Equity Market Highlights

First Half - 2026

Review Period: 2 January'26 – 30 June'26

Senfin Research
Source: CSE, CBSL, Refinitiv

Executive Summary

Sri Lankan equities consolidated during the first half of 2026 after a strong 2025, ending the period broadly flat to modestly lower. The benchmark All Share Price Index (ASPI) opened the year at 22,864.08 and closed the half at 22,263.28, a decline of 2.6%, while the more liquid S&P SL20 edged up 0.3% to 6,205.05. The half was defined by a strong start, a sharp first-quarter correction that bottomed on 19 March, and a partial recovery into mid-year.

Beneath the flat headline, total-return performance was positive as dividends cushioned price moves — the S&P SL20 Total Return Index rose 4.0%. Trading activity, however, cooled markedly through the half, and foreign investors remained persistent net sellers, offset entirely by domestic institutional and retail demand.

Key Indicators at a Glance

Indicator	Start (2 Jan)	End (30 Jun)	Change
ASPI	22,864.08	22,263.28	**– 2.6%**
S&P SL20	6,186.09	6,205.05	**+ 0.3%**
ASPI Total Return (ASTRI)	34,749.57	34,829.15	**+ 0.2%**
S&P SL20 Total Return	12,636.07	13,139.89	**+ 4.0%**
Market Cap (LKR Bn)	8,160.5	8,063.7	**– 1.2%**
PER (x)	10.85	11.72	+ 0.87x
PBV (x)	1.46	1.37	– 0.09x
Dividend Yield (%)	2.59	2.88	**+ 0.29 pp**

Highlights of the Half

- **Range-bound market:** the ASPI peaked at 23,992 on 28 January, fell to a half-year low of 20,264 on 19 March, then recovered to close at 22,263.
- **Thinner liquidity:** total turnover reached LKR 522.8 Bn, but monthly activity fell steadily from LKR 134.8 Bn in January to LKR 47.4 Bn in June.
- **Foreign outflows persisted:** net foreign selling of roughly LKR 34.1 Bn across all six months, absorbed by resilient domestic participation.
- **Dividends grew:** announced dividends totalled LKR 171.0 Bn, up 17.3% on the LKR 145.8 Bn declared in 1H 2025.
- **Sector dispersion was wide:** Telecommunication Services (+47.7%) and Commercial & Professional Services (+46.1%) led, while Consumer Services (–17.2%) and Food & Staples Retailing (–17.2%) lagged.

1 Market Performance

The first half opened with strong momentum carried over from 2025. The ASPI climbed to its half-year high of 23,992.11 on 28 January, supported by heavy turnover early in the year. Sentiment then reversed through February and March, and both indices bottomed together on 19 March — the ASPI at 20,264.01 and the S&P SL20 at 5,651.41. A steadier second quarter followed, with the market clawing back a large part of the drawdown to finish the half near where it began.

ASPI (left axis) and S&P SL20 (right axis) with daily value of turnover, 1H 2026.

Over the full half, the ASPI declined 2.6% while the S&P SL20 rose 0.3%. The divergence reflects relative resilience in the large-cap, index-heavy names within the S&P SL20 versus a broader softening across the wider market. Notably, the sharpest declines in daily turnover coincided with the post-January cooldown, signalling reduced conviction even as prices later stabilised.

2 Total Return Perspective

Price indices understate what shareholders actually earned, because they exclude dividends. On a total-return basis the picture is more constructive: the ASPI Total Return Index (ASTRI) ended the half marginally higher (+0.2%), and the S&P SL20 Total Return Index gained 4.0%, moving from 12,636.07 to 13,139.89. The gap between price and total return underscores the growing income contribution of Sri Lankan large caps during a flat market.

