



Piramal Glass Ceylon PLC [GLAS.N0000]

BUY

May 2016

Current Price – LKR 6.0

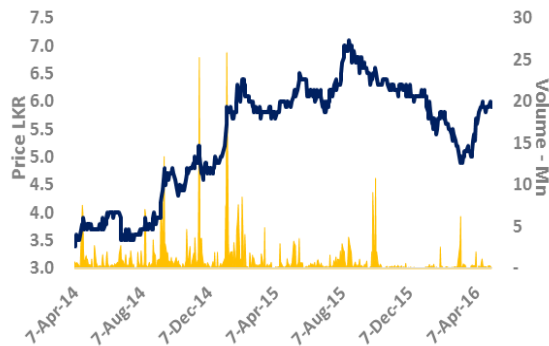
Fair Value – LKR 7.5

4QFY16 Earnings **↑ 21%QoQ**

KEY DATA

Share Price (LKR)	6.00		
52w High/Low (LKR)	3.4/7.1		
Average Daily Volume (Shares)	1,014,705		
Average Daily Turnover	5,334,051		
Issued Share Capital (Shares mn)			
Market Capitalisation (LKR mn)	5,701		
Price Performance (%)	1 mth	3 mths	12mths
GLAