

# Lower consumer demand to affect company earnings: Report

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The current slowness in the Sri Lankan economy will continue to partially affect company earnings amid lower consumer demand, according to a recent earnings report.

Apart from the prevailing anemic economic condition, Softlogic Equity Research (Softlogic) forecasted that the recent currency depreciation also to have some adverse

effect on the earnings of certain sectors closely linked with imports, and the companies with higher foreign borrowings.

"Telecom, Food & Beverage and Trading sector earnings are likely to be adversely affected with the currency depreciation while most companies with foreign debt are expected to record exchange losses," Softlogic said in its recent earnings update.

In many occasions, increasing cost of liv-

ing and the slow credit growth were cited as the main reasons for low consumer demand.

Sri Lanka's inflation according to the Statistics Department data, increased to 6.3 percent in August from 6.1 percent in July. However inflation in the country's key cities rose by 9.9 percent during this period, accelerating from 6.1 percent July, according to an urban index prepared by Capital Alliance Limited.

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"We believe the overall market earnings are likely show a slow and gradual recovery with consumer demand for manufacturing and bank credit likely to record a gradual uptrend," Softlogic said while maintaining a 11 to 13 percent earnings growth target for December 2013 and March 2014 quarters, unchanged from their earlier forecast.

Despite the positive correlation between corporate profits and GDP growth, NDB Stockbrokers said in an earlier occasion that this relationship might get slightly diluted in the short-term and profits may underperform the broad economic growth in 2013. Amid challenges in the economy, Softlogic said the expected rise in interest rates and negative market sentiment, market returns are likely to be marginal in the short-term and may show an uptrend towards medium to long-term.

Beverage, food and tobacco sector earnings did not grow during the June quarter while the hotel and travel sector earnings decreased by 42 percent Year-on-Year (YoY) to Rs. 267 million amid the reported influx of tourists in to the country. Diversified holdings edged up by 1.1 percent YoY to Rs. 4.8 billion.

However it is expected that the diversified sector is likely to benefit amidst dollar income and overseas investments. During the June quarter, banking sector earnings dented by 7 percent YoY to Rs. 10.9 billion primarily due to pawning provisions and lower exchange gains.

"However banking earnings are likely to rebound with the currency depreciation, leading to exchange gains," Softlogic stated.

The total market earnings of 274 companies in the June quarter rose by 3 percent to Rs.34.4 billion while it dipped 33 percent Quarter-on-Quarter.