Index	Start	End	Change
ASPI (price)	22,864.08	22,263.28	**– 2.6%**
ASTRI (total return)	34,749.57	34,829.15	**+ 0.2%**
S&P SL20 (price)	6,186.09	6,205.05	**+ 0.3%**
S&P SL20 TRI (total return)	12,636.07	13,139.89	**+ 4.0%**

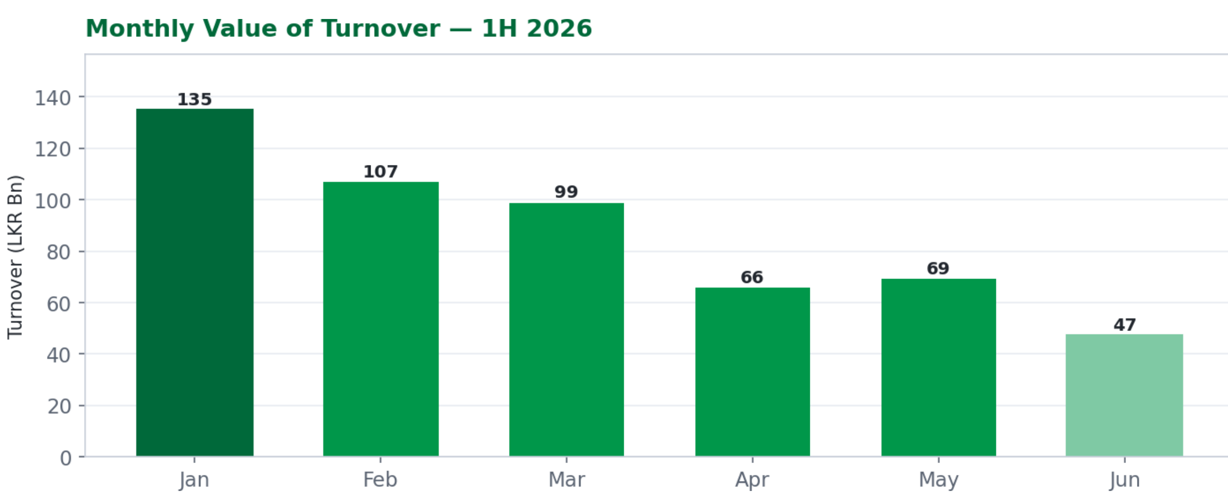
3 Market Capitalisation

Total market capitalisation eased from LKR 8,160.5 Bn at the start of the year to LKR 8,063.7 Bn by 30 June, a 1.2% contraction. Market cap tracked the index closely, dipping to its lowest levels alongside the March correction before recovering through the second quarter.

Total market capitalisation (LKR Bn), 1H 2026.

4 Liquidity & Turnover

Trading activity was the clearest soft spot of the half. Aggregate value of turnover reached LKR 522.8 Bn, but the trend was firmly downward: monthly turnover more than halved from LKR 134.8 Bn in January to LKR 47.4 Bn in June, with average daily turnover of about LKR 4.5 Bn for the period. The decline points to waning speculative interest after the buoyant start to the year.

