

23/01/2014

MTI Survey on CEO Business Outlook for 2014 with CIMA

For the third consecutive year, MTI Consulting has carried out the CEO Business Outlook survey this time around in association with CIMA. The survey covered more than 150 CEO's and approximately 65% of the sample comprised of CEO's from CSE Top 100 listed companies. The rest of the sample represented mid-tier businesses based on a combination of revenue, economic representation/ influence based indicators. Furthermore the survey was supplemented by learning's from CSE Listed Company Performance Analysis (2013 Q1- 3), MTI CFO Survey 2013, MTI HRM Survey 2013, MTI Thought Leadership Research on Sri Lanka's Banking, Exports & Tea Domains and MTI's Consulting and Corporate Finance experience in 2013 – Sri Lanka and International.

1. 2013 Below Expectations – Continuing the sentiment of 2012

2013 was below expectation for majority (53%) of the respondents in regards to the business environment for their respective industries/domains. This continues the sentiment held in 2012 (54%) after the post-war highs of 2010-11. This is further supported by the 60% of S&P SL20 companies and 55% of the small to mid cap companies who witnessed YoY dip in their earnings during the first 9 months of 2013. However 39% of the respondents felt their businesses met their expectations for 2013 which is marginally better than in 2012. We believe, challenges posed by the macro environmental factors such as high interest rate regime, high energy and commodity prices, volatility in the exchange rate etc: would have severely hindered the bottom line of the companies.

“To maintain a healthy bottom line. Although we have maintained an Annual growth rate of over 10%, profitability has be an issue”

2. Buoyant outlook on global economy

The respondents double their confidence (60%) for the global economy to recover in 2014 which is a stark turnaround of sentiment given last year's gloomy outlook. Also 9% expect the global economy to take off while less than one-third (30%) expect it to remain depressed. This outlook is very much in line with the IMF forecasts for the recovery in the global growth at 3.7% in 2014 from 2.9% last year. And to a great extent, these sentiments are riding on the back of scaling down of stimulus measures by the US Fed which indicates the recovery of the world largest economy and the financial system gradually getting back on its feet thereby decreasing

uncertainty. Also the US which has been forecasted to grow at 2.8% for 2014 compared to 1.9% in 2013 will bring about much a required boost in export revenues for countries like Sri Lanka that are highly dependent on their exports to the North Atlantic region. However the Middle-East turmoil continues to be a concern as it was reflected in several of the comments of the respondents to their No.1 challenge to their business in 2014.

“USA and Europe growth in consumption”

3. Sri Lankan economic outlook for 2014 was geared up compared to last year

Country's economy is expected to stabilize in 2014 by 62% of respondents compared to 56% in 2013, whilst 20% indicated acceleration in the economy which is slightly higher than the last year's 17%. However, it must be noted that only 18% of the respondents expect the economy to decline in 2014 which is a sharp drop of 9ppt from 2013. Despite the economy being greatly challenged in 2013 due to unfavorable movements in local macro environmental factors and gloomy global growth, it is encouraging to see the improvement in confidence level among the business community over country's economic outlook which we believe would have partially attributed by desirable actions taken by the CBSL and the recovery signs of world economy.

4. Thrive in corporate confidence level for 2014

58% of respondents expressed their confidence over their business which is expected to see a higher growth in 2014 as opposed to 52% who were confident that the business will see a higher growth in 2013. This is also mirrored through an increase in confidence level over the Sri Lankan economic outlook for 2014. Meanwhile, the pessimism over the business outlook declined by 6 ppt to 4% in 2014 compared to 2013, whilst 38% (as last year) find that the present challenges in the business environment are likely to be continued in 2014. In spite of country failing to sustain the confidence level in 2013 that was witnessed immediately after post war era, ongoing developments in country's economic environment namely reduction in key monetary policies, relatively stabilized exchange rates coupled with the improvement in external trade are expected to thrust towards a conducive environment for businesses.

