

## Business/Interview



JKH Chairman Krishan Balendra

# JKH on course to become a 'modern and premium' conglomerate: Krishan Balendra

John Keells Holdings Plc (JKH) is one of the largest diversified conglomerates in Sri Lanka with over 70 companies in seven diverse industry sectors. It remains the darling of and a proxy for foreign institutional portfolio investors into Sri Lanka. With a history of over 150 years, John Keells Group provides employment to over 14,000 persons whilst it is a full member of the World Economic Forum and a Participant of the UN Global Compact. The Market Pulse, a joint initiative of Daily FT-Sampath Securities Ltd., caught up with JKH Chairman Krishan Balendra to get insights into the Group's resilience to be progressive amidst multiple macro challenges as well as future prospects. Balendra spoke of several ongoing and future initiatives towards making JKH what he describes as a "modern and premium" conglomerate going forward. The full video interview is available on FT TV, accessible via [www.ft.lk](http://www.ft.lk). Here are excerpts of the interview done by SC Securities Assistant Manager Investment Banking and Marketing Dilusha Gamage.

**Q: Tell us about the unique journey of JKH so far?**

**A:** The company was founded over 150 years by two Englishmen starting with tea and rubber produce broking. In the 1960s and 1970s the company diversified to some of the key areas of the economy such as travel, ports and logistics. In the 1980s with the acquisition of Whittalls, the company entered the consumer goods business such as Elephant House followed by Keells supermarkets. The first listing of a Group company was in the 1970s and JKH was listed in the 1980s.

Apart from the scale as one of the largest conglomerates, what is unique about JKH is its truly professionally-run organisation. The company is not owned or controlled by a family or a foreign parent company. It is broadly owned by thousands of shareholders with no controlling shareholder. The majority of the Board of Directors are independent and the management is totally professional and there is meritocracy. We have a high female representation, which is something we encourage.

There is a lot of focus on governance, community service and with IT there are a lot of digital initiatives and a big Group-wide initiative to ensure data-driven decision-making. So JKH is unique in many ways and fast evolving. The single most important factor is JKH is a broadly-owned and professionally-run organisation.

**Q: How did JKH manage the COVID-pandemic induced challenges?**

**A:** Because JKH is a diversified conglomerate, we were better able to face the pandemic. The leisure business is a large part of the Group which was impacted but JKH also has other businesses which continued to perform. Maldives where we have four hotels, however, has bounced back and our hotels are doing better than pre-pandemic. Being diversified was a positive feature in the pandemic. Being professionally run has helped JKH to be resilient amidst the pandemic.

**Q: What are the prospects for the leisure sector?**

**A:** Maldives properties are doing extremely well despite the Chinese market which was the biggest pre-COVID being closed. In Sri Lanka we are seeing a gradual pick up following lifting of restrictions and high vaccination rate. Our forward bookings are getting better. I am optimistic about the leisure sector even though Sri Lanka may not rebound as quickly as the Maldives did. By February or March we should see a much stronger performance by the leisure sector.

**Q: How is the property sector faring and what is the status of the Cinnamon Life project?**

The majority of the space. A few months back we started handing over some of the apartments in one tower and those in the other will begin within weeks. The hotel will be operational towards the end of next year, may be October, together with the shopping mall.

**Q: Can you expand on the entertainment zone of the Cinnamon Life?**

**A:** The building was designed with space for gaming – the space where the hotel connects with the shopping mall. It is part of the mall but seamlessly flows into the hotel. Gaming is not a business we are in, but we are looking at renting out space for a gaming operation. We will be the landlord. However one prerequisite for us to do that is there must be proper legal framework and regulation for gaming. If that were to happen we will look at renting the space out. We feel gaming is a big opportunity for tourism.

**Q: With Cinnamon Life progressing fast, is there a strategic re-think about Asian Hotels properties?**

**A:** This is something we are asked quite often and it depends on the view we take on the outlook for Colombo city. Colombo today has about 5,000 star class rooms. But if you compare that number as against some of the popular cities in the region such as Jakarta, Kuala Lumpur and Bangkok, Colombo has a long way to go to catch up. For example Kuala Lumpur has 50,000 rooms, Bangkok has 60,000 and Jakarta has over 25,000 rooms.

Then consider the number of tourists. Sri Lanka back in 2018 had 2.3 million tourists whereas the small island of Bali had seven million arrivals in 2019. Vietnam gets over 15 million tourists. Bangkok has about 35-40 million tourists. Yes with Cinnamon Grand and Cinnamon Lakeside apart we will have 800 more rooms at Cinnamon Life but we are positive about the Colombo city potential and tourism.

It is likely we will continue to own the properties and develop and position them properly as leisure is one of our core businesses. In doing so we are also very disciplined about our financial

returns as well. If at some point if we feel we can't achieve our minimum returns on capital, then we may look at exiting. But for now we have a positive outlook and continue to invest.

**Q: JKH recently entered into an agreement with Adani Group on the Colombo West Container Terminal. What are the expectations from the ports and logistics sector?**

**A:** We expect to start construction early next year. The first phase of the project could be completed within 24 months whilst some part of it can be operational. Adani Group is the only large port operation in India and 80% of Colombo Port's volume is transshipment and of which 70% is because of India. So it was important to get an Indian port operator involved and investing in the Colombo Port so we have the synergies and build on the partnership.

West is a deep water terminal that can cater to the largest modern ships. Colombo Port is the ideal transshipment location for cargo originating from and to India. All these make us confident that with this new capacity there will be demand as the capacity will be absorbed and we will get returns in line with our return hurdles. So overall it is an attractive investment.

**Q: Are you looking at other investments with Adani Group?**

**A:** They are one of the largest business groups in India and if there are new joint opportunities we will look at those but as of now there is nothing specific.

**Q: In the financial services sector you have Nations Trust Bank and Union Assurance. What are the prospects for these two?**

**A:** Financial services is a core business for JKH. We believe financial services will continue to grow in tandem with the economy. For example, life insurance penetration rate is very low in Sri Lanka hence there is tremendous potential for growth. So financial services is a core business and we will continue to invest for growth.

**Q: What is the future of the retail sector in which JKH has a strong presence?**

**A:** JKH was one of the first groups to enter the supermarkets sector but we didn't really expand it until about six or seven years ago. Today we have about 130 stores. Supermarkets are a big growth area. Fifteen years ago there were only a handful of supermarkets but today there are a large number in Colombo and suburbs.

There is a lot of room for growth as 15-20% of grocery consumption takes place in modern retail trade whereas in the Asian region in a country like Thailand or Malaysia, supermarkets account for 50% of grocery consumption. So whilst we have seen tremendous growth so far within a few years, there are greater prospects going forward. This too is a core business for JKH and as a leading player we will expand the supermarket chain aggressively.

**Q: Apart from the scale as one of the largest conglomerates, what is unique about JKH is it is broadly owned and is a truly professionally-run organisation and there is meritocracy as well as high female representation**

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We are completing a new distribution centre which will improve availability and quality in our stores. We are also doing a lot on the supply chain improvements and forging new partnerships with farmers to improve the quality of the produce we offer.

**Q: JKH is the darling of foreign investors. In the past two years foreign investors have been net sellers at the Colombo stock market. What has been the impact and how soon can we see net foreign buying?**

**A:** Foreigners have really pivoted the market since the early 1990s. JKH has had very

high foreign institutional shareholders since then and today it's about 30-35%. JKH has also regularly raised funds via the market. Recent net foreign selling in the overall market did depress JKH share price. Net foreign selling is partly due to macro issues faced by the country including tax policies and currency.

Foreign net selling is certainly a negative development. But I am confident that as the macro situation improves, foreigners will return because Sri Lankan companies have high growth prospects and attractive valuations. As the pandemic eases, emerging market funds will also return to frontier markets like Sri Lanka. This will be important for the Colombo stock market as well as companies such as JKH and banks.

**Q: With over 70 companies within the Group, any plans to list a few more JKH companies given the robust appetite for IPOs this year?**

**A:** In most of the growth companies we will continue to invest. Nothing specific where we are looking at a future IPO. We have a sharp focus on return on capital. If there are businesses where we feel in the medium to long term we can't achieve our return on capital hurdles, we will look to divest those. We have done that in the past like when we exited our mushroom export business, the aquarium business, and the plantations. We will do that going forward as well.

**Q: Being a premier blue chip with substantial investments and employment as well as contribution to the GDP, what are your expectations from policymakers?**

**A:** We are not asking for incentives. The private sector can deliver provided there is a stable environment with consistent policies over a period of time.

**Q: The private sector has had many challenges in tandem with issues faced by the country such as the forex crisis, import restrictions, downgrading of international sovereign rating, etc. How do you manoeuvre amidst these challenging times?**

**A:** We have a lot of experience in operating and managing through challenges and difficult times including 25 years of conflict, the tsunami in 2004, the 2019 Easter Sunday setback and now the pandemic. Those learnings and resilience within have helped JKH and the excellent team step up when needed. We will continue to do so going forward. I am confident the pandemic will be behind us and there will be more macro-economic stability.

**Q: Where do you see JKH in five years?**

**A:** It will be a much larger organisation in terms of revenue and profitability. We will also be much more modern and agile with digitisation of our businesses and data analytics initiative within the Group to ensure decision making is data driven.

In the last five years we have invested heavily in the Cinnamon Life project, refurbishing and redeveloping a lot of our hotel properties, we have been adding more supermarkets, we have invested in a new ice cream plant, and we have the West Terminal in the Colombo Port coming up. We will have a greater focus on improving our gender balance, environmentally-friendly businesses, good governance and social consciousness.

JKH will be a 'modern and a premium conglomerate' in every sense of the word, not only in terms of revenue and profitability, but also technology, data analytics and Environmental, Social and Governance or ESG.

— Pix by Ruwan Walpola



John Keells Holdings Chairman Krishan Balendra during the Daily FT-SC Securities organised "Market Pulse" interview with SC Securities Assistant Manager Investment Banking and Marketing Dilusha Gamage