interest Inc	32,566	-10,794	37,836	58,014
Non Interest Exp	60,375	71,129	77,580	88,138
PBT	47,4741	105,247	94,856	109,262
PAT	22,771	43,539	43,709	52,446
EPS (LKR)	**39.82**	**76.14**	**76.44**	**91.72**
NAVPS (LKR)	**371.17**	**457.07**	**516.51**	**588.22**
DPS (LKR)	8.00	15.00	17.00	20.00
Div Yield %	**1.9**	**3.5**	**4.0**	**4.7**
P/E (X)	**10.7**	**5.6**	**5.6**	**4.6**
PBV (X)	**1.1**	**0.9**	**0.8**	**0.7**

Source: Financial Statements, HSB Research

Hatton National Bank PLC (HNB.N): Buy

Exhibit 2.4a: HNB NIM

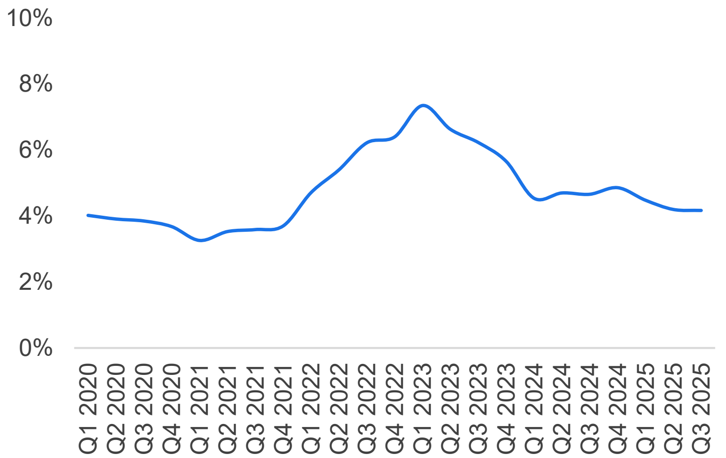


Exhibit 2.4b: HNB Loan book growth

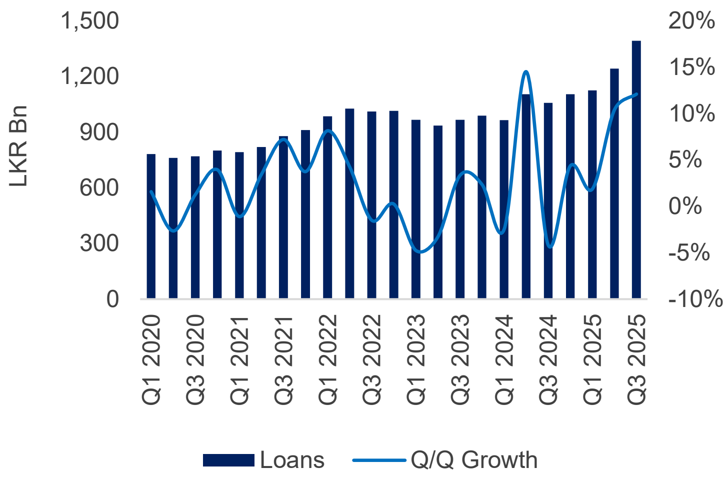


Exhibit 2.4c: HNB TTM EPS growth

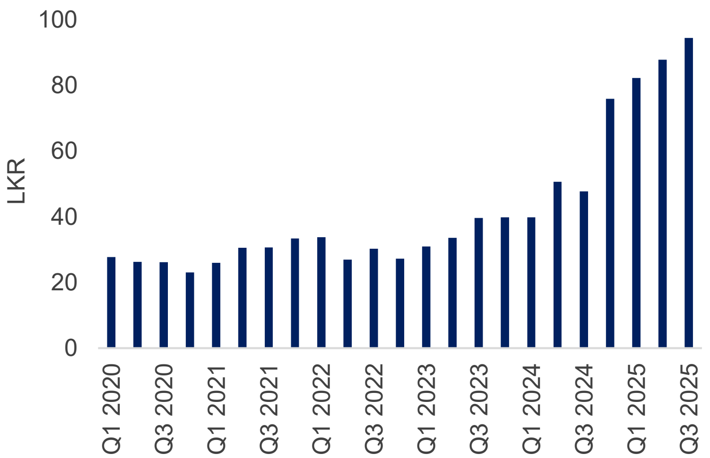


Exhibit 2.4d: HNB Share Price vs ASPI

Exhibit 2.4e: HNB Price to Book Multiple

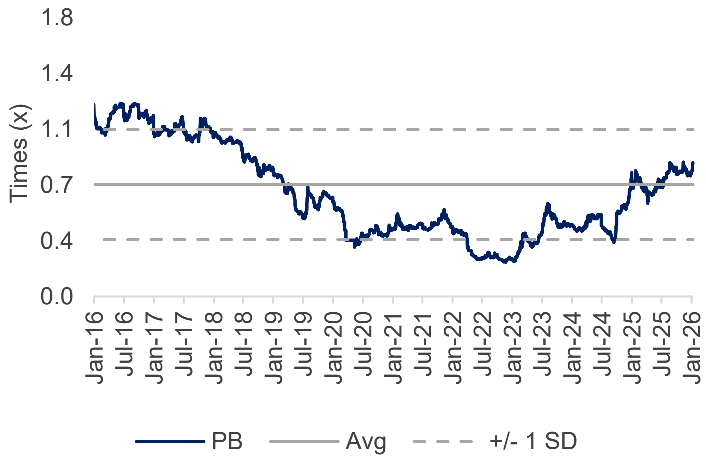
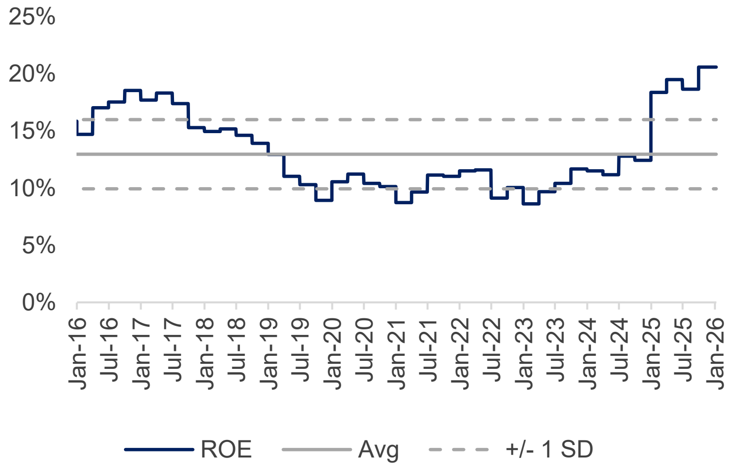


Exhibit 2.4f: HNB Return on Equity



Source: Financial Statements, HSB Research

Commercial Bank of Ceylon PLC (COMB.N): Moderate Buy

Commercial Bank of Ceylon PLC is the largest private sector bank in Sri Lanka and a designated Systemically Important Bank. The group operates in Bangladesh, the Maldives, and Myanmar, supporting earnings diversification and cross-border growth.

Credit growth supported by low penetration and easing constraints. Private sector credit to GDP remains below pre-crisis levels at c.29–30% in mid 2025, indicating meaningful headroom for credit expansion. Strong momentum in construction and tourism-related infrastructure, alongside reconstruction demand following Ditwah, is expected to support loan growth. Against this backdrop, we forecast Group loan growth of 15.0% Y/Y to LKR 2.2 Tn in 2026E.

Margin pressure partly offset by non-interest income. NIM contracted 10 bps Q/Q to 4.5% in 3Q2025 amid the low-rate environment, reflecting the prolonged low-rate environment and ongoing margin compression risks. Growth in fee and commission income, driven by higher card usage, digital transactions, and relaxed vehicle import restrictions should support earnings.

Overseas operations may weigh on group earnings. Political uncertainty in Bangladesh, foreign currency constraints, and rising debt obligations in the Maldives may pressure margins in the near term.

Improving Asset Quality and Adequate Capital Buffers, with net Stage 3 ratio declining 48 bps Q/Q to 1.8% in 3Q2025 (up 229 bps Y/Y), reflecting disciplined risk management. CET1 and total capital ratios remain accommodative at 13.1% and 16.8%, above regulatory minimums, providing flexibility to support growth.

We assign a Moderate Buy rating, supported by a forecasted EPS of LKR 45.79 derived from earnings of LKR 74.6 Bn for 2026E. A DDM-based target price of LKR 253.00 implies a 16.0% upside, supported by improving macroeconomic conditions and policy measures.

Exhibit 2.5a: Private Sector Credit to GDP %

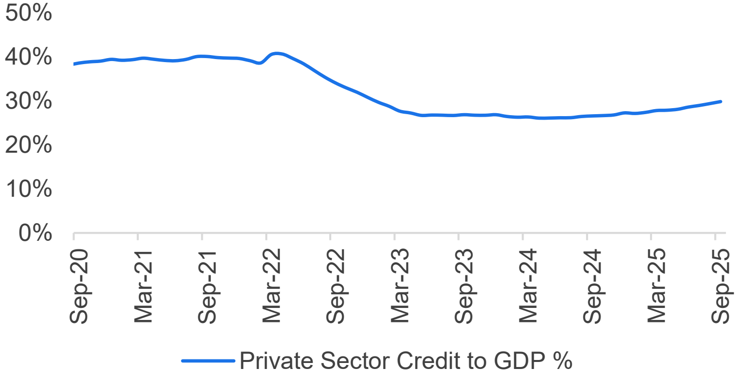
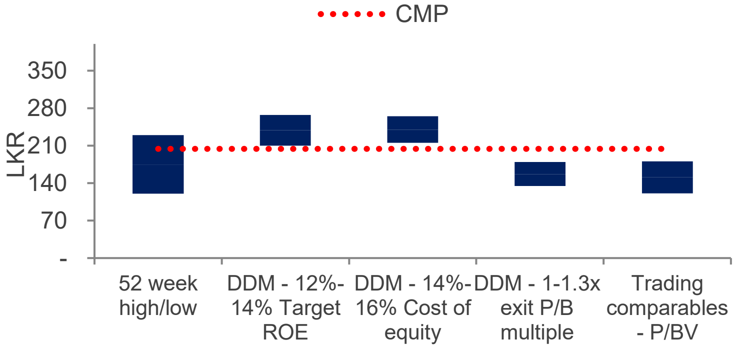


Exhibit 2.5b: COMB Valuation Chart



Rating: Moderate Buy	
12M Target Price	**LKR 253.00**
Previous Price	LKR 230.00
CMP	**LKR 218.25**
Dividend (2026E)	LKR 11.00
Upside/ Downside	**16.0%**

52w High | Low (LKR)	219.00 | 120.00
TTM P/E (X)	**5.0**

Summarised P&L Forecast

Year end 31 December	Actual		Forecast	
(LKR Mn)	**2023**	**2024**	**2025E**	**2026E**
NII	**86,415**	**118,135**	**141,838**	**163,009**
Impairment Charge	38,895	-62,295	18,000	10,000
Non Interest Inc	35,658	-11,076	39,234	41,443
Non Interest Exp	44,290	51,838	54,466	62,188
PBT	38,888	117,515	108,606	132,264
PAT	21,115	55,073	59,136	74,636
EPS (LKR)	**14.74**	**33.79**	**36.28**	**45.79**
NAVPS (LKR)	**153.89**	**172.47**	**198.75**	**233.54**
DPS (LKR)	4.50	9.50	10.00	11.00
Div Yield %	**2.1**	**4.4**	**4.6**	**5.0**
P/E (X)	**14.8**	**6.5**	**6.0**	**4.8**
PBV (X)	**1.4**	**1.3**	**1.1**	**0.9**

Source: : Financial Statements, HSB Research

Exhibit 2.6a: COMB NIM and C/I

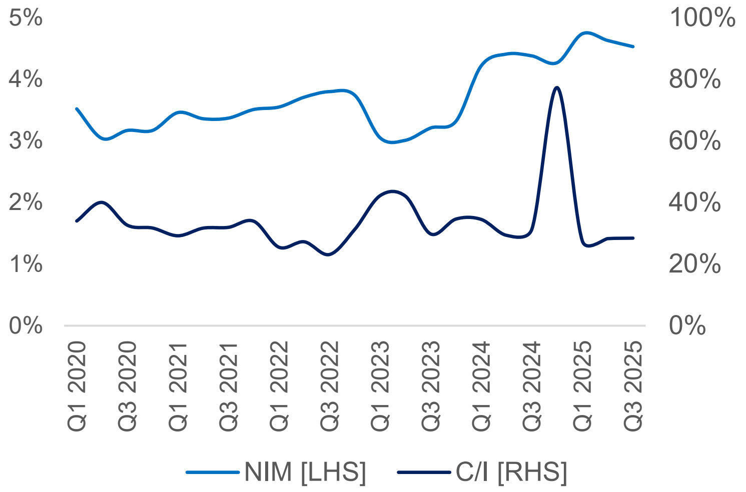


Exhibit 2.6b: COMB Loans and Q/Q Loan Growth

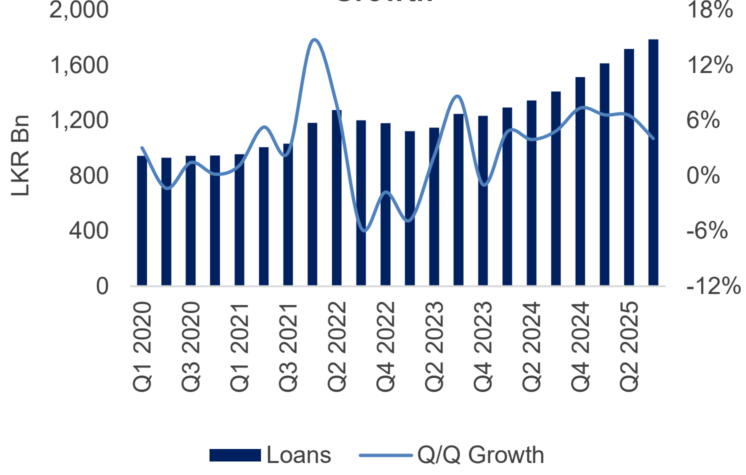


Exhibit 2.6c: COMB TTM EPS

Exhibit 2.6d: COMB Share Price vs ASPI

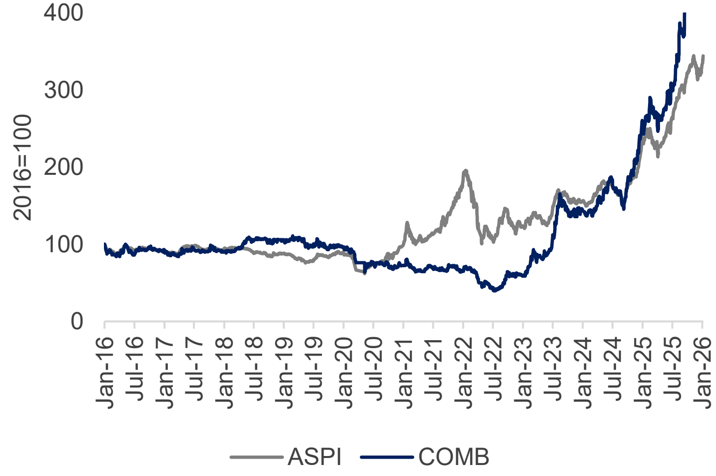


Exhibit 2.6e: COMB Price to Book Multiple

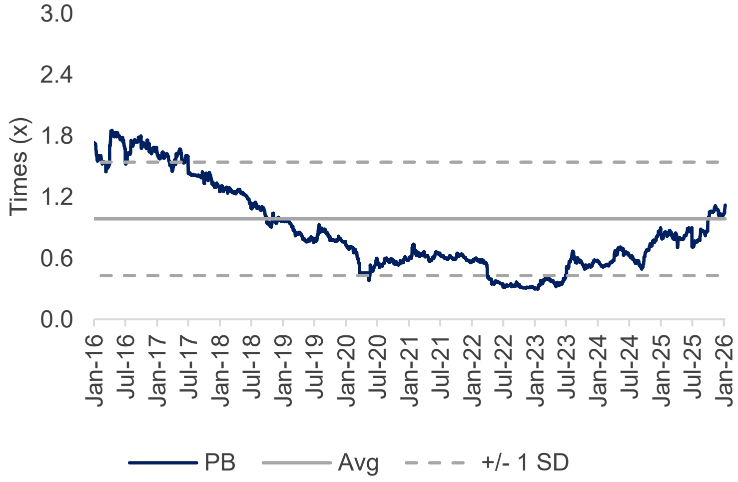
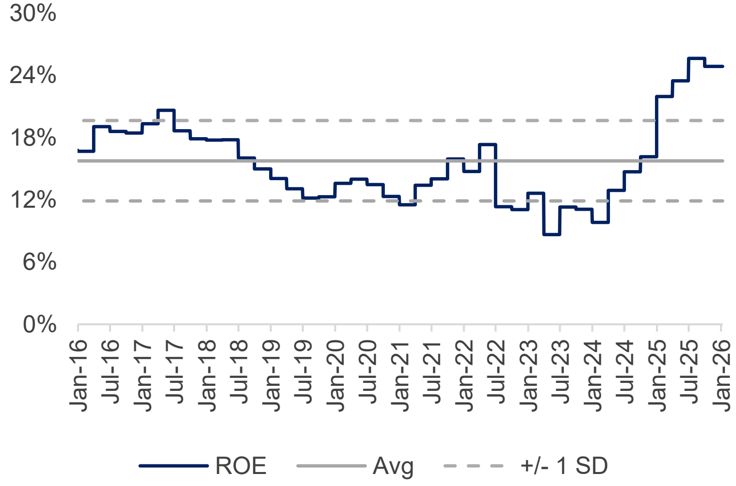


Exhibit 2.6f: COMB Return on Equity



Source: CBSL, Company Reports, Bloomberg, HSB Research

Nations Trust Bank PLC is a mid-sized licensed commercial bank in Sri Lanka. The group's strong focus on profitability supports a resilient margin profile.

Sectoral Growth-led improvement. The banking sector's credit-to-deposit ratio improved to 66.9% in 3Q2025, up 198 bps Y/Y, but remains well below pre-crisis levels of around 93.6% in 2020. This gap highlights under-penetration and points to capacity for a sustained upcycle in bank credit growth. Against this backdrop, we forecast loan book growth of 20.0% in 2026E, taking the portfolio to LKR 573.0 Bn.

Stronger margins outperform effect of market rates, despite the low interest rate environment, the group sustained stronger margins than peers. NIM stood at 6.2% for 9M2025, supported by vigilant credit control and risk management. ROE reached 23.5% in 3Q2025, consistent with the bank's track record of delivering superior returns relative to peers.

HSBC Acquisition to provide incremental earnings uplift. Higher transaction volumes and a broader customer base from the HSBC acquisition provide upside to card-related income. Operational integration from 1H2026E, subject to final terms, is expected to add incremental earnings. The acquisition is not included in current forecasts, as transaction completion is expected during 1H2026.

Capital buffers remain strong, with a CET1 ratio of 18.9% and a total capital adequacy ratio of 20.0% in 3Q2025, well above regulatory minimums of 7.0% and 12.5%, supporting the HSBC acquisition. Buffers may moderate in the near-term post-acquisition. Asset quality improved, with the net Stage 3 ratio declining 21 bps Q/Q to 1.0%, reflecting disciplined risk management.

We forecast earnings of LKR 22.1 Bn for 2026E, representing 15.3% Y/Y growth. (excluding HSBC impact). We derive a 12-month target price of LKR 400.0 based on a DDM valuation with an upside of 23.0%. Alongside a forecasted EPS of LKR 66.72 for 2026E with a recommendation of to Buy.

Exhibit 2.7a: Banking Sector Credit to Deposit ratio

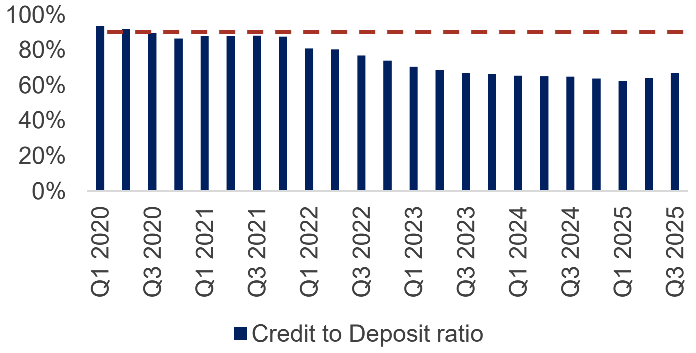
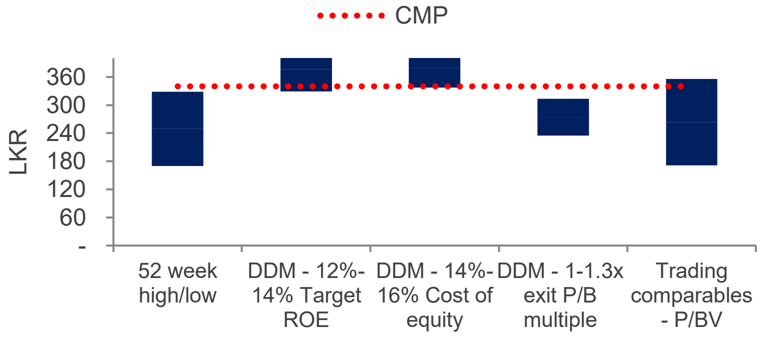


Exhibit 2.7b: NTB Valuation Chart



Rating: Buy	
12M Target Price	**LKR 400.00**
Previous Price	LKR 354.00
CMP	**LKR 325.25**
Dividend (2026E)	LKR 10.00
Upside/ Downside	**23.0%**

52w High | Low (LKR)	328.50 | 170.00
TTM P/E (X)	**5.5**

Summarised P&L Forecast

Year end 31 December	Actual		Forecast	
(LKR Mn)	**2023**	**2024**	**2025E**	**2026E**
NII	**118,075**	**109,765**	**129,299**	**149,386**
Impairment Charge	42,524	-77,456	-5,300	10,000
Non Interest Inc	32,566	-10,794	37,836	58,014
Non Interest Exp	60,375	71,129	77,580	88,138
PBT	47,4741	105,247	94,856	109,262
PAT	22,771	43,539	43,709	52,446
EPS (LKR)	**39.82**	**76.14**	**76.44**	**91.72**
NAVPS (LKR)	**371.17**	**457.07**	**516.51**	**588.22**
DPS (LKR)	8.00	15.00	17.00	20.00
Div Yield %	**1.9**	**3.5**	**4.0**	**4.7**
P/E (X)	**10.7**	**5.6**	**5.6**	**4.6**
PBV (X)	**1.1**	**0.9**	**0.8**	**0.7**

Source: Financial Statements, HSB Research

Nations Trust Bank PLC (NTB.N): Buy

Exhibit 2.8a: NTB NIM and C/I

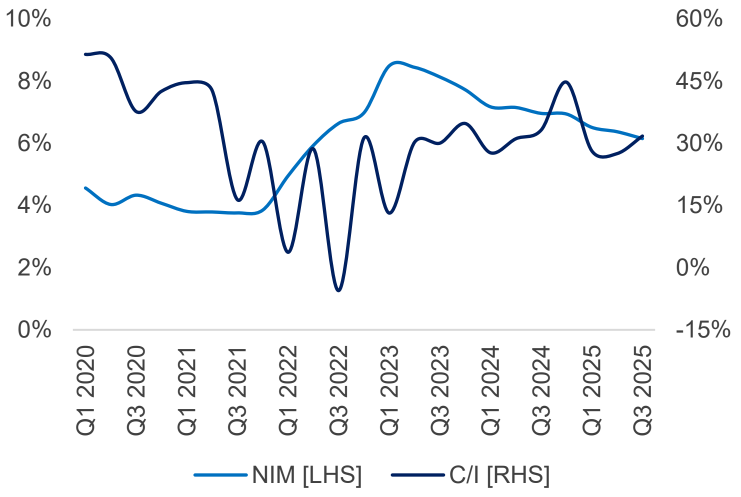


Exhibit 2.8b: NTB Loans and Q/Q Growth

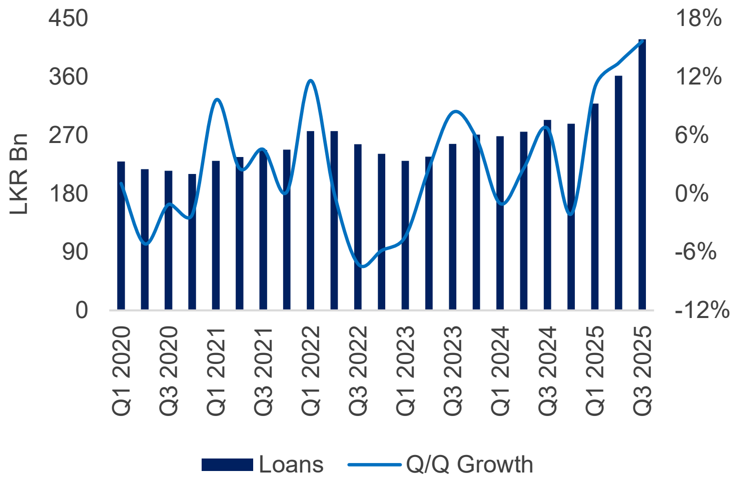


Exhibit 2.8c: NTB TTM EPS

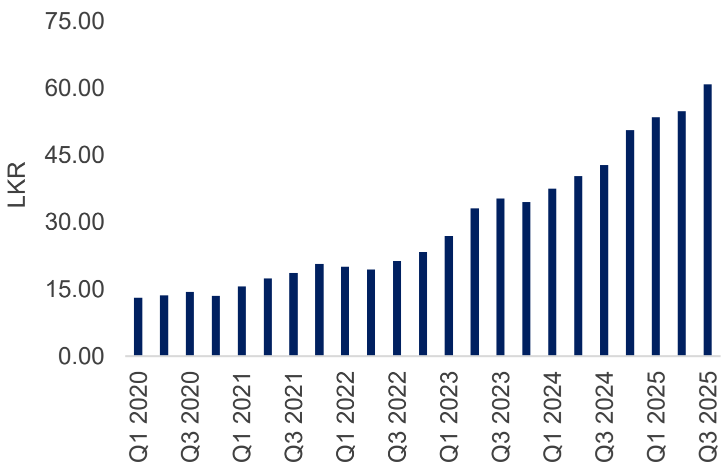


Exhibit 2.8d: NTB Share Price vs ASPI

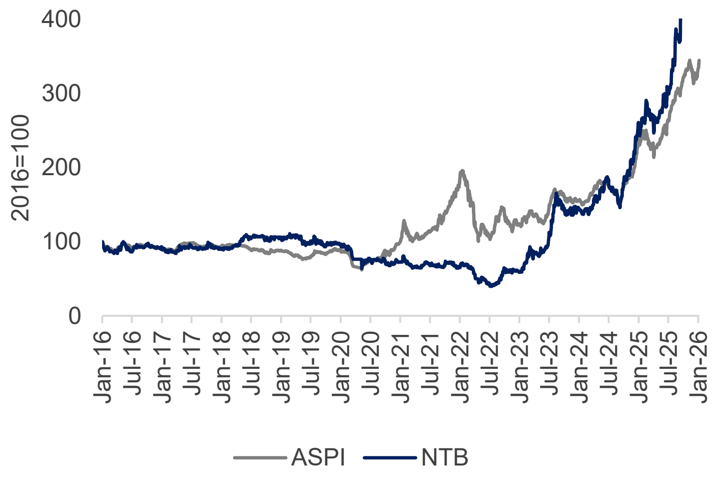


Exhibit 2.8e: NTB Price to Book Multiple

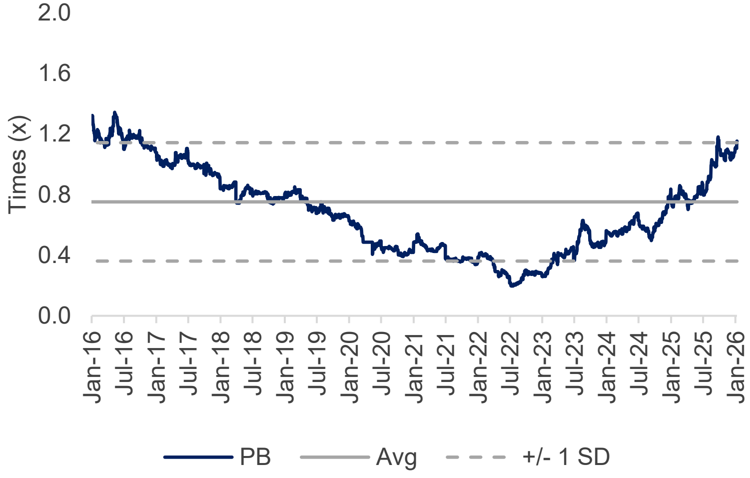
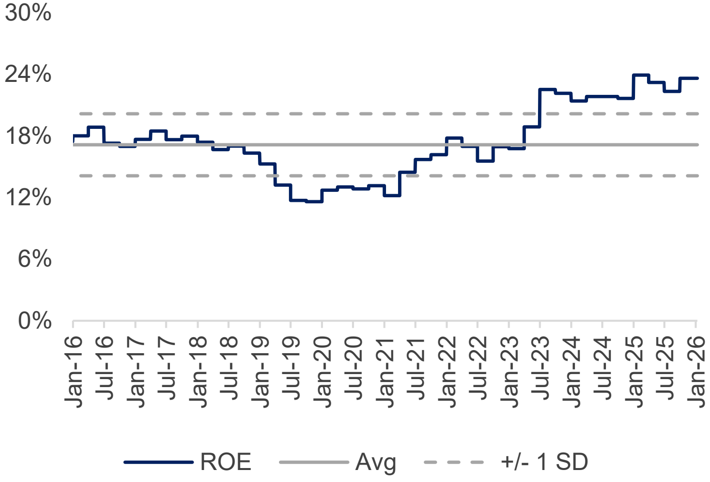


Exhibit 2.8f: NTB Return on Equity



Source: CBSL, Company Reports, Bloomberg, HSB Research

LB Finance PLC (LFIN.N): Buy

LB Finance operates a diversified non-bank financial services platform spanning vehicle financing, gold-backed lending, and SME and retail credit (see Exhibit 2.9a). The consolidation of AMF has enhanced scale and expanded exposure across core lending segments.

Favorable operating environment to support balance sheet expansion. Leasing demand strengthened in 1HFY26, aided by low interest rates and the resumption of vehicle imports, before moderating in 2HFY26 as pent-up demand eased. Credit growth is expected to remain supportive into FY27E, though at a slower pace, with leasing activity tapering from elevated levels. We estimate 2026E loan book growth at 57.0% Y/Y reaching LKR 324 Bn, including consolidation of AMF.

NIM expected to stabilize despite near-term pressure. We expect LFIN's NIM to remain under pressure due to increased competition for deposits and loans. However, the Central Bank of Sri Lanka's directive on maximum interest rates on deposits and debt instruments may ease pressure on finance companies. We model NIMs to decline modestly over FY26E and FY27E, stabilizing near c.9.5%.

Proposed removal of SSCL a tailwind for earnings growth in FY27E. We expect the tax revision to add c.LKR 1.00 to consolidated EPS in FY27E. Capitalization remains strong, With group's Tier 1 capital ratio and total capital ratio well above regulatory minimums of 10.0% and 14.0%, providing headroom to support credit growth and maintain dividend distributions.

We forecast earnings of LKR 12.3 Bn for FY26E and LKR 16.6 Bn for FY27E, translating to an EPS of LKR 22.26 and LKR 29.90, respectively. Based on a Dividend Discount Model, we estimate a current intrinsic value of LKR 181.33. We assign a Buy rating with a 12-month target price of LKR 200.00, indicative of a 22.1% upside. We also forecast a DPS of LKR 7.50 for FY26E, leading to a potential total return of c.26.7%.

Exhibit 2.9a: LFIN Loan Portfolio (as of FY25)

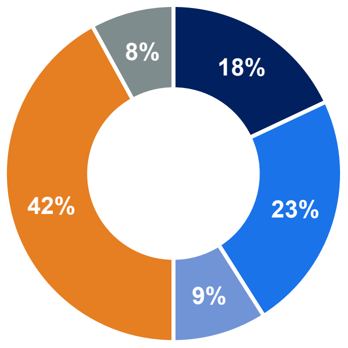
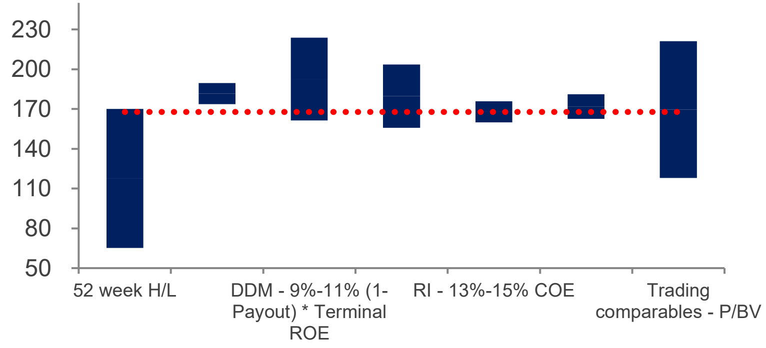


Exhibit 2.9b: LFIN Valuation Chart



Rating: Buy	
12M Target Price	**LKR 200.00**
Previous Price	LKR 190.00
CMP	**LKR 163.75**
Dividend (FY26E)	LKR 7.50
Upside/ Downside	**22.1%**

52w High | Low (LKR)	174.00 | 77.00
TTM P/E (X)	**7.6**

Summarised P&L Forecast

Years end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
NII	**24,642**	**25,418**	**30,166**	**39,146**
Impairment Charge	270	-261	1,500	2,200
Non int. income	3,533	4,954	6,596	8,868
Non int. exp	8,940	10,038	11,876	14,625
PBT	18,965	20,596	23,386	31,189
Tax	9,258	9,734	10,991	14,347
PAT	9,714	10,860	12,332	16,567
EPS (LKR)	17.53	19.60	22.26	29.90
NAVPS(LKR)	**79.25**	**93.11**	**108.39**	**128.29**
DPS (LKR)	5.75	6.50	7.50	10.00
Div. Yield	**3.5%**	**4.0%**	**4.6%**	**6.1%**
P/E (X)	**9.3**	**8.4**	**7.4**	**5.5**
PBV (X)	**2.1**	**1.8**	**1.5**	**1.3**

Source: Company Reports, Bloomberg, HSB Research

LB Finance PLC (LFIN.N): Buy

Exhibit 2.10a: LFIN NIM and C/I Ratio

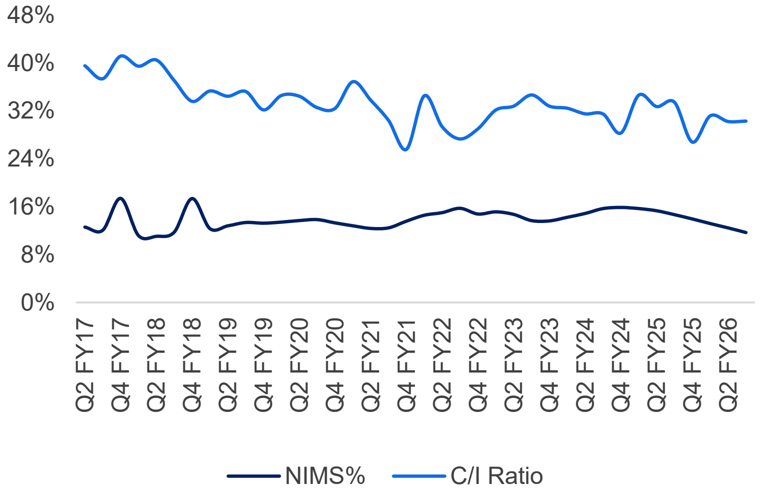


Exhibit 2.10b: LFIN Loan Book Growth

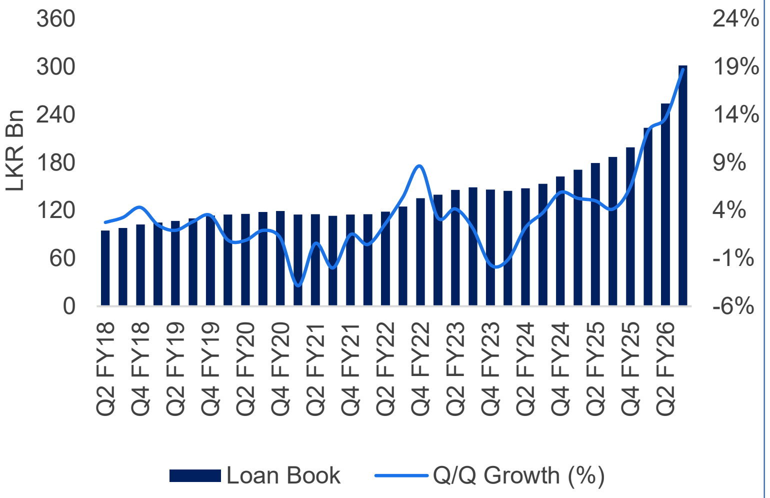


Exhibit 2.10c: LFIN TTM EPS

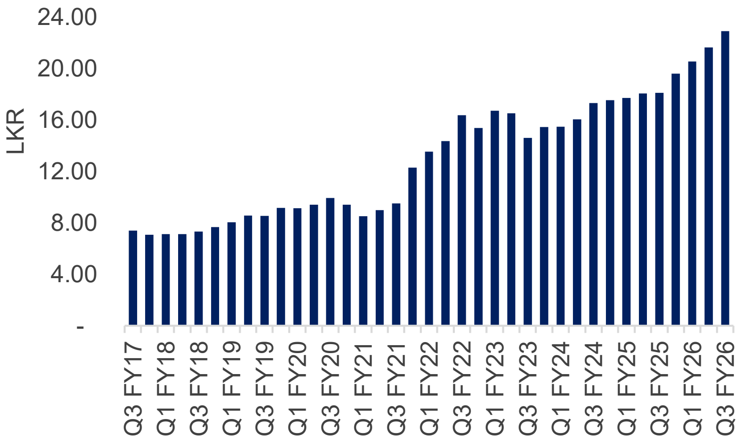


Exhibit 2.10d: LFIN Share Price vs ASPI

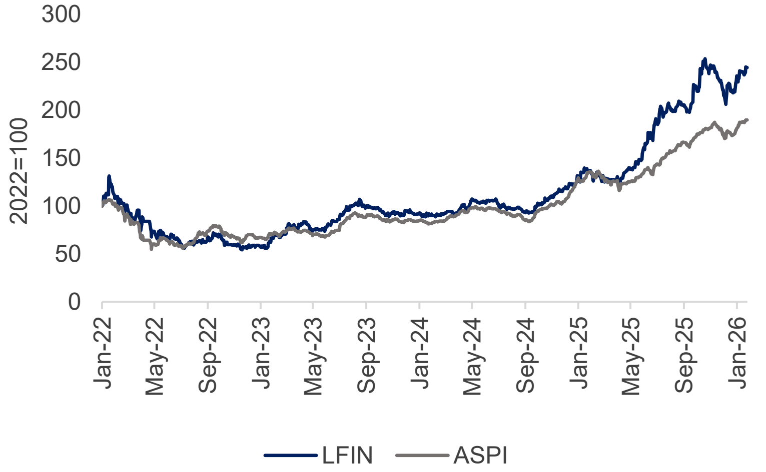


Exhibit 2.10e: LFIN Price to Book Multiple

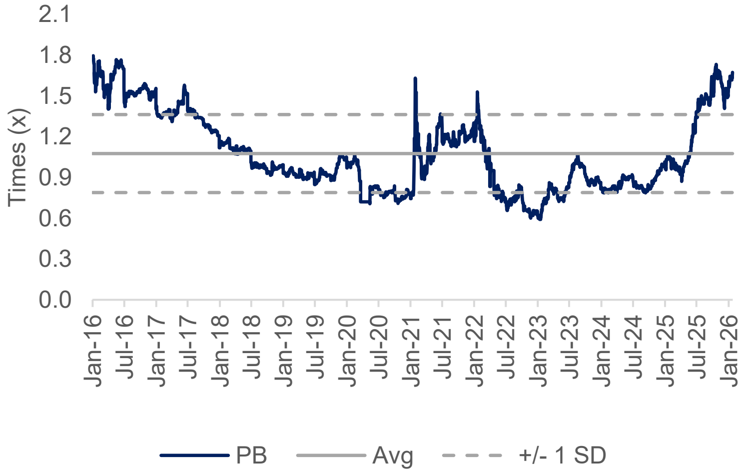
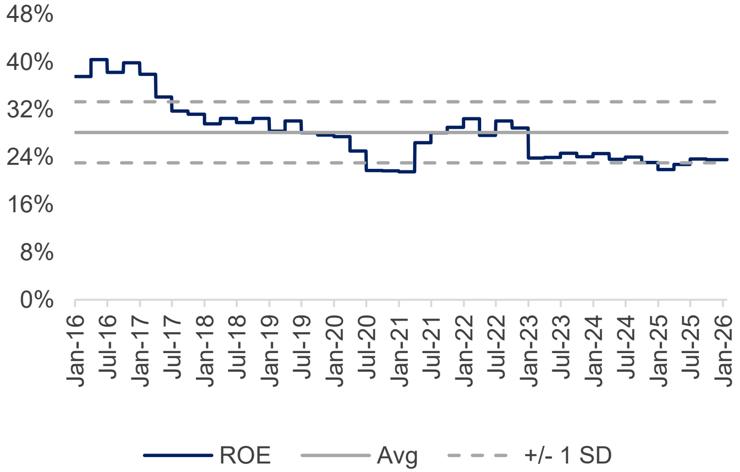


Exhibit 2.10f: LFIN Return on Equity



Source: Company Reports, Bloomberg, HSB Research

February 2026
Sri Lanka

HNB Stockbrokers
An HNB Investment Bank Company

Construction Sector

Sri Lanka | Economy & Strategy

Construction and Materials : Leading indicators turn positive

Exhibit 2.11a: Construction PMI Readings Remain in Expansionary Territory

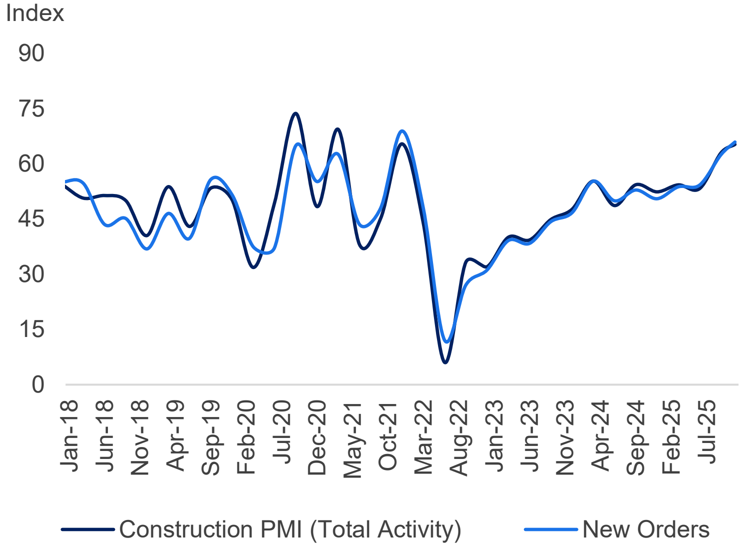


Exhibit 2.11b: Building Material Inflows Signal Procurement Rebound (USD Mn)

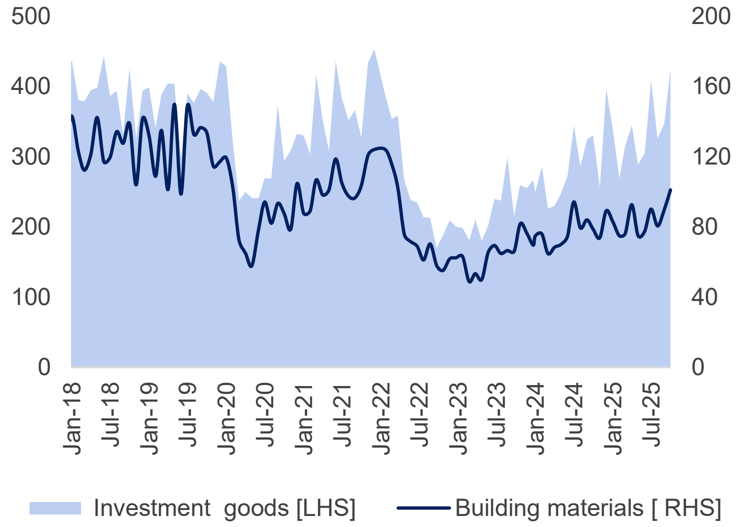
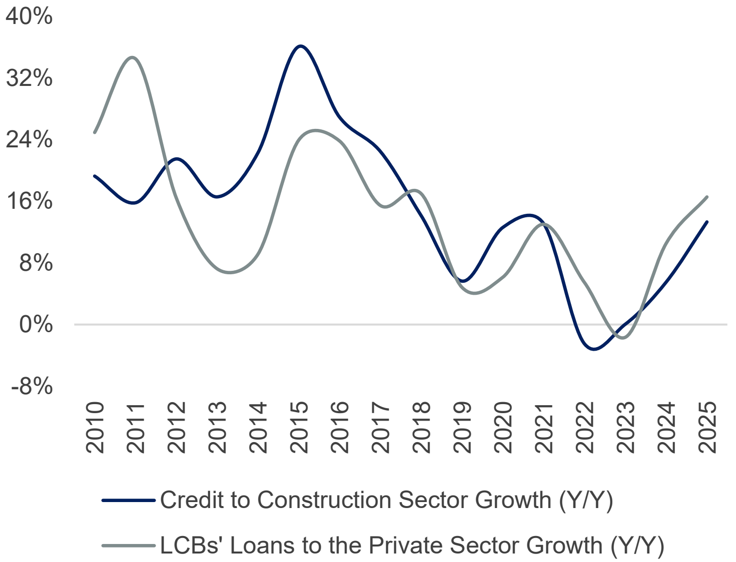


Exhibit 2.11c: Construction Credit Recovers with Loans to Private Sector



High-frequency indicators point to strengthening momentum in construction and related sectors. The Construction PMI has remained above the 50 expansion threshold since October 2024, with new orders signalling sustained demand traction (see Exhibits 2.11a - 2.11c).

Public sector activity is also re-accelerating. The restart of large-scale infrastructure projects, reinforced by 2026 budget allocations and post-Cyclone Ditwah reconstruction, should accelerate capital expenditure execution. This includes the drawdown of unutilised 2025 allocations, providing near-term support to construction volumes.

Lower interest rates are reducing the cost of capital across the economy, improving project viability and supporting a gradual revival in private real estate and commercial development activity.

Source: CBSL, Company Reports, Bloomberg, HSB Research

Construction and Materials: Operating leverage and the capacity utilization breakout

Cement volumes remain at roughly 50% of pre-crisis levels, highlighting substantial headroom for demand recovery and revenue growth (see Exhibit 2.12a). While construction activity has rebounded in absolute terms, its contribution to real GDP remains below historical norms, indicating scope for an execution-led acceleration in billings as project pipelines normalize (see Exhibit 2.12b).

Earnings upside is underpinned by structural operating leverage. Capacity additions made through the downturn position major players to benefit from utilisation-driven unit cost compression as volumes recover. Moreover, ongoing energy efficiency initiatives improve margin resilience against raw material and energy cost volatility.

Meanwhile, rising condominium prices and elevated replacement costs enhance the embedded value of existing inventory, supporting high-margin cash generation for property developers with existing unsold inventory (see Exhibit 2.12c – 2.12d).

Exhibit 2.12a: National Cement Consumption (NCC) Remains Below Pre-Crisis Peaks

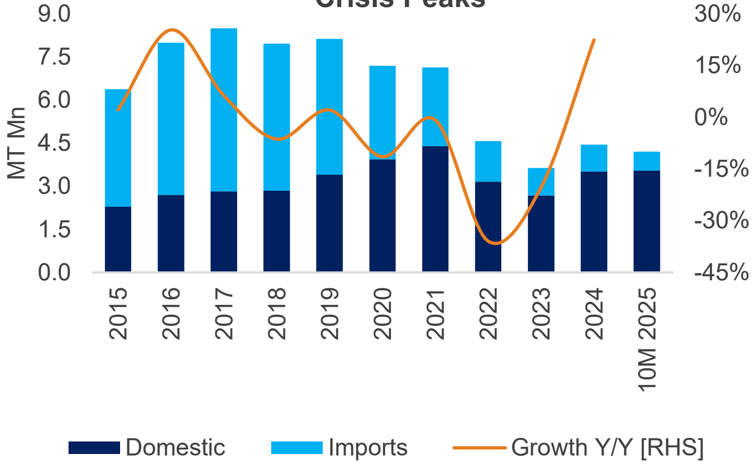


Exhibit 2.12b: Construction Contribution Shortfall to GDP Growth

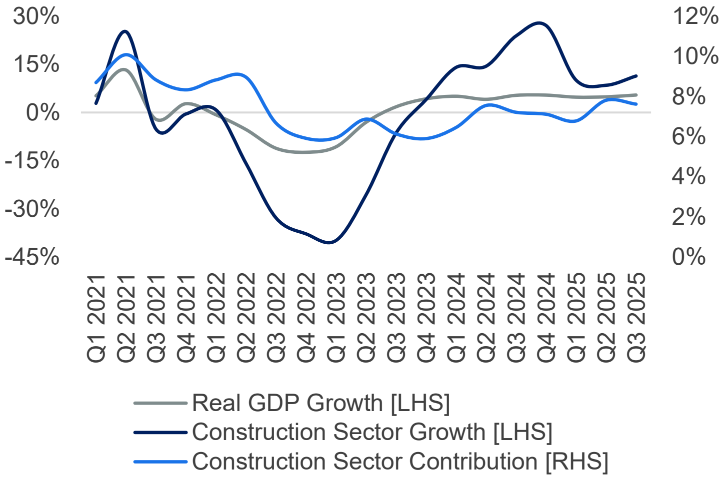


Exhibit 2.12c: Condominium Activity Regain Momentum

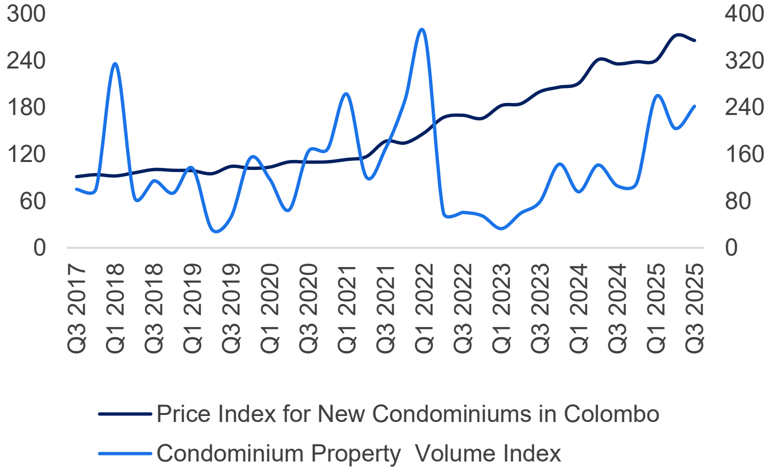
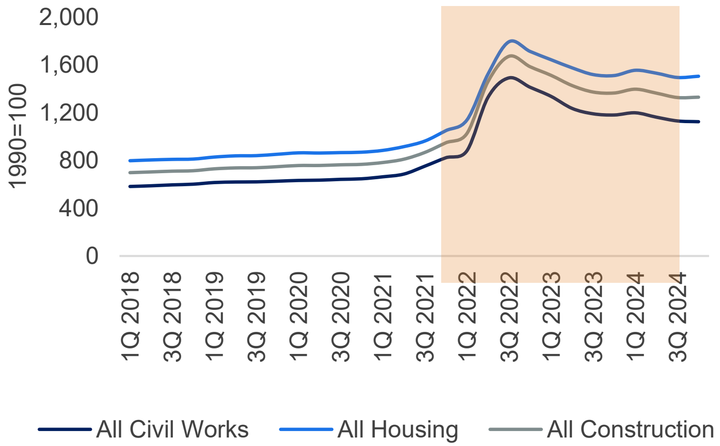


Exhibit 2.12d: Construction Cost Index (1990=100)



Source: CBSL, Company Reports, Bloomberg, HSB Research

Construction and Materials: Operating results and valuations

Group Results for 2QFY26	AEL	TKYO	RCL	LWL	TILE	ACL	SIRA	KCAB	CSLK	JAT	PARQ	CIND
TTM Revenue (LKR'Mn)	39,747	53,464	64,355	43,479	13,089	40,493	12,595	19,321	3,330	12,240	16,352	5,861
TTM Revenue Y/Y	36.6%	6.9%	6.8%	7.2%	-8.3%	19.6%	52.4%	22.1%	15.7%	9.1%	26.1%	23.4%
TTM EBIT(LKR'Mn)	9,234	6,137	7,181	3,757	964	8,316	2,221	2,955	581	1,847	2,041	757
TTM EBIT Y/Y	55.7%	32.8%	-27.0%	-32.9%	-66.6%	41.9%	77.7%	20.6%	46.4%	59.5%	59.3%	3.0%
TTM Net Profit (LKR'Mn)	6,427	3,341	5,560	649	970	5,349	1,676	2,441	471	1,684	950	596
TTM EPS (LKR.)	**6.43**	**7.58**	**5.02**	**2.37**	**3.61**	**7.67**	**3.12**	**11.29**	**1.00**	**3.28**	**6.95**	**25.35**
NAVPS (LKR.)	**37.37**	**69.60**	**45.77**	**79.07**	**59.33**	**47.22**	**14.11**	**65.08**	**4.54**	**21.00**	**25.66**	**188.80**
Performance Indicators												
EBIT Margin	23%	11%	11%	9%	7%	21%	18%	15%	17%	15%	12%	13%
EBIT Margin(y/y) in BPS	-120	223	-516	-517	-1286	322	251	-19	365	476	260	-256
Asset Turnover	3.08	1.03	1.77	1.38	1.67	1.06	1.22	0.80	0.84	1.27	0.78	0.91
Financial Leverage	3.28	1.87	2.36	2.79	1.41	1.37	2.33	1.18	1.44	1.51	4.18	1.24
ROE	17.2%	11.3%	11.5%	3.0%	6.2%	17.1%	25.4%	18.6%	24.2%	16.4%	31.0%	13.8%
Valuation Multiples												
Trailing PER (x)	**11.77**	**15.04**	**9.86**	**23.08**	**14.62**	**13.49**	**11.38**	**12.93**	**14.94**	**14.86**	**13.28**	**11.25**
PBV (x)	**2.03**	**1.64**	**1.08**	**0.69**	**0.89**	**2.19**	**2.52**	**2.24**	**3.28**	**2.32**	**3.60**	**1.51**

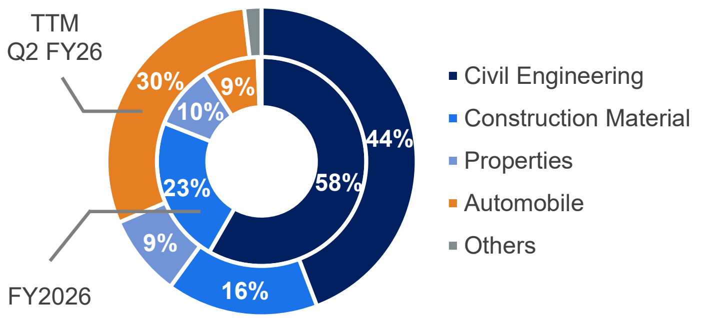
Valuation multiples are based on prices as of 09th January 2026

Access Engineering PLC (AEL.N): Moderate Buy

Diversified business profile with near-term growth drivers. AEL operates a diversified business model spanning construction, construction materials, property, and automobiles, while also expanding into radiopharmaceuticals and renewable energy through PPAs. (see Exhibit 2.13a). The ongoing recovery in the construction sector, combined with expected revenue recognition from the Marina Square apartment project and improved vehicle sales, is likely to support near-term earnings momentum

Robust order book and construction materials demand tailwinds. Reactivation of the public order book and increased incentive for execution post-cyclone We estimate AEL recently secured contracts for the proposed 615-unit Kirulapone housing project and Gatambe flyover to add c.9 Bn, taking the total order book value to LKR 35.0 Bn, equivalent to c.2 years of revenue. Execution of its order book coupled with incremental demand for construction materials (asphalt) amid post-cyclone rebuilding initiatives should support topline expansion.

Exhibit 2.13a: AEL Revenue Share (FY25 vs TTM Q2 FY26)



Marina Square as a high-margin earnings catalyst. Revenue recognition is expected to begin from 1Q FY27. Of the total inventory, 536 units (49%), remain unsold. Apartments which were constructed at pre-crisis cost levels are now being sold at current market prices, supporting margin expansion. Full ownership in the project acquired in mid-2025 further enhances earnings contribution.

Automotive recovery and emerging radiopharmaceutical growth. Commercial vehicle demand is improving on corporate re-fleeting. This creates an opportunity for Isuzu to gain share in the new truck segment. Local FDG, a cancer diagnostics compound production in radiopharmaceuticals is expected to generate over LKR 1.0 Bn per annum.

We forecast FY26E revenue of LKR 47.6 Bn (+37.8% Y/Y) and net profit of LKR 6.7 Bn, implying EPS of LKR 6.54. Based on our DCF valuation, we derive a 12 month target price of LKR 84.00 and assign a Moderate Buy rating.

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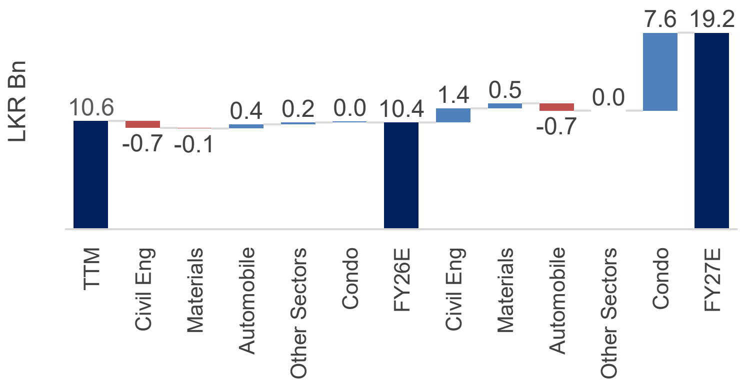
Exhibit 2.13b: AEL EBIT Waterfall



Rating: Moderate Buy	
12M Target Price	**LKR 84.00**
Previous Price	LKR 52.00
CMP	**LKR 75.70**
Dividend (FY26E)	LKR 1.00
Upside/ Downside	**11.0%**
52w High | Low (LKR)	79.00 | 33.30
TTM P/E (X)	**11.8**

Summarised P&L Forecast

Year end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
Revenue	**21,501**	**34,511**	**47,564**	**64,476**
COGS	-14.145	-22,615	-33,199	-39,975
Gross Profit	7,356	11,896	14,364	24,501
EBIT	**6,868**	**9,370**	**10,414**	**19,183**
Net Interest	-2,596	-1,717	-2,334	-3,055
PBT	4,305	7,783	8,329	16,404
Tax	2,549	-1,492	-1,583	-2,558
PAT	**6,854**	**6,291**	**6,747**	**13,846**
EPS (LKR)	**6.86**	**6.31**	**6.54**	**13.43**
DPS (LKR)	0.5	1.00	1.00	2.00
P/E (X)	**3.3**	**6.1**	**11.6**	**5.6**

Source: Company Reports, HSB Research

Access Engineering PLC (AEL.N): Moderate Buy

Exhibit 2.14a: AEL Trailing Revenue

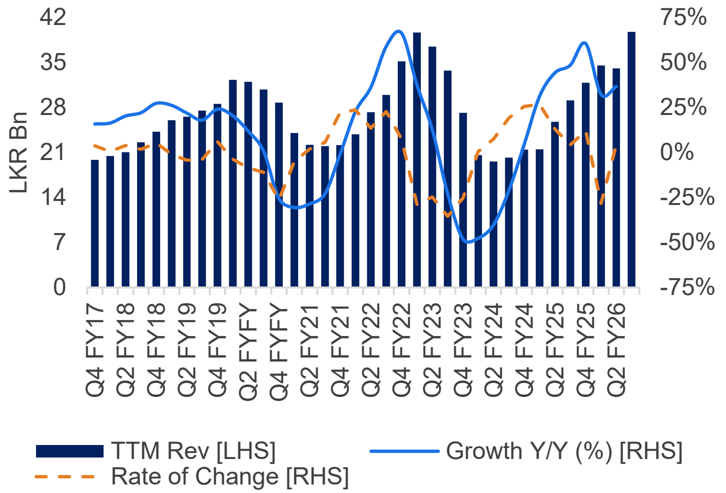


Exhibit 2.14b: AEL TTM EBIT and EBIT Margin

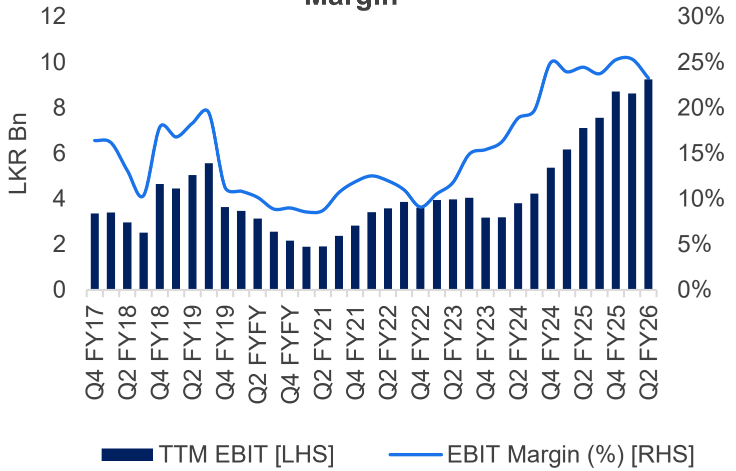


Exhibit 2.14c: AEL TTM EPS and Q/Q Growth

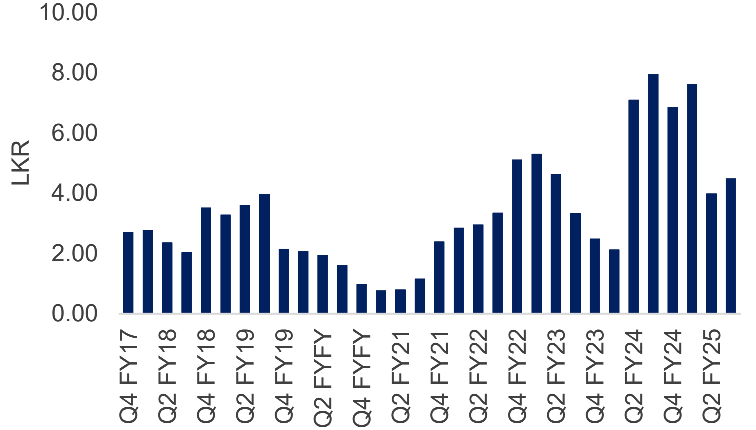


Exhibit 2.14d: AEL Share Price vs ASPI

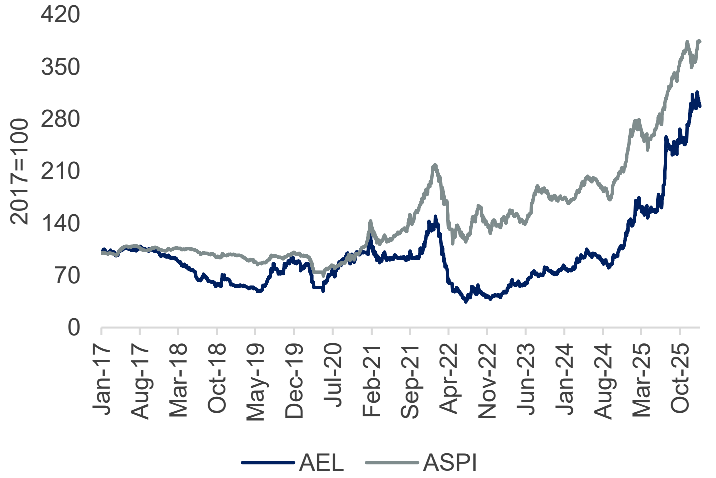


Exhibit 2.14e: AEL TTM PER

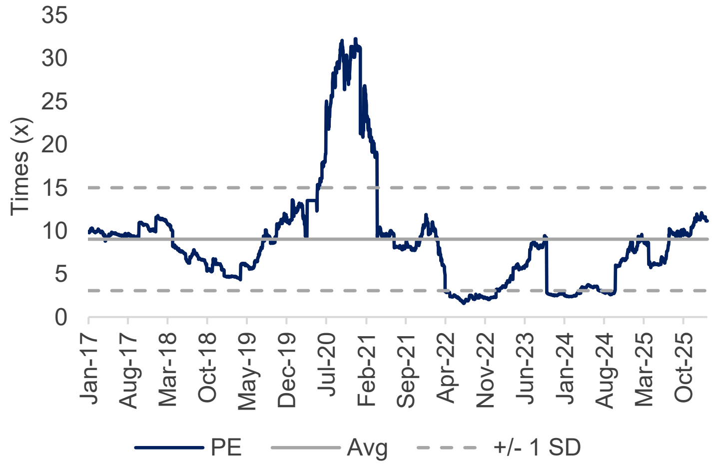
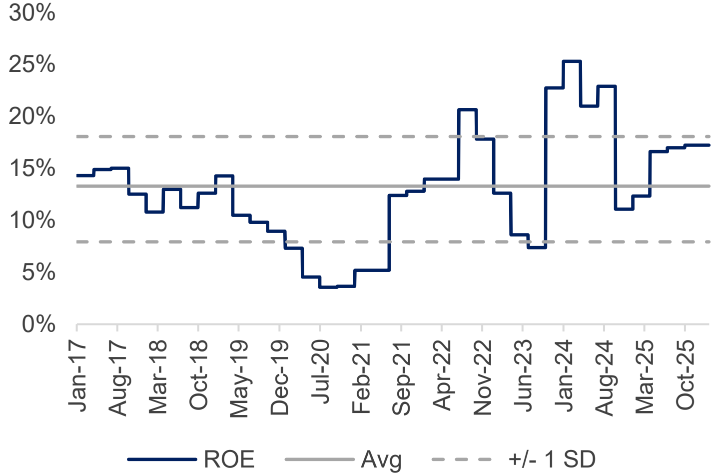


Exhibit 2.14f: AEL ROE



Source: Bloomberg, HSB Research

Tokyo Cement Company (Lanka) PLC: Moderate Buy

Market leadership positioned for execution-led volume growth. TKYO is Sri Lanka's largest locally owned cement producer with 4.0 MT per annum capacity. The construction sector has averaged a 7.3% GDP contribution over the latest four quarters, reflecting a clear recovery from the contraction and steady progress toward pre-crisis levels (over 8.0%). Construction PMI reached 67.1 in December 2025, marking eight consecutive months of expansion.

Public order book activation and cyclone-led reconstruction driving cement demand. Cement demand is being driven by the reactivation of major infrastructure projects, including the Central Expressway, BIA Terminal, and several stalled large-scale projects. Local cement production increased c.9.6% Y/Y as of November 2025, supported by residential and hospitality projects.(See exhibit 2.15a) The 2026 Budget allocates LKR 1,380 Bn (4.0% of GDP) to capex, with a further LKR 500 Bn for cyclone recovery, underpinning volume growth visibility.

Capacity expansion enhances scale and operating leverage. The Trincomalee plant expansion added 1.0 Mn MT of fully automated capacity, supported by renewable energy sources. Capacity utilization is projected to reach c.34.6% by FY27, supporting operating leverage and medium-term margin expansion.

Currency dynamics supporting pricing, cost mitigation underway. Cement pricing remains linked to the USD/LKR exchange rate, with over 60% of raw material costs denominated in foreign currency. (See exhibit 2.15b). Expected currency stability should reduce pricing and margin volatility. Self sustaining renewable biomass energy initiatives mitigate cost pressures.

We forecast FY26E revenue of LKR 58.98 Bn (+17.7% Y/Y) and net profit of LKR 2.80 Bn, leading to EPS of LKR 6.35. Based on our DCF valuation, we derive a 12-month target price of LKR 135.00 and assign a Moderate Buy rating.

Exhibit 2.15a: Local cement production Y/Y Growth

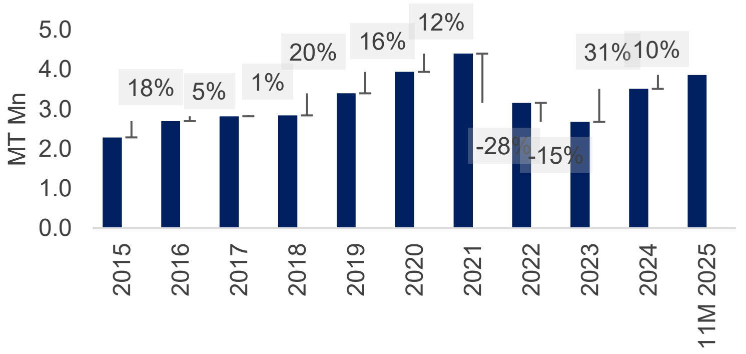
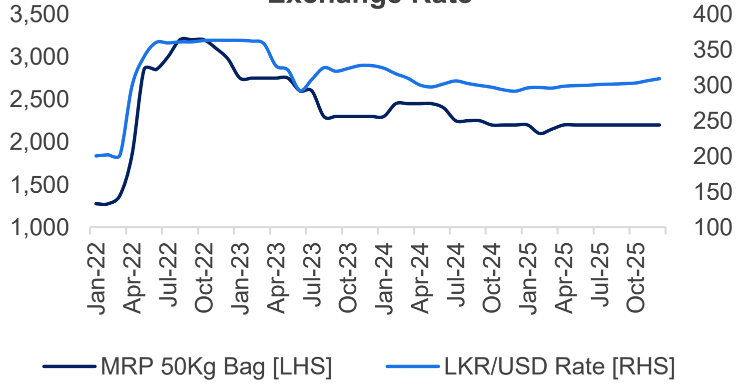


Exhibit 2.15b: Cement Price MRP and Exchange Rate



Rating: Moderate Buy	
12M Target Price (N)	**LKR 135.00**
Previous Price (N)	LKR 110.00
CMP (N)	**LKR 114.00**
Dividend (FY26E)	LKR 2.25
Upside/ Downside (N)	**18.2%**

52w High | Low (LKR)	115.75 | 68.00
TTM P/E (X)	**15.0**

Summarised P&L Forecast

Year end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
Revenue	**49,824**	**50,096**	**58,985**	**68,900**
COGS	-34,261	-33,159	-40,641	-47,541
Gross Profit	15,563	16,937	18,334	21,359
EBIT	**4,887**	**5,401**	**5,140**	**6,024**
Net Interest	-1,439	-633	-1,017	-1,080
PBT	3,448	4,768	4,124	4,944
Tax	-1,026	-1,309	-1,320	-1,483
PAT	**2,423**	**3,459**	**2,804**	**3,461**
EPS (LKR)	**5.48**	**7.83**	**6.35**	**7.83**
DPS (LKR)	2.00	2.25	2.25	2.25
P/E (X)	**9.4**	**10.1**	**18.0**	**14.6**

Source: Company Reports, HSB Research

Tokyo Cement Company (Lanka) PLC: Moderate Buy

Exhibit 2.16a: TKYO Trailing Revenue

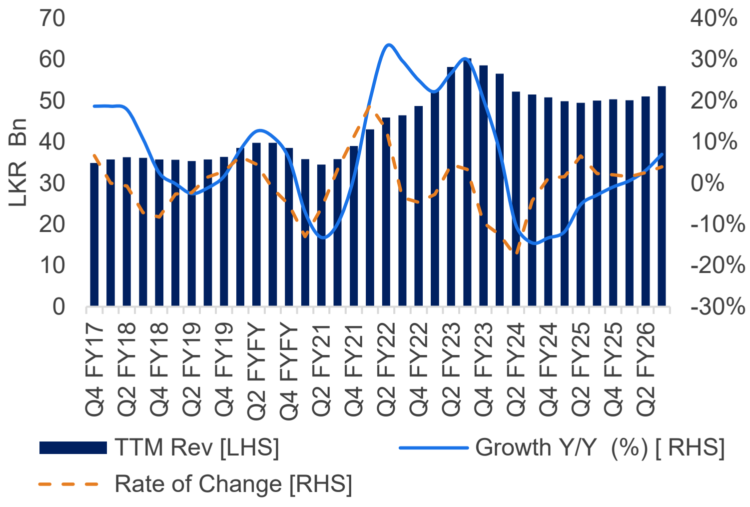


Exhibit 2.16b: TTM EBIT and EBIT Margin

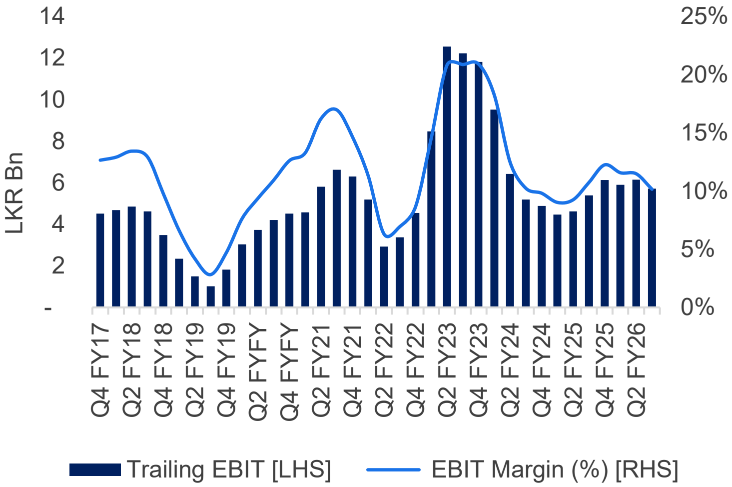


Exhibit 2.16c: TTM EPS and QoQ Growth

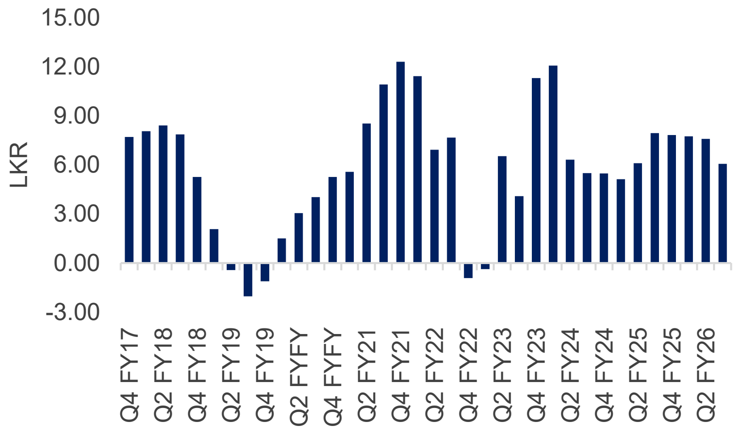


Exhibit 2.16d: TKYO Share Price vs ASPI

Exhibit 2.16e: TKYO TTM PER

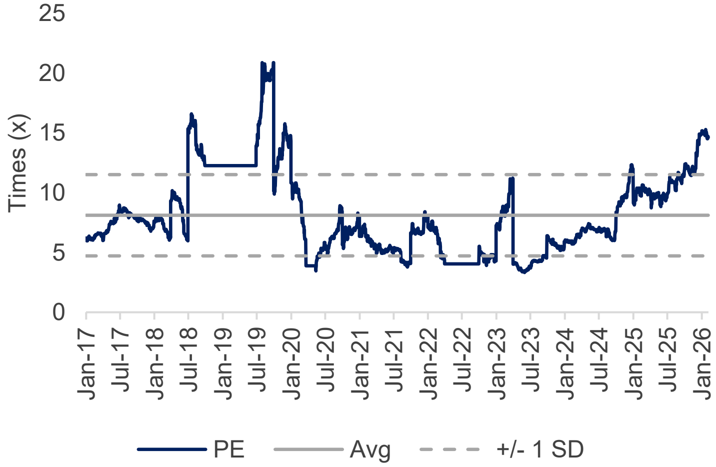
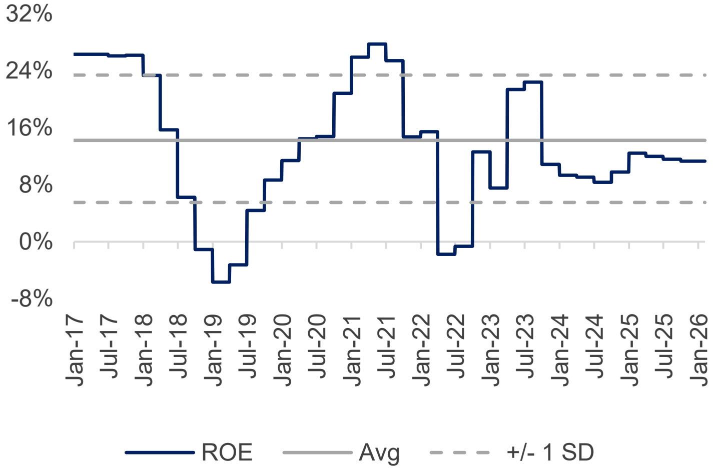


Exhibit 2.16f: TKYO ROE



Source: Bloomberg, HSB Research

February 2026
Sri Lanka

Leisure Sector

Exhibit 2.17a: Record Volumes Mask Shrinking Average Stay Length

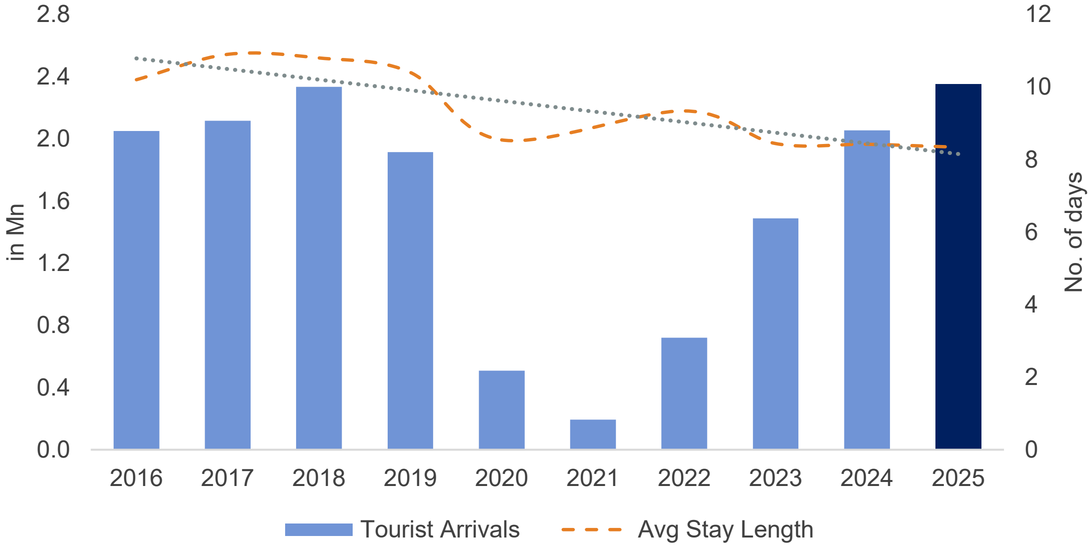
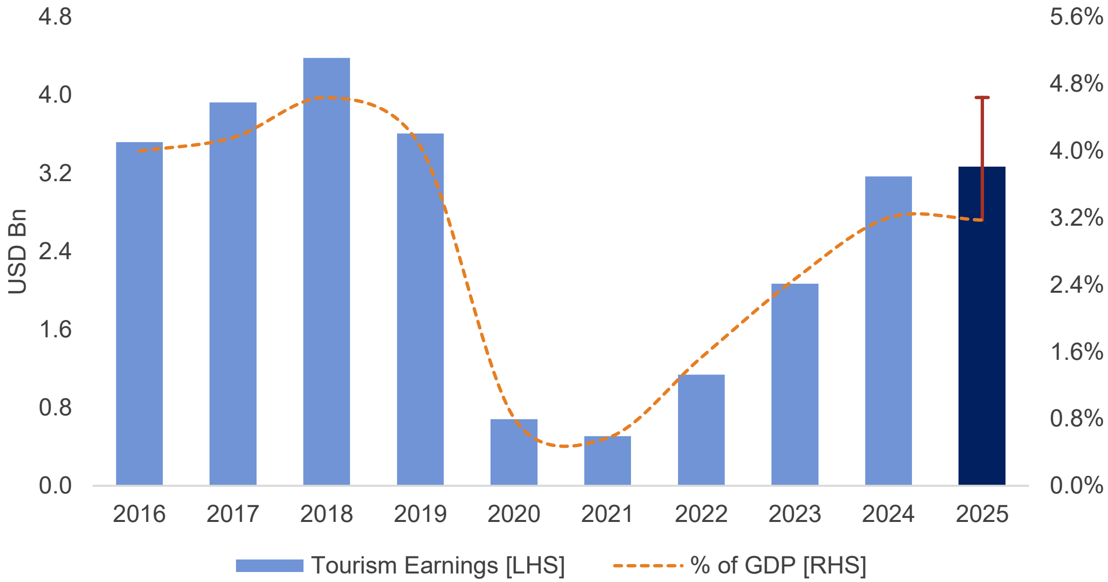


Exhibit 2.17b: Topline Earnings Fail to Match Arrival Momentum



Rising flight frequencies are improving destination accessibility and creating scope to rebalance the source market mix toward higher-yield geographies. The Phase II expansion of Bandaranaike International Airport should ease premium slot constraints, enabling greater participation by Tier-1 airlines and supporting improved passenger quality.

At the same time, the sector is undergoing a strategic shift toward yield-accretive segments such as eco-tourism, adventure travel, and MICE. This pivot supports longer average stays and higher spend per visitor, reducing reliance on mass-market, volume-driven “sun-and-beach” tourism.

Value catch-up remains underappreciated. While tourist arrivals recovered to 2.6 million in 2025, tourism’s contribution to GDP remains at 3.2%, well below the 2018 peak of 4.6%. Current sector valuations continue to reflect a volume-centric recovery and understate the earnings potential from a maturing visitor mix and infrastructure geared toward value capture rather than pure headcount growth. (see Exhibit 2.17.a- b)

Source: SLTDA, CBSL, HSB Research

Leisure: Regional exposure and the luxury moat underpin earnings

Exhibit 2.18a: Maldives Maintains Regional Dominance in 5-Star Property ARRs

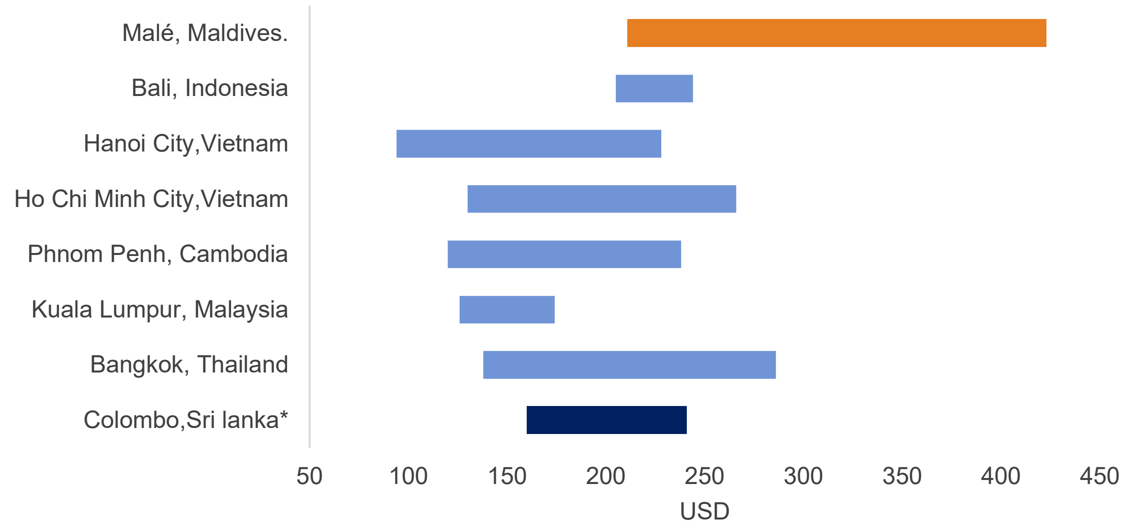
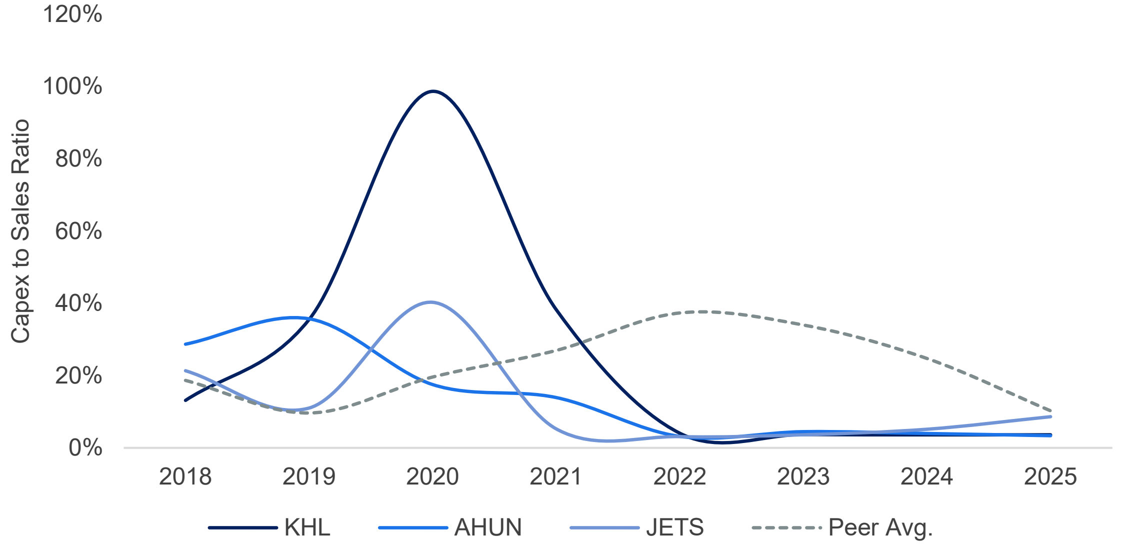


Exhibit 2.18b: Strategic Capacity Expansion Through the Cycle



Regional diversification is an important earnings stabiliser, with exposure to the Maldives' high-ADR, capacity-disciplined tourism model enhancing consolidated yield. This provides a structural earnings uplift relative to purely domestic operators. (see Exhibit 2.18a)

Operators that invested through the cycle to upgrade physical assets and digital capabilities are better positioned to compete on volume without diluting yield. Refurbished or newly commissioned inventory allows these players to capture demand while preserving pricing discipline. (see Exhibit 2.18b)

A clear luxury moat supports a 30–50% Average Daily Rate (ADR) premium over mid-tier peers, offering a defensive buffer to margins. Earnings outperformance is likely to be concentrated among standalone hospitality names, excluding hospitality-exposed conglomerates, where superior EBIT margins, stronger balance sheets, and undemanding valuations (EV/revenue below 3x) provide a more attractive risk-reward.

Note: *Average occupancy of selected Sri Lankan hotels

Source: Company Reports, HSB Research

Leisure: Earnings visibility underpin potential valuation upside

Company Name	Ticker	TTM Revenue Growth Y/Y	EBIT Margin %	TTM EPS Growth Y/Y	TTM P/E (x)	EV/ Revenue (x)	PBV Ratio (x)
Aitken Spence Hotel Holdings	**AHUN.N**	**1.4%**	**18.7%**	**29.5%**	**14.6**	**2.0**	**1.8**
Hayleys Leisure	CONN.N	37.6%	15.6%	5.6x	16.3	2.4	2.6
John Keells Hotels	**KHL.N**	**0.2%**	**11.7%**	**Turned Positive**	**66.5**	**2.5**	**1.1**
The Kingsbury	SERV.N	4.1%	15.4%	3.5x	15.1	2.5	4.9
Serendib Hotels	SHOT.N	13.1%	41.5%	10.9%	15.9	3.2	1.5
Dolphin Hotels	STAF.N	4.0%	11.8%	-45.8%	19.7	3.2	0.9
Trans Asia Hotels	TRAN.N	4.4%	9.8%	63.0%	38.7	3.2	1.7
Lighthouse Hotel	LHL.N	2.5%	24.6%	-3.9%	17.9	3.4	1.2
Fortress Resorts	RHTL.N	-7.3%	14.3%	-46.7%	27.2	3.4	1.7
Marawila Resorts	MARA.N	4.6%	18.1%	6.8%	16.4	3.8	2.3
Jetwing Symphony	**JETS.N**	**12.0%**	**38.7%**	**34.3%**	**21.2**	**4.3**	**2.6**
Ceylon Hotels Corporation	CHOT.N	27.9%	10.5%	Turned Positive	29.4	5.2	1.0
Others (Average)		3.9%	7.1%		28.5	13.5	1.7

Note: *counters with previously negative TTM EPS now turned positive vice versa or increased by 'x' number of times

Source: Financial Statements, HSB Research

Aitken Spence Hotel Holdings PLC (AHUN.N): Buy

Diversified regional hospitality platform with resilient earnings mix. AHUN operates a geographically diversified hotel portfolio across Sri Lanka, Maldives, India, and Oman, spanning mid-scale to luxury offerings under the Heritance, Adaaran, and Turyaa brands. It also has exclusive partnerships with TUI and Aitken Spence Travels.

Sri Lanka recovery supports margin normalisation. The group's domestic portfolio comprises five prime beachfront resorts and five inland properties focused on wellness, experiential, and eco-themed tourism. Collectively they contributed 25% of group revenue in FY25, below the pre-pandemic share of 35% (see Exhibit 2.19a). We forecast occupancy to rise from c.65% in FY25 toward c.70% across by FY27E supporting in a RevPAR growth of c.3.5%, amid higher arrival figures and improving asset-level performance.

Maldives anchors earnings with scale and yield. AHUN's Maldivian operations, led by the Adaaran resorts, account for close to 70% of group revenue. Its luxury positioning, targeted European marketing, and a recovery in Indian outbound travel underpin growth. We project occupancy to increase to c.75% by FY27E, driving sustained RevPAR expansion.

Strong focus on MICE and business travel in India and revenue diversification in Oman further enhance the group's earnings resilience and mix.

We project FY26E revenue of LKR 51.6 bn (+5.8% Y/Y) and net profit of LKR 3.1 bn and an EPS of LKR 9.27. We assign a Buy rating based on our DCF-derived 12-month target price of LKR 160.00 which implies a c.33.6% upside, aided by diversified regional exposure and improving operating leverage.

Exhibit 2.19a: AHUN Revenue Share (FY25 vs FY18)

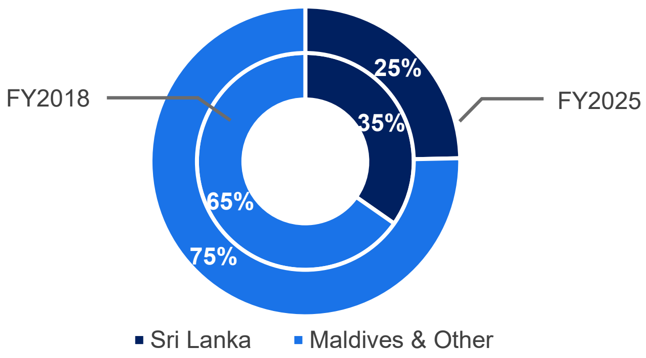
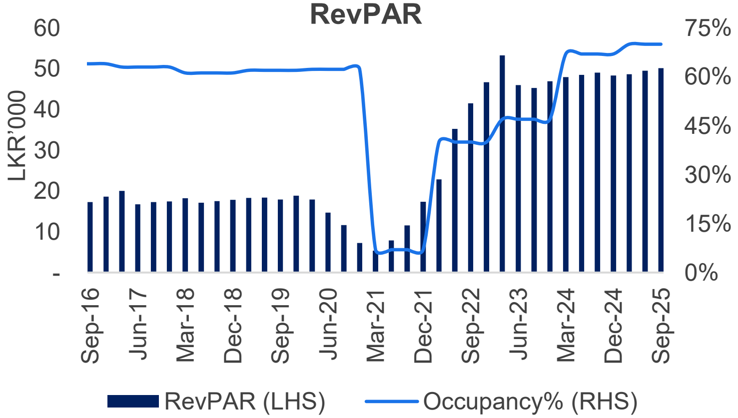


Exhibit 2.19b: AHUN Occupancy and RevPAR



Rating: Buy	
12M Target Price	**LKR 160.00**
Previous Price	N/A
CMP	**LKR 119.75**
Dividend(FY26E)	-
Upside/ Downside	**33.6%**

52w High | Low (LKR)	128.25 | 73.00
TTM P/E (X)	**14.6**

Summarised P&L Forecast

Year end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
Revenue	**47,259**	**48,741**	**51,585**	**55,667**
COGS	-12,887	-13,048	-14,031	-15,523
Gross Profit	34,372	35,693	37,554	40,414
EBIT	**8,310**	**8,827**	**9,533**	**10,640**
Net Interest	-5,268	-3,921	-2,880	-2,311
PBT	3,006	4,930	6,637	8,354
Tax	-1,141	-1,341	-1,726	-2,256
PAT	**1,125**	**2,275**	**3,119**	**3,903**
EPS (LKR)	**3.35**	**6.77**	**9.27**	**11.61**
DPS (LKR)	-	-	-	-
P/E (X)	**35.7**	**17.7**	**12.9**	**10.3**

Source: Company Reports, HSB Research

Aitken Spence Hotel Holdings PLC (AHUN.N): Buy

Exhibit 2.20a: AHUN Trailing Revenue

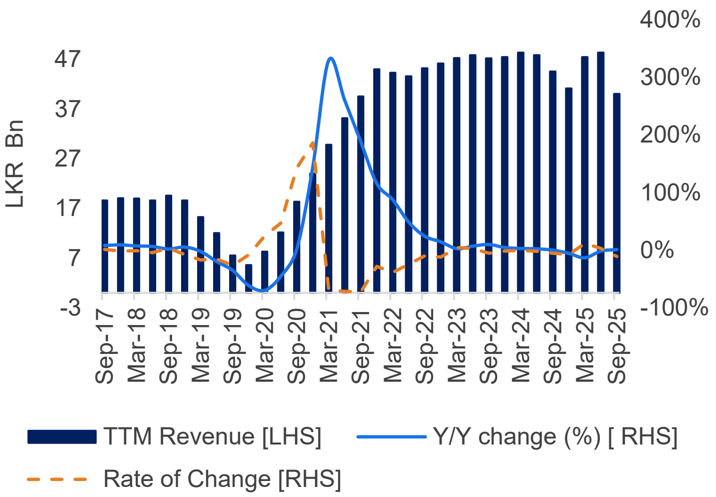


Exhibit 2.20b: AHUN TTM EBIT and EBIT Margin

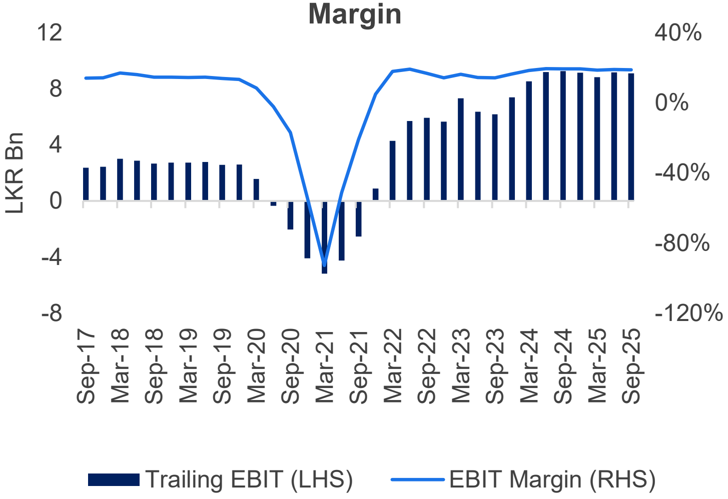


Exhibit 2.20c: AHUN TTM EPS

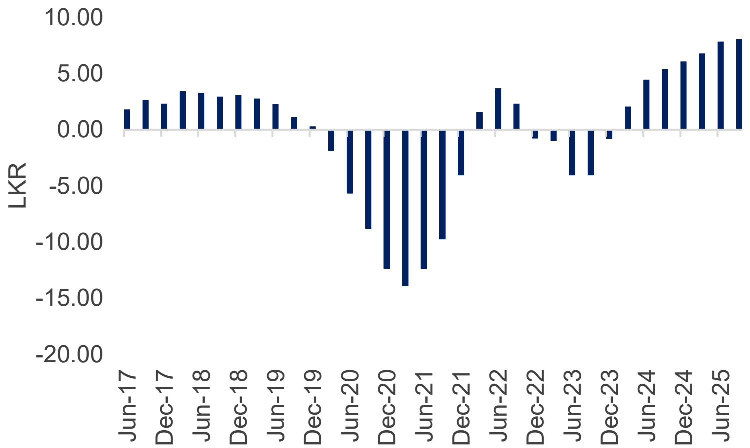


Exhibit 2.20d: AHUN Share Price vs ASPI

Exhibit 2.20e: AHUN Price to Book Multiple

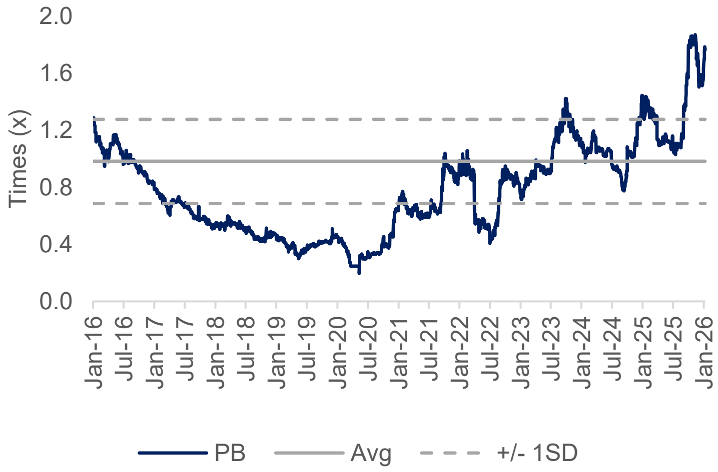
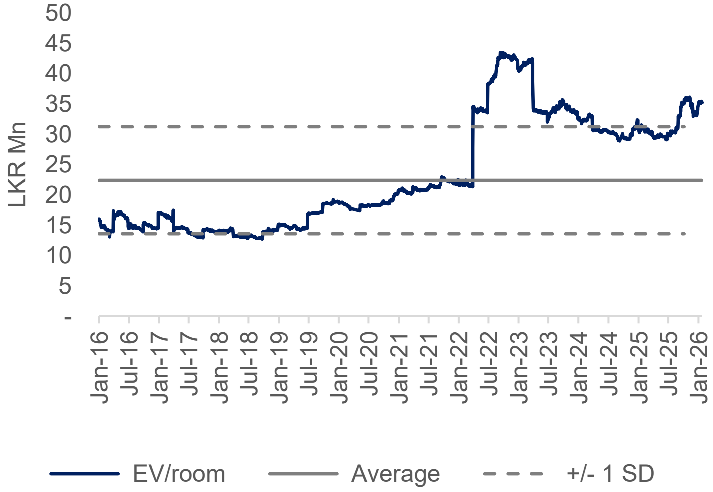


Exhibit 2.20f: AHUN EV/room ratio



John Keells Hotels PLC (KHL.N): Buy

Diversified upscale hotelier with improved earnings visibility. KHL operates a portfolio of high-end hotels and resorts in Sri Lanka and Maldives under the Cinnamon brand, offering exposure to leisure, city, and resort formats.

Local portfolio recovery broadens with capacity expansion. KHL's Sri Lankan assets span key coastal and inland destinations and cater to a wide traveller mix. Beachfront resorts have rebounded strongly, with occupancy and RevPAR exceeding pre-pandemic levels. The early-2025 opening of Kandy Myst by Cinnamon added 215 rooms, lifting group room inventory by c.13.0% and strengthening exposure to inland tourism. Our FY26E and FY27E assumptions factor in an improved occupancy level of c.72.0% supported by sustained growth in arrivals and improving traveller mix translating to a c.5.0% Y/Y RevPAR uplift.

Maldives assets remain the earnings anchor. KHL's Maldivian resorts continue to outperform, with c.83.0% occupancy versus a market average of c.71.0%. Performance is underpinned by strong brand equity, exclusive tour operator partnerships, and resilient European demand. We expect FY26E and FY27E occupancy and RevPAR at these properties to remain broadly stable, sustaining margin and cash flow quality.

We forecast FY26E revenue of LKR 31.5 Bn (+7.6% Y/Y) and net profit of LKR 680.9 Mn, implying EPS of LKR 0.47 aided by improved operating leverage and a stronger earnings mix. We assign a Buy rating with a DCF-derived 12-month target price of LKR 30.00 which offers a 32.6% upside from current levels.

Exhibit 2.21a: KHL Revenue Share (FY25 vs FY18)

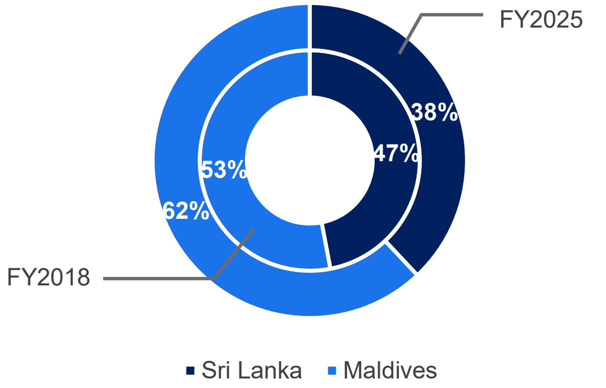
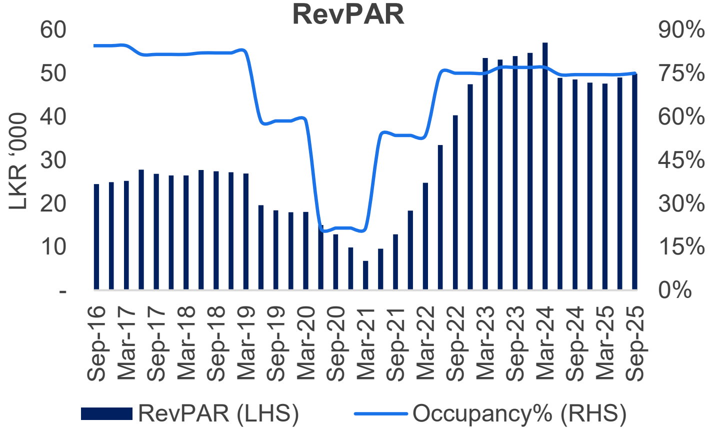


Exhibit 2.21b: KHL Occupancy and RevPAR



Rating: Buy	
12M Target Price	**LKR 30.00**
Previous Price	N/A
CMP	**LKR 22.60**
Dividend(FY26E)	-
Upside/ Downside	**32.6%**

52w High | Low (LKR)	28.00 | 18.60
TTM P/E (X)	**66.5**

Summarised P&L Forecast

Year end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
Revenue	**30,739**	**29,318**	**31,534**	**33,155**
COGS	-11,789	-10,721	-11,132	-11,405)
Gross Profit	18,950	18,597	20,403	21,750
EBIT	**2,649**	**2,826**	**4,182**	**4,770**
Net Interest	-2,816	-2,552	-2,232	-1,931
PBT	-65	302	1,930	2,869
Tax	-374	-525	-1,213	-1,383
PAT	**-439**	**-222**	**680.9**	**1,441.1**
EPS (LKR)	**-0.30**	**-0.16**	**0.47**	**0.99**
DPS (LKR)	-	0.10	-	-
P/E (X)	N/A	N/A	**48.1**	**22.8**

Source: Company Reports, HSB Research

John Keells Hotels PLC (KHL.N): Buy

Exhibit 2.22a: KHL Trailing Revenue

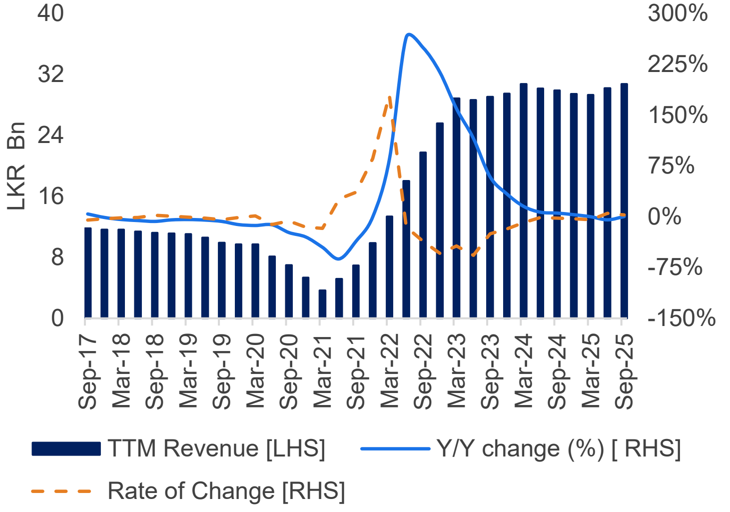


Exhibit 2.22b: KHL TTM EBIT and EBIT Margin

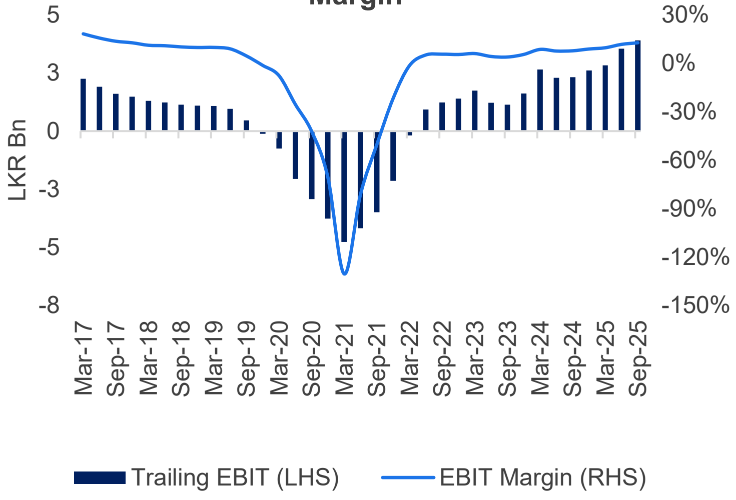


Exhibit 2.22c: KHL TTM EPS

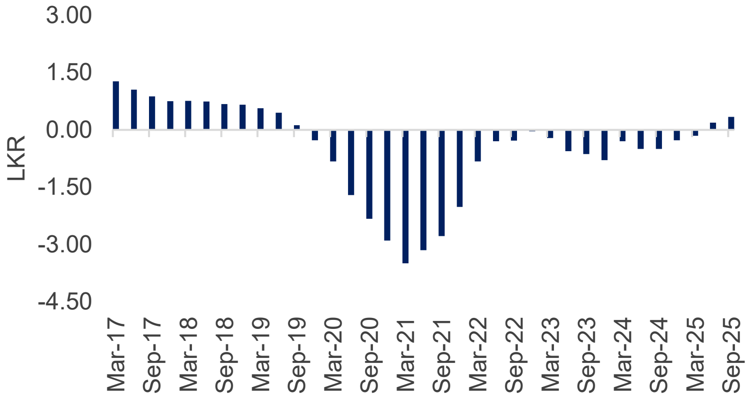
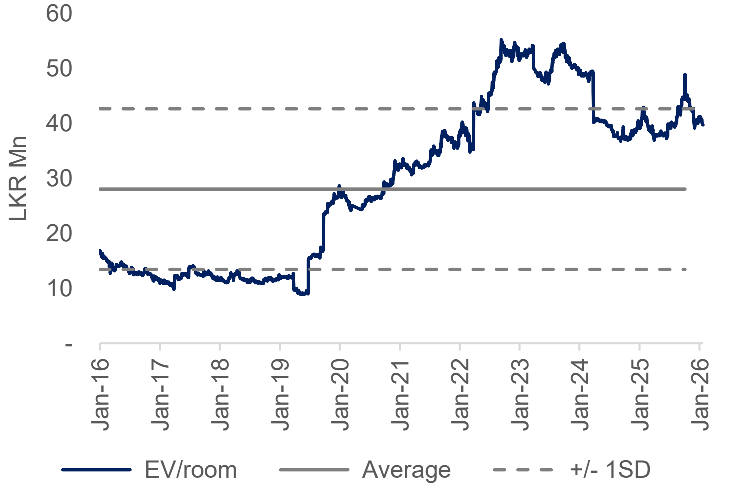


Exhibit 2.22d: KHL Share Price vs ASPI

Exhibit 2.22e: KHL Price to Book Multiple

Exhibit 2.22f: KHL EV/room ratio



Source: Bloomberg, HSB Research

Jetwing Symphony PLC (JETS.N): Moderate Buy

Pure-play luxury exposure aligned with Sri Lanka's yield-led tourism pivot. JETS is a mid-sized, Sri Lanka–focused hotelier with a curated portfolio of boutique and luxury properties, underpinned by a sustainability-led operating ethos. It operates a diversified mix of high-end resorts, luxury hotels, and serviced apartments, catering to affluent, experience-driven travellers.

It's luxury-centric positioning stands to benefit from Sri Lanka's evolving tourism strategy, which increasingly attempts to prioritise yield over arrivals. Improved premium slot allocation for Tier-1 airlines post airport capacity expansion, and national branding initiatives targeting higher-spending source markets are structural tailwinds for the luxury operators.

Scarcity value underpins pricing power and margin upside. With limited supply of boutique luxury inventory in the local market, incremental demand is likely to translate disproportionately into higher average daily rates and margin expansion. This scarcity-driven pricing power positions JETS to capture upside as visitor mix improves, reinforcing earnings quality rather than volume-led growth.

Earnings recovery driven by occupancy normalisation and asset-level turnaround. We estimate RevPAR to grow at an average of c.4.2% across FY26E–FY27E, aided by a steady recovery in occupancy to c.70% (from c.60% in FY25) aided by sustained strength in tourist arrivals and a normalisation of performance at Jetwing Lake and Jetwing Surf & Safari, which had been under pressure in prior years.

We project FY26E revenue of LKR 4.2 Bn (+3.7% Y/Y) and net profit of LKR 634.0 Mn (+45.7% Y/Y) and a forecasted EPS of LKR 1.05, supported by the recovery in luxury travel demand. Based on our DCF valuation, we derive a 12-month target price of LKR 22.30 and assign a Moderate Buy rating with an implied upside of 13.2% on the current market price.

Exhibit 2.23a: JETS Revenue Share (FY25 vs FY18)

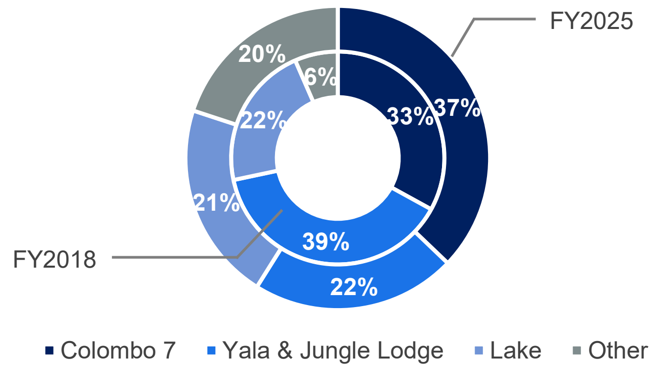
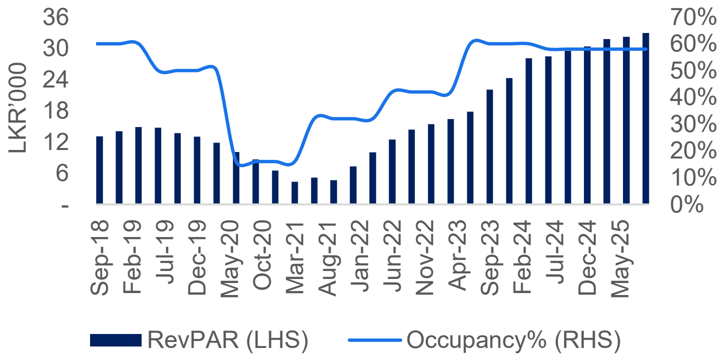


Exhibit 2.23b: JETS Occupancy and RevPAR



Rating: Moderate Buy	
12M Target Price	**LKR 22.30**
Previous Price	N/A
CMP	**LKR 19.70**
Dividend(FY26E)	-
Upside/ Downside	**13.2%**
52w High | Low (LKR)	22.00 | 8.70
TTM P/E (X)	**21.2**

Summarised P&L Forecast

Year end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
Revenue	**3,614**	**4,091**	**4,241**	**4,543**
COGS	-794	-755	-751	-772
Gross Profit	2,820	3,336	3,490	3,770
EBIT	**788**	**1,172**	**1,286**	**1,410**
Net Interest	-884	-558	-428	-373
PBT	9	627	883	1,062
Tax	83	-194	-247	-297
PAT	**100**	**435**	**634**	**762**
EPS (LKR)	**0.17**	**0.72**	**1.05**	**1.27**
DPS (LKR)	-	-	-	-
P/E (X)	**115.9**	**27.4**	**18.8**	**15.5**

Source: Financial Statements, HSB Research

Exhibit 2.24a: JETS Trailing Revenue

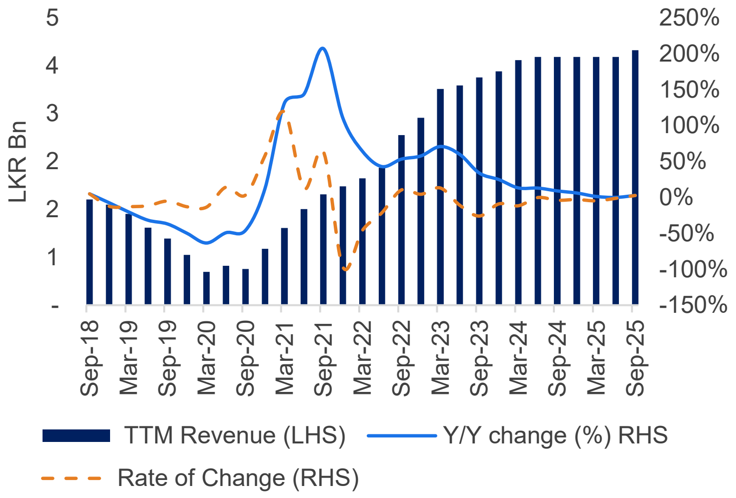


Exhibit 2.24b: JETS TTM EBIT and EBIT Margin

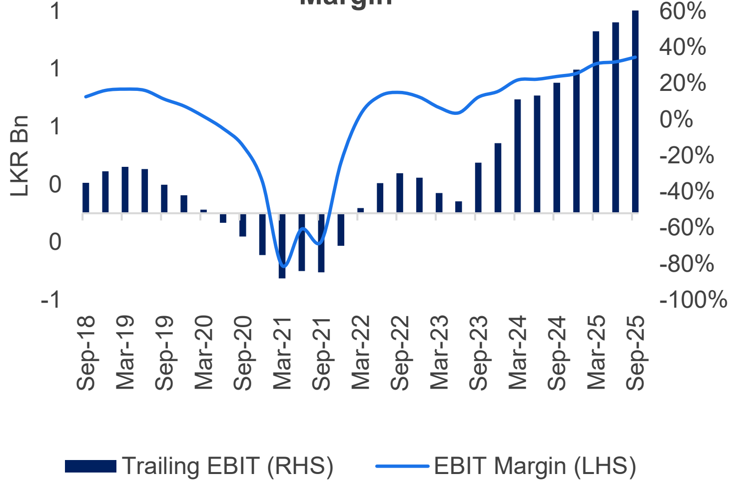


Exhibit 2.24c: JETS Trailing EPS

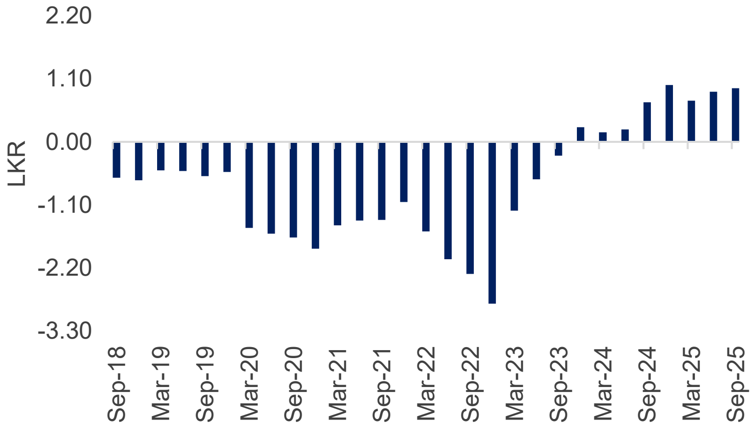


Exhibit 2.24d: JETS vs ASPI

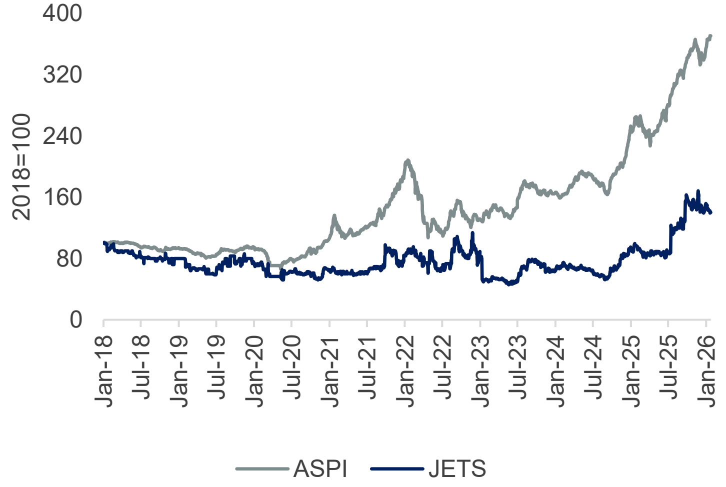


Exhibit 9e: JETS Price to Book Multiple

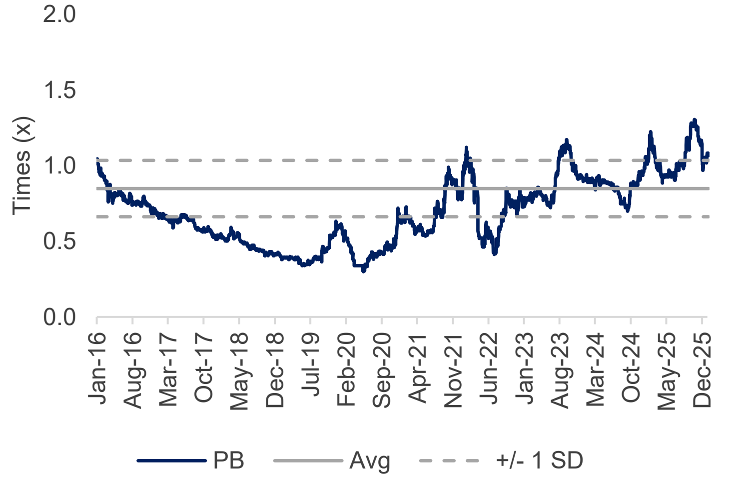
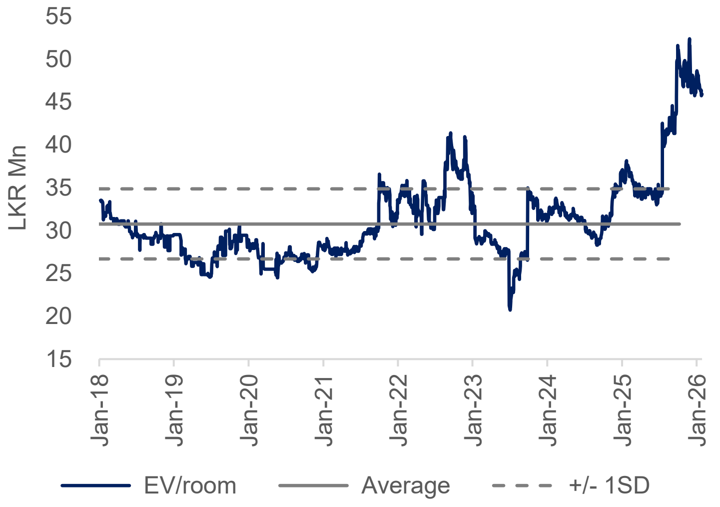


Exhibit 2.24f: JETS EV/room ratio



Source: Financial Statements, HSB Research

February 2026
Sri Lanka

Consumer & Retail Sector

Sri Lanka | Economy & Strategy

Sustained nominal wage growth is restoring purchasing power and driving a gradual return of discretionary spend within the broader staples basket. This marks a shift from survival-led consumption toward more normalized spending behaviour. (see Exhibit 2.25a)

Urbanisation continues to support the structural migration from general trade to modern retail formats. Consumers are increasingly prioritising value, convenience, and assortment, benefiting organised retailers with scale and distribution reach. (see Exhibit 2.25b)

Market penetration remains incomplete.Despite a sharp recovery in footfall, real sales volumes remain below pre-crisis levels. Same-store sales growth has normalised as the phase of price-led basket expansion fades. Growth is now primarily traffic-driven, with double-digit footfall gains offset by mildly negative average ticket sizes. Revenue expansion is therefore becoming steadier but less margin-accretive. (see Exhibit 2.25c)

Exhibit 2.25a: Nominal Wage Index

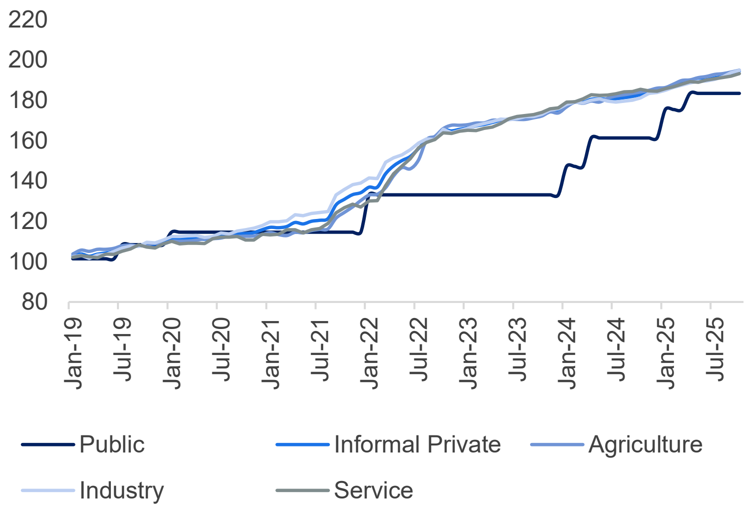


Exhibit 2.25b: Modern Trade Penetration vs Density

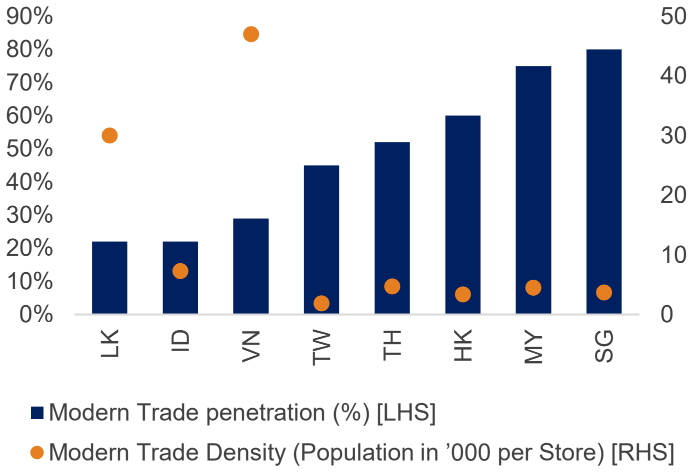
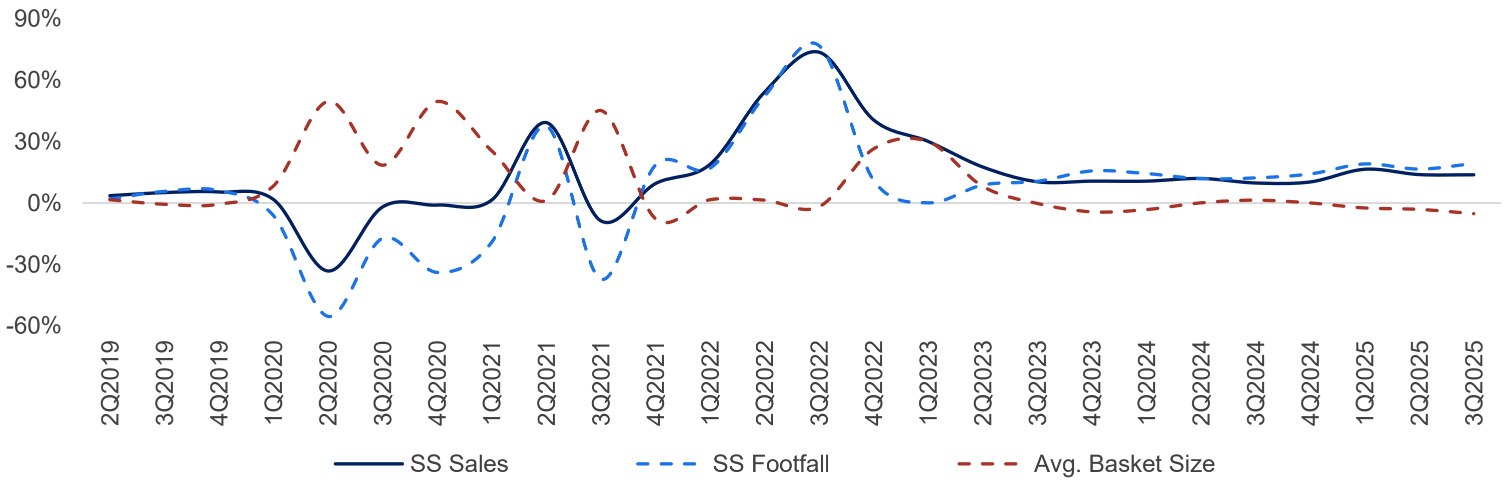


Exhibit 2.25c: Same Store Sales, Footfall and Avg. Basket Size Growth Trends



Source: CBSL, Company Reports, CSE

Consumer & Retail Sector: Building scale beyond inflation

Discretionary segments have outperformed, with EBIT margins expanding to 10.7% on a trailing twelve-month revenue base of LKR 113 Bn. Staples continue to provide earnings stability, delivering resilient margins of 6.7% on LKR 423 Bn of TTM revenue, supported by scale advantages and easing input costs.

Ongoing store expansion by sector leaders, including 10–15 near-term additions by Keells and the planned entry of institutional players such as Hayleys, reinforces the long-term earnings upgrade. Private-label expansion remains a key structural driver, with rapid own-brand portfolio growth delivering a sustained gross margin premium.

Supply chain maturity and scale efficiencies further support earnings, enabling margin protection even as pricing power moderates in a lower-inflation environment (see Exhibit 2.26a-d)

Exhibit 2.26a: Discretionary Revenue Scale & Growth

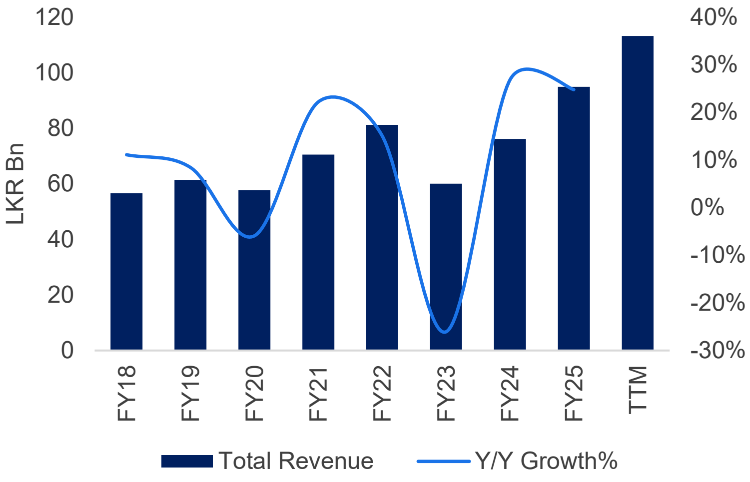


Exhibit 2.26b: Staples Revenue Scale & Growth

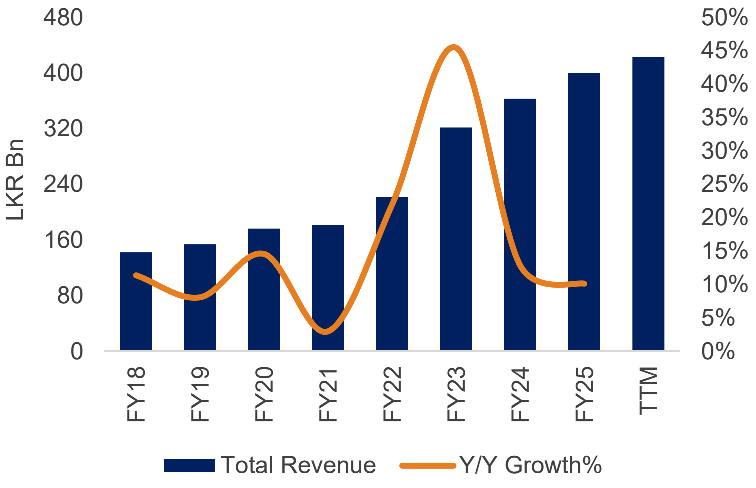


Exhibit 2.26c: Discretionary EBIT Scale & Margin

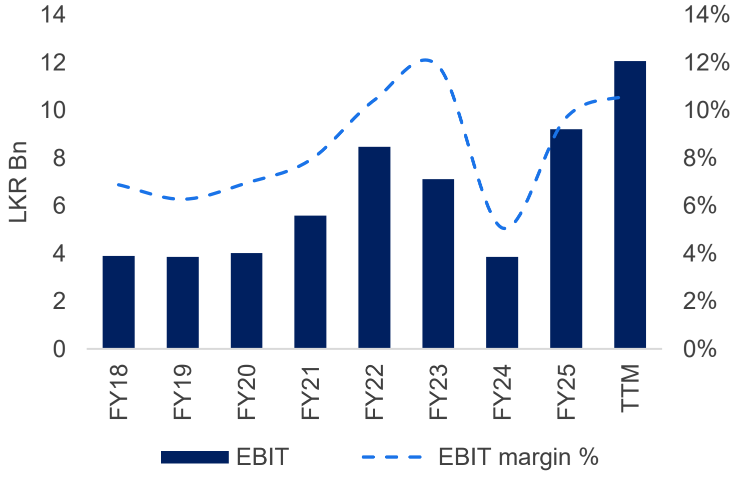
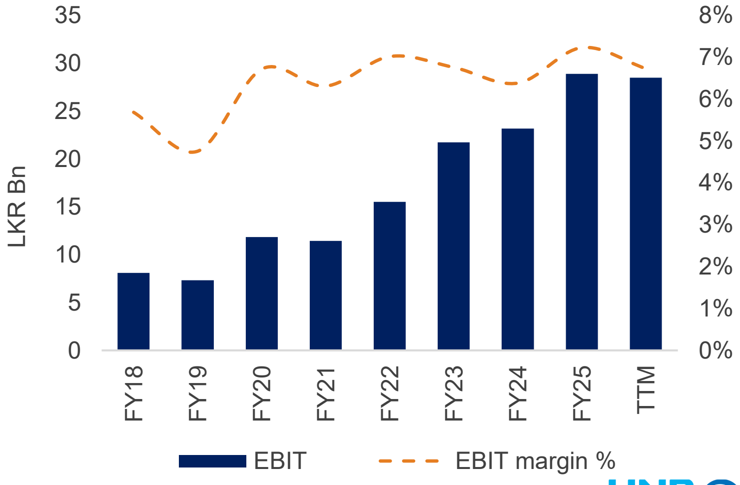


Exhibit 2.26d: Staples EBIT Scale & Margin



Source: Company Reports

Consumer and Retail: Comparative financial profiles and relative pricing

Results for FY26 TTM	CCS	CARG	SINS	ABAN
Sales Revenue (LKR'Mn)	169,768	253,726	106,016	7,153
Previous TTM	147,069	231,552	82,135	7,112
Sales Revenue Y/Y%	15.4%	9.6%	29.1%	0.6%
Operating Profit (LKR'Mn)	11,582.5	16,911.1	11,257.4	806.1
Earnings (LKR'Mn)	5,974.9	8,706.3	5,649.2	566.9
Previous TTM	4,746.9	6,529.5	2,656.1	604.5
Earnings Y/Y%	26%	33%	113%	-6%
EPS (LKR.)	6.3	33.8	4.8	111.3
Performance Indicators	**CCS**	**CARG**	**SINS**	**ABAN**
EBIT Margin%	6.8%	6.7%	10.6%	11.3%
EBIT Margin previous	6.5%	6.0%	8.0%	12.5%
EBIT Margin (Y/Y) in BPS	28	68	264	(126)
ROCE	27.8%	25.6%	25.3%	26.5%
Inventory Turnover	11.37	9.02	3.03	3.83
OCF Margin	6.7%	6.7%	-22.4%	13.5%
Valuation Multiples	**CCS**	**CARG**	**SINS**	**ABAN**
Trailing PER(x)	18.1	23.6	18.8	12.3
EV/EBITDA (x)	8.2	10.5	12.2	7.0
EV/Sales (x)	0.8	1.0	1.5	0.9

Valuation multiples are based on prices as of 09th January 2026

Source: Company Reports

Ceylon Cold Stores PLC (CCS.N): Moderate Buy

Staples led portfolio provides a resilient base. CCS operates a large modern retail network focused on essential consumer categories, which cushions revenue through economic cycles. Strong footfall combined with gradually improving basket values supports same store performance, while the ongoing shift from general trade to modern retail enhances earnings visibility.

Same store sales now supported by both footfall and basket growth. Footfall had been recovering earlier, but basket values were largely flat, limiting revenue upside. Recent trends show both metrics contributing to growth, as shoppers not only visit more frequently but also spend more per trip (see Exhibit 2.27a). This signals a move from volume driven growth toward a more balanced recovery.

Basket size gains reflect easing wallet pressure. Stabilizing household finances, low inflation, and steady wages are allowing customers to increase spending per visit.

Staples continue to benefit most, with revenue growth increasingly volume led rather than price driven.

New store openings to add incremental growth. CCS plans 12 to 15 new stores in FY27. This is expected to capture additional footfall, expand market presence, and complement same store sales recovery, supporting the medium-term revenue and earnings outlook.

Strong exposure to essential consumption and a staples-led sales mix enhances earnings resilience.

We project FY26E revenue of LKR 181.0 Bn (+14.6% Y/Y) and net profit of LKR 6.3 Bn and an EPS of LKR 6.65. We assign a Moderate Buy rating based on our DCF-derived 12-month target price of LKR 130.00 which implies a 13.8% upside aided by easing wallet pressure and steady inflation lifting consumption.

Exhibit 2.27a: CCS Same Store Sales, Footfall and Avg. Basket Size Growth Trends

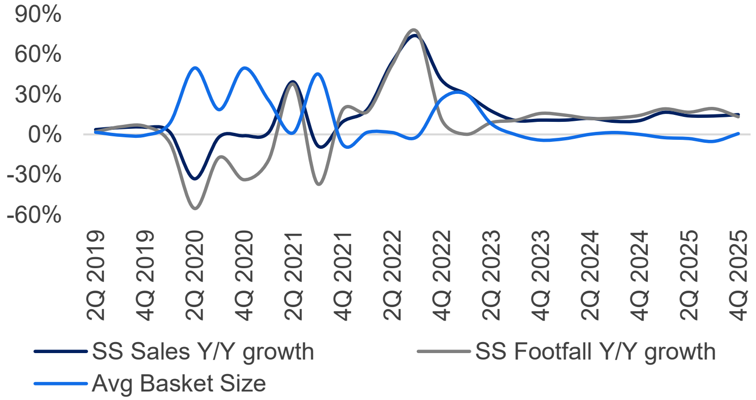
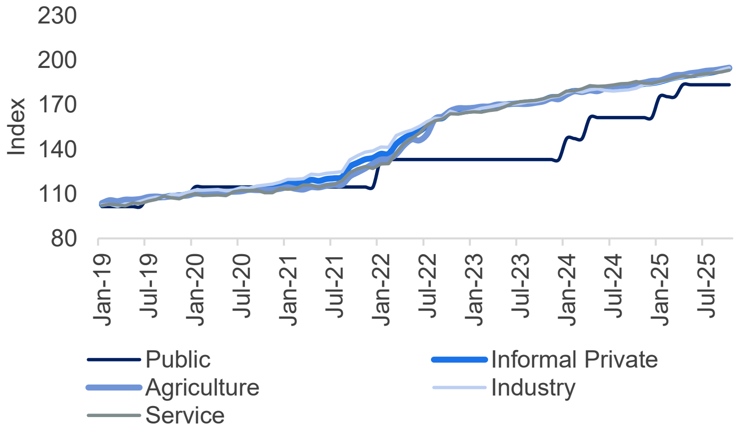


Exhibit 2.27b: Nominal Wage Index



Rating: Moderate Buy	
12M Target Price	**LKR 130.00**
Previous Price	N/A
CMP	**LKR 114.25**
Dividend(FY26E)	LKR 4.50
Upside/ Downside	**13.8%**

52w High | Low (LKR)	125.00 | 74.00
TTM P/E (X)	**18.2**

Summarised P&L Forecast

Year end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
Revenue	**139,625**	**157,934**	**181,026**	**199,441**
COGS	-122,127	-135,193	-155,863	-171,719
Gross Profit	17,498	22,742	25,163	27,722
EBIT	**8,155**	**11,314**	**12,522**	**13,987**
Net Interest	-3,246	-2,335	-2,658	-2,737
PBT	4,931	9,002	9,887	11,271
Tax	-1,504	-3,044	-3,569	-3,986
PAT	**3,427**	**5,958**	**6,318**	**7,285**
EPS (LKR)	**3.61**	**6.27**	**6.65**	**7.67**
DPS (LKR)	1.87	4.30	4.40	4.40
Div. Yield	**1.6%**	**3.8%**	**3.9%**	**3.9%**
P/E (X)	**31.7**	**18.2**	**17.2**	**14.9**

Source: Company Reports, Bloomberg, HSB Research

Ceylon Cold Stores PLC (CCS.N): Moderate Buy

Exhibit 2.28a: CCS TTM Revenue and TTM Rev growth

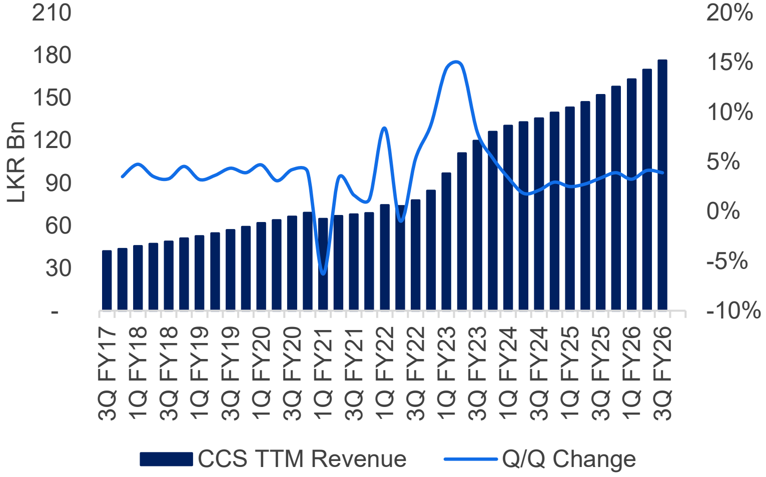


Exhibit 2.28b: CCS TTM EBIT and EBIT Margin

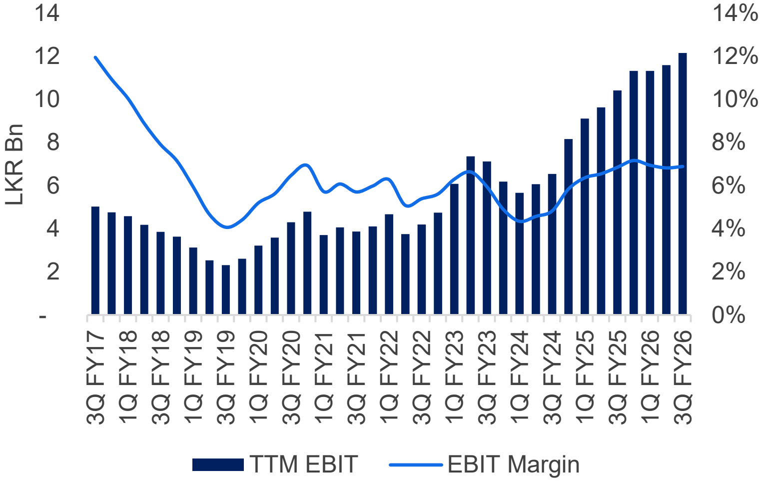


Exhibit 2.28c: CCS TTM EPS

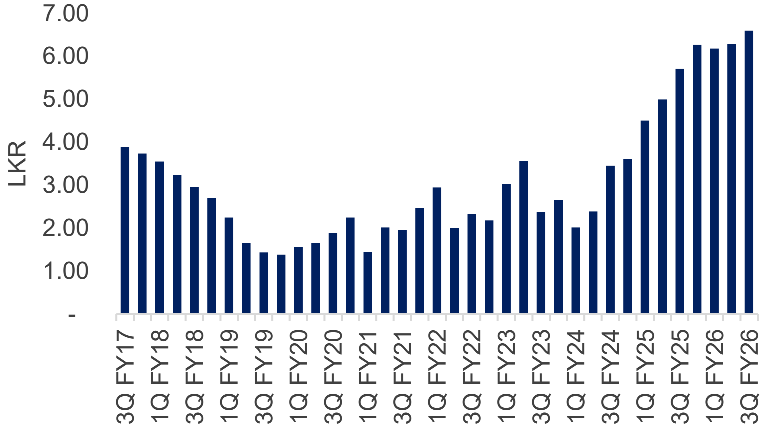


Exhibit 2.28d: CCS Share Price vs ASPI

Exhibit 2.28e: CCS Price to Earnings Multiple

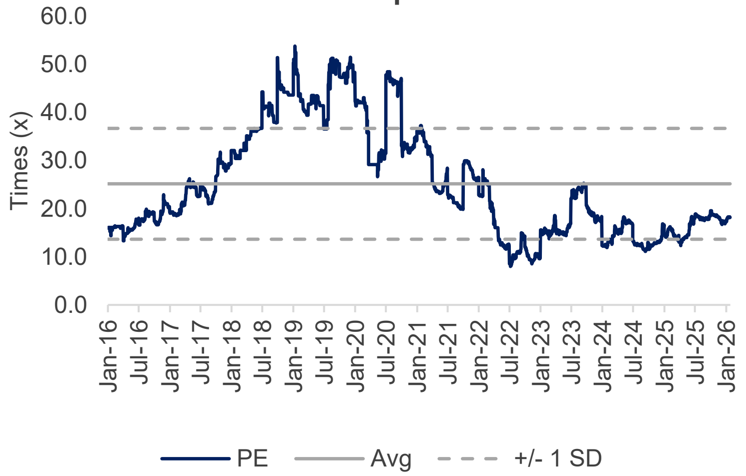
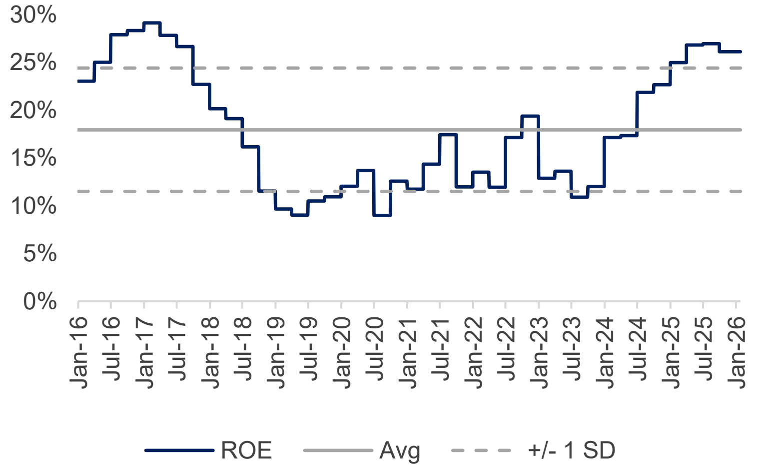


Exhibit 2.28f: CCS ROE



Source: Company Reports, Bloomberg, HSB Research

February 2026
Sri Lanka

Textile & Apparel Sector

Sri Lanka | Economy & Strategy

Recovery in textile & apparel exports gaining traction despite headwinds; margins may remain under pressure

Exhibit 2.29a: 12M MA Monthly Textile & Apparel Exports (Y/Y % Change)

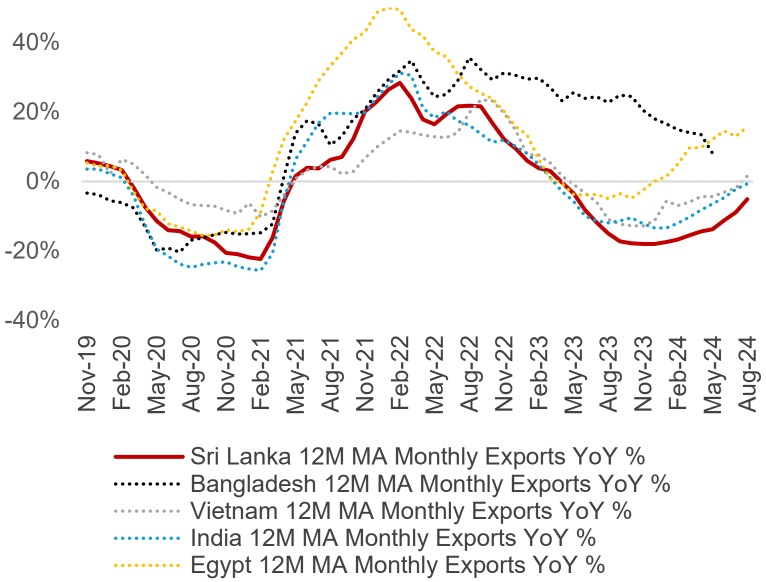
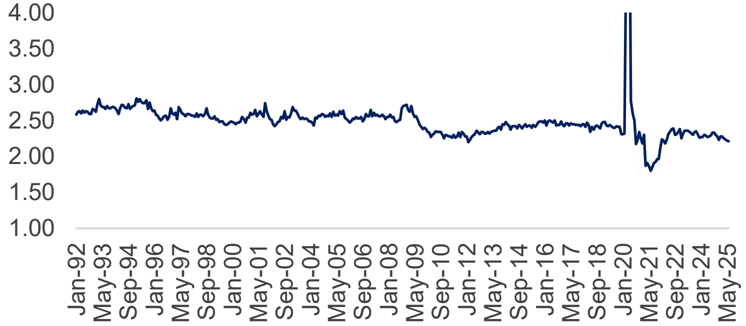


Exhibit 2.29b: Analyst Consensus Revenue Growth Estimates

Brand	Segment	Current Q	Next Q	Current Yr	Next Yr
UNIQLO	Mid	10%	10%	n.a.	9%
H&M	Mid	2%	5%	18%	4%
lululemon	Athletic	7%	9%	8%	8%
ZARA	Mid	9%	8%	8%	8%
GAP	Bridge	-5%	1%	1%	2%
Victoria's Secret	Lingerie	2%	-3%	-2%	1%
Calvin Klein	Bridge	6%	-4%	-6%	2%
Nike	Athletic	-9%	-6%	-7%	5%
The North Face	Bridge	-7%	-5%	-9%	3%

Exhibit 2.29c: US Retail Inventories/ Sales Ratio for Clothing & Clothing Accessory Stores



Consumer sentiment in the key US market remains resilient. However, the sales outlook for key clothing brands is mixed, with a visible shift towards affordable options and challenger brands (see Exhibit 2.29b). Recent data and GDP projections point to a possible downturn in the US economy compounded by possible price shocks from tariff policies.

The recovery in Sri Lanka's apparel exports is gaining traction but remains slower than India, Vietnam, and Egypt. This is possibly indicative of less available capacity and lower order volumes for the higher end products typically manufactured by Sri Lanka.

Sri Lanka and India may benefit from some temporary spillover of orders from the unrest in Bangladesh, as buyers reduce overreliance on a large source market. Aggressive US tariff policies are a possible headwind for the global industry. Margins are expected to compress in the short to medium term as buyers pressure suppliers to absorb part of the tariff costs.

Other Sectors

John Keells Holdings PLC (JKH.N): Buy

Diversified conglomerate with exposure to Sri Lanka's key growth sectors. JKH holds leading positions in modern trade (c.140 Keells outlets), leisure (via Cinnamon in Sri Lanka and Maldives), and transportation/logistics (ports and bunkering). It is also involved in property development, vehicle retail (via BYD), and financial services (via Nations Trust Bank and Union Assurance).

City of Dreams to drive group EBITDA growth. City of Dreams, including rent from casino operations, is expected to contribute LKR 3 bn of incremental EBITDA between TTM and FY26E, reflecting the phased ramp up from current operating levels. This is supported by improving hotel occupancy and room rates, alongside the commencement and gradual scaling of gaming and other variable revenue streams. The contribution is forecast to increase by a further LKR 5 bn from FY26E to FY27E as operations mature (see Exhibit 2.30b).

BYD EV EBITDA Uplift in FY26E, Normalization in FY27E. Relative to the TTM base, BYD EV is expected to contribute a LKR 2 bn uplift to group EBITDA in FY26E. This is followed by an LKR 8 bn drag on EBITDA in FY27E as the segment normalizes. Margins are expected to recover gradually, with BYD remaining a meaningful medium-term earnings driver for JKH.

Resilient Earnings and Improving Margins Strengthen Outlook. Retail, ports, and financial services are expected to contribute LKR 4 bn to EBITDA from TTM to FY26E, and a further LKR 6 bn from FY26E to FY27E, supporting group EBITDA growth at a 9.9% CAGR over FY26E–FY28E, with margins rising from 14.9% in FY26E to 16.6% in FY27E.

We project FY26E revenue of LKR 477.4 Bn (+50.4% Y/Y), net profit of LKR 17.5 Bn, and an EPS of LKR 0.68. We assign a Buy rating based on our DCF- derived 12-month target price of LKR 28.00 which implies a c. 22.8% upside aided by strong segment expansion.

Exhibit 2.30a: JKH Revenue Waterfall

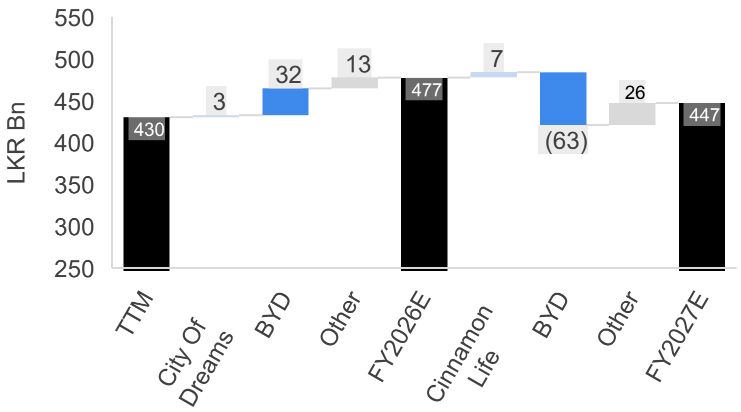
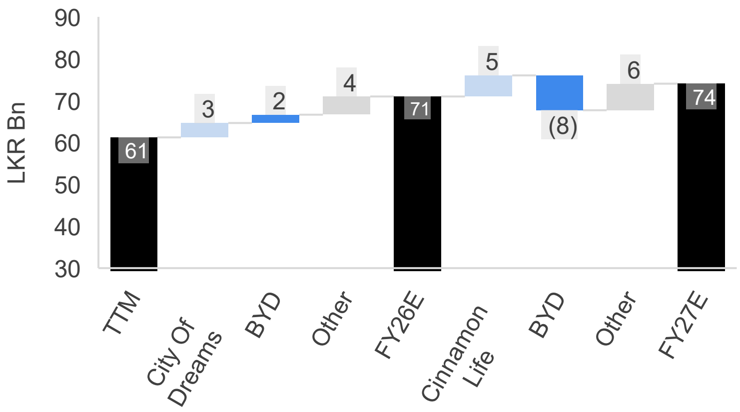


Exhibit 2.30b: JKH EBITDA Waterfall



Rating: Buy	
12M Target Price	**LKR 28.00**
Previous Price	LKR 26.10
CMP	**LKR 22.80**
Dividend (FY26E)	LKR 0.60
Upside/ Downside	**22.8%**

52w High | Low (LKR)	26.10 | 18.30
TTM P/E (X)	**71.1**

Summarised P&L Forecast

Year end 31 March	**Actual**		**Forecast**	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
Revenue	**280,773**	**317,378**	**477,351**	**447,421**
COGS	-225,680	-253,847	-378,062	-352,120
Gross Profit	55,093	63,531	99,289	95,301
EBIT	**15,369**	**14,224**	**34,226**	**34,293**
Net Interest	2,899	2,168	-1,158	-790
PBT	18,014	14,881	29,670	32,274
Tax	-5,886	-7,957	-12,126	-9,692
PAT	**12,128**	**6,924**	**17,544**	**22,582**
EPS (LKR)	**0.64**	**0.30**	**0.68**	**1.08**
DPS (LKR)	1.5	0.60	0.60	0.75
Div. Yield	**6.6%**	**2.6%**	**2.6%**	**3.3%**
P/E (X)	**35.7**	**75.5**	**33.7**	**21.2**

Source: Company Reports, Bloomberg, HSB Research

John Keells Holdings PLC (JKH.N): Buy

Exhibit 2.31a: JKH TTM Revenue and TTM Rev growth

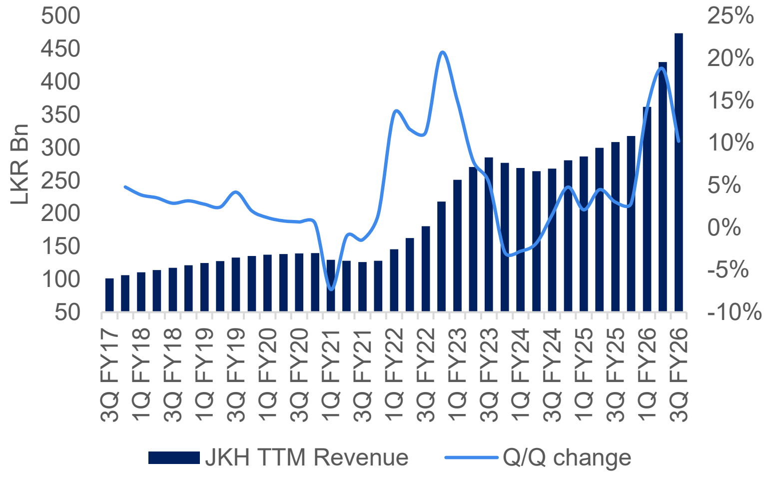


Exhibit 2.31b: JKH TTM EBIT and OP Margin

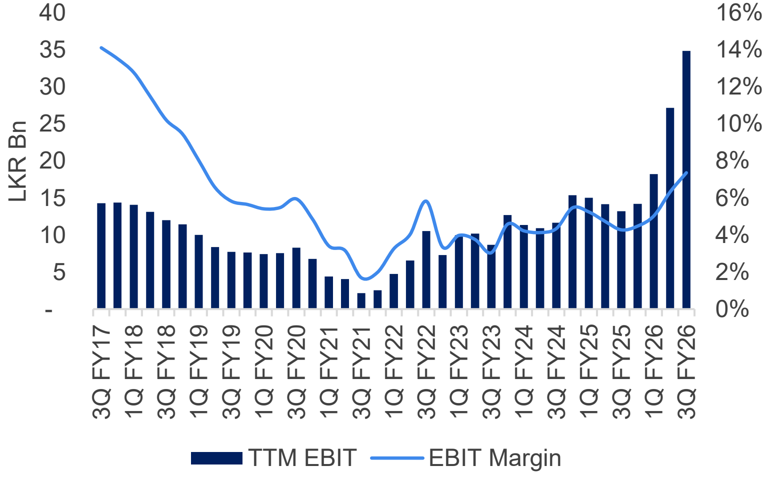


Exhibit 2.31c: JKH TTM EPS

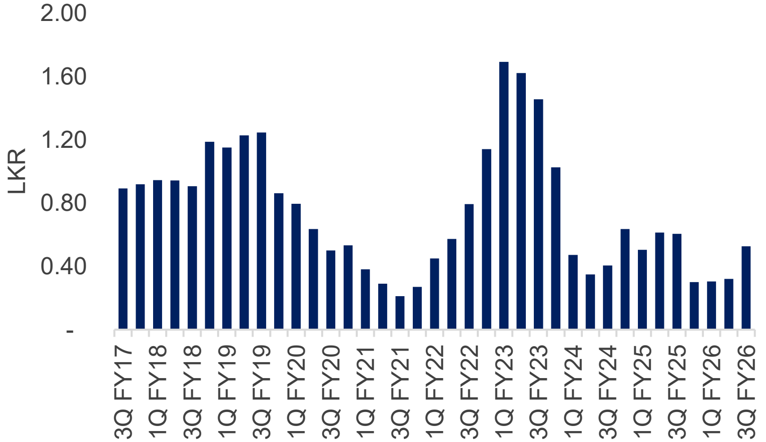


Exhibit 2.31d: JKH Share Price vs ASPI

Exhibit 2.31e: JKH Price to Earnings Multiple

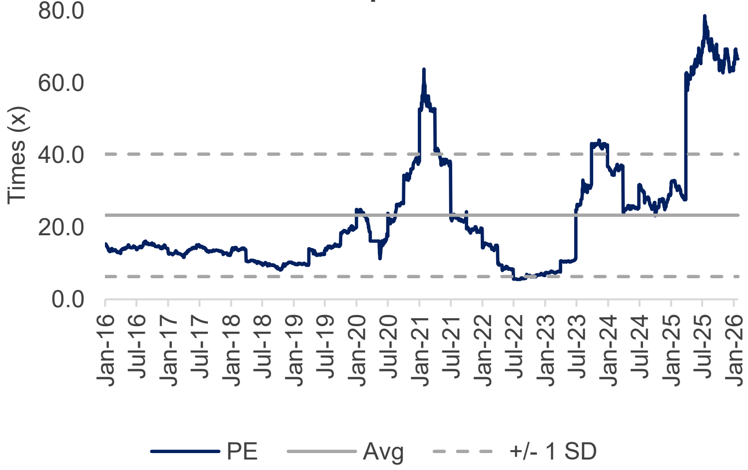
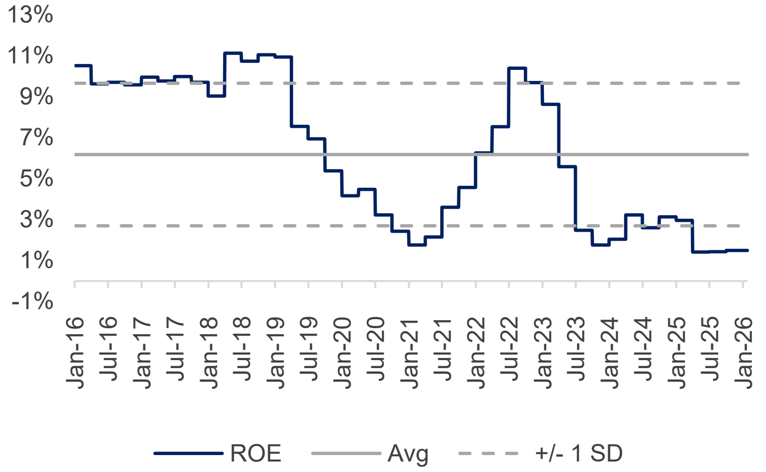


Exhibit 2.31f: JKH ROE



Source: Company Reports, Bloomberg, HSB Research

Hayleys PLC (HAYL.N): Buy

Diversified conglomerate with global footprint and expansion plans. HAYL has operations across 14 industry verticals, including hand protection (DIPD), purification (HAYC), textiles (MGT), consumer and retail (SINS), and plantations (KVAL, TPL, HOPL) (see exhibit 2.32a). HAYL plans to expand into the retail sector with 100 supermarket outlets. Expansion into mobility and renewable energy through Hayleys Fentons is expected to support future revenue growth.

Export-led upside supported by currency tailwinds. The group maintains a strong global footprint, with exports contributing 47.0% of FY25 revenue, with the group targeting a 50% share. This is supported by overseas expansion initiatives, including the USD 11 Mn acquisition of Hi-Care Thai Gloves in Thailand and a USD c.8 Mn greenfield investment in the Philippines. A further c.3-4% expected LKR depreciation, supports export earnings. HAYL benefits from expanding its global exposure and targeting 50% of revenue from exports.

Consumer, mobility, and renewable energy growth drivers. Both consumer, retail, and transportation logistics sectors contribute over 40.0% of group revenue. The acquisition of a 40.5% stake in Harischandra Mills and the launch of NEVs brands (OMODA and JAECOO) strengthen growth prospects. Recent vehicle registrations indicate improving traction for JAECOO due to competitive pricing. The planned 50MW wind power project in Mannar is expected to enhance long-term earnings visibility and diversify income streams.

Capital return and balance sheet strengthening. The LKR 9.00 Bn rights issue is expected to strengthen the balance sheet and enhance funding capacity for future expansion, with a focus on scaling the supermarket chain.

We forecast FY26E revenue of LKR 560.42 Bn (+13.9% Y/Y) and net profit of LKR 24.94 Bn, implying EPS of LKR 19.45. Based on our DCF valuation, we derive a 12 month target price of LKR 250.00 and assign a Buy rating.