5. Corporates continue to be concerned about the economy & governance

Similar to the previous year, there is a clear expression of economic governance (46% - Government Policies and Economic & Political Stability combined) being the top economic challenge that CEO's felt need addressing due to its significant impact on their business performance. Under this category interest rates (cost of financing), exchange rates (depreciation of the rupee) , political stability (Geneva Intervention) and exports were some of

the key concerns voiced repeatedly. The expansion & completion of construction activity and the ambitious infrastructure developments were all applauded and considered in positive light.

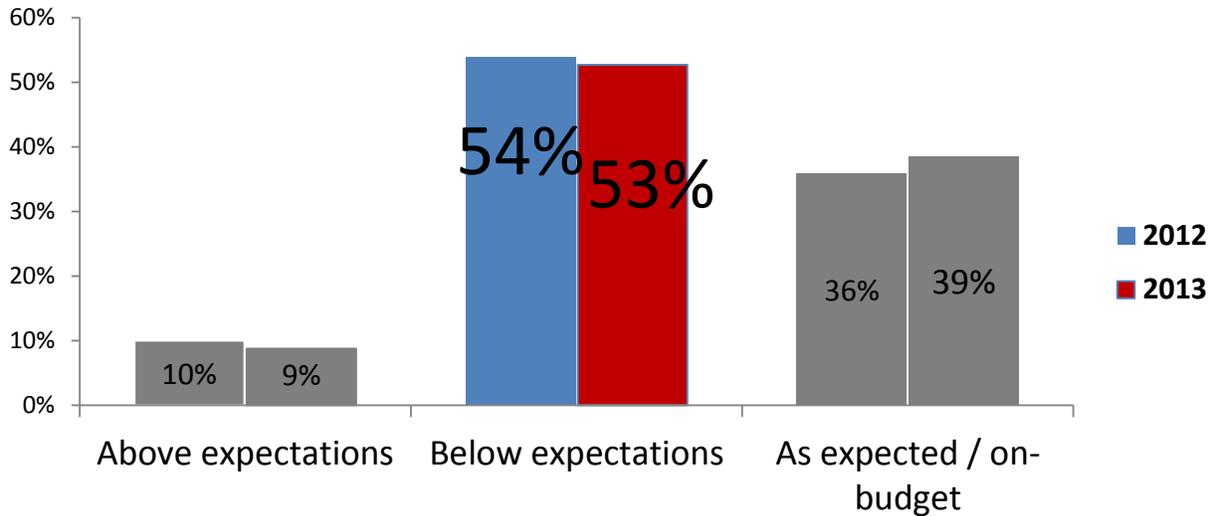
6. Government regulations and policies is the major challenge for business in 2014

Unlike our survey in 2013 which highlighted the major challenge for the business as cost and consumption level, CEO's largely (24%) expressed their concern over government regulation and policies in 2014 which is followed by sales growth, competition and consumer demand deterioration. It is noteworthy to mention that the interest rates, tax, duty & tariff structure, and stability of exchange rate were highlighted as the most worrisome factors under the government regulations and policies. However, as the continuation of 2013, shrinking consumer buying power is also expected to pose challenges to the business as it is reflected through indentifying sales growth and consumer demand deterioration as among the key challenges which collectively account for 29%. Surprisingly, cost which topped the challenges list in 2013 has been ranked as one of the least challenges in 2014. Perhaps, the expected reduction in market interest rates which may drive the companies towards new investments and relatively stabilized exchange rates could have been some of the underlying reasons behind it.