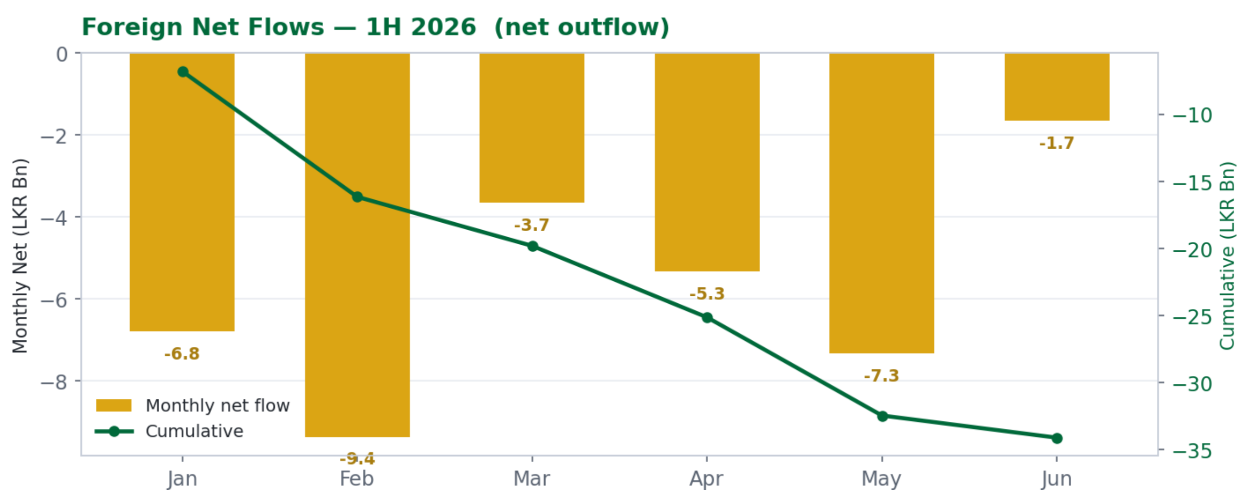


Monthly value of turnover (LKR Bn), 1H 2026.

Month	Turnover (LKR Bn)	Trading Days	Avg / Day (LKR Bn)
January	134.8	19	7.1
February	106.7	19	5.6
March	98.8	21	4.7
April	65.8	18	3.7
May	69.3	19	3.6
June	47.4	21	2.3
1H 2026	**522.8**	**117**	**4.5**

5 Foreign & Domestic Participation

Foreign investors were net sellers in every month of the half, resulting in a cumulative net outflow of approximately LKR 34.1 Bn. Selling was heaviest in February (–LKR 9.4 Bn) and lightest in June (–LKR 1.7 Bn). Crucially, this exodus was fully absorbed by domestic investors, who were net buyers throughout, providing the demand base that kept the market broadly stable despite the foreign selling and thinning turnover.

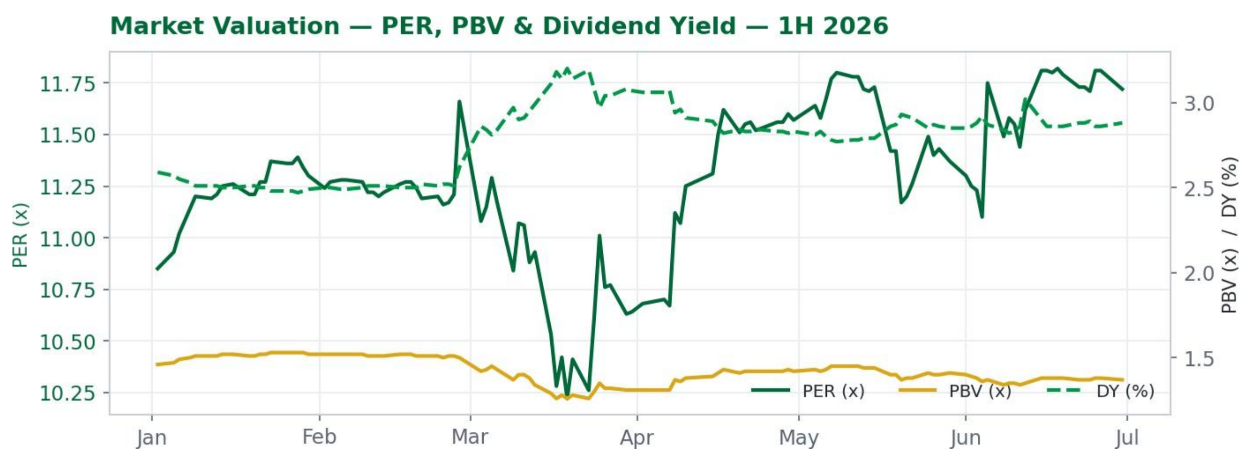


Monthly foreign net flows and cumulative net flow (LKR Bn), 1H 2026.

Month	Foreign Net (LKR Bn)	Domestic Net (LKR Bn)	Signal
January	– 6.8	+ 6.8	Outflow
February	– 9.4	+ 9.4	Outflow
March	– 3.7	+ 3.7	Outflow
April	– 5.3	+ 5.3	Outflow
May	– 7.3	+ 7.3	Outflow
June	– 1.7	+ 1.7	Outflow
1H 2026	**– 34.1**	**+ 34.1**	**Net outflow**