Exhibit 2.32a: HAYL Revenue Share (FY25 vs TTM2QFY26)

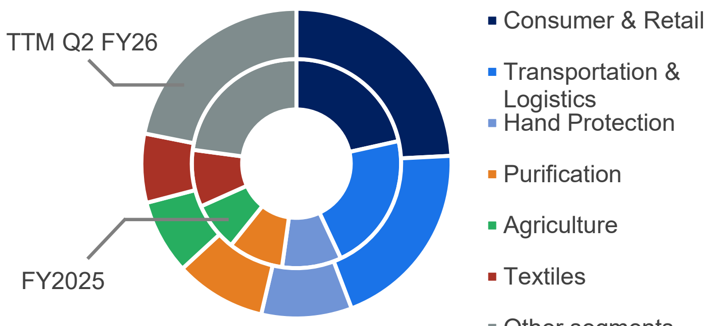
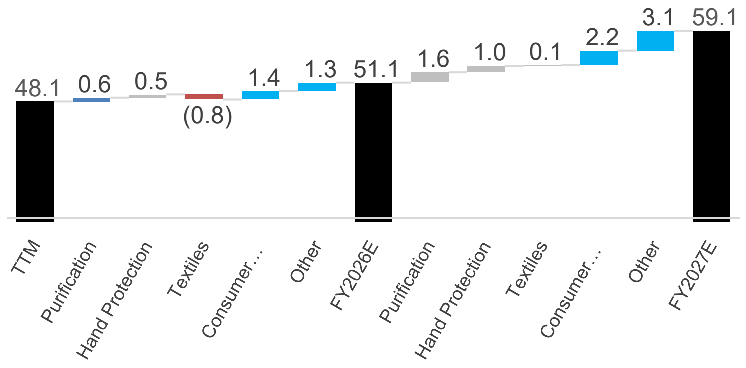


Exhibit 2.32b: HAYL EBIT Waterfall



Rating: Buy	
12M Target Price	**LKR 250.00**
Previous Price	LKR 108.00
CMP	**LKR 207.75**
Dividend (FY26E)	LKR 6.25
Upside/ Downside	**20.3%**

52w High | Low (LKR)	209.00 | 122.25
TTM P/E (X)	**11.0**

Summarised P&L Forecast

Year end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
Revenue	**436,833**	**492,201**	**560,419**	**647,895**
COGS	-327,321	-373,889	-427,039	-493,696
Gross Profit	109,512	118,312	113,380	154,199
EBIT	**42,723**	**47,767**	**51,059**	**59,110**
Net Interest	-17,242	-12,143	-12,176	-13,059
PBT	25,336	35,373	38.375	45,410
Tax	-10,489	-12,860	-13,431	-15,439
PAT	**14,847**	**22,513**	**24,944**	**29,971**
EPS (LKR)	**8.67**	**16.92**	**19.45**	**23.37**
DPS (LKR)	5.35	6.00	6.25	6.50
P/E (X)	**9.5**	**8.1**	**10.7**	**8.9**

Source: Company Reports, HSB Research

Hayleys PLC (HAYL.N): Buy

Exhibit 2.33a: HAYL Trailing Revenue

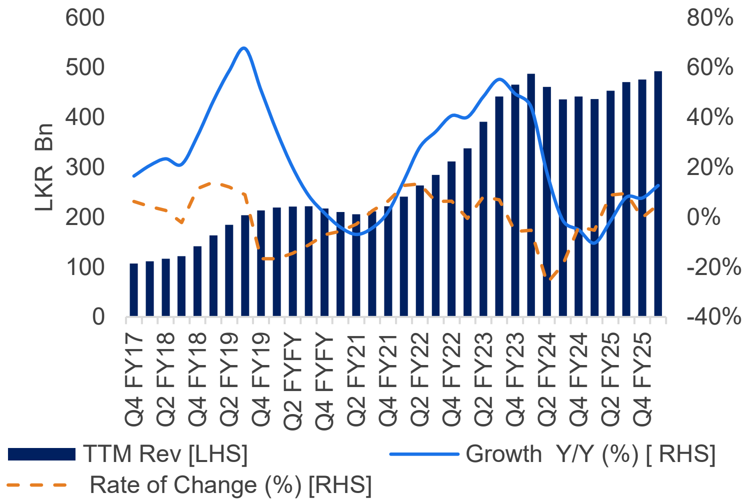


Exhibit 2.33b: HAYL TTM EBIT and EBIT Margin

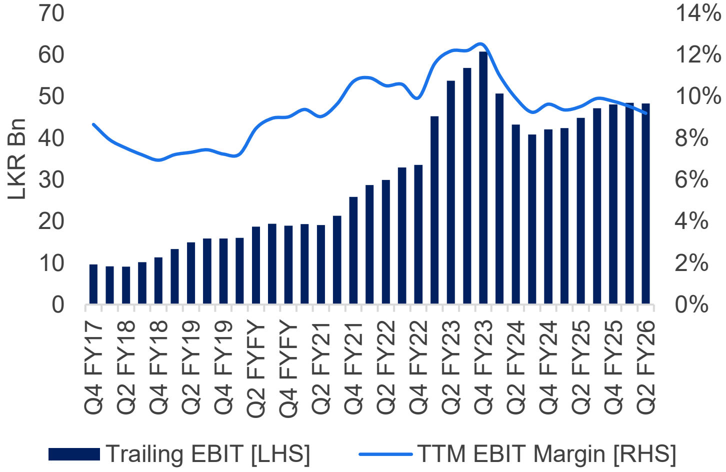


Exhibit 2.33c: HAYL TTM EPS

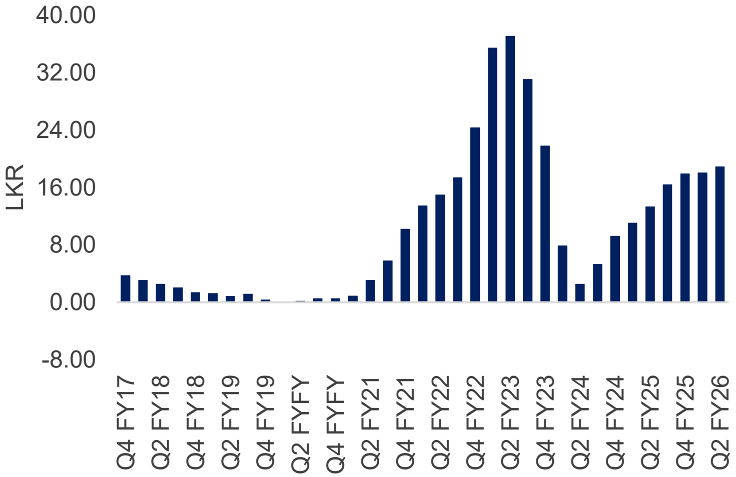


Exhibit 2.33d: HAYL Share Price vs ASPI

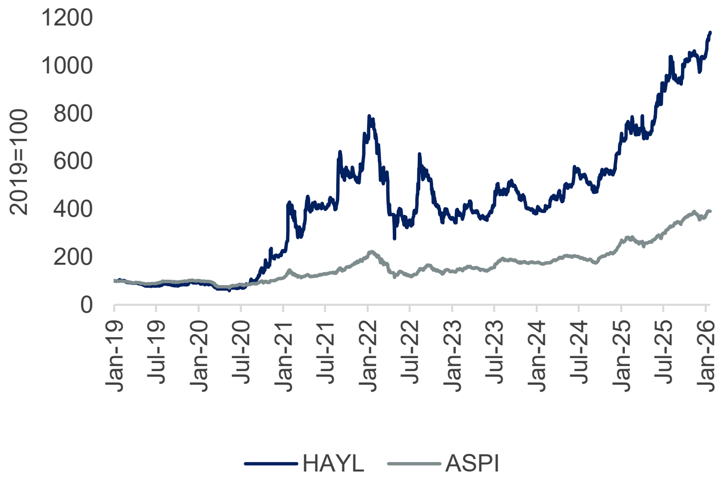


Exhibit 2.33e: HAYL TTM PER

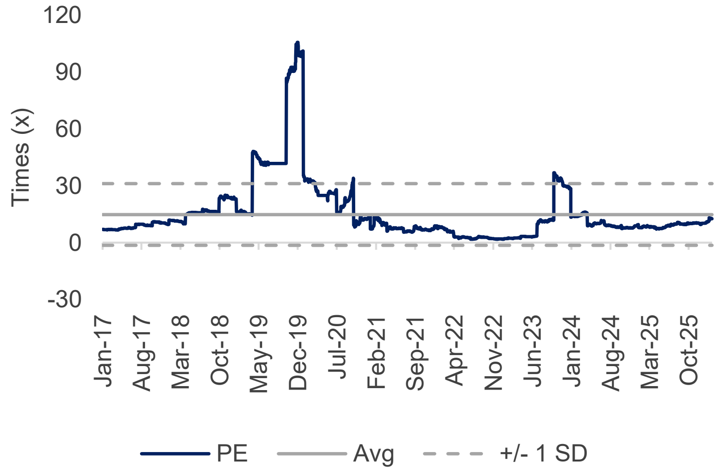
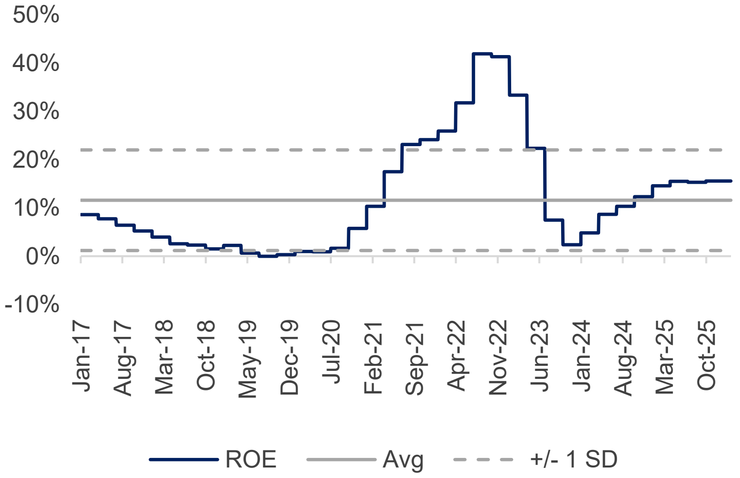


Exhibit 2.33f: HAYL ROE



Source: Bloomberg, HSB Research

Melstacorp PLC (MELS.N): Buy

Melstacorp offers diversified earnings exposure anchored by two core segments: alcobev, via Distilleries Company of Sri Lanka (DCSL), and tourism, via Aitken Spence Hotels (AHUN); supplemented by interests in logistics, plantations, power, financial services, and a sizable non-operating asset base.

Market leadership allows for strategic capture of volume recovery. The alcobev segment has seen cumulative excise-driven price increases of c.63% since 2023. Despite this, DCSL with an estimated c.60% share of the licit hard liquor market, remains structurally advantaged. Segment revenue grew 13.3% YoY in H1 FY26, supported by price passthrough and early signs of volume stabilisation. Real wage growth, should restore purchasing power, supporting medium-term volume recovery.

Tourism recovery is translating into operating leverage. Record tourist arrivals to Sri Lanka and the Maldives in 2025 underpin improving occupancy and room rates across AHUN's portfolio. Tourism segment revenue rose 8.1% YoY in H1 FY26, while segment losses nearly halved to LKR 1.3bn, highlighting improving cost absorption as demand strengthens.

Portfolio repositioning and non-operating assets enhance valuation. MELS continues to reorient its business portfolio while retaining a sizeable base of non-operating assets, mainly an equity portfolio, which provides balance sheet flexibility.

We project FY26E net revenue at LKR 178.4 bn (+5.2% Y/Y) and net profit at LKR 21.0 bn resulting in an EPS of LKR 18.04. Based on a DCF-led valuation we assign a Buy rating with a 12-month target price of LKR 260.00 indicative of a 47.8% upside.

Rating: Buy	
12M Target Price	**LKR 260.00**
Previous Price	-
CMP	**LKR 176.25**
Dividend (FY26E)	LKR 7.50
Upside/ Downside	**47..8%**

52w High | Low (LKR)	195.50 | 117.50
TTM P/E (X)	**10.9**

Summarised P&L Forecast

Year end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
Net Revenue	**163,013**	**169,613**	**178,356**	**191,015**
COGS	-88,460	-88,103	-89,000	-96,272
Gross Profit	74,553	81,510	89,356	94,744
EBIT	**41,448**	**44,677**	**49,748**	**52,858**
Net Interest	-10,103	-5,821	-2,942	-664
Tax	-16,805	-18,046	-21,893	-24,566
PAT	15,525	22,229	26,758	30,025
SH Profits	**9,595**	**17,094**	**21,027**	**23,420**
EPS (LKR)	**8.23**	**14.67**	**18.04**	**20.10**
DPS (LKR)	8.27	7.32	7.50	8.00
Div. Yield (%)	4.7	4.1	4.2	4.5
P/E (X)	**21.4**	**12.0**	**9.8**	**8.8**

Exhibit 2.34a: MELS Revenue Waterfall (LKR Bn)

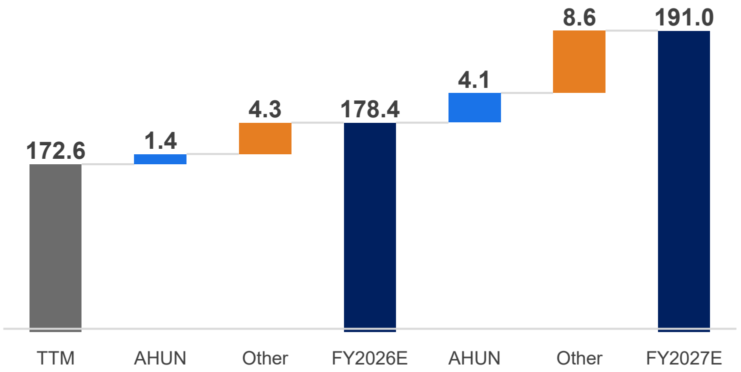
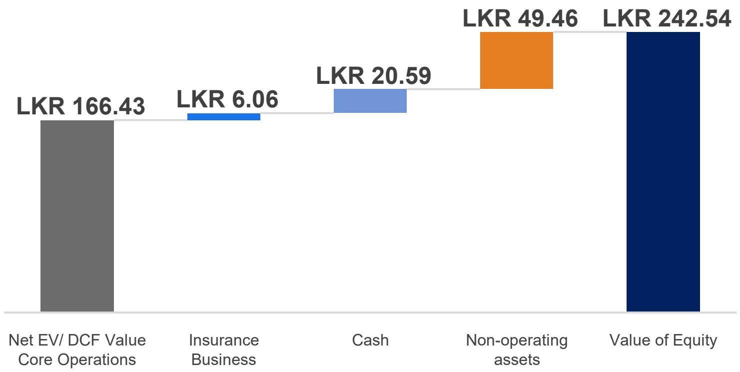


Exhibit 2.34b: MELS DCF Valuation Waterfall



Source: CBSL, Company Reports, Bloomberg, HSB Research

Melstacorp PLC (MELS.N): Buy

Exhibit 2.35a: MELS TTM Revenue & Growth

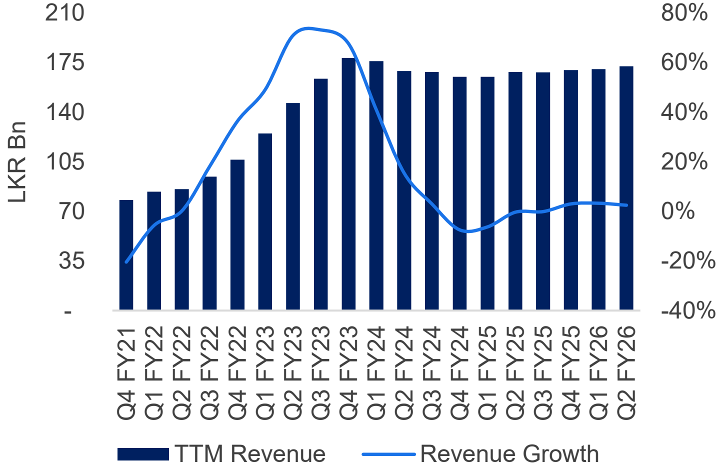


Exhibit 2.35b: MELS TTM EBIT & EBIT Margin

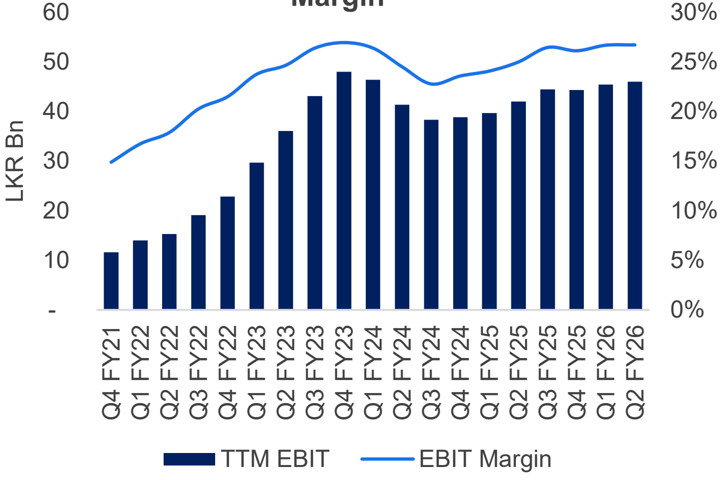


Exhibit 2.35c: MELS TTM EPS

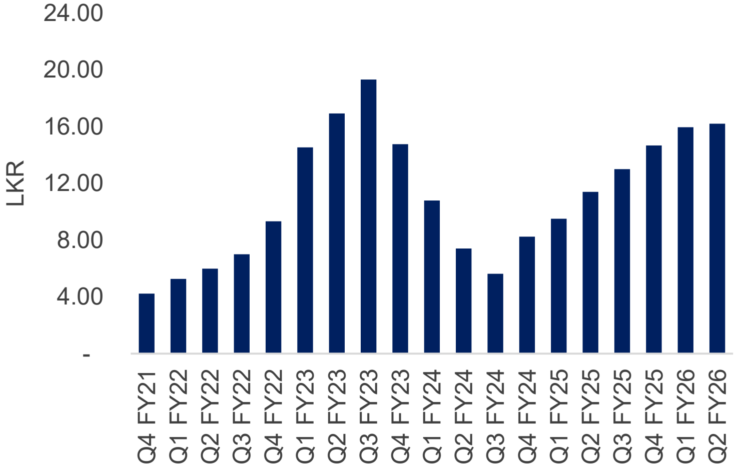


Exhibit 2.35d: MELS Share Price vs ASPI

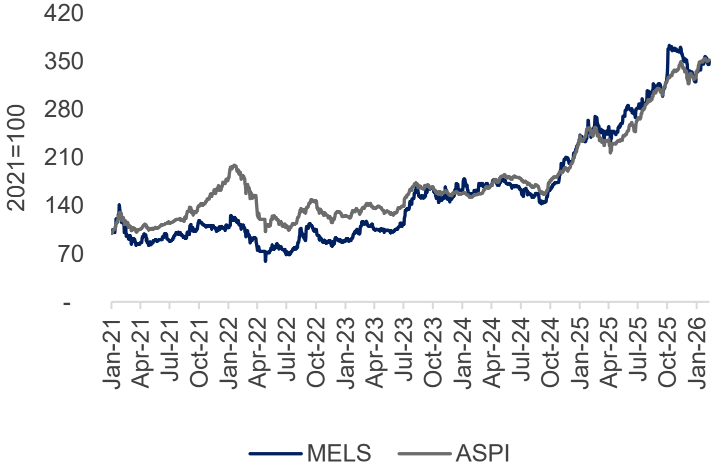


Exhibit 2.35e: MELS TTM PER

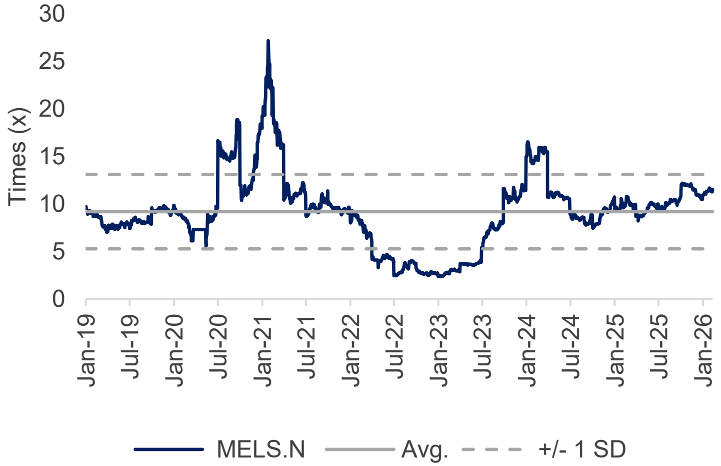
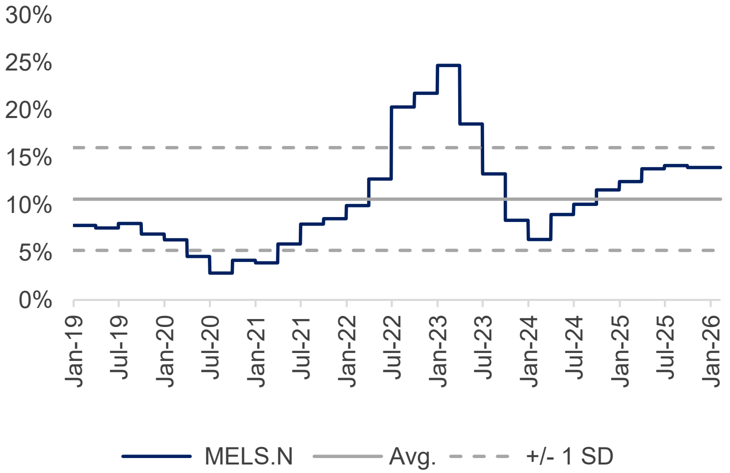


Exhibit 2.35f: MELS ROE



Source: Bloomberg, HSB Research

Digital Mobility Solutions Lanka PLC (PKME.N): Moderate Buy

PKME Market Leader in Mobility Driving Superior Returns. Strong fundamentals, a higher FY26E and FY27E run rate support our revised price target.

PKME continues to show strong topline growth driven by robust growth in movements via its platform. Total platform movements rose 46.0% Y/Y in Q3 FY26 supported by a continued uptick in the number of unique customers (+46.1% Y/Y and + 6.7% Q/Q). On the back of these results, we revise our platform movements estimates to 38% over the next 12 months.

Average value per movement growth to remain modest. We expect low single digit growth as an improved vehicle mix in western province and impact of inflation is partly offset by higher contribution from other provinces which rely predominantly on trishaws and bikes.

Take rates to trend up despite near-term volatility. PKME has maintained a stable take rate of c.10.5% and management expects this to hold albeit with some volatility as incentives are adjusted based on demand requirements. We assume a gradual increase in take rates reaching a steady state of 12.5% in the long run in line with regional peers (see Exhibit 2.36b).

Emerging use cases remain in their infancy. While we do not explicitly forecast other ventures, traction in its logistics, courier, and events verticals could also add to earnings.

We project FY26E net revenue of LKR 8.9 bn (+52.7% Y/Y) and net profit of LKR 2.2 bn resulting in an EPS of LKR 6.57. We assign a Moderate Buy rating based on our DCF-derived 12-month target price of LKR 180.00 which implies a 12.3% upside.

Exhibit 2.36a: PKME Movements on Platform

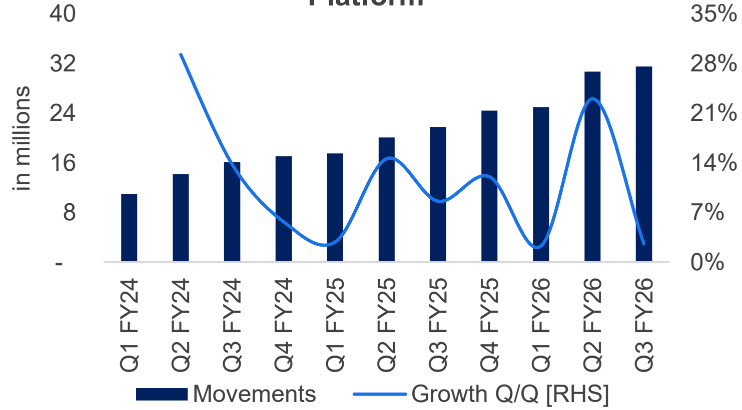
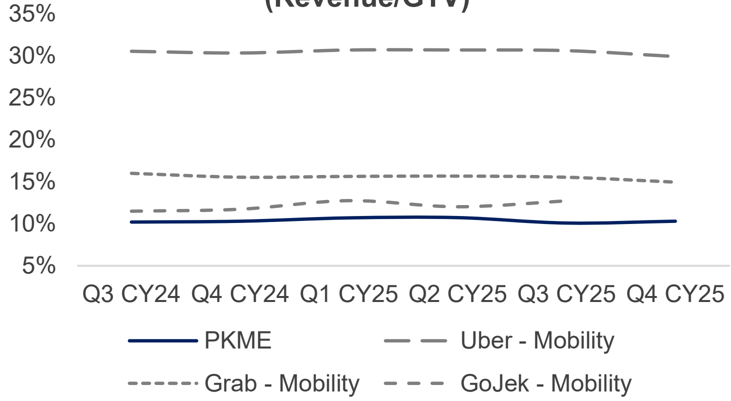


Exhibit 2.36b: PKME Take Rate (Revenue/GTV)



Rating: Moderate Buy	
12M Target Price	**LKR 180.00**
Previous Price	LKR 175.00
CMP	**LKR 160.25**
Dividend (FY26E)	LKR 3.30
Upside/ Downside	**12.3%**

52w High | Low (LKR)	165.00 | 67.00
TTM P/E (X)	**33.4**

Summarised P&L Forecast

Year end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
GTV	38,800	56,869	83,198	115,154
Net Revenue	**3,919**	**5,835**	**8,908**	**12,190**
EBIT	**925**	**1,603**	**2,949**	**3,822**
Net Interest	79	80	117	196
PBT	993	1,683	3,067	4,018
Tax	-314	-513	-878	-1,185
PAT	**679**	**1,170**	**2,188**	**2,833**
EPS (LKR)	**2.04**	**3.51**	**6.57**	**8.50**
DPS (LKR)	N/A	2.30	3.30	4.00
Div. Yield (%)	N/A	1.4	2.1	2.5
P/E (X)	**78.6**	**45.7**	**24.4**	**18.8**