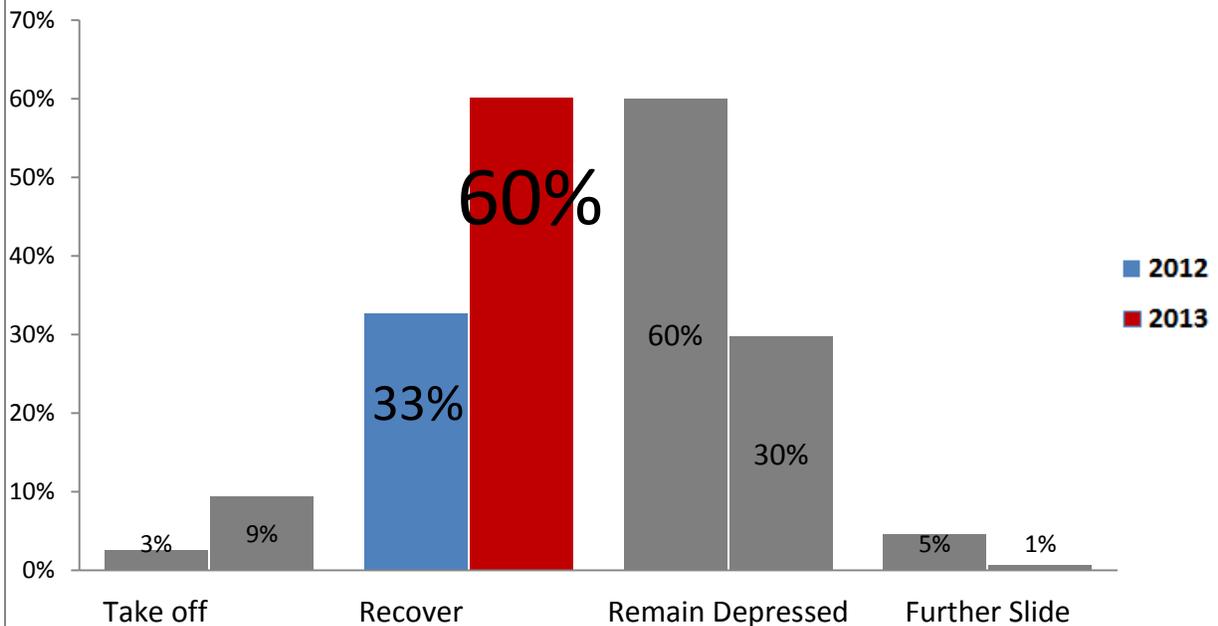
Key Takes

- 60% expect the global economy to recover
- 62% expect the Sri Lankan economy to stabilize – 18% expect it to decline
- No.1 challenge that concerns CEOs about the economy is Economic Governance: Interest Rates, Exchange Rate, Political Stability and Exports
- Tourism, Construction and Infrastructure seen as positives
- At an enterprise level, government regulations & policies and reduced consumption levels are the 2 major concerns
- Given all of the above, 58% expect their 2014 performance to be higher than their 2013 performance