6 Market Valuation

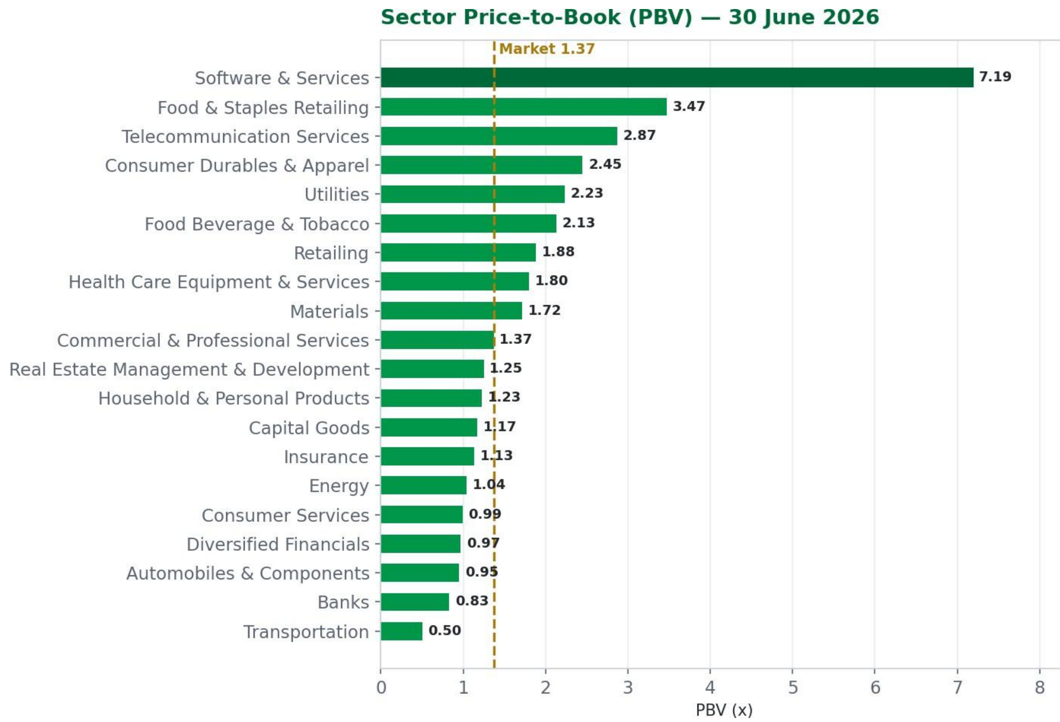
Market valuations remain undemanding by regional standards. The market PER expanded from 10.85x to 11.72x over the half as earnings normalised against broadly flat prices, while the PBV eased slightly from 1.46x to 1.37x. The dividend yield rose to 2.88% (from 2.59%), reflecting the strong dividend flow through the period.



Market PER, PBV and dividend yield, 1H 2026.

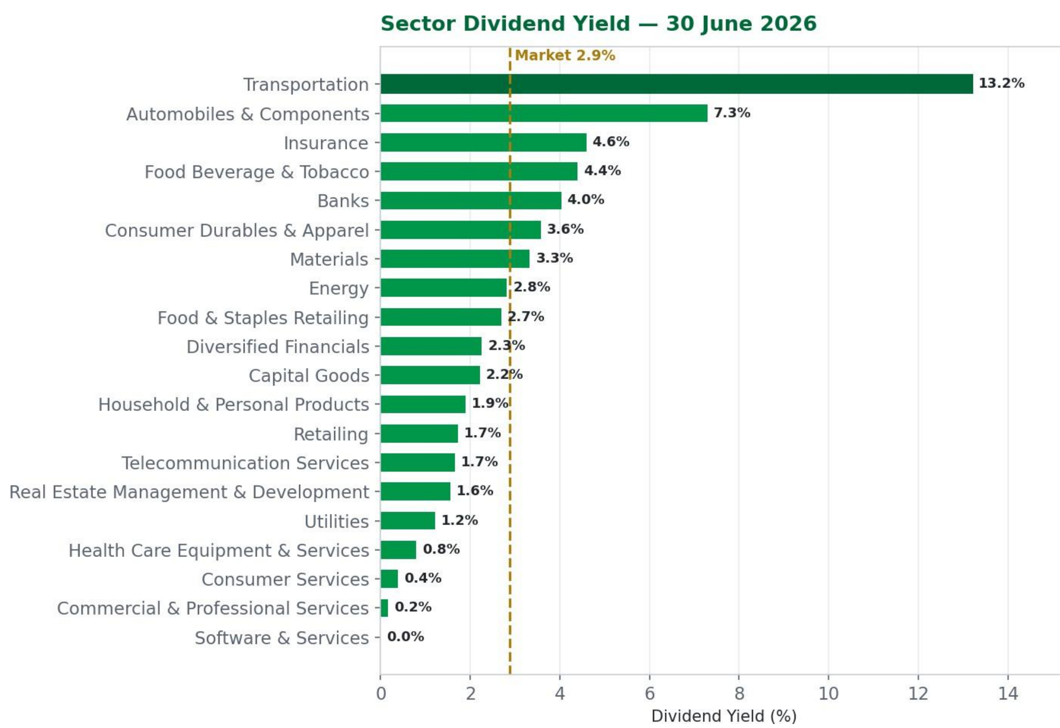
Sector Valuation Snapshot — 30 June 2026

Valuations vary widely across sectors. On a price-to-book basis, Software & Services (7.2x) and Food & Staples Retailing (3.5x) trade at the richest multiples, while Transportation (0.5x), Banks (0.8x) and Automobiles & Components (1.0x) sit at or below book value. The dashed line in each chart marks the corresponding market average.



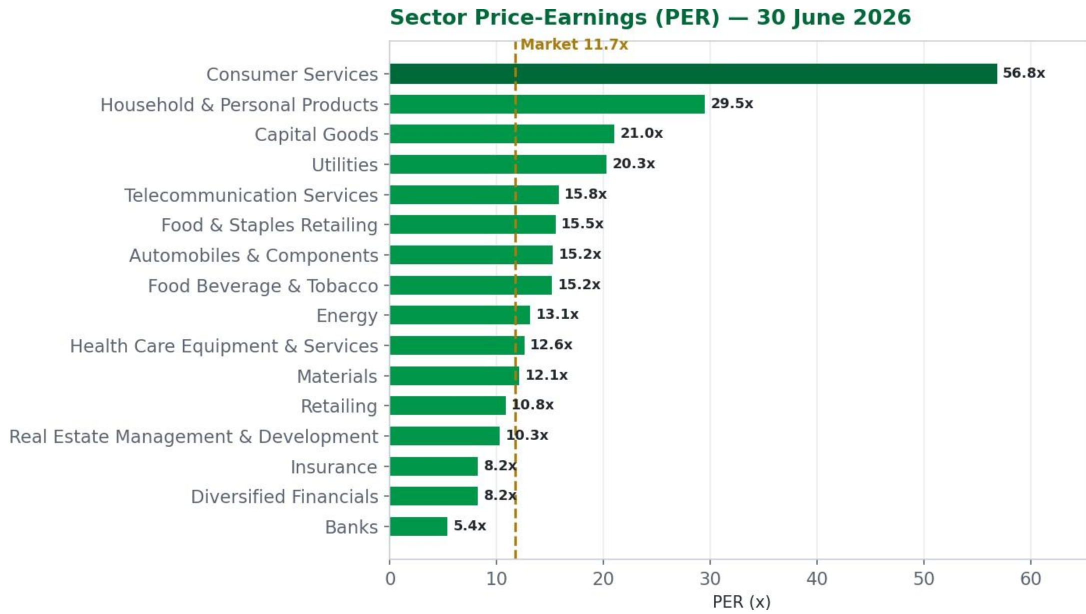
Sector price-to-book (PBV) at 30 June 2026, ranked; dashed line = market PBV (1.37x).

Income seekers were best served by Transportation (13.2%) and Automobiles & Components (7.3%), both well above the market yield of 2.9%, followed by Insurance (4.6%) and Food, Beverage & Tobacco (4.4%). Several growth-oriented sectors offered little or no yield.



Sector dividend yield at 30 June 2026, ranked; dashed line = market DY (2.88%).

On earnings multiples, Banks remained the cheapest large sector at just 5.4x, with Diversified Financials (8.2x) and Insurance (8.2x) also below the market's 11.7x. At the expensive end, Household & Personal Products (29.5x), Capital Goods (21.0x) and Utilities (20.3x) carried the highest multiples among profitable sectors.



Sector price-earnings (PER) at 30 June 2026, profitable sectors only; dashed line = market PER (11.72x). Loss-making sectors (Commercial & Professional Services, Transportation, Consumer Durables & Apparel, Software & Services) are excluded as their PER is not meaningful.

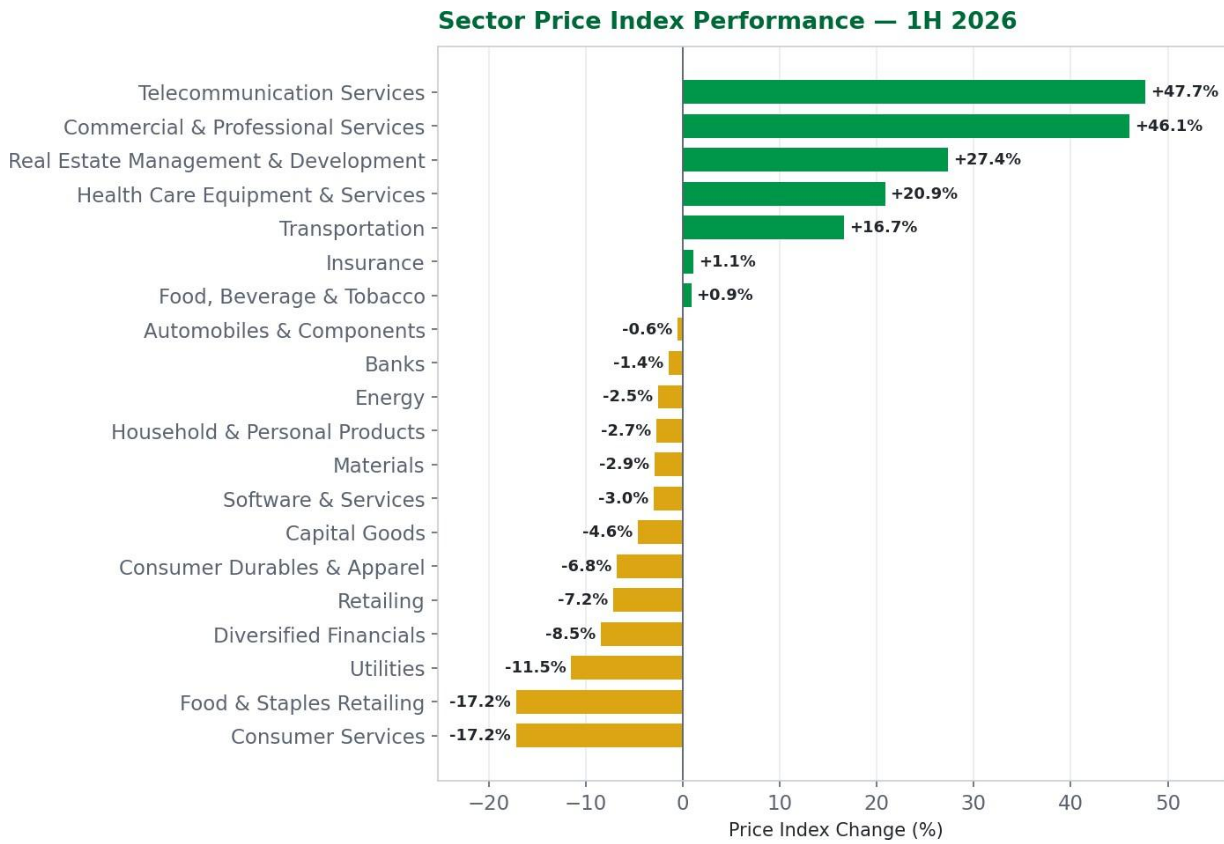
Sector Valuation Table — 30 June 2026

Sector	PER (x)	PBV (x)	DY (%)
All Share (Market)	**11.72**	**1.37**	**2.88**
Automobiles & Components	15.23	0.95	7.30
Banks	5.36	0.83	4.03
Capital Goods	21.02	1.17	2.21
Commercial & Professional Services	n.m.	1.37	0.17
Consumer Durables & Apparel	n.m.	2.45	3.58
Consumer Services	56.81	0.99	0.39
Diversified Financials	8.21	0.97	2.26
Energy	13.10	1.04	2.82
Food & Staples Retailing	15.50	3.47	2.69
Food, Beverage & Tobacco	15.19	2.13	4.40
Health Care Equipment & Services	12.58	1.80	0.79
Household & Personal Products	29.50	1.23	1.89
Insurance	8.23	1.13	4.59
Materials	12.09	1.72	3.33
Real Estate Management & Development	10.26	1.25	1.56
Retailing	10.82	1.88	1.72
Software & Services	n.m.	7.19	0.00
Telecommunication Services	15.79	2.87	1.66
Transportation	n.m.	0.50	13.21
Utilities	20.26	2.23	1.21

n.m. = not meaningful (sector reported negative aggregate earnings). Source: company data compiled from the Colombo Stock Exchange.

7 Sector Performance

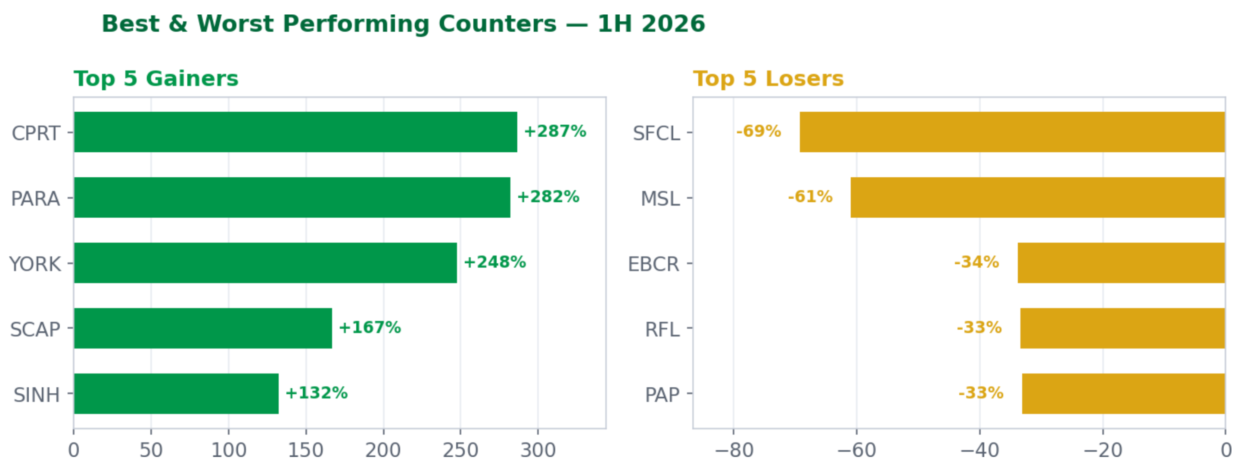
Sector returns diverged sharply. Telecommunication Services (+47.7%) and Commercial & Professional Services (+46.1%) were the standout performers, followed by Real Estate (+27.4%) and Health Care (+20.9%). At the other end, Consumer Services (–17.2%) and Food & Staples Retailing (–17.2%) were the weakest, with Utilities and Diversified Financials also notably lower. The heavyweight Banks sector was broadly flat (–1.5%).



Sector price-index change over 1H 2026, ranked.

8 Best & Worst Performing Counters

At the stock level, dispersion was extreme. CPRT more than tripled (+286.6%), closely followed by PARA (+282.0%) and YORK (+247.5%). On the downside, SFCL fell 69.3% and MSL lost 60.9%. The full best- and worst-performer lists are shown below.

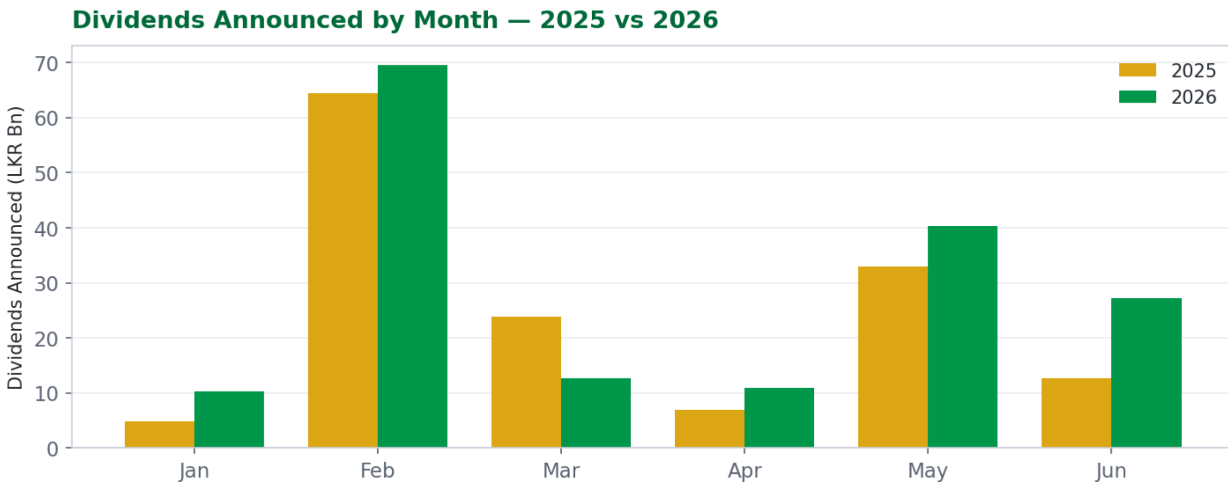


Five best and five worst performing counters, 1H 2026.

Top Gainers	Change	Top Losers	Change
CPRT	+ 286.6%	SFCL	– 69.3%
PARA	+ 282.0%	MSL	– 60.9%
YORK	+ 247.5%	EBCR	– 33.8%
SCAP	+ 166.7%	RFL	– 33.3%
SINH	+ 132.4%	PAP	– 33.1%

9 Corporate Actions & Dividends

Corporate activity was healthy. Announced dividends totaled LKR 171.0 Bn in 1H 2026, up 17.3% year-on-year from LKR 145.8 Bn in 1H 2025, with February the peak month in both years. Rights issues and scrip dividends were also active as listed companies raised and returned capital.



Dividends announced by month — 2025 vs 2026 (LKR Bn).

Rights Issues (XR during 1H 2026)

Company	Issue Price (LKR)	Proportion	XR Date
KZOO.N	7.00	2 for 1	04 Mar 2026
HAYL.N	200.00	3 for 50	18 Mar 2026
VFIN.N	72.00	1 for 8	27 Mar 2026
ATL.N	19.00	3 for 14	17 Apr 2026
MERC.N	33.00	1 for 18	22 Apr 2026
LVEF.N	7.50	3 for 31	22 Apr 2026
HNBF.N / .X	5.00 / 5.50	2 for 9	02 Jun 2026

Scrip Dividends (XD during 1H 2026)

Company	Proportion	XD Date
NTB (N), (X)	1 for 115.38	05 Mar 2026
DFCC	1 for 35.61	09 Mar 2026
NDB	1 for 80.42	27 Mar 2026
HNB (N), (X)	1 for 107.29	02 Apr 2026
COMB (N), (X)	1 for 108.24	02 Apr 2026
CIT	1 for 115.25	03 Jun 2026
CFI	1 for 103.00	03 Jun 2026

Summary & Outlook

The first half of 2026 was a period of consolidation rather than direction. After a vigorous start, the market recovered in the first quarter and spent the second quarter rebuilding, ending broadly flat on a price basis and modestly positive on a total-return basis. The two persistent themes — declining turnover and steady foreign outflows — bear watching, though the ability of domestic investors to fully absorb foreign selling is a sign of underlying market depth.

With valuations still undemanding (PER 11.7x, PBV 1.4x), a dividend yield near 2.9%, and healthy corporate distributions, the market retains a supportive fundamental backdrop entering the second half. A recovery in turnover and any stabilisation in foreign flows would be the key signals to watch for a firmer trend.

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