Source: Company Reports, HSB Research

Exhibit 2.37a: PKME Net Revenue

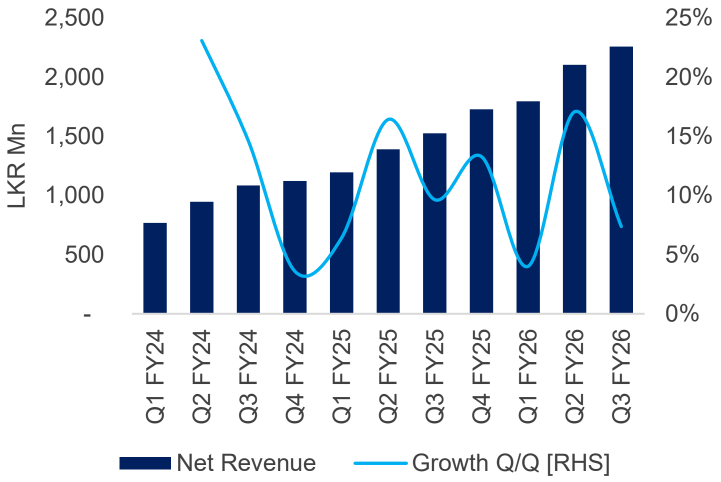


Exhibit 2.37b: PKME EBIT & EBIT Margin

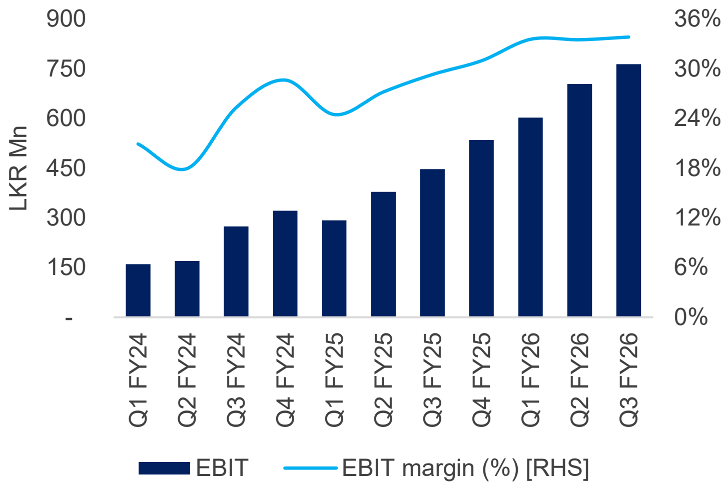


Exhibit 2.37c: PKME EPS

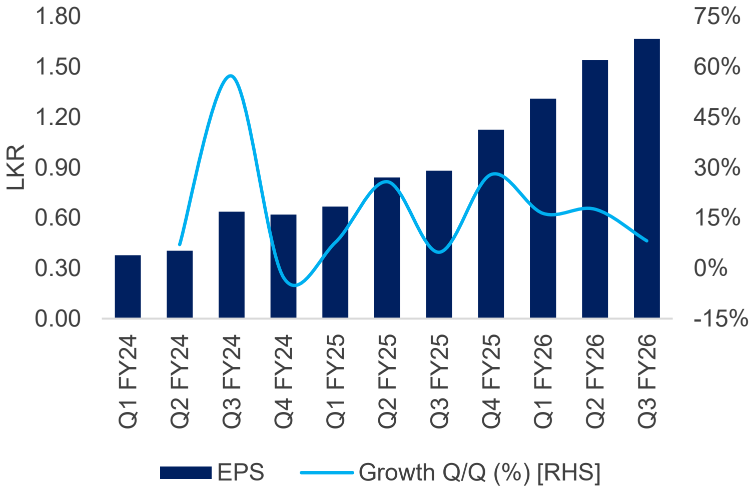


Exhibit 2.37d: PKME Share Price vs ASPI

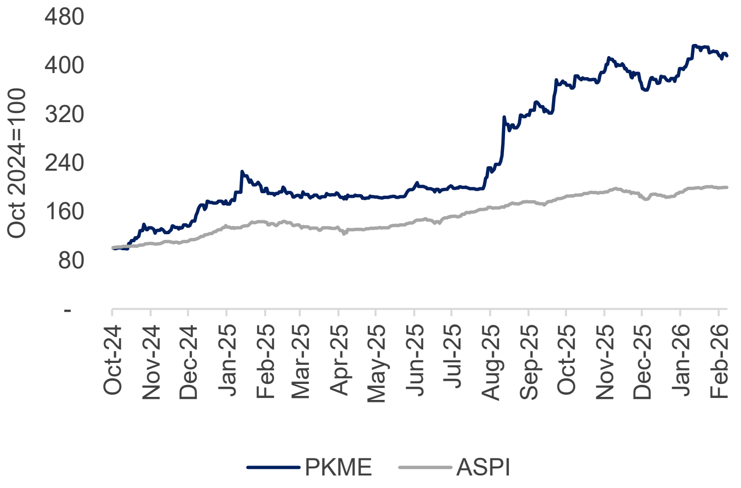


Exhibit 2.37e: PKME Avg Monthly Unique Customers

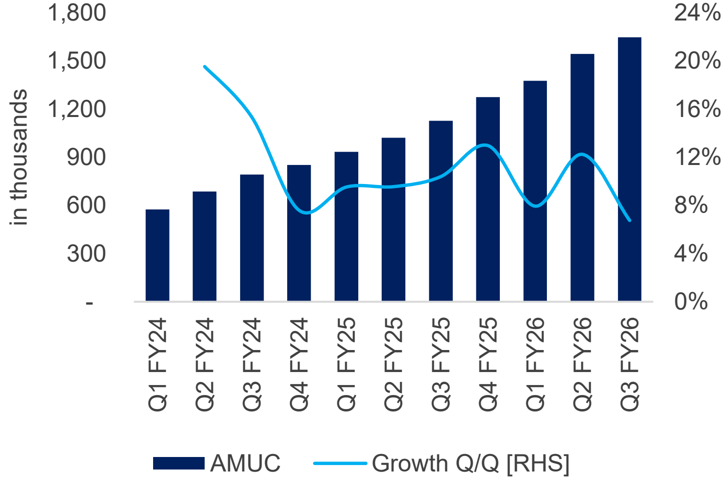
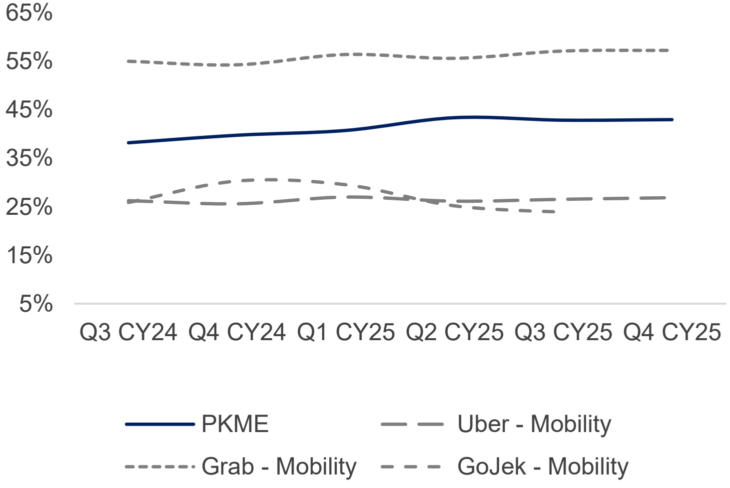


Exhibit 2.37f: PKME Adj. EBITDA to Revenue



Source: Bloomberg, HSB Research

Dipped Products PLC (DIPD.N): Buy

Niche global player with scale in industrial gloves. DIPD holds c.5.0% share of the global natural and synthetic latex gloves market. The group also has exposure to plantations via its subsidiary operations.

Structural demand growth offsets near-term oversupply concerns. Global glove demand is forecast to grow at a c.8.0% long-term CAGR, with 2026 demand estimated at c.400 bn pieces, despite current oversupply conditions (see Exhibit 2.38a). Near-term, the US–China trade tensions present an opportunity to expand North American sales (the region accounted for 23% of DIPD's gloves volumes in FY25). Its focus on natural rubber and latex gloves for industrial use is also favourable, given lower competitive intensity relative to disposable nitrile products.

Capacity expansion positions the group for market share gains. Recent investments include the acquisition of Hi-Care Thailand in late 2024, commissioning of the Hanwella facility in early 2025, and a 30-year land lease in Katunayake secured in late 2025 for future expansion. These capacity enhancements should support mid- to long-term volume growth. We forecast hand protection segment revenue growth of c.22.0% in FY26E and c.16.7% in FY27E, driven by ramp-up of new manufacturing capacity and more favourable end-market demand mix.

Plantations remain a headwind. Consolidated margins could face pressure from the upcoming c.30.0% wage hike in early February. While higher commodity prices may offer partial relief, limited scope for mechanisation constrains margin recovery over the long term.

We forecast a revenue of LKR 84.2 Bn in FY26E (+6.2% Y/Y) and LKR 94.0 Bn in FY27E (+11.6% Y/Y) driven by the hand protection segment. DIPD's DCF valuation is challenged by a lack of terminal value for the plantation segment. Consequently, we derive an intrinsic value of c. LKR 78.89 per share and assign a Buy rating with a 12-month price target of LKR 78.00 indicative of a 25.0% upside.

Exhibit 2.38a: Global Glove Demand (Bn pcs)

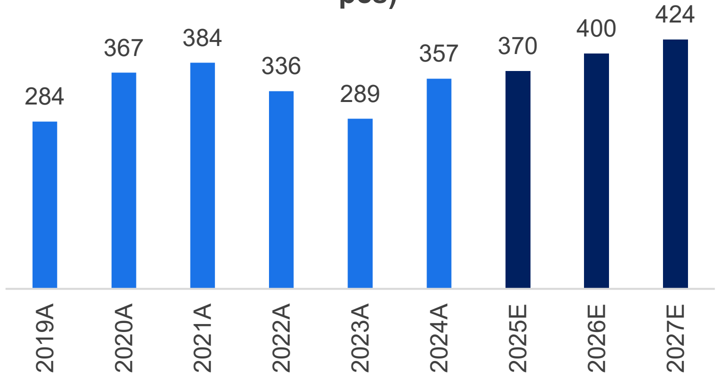
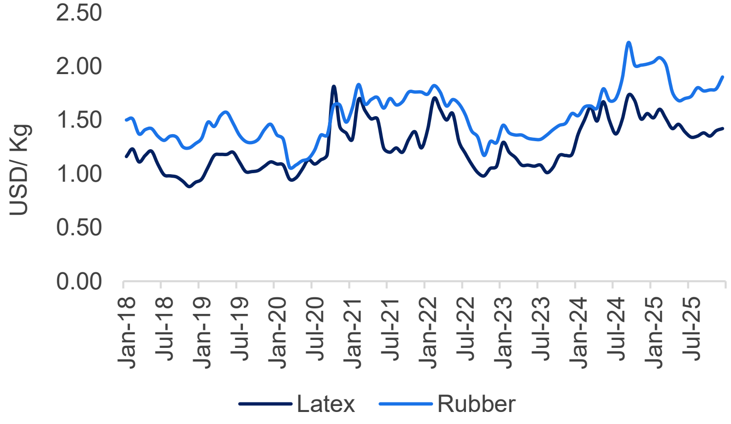


Exhibit 2.38b: Raw Material Prices



Rating: Buy	
12M Target Price	**LKR 78.00**
Previous Price	LKR 74.00
CMP	**LKR 62.40**
Dividend (FY26E)	LKR 2.50
Upside/ Downside	**25.0%**
52w High | Low (LKR)	74.50 | 45.90
TTM P/E (X)	**9.1**

Summarised P&L Forecast

Year end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
Revenue	**73,942**	**79,289**	**84,215**	**93,968**
COGS	-56,883	-62,724	-65,041	-72,950
Gross Profit	17,059	16,564	19,428	21,301
EBIT	**7,729**	**7,172**	**7,453**	**7,990**
Net Interest	-170	-343	-222	-295
PBT	7,567	6,836	7,256	7,720
Tax	-1,788	-1,802	-2,104	-2,277
PAT	**4,472**	**3,875**	**4,232**	**4,665**
EPS (LKR)	**7.47**	**6.47**	**7.07**	**7.79**
DPS (LKR)	2.25	-	2.50	3.00
Div. Yield (%)	4.0	N/A	**4.0**	**4.8**
P/E (X)	**8.3**	**9.6**	**8.8**	**8.0**

Source: Company Reports, Bloomberg, HSB Research

Dipped Products PLC (DIPD.N): Buy

Exhibit 2.39a: DIPD TTM Revenue & Growth

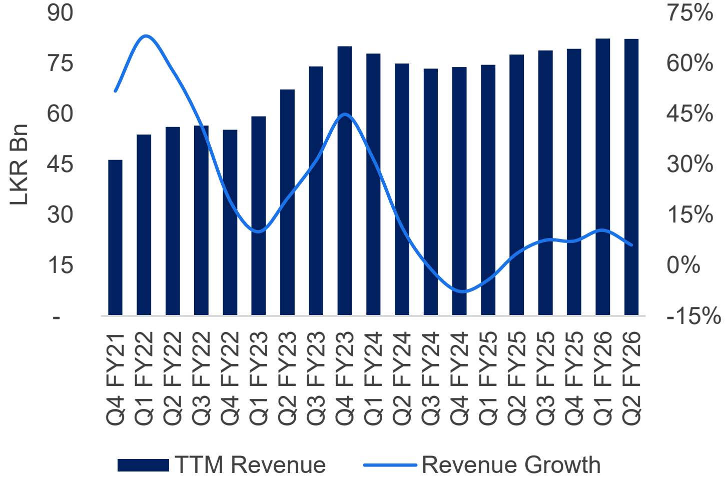


Exhibit 2.39b: DIPD TTM EBIT & EBIT Margin

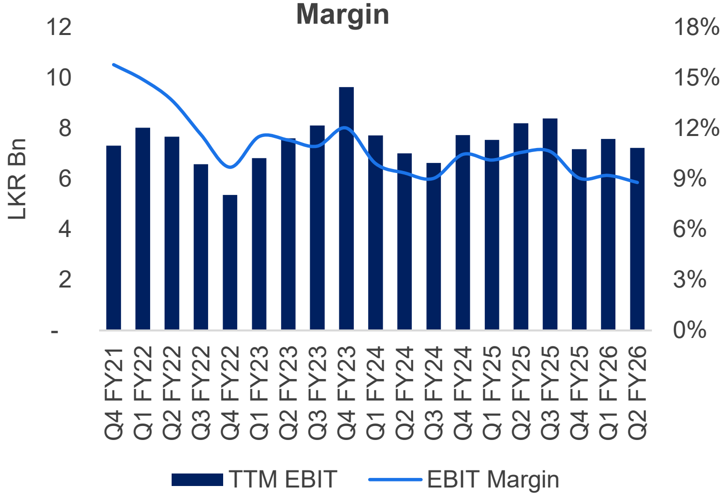


Exhibit 2.39c: DIPD TTM EPS

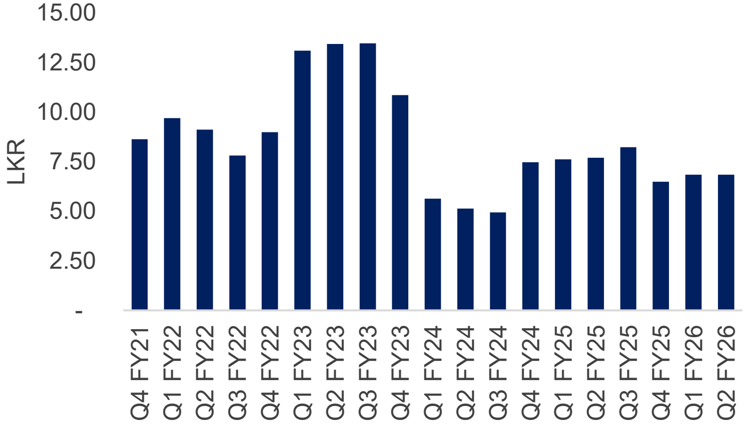


Exhibit 2.39d: DIPD Share Price vs ASPI

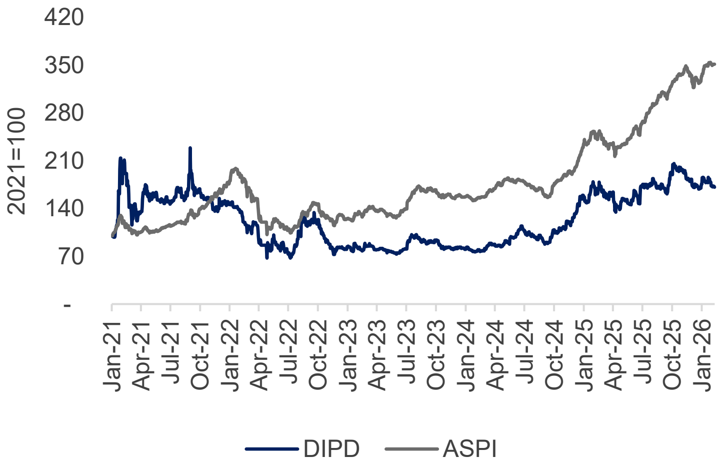


Exhibit 2.39e: DIPD TTM PER

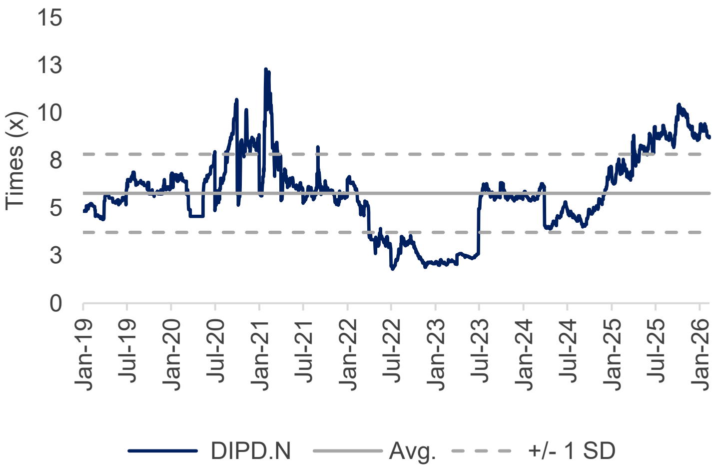
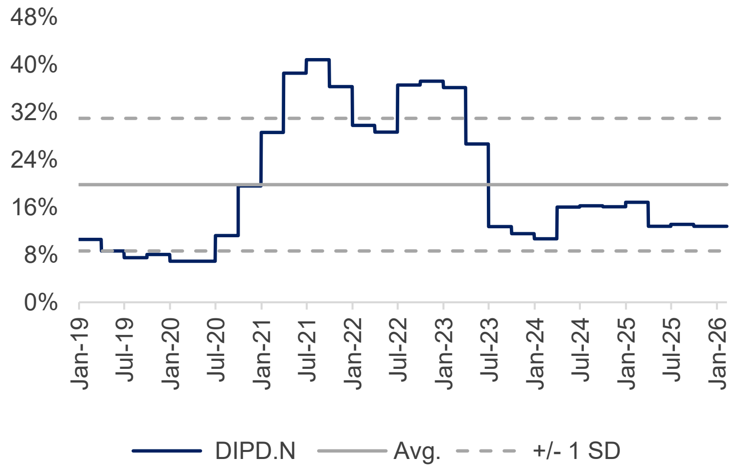


Exhibit 2.39f: DIPD ROE



Source: Bloomberg, HSB Research

Haycarb PLC (HAYC.N): Moderate Buy

Market leadership in activated carbon. HAYC operates predominantly in coconut shell–based activated carbon, contributing around 97% of revenue. The company holds an estimated 16% global market share, supported by c.56,800 MT of total capacity across its manufacturing facilities in Thailand and Indonesia.

Diversified end-use applications and export-led revenue. Activated carbon products serve water purification, gold extraction, and industrial air and gas treatment. (see Exhibit 2.40a). Over 95% of revenue is export driven, with Asia contributing over 50% and North America over 20%, supporting earnings resilience. expected c.3%-4% rupee depreciation in 2026 further support value creation (see Exhibit 2.40b).

Macro-driven demand tailwinds across water and gold sectors. Rising water quality concerns and government-led desalination projects, including in the Maldives, are driving demand for water and wastewater purification carbon. Global uncertainty has lifted gold prices to record levels, benefiting demand for activated carbon in gold extraction.

Capacity expansion, supply diversification, and innovation focus. The company continues to invest in wastewater treatment upgrades and capacity expansion, with utilisation improving steadily to 85% in FY25. Supply risk is being mitigated through a USD c.8 Mn greenfield investment in the Philippines, adding 4,500 MT per annum from end FY27. HAYC is also investing in energy storage carbon to expand applications

We forecast FY26E revenue of LKR 59.13 Bn (+36.9% Y/Y) and a EPS of LKR 12.03. Based on our DCF valuation, we derive a 12 month target price of LKR 140.00 and assign a Moderate Buy rating.

Exhibit 2.40a: HAYC Application Wise Revenue Contribution

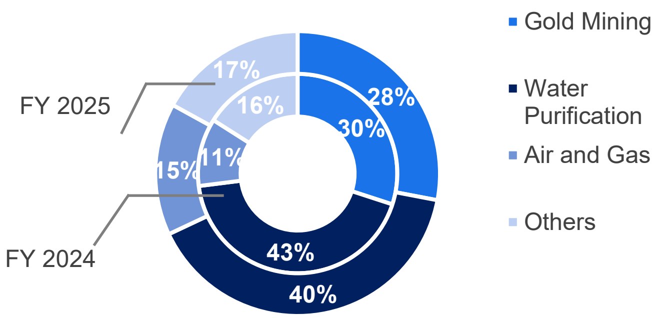
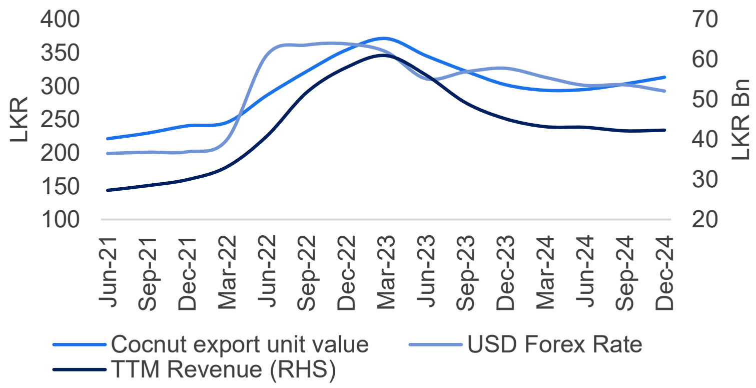


Exhibit 2.40b: HAYC TTM revenue, Export Price and Exchange Rate



Rating: Moderate Buy	
12M Target Price	**LKR 140.00**
Previous Price	LKR90.00
CMP	**LKR 121.25**
Dividend (FY26E)	LKR 4.00
Upside/ Downside	**15.4%**

52w High | Low (LKR)	122.75 | 72.50
TTM P/E (X)	**10.5**

Summarised P&L Forecast

Year end 31 March	Actual		Forecast	
(LKR Mn)	**FY24**	**FY25**	**FY26E**	**FY27E**
Revenue	**43,179**	**43,202**	**59,133**	**71,383**
COGS	-29,910	-31,140	-44,882	-54,108
Gross Profit	13,269	12,062	14,251	17,275
EBIT	**6,521**	**5,754**	**6,413**	**7,931**
Net Interest	-399	252	-717	-1,415
PBT	6,113	5,517	5,726	6,546
Tax	-1,808	-1,246	-1,260	-1,571
PAT	**4,305**	**4,271**	**4,467**	**4,975**
EPS (LKR)	**12.60**	**12.10**	**12.03**	**13.40**
DPS (LKR)	6.00	3.80	4.00	4.00
P/E (X)	**6.1**	**6.8**	**10.1**	**9.1**

Source: Company Reports, HSB Research

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Exhibit 2.41a: HAYC Trailing Revenue

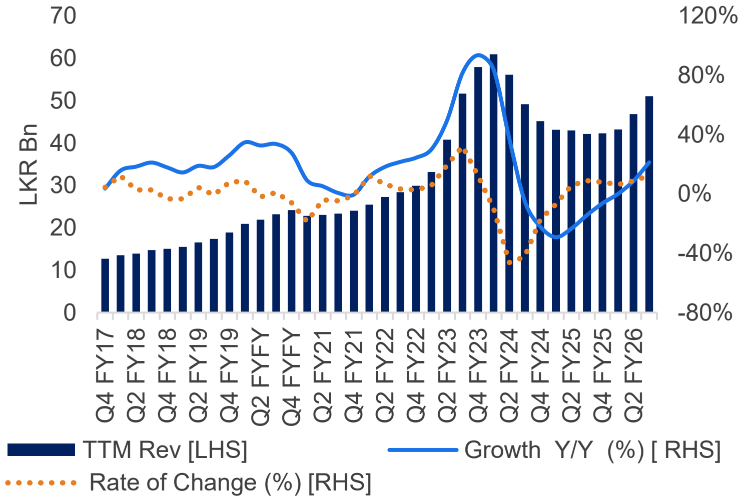


Exhibit 2.41b: HAYC TTM EBIT and EBIT Margin

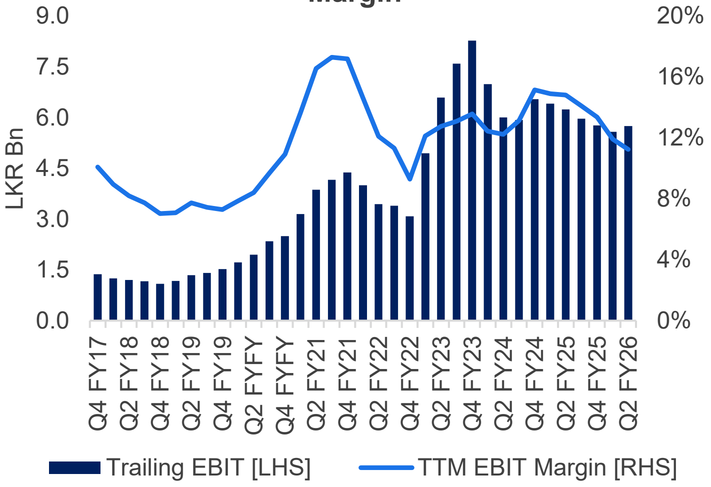


Exhibit 2.41c: HAYC TTM EPS and QoQ Growth

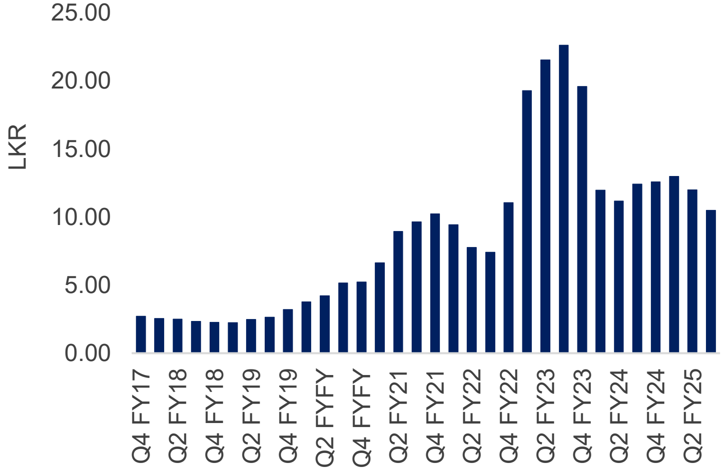


Exhibit 2.41d: HAYC Share Price vs ASPI

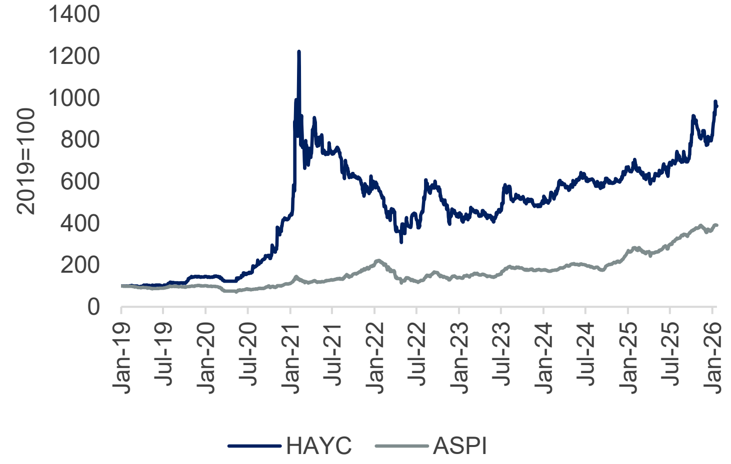


Exhibit 2.41e: HAYC TTM PER

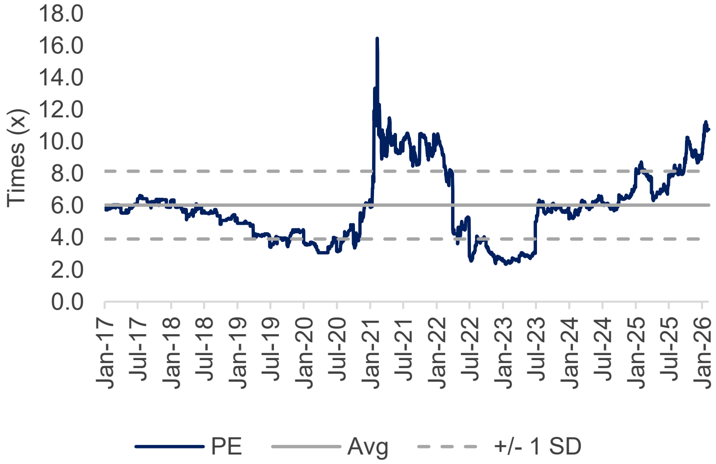
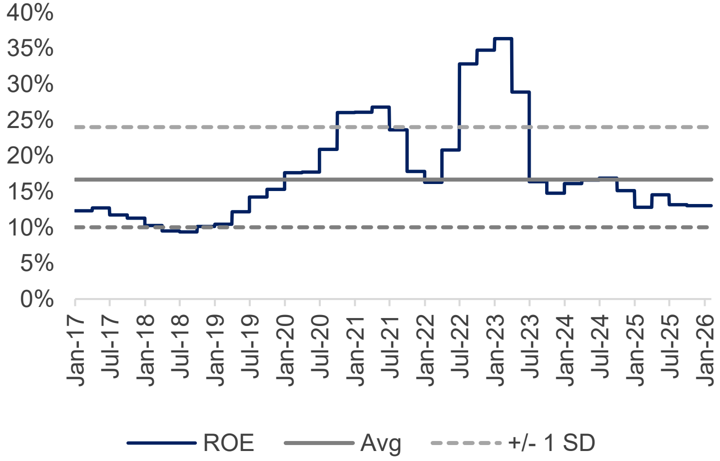


Exhibit 2.41f: HAYC ROE



Source: Bloomberg, HSB Research

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February 2026

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