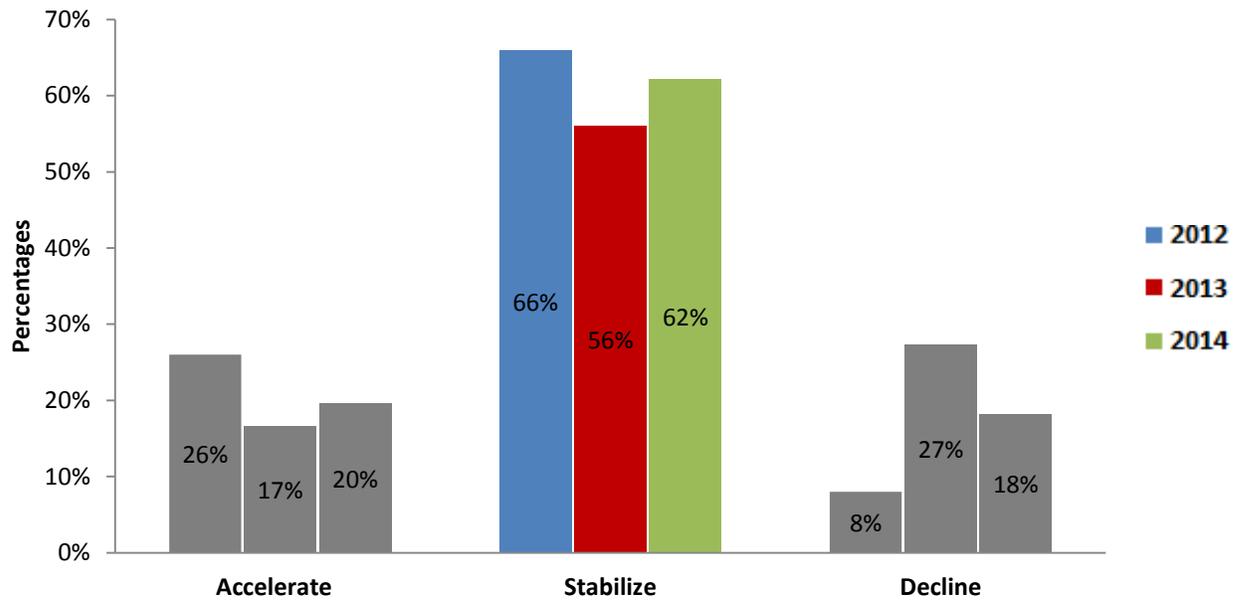
1. How would you describe the business environment in 2012 & 2013 - for the industries you operate in?



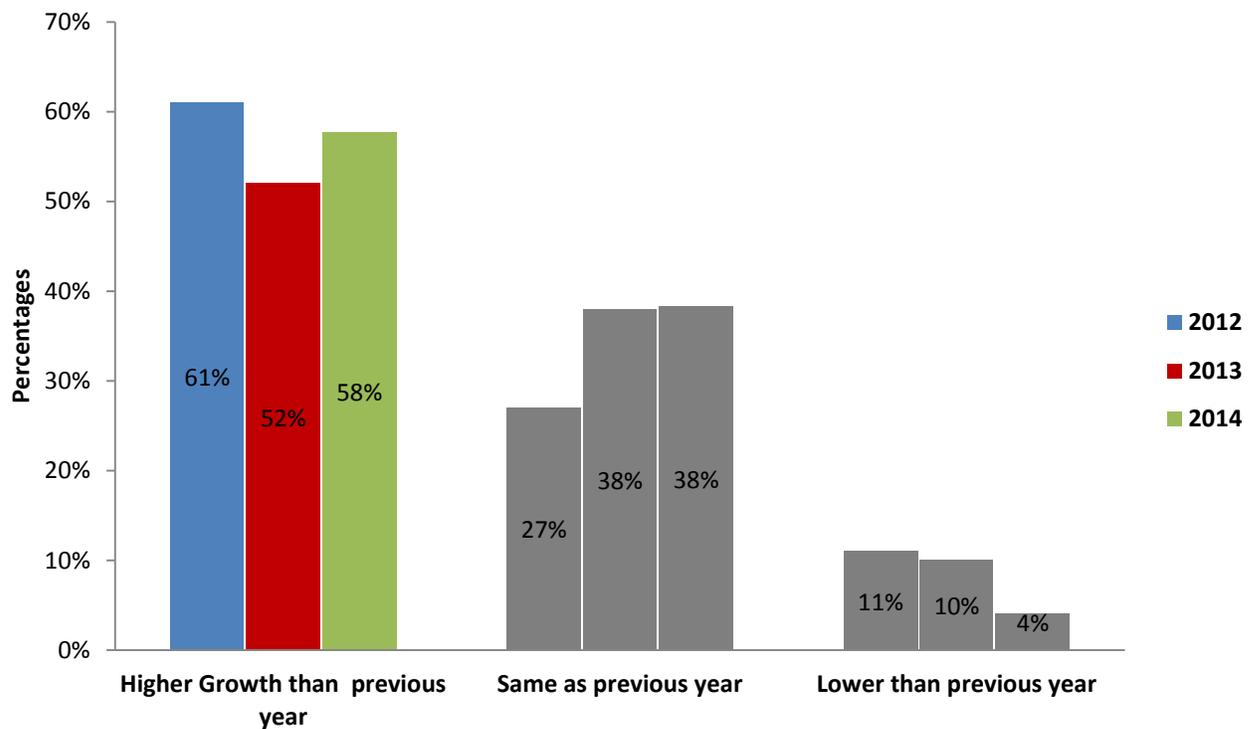
2. In 2013/2014, the global economy will:



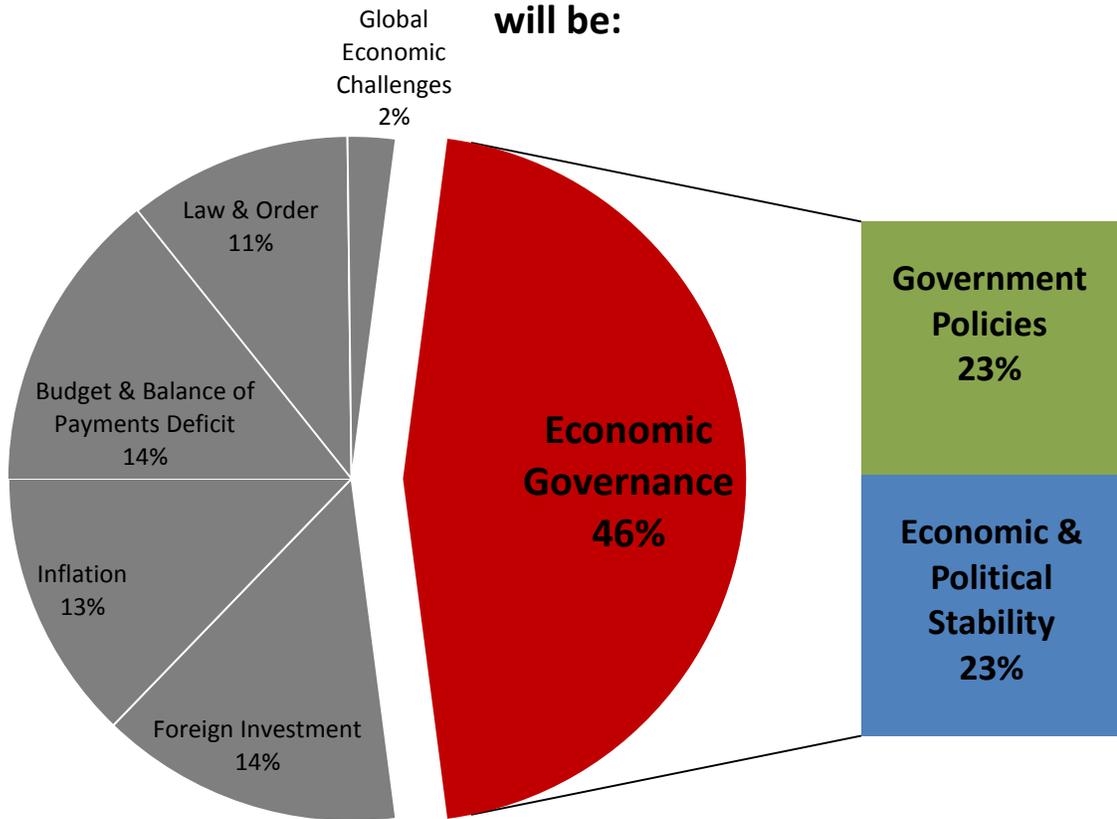
3. In 2012/2013/2014, the Sri Lankan Economy will:



4. In 2012/2013/2014, your Business will experience:



5. In 2014, the No. 1 challenge to the Sri Lankan economy will be:



6. In 2014 the No. 1 challenge to your business will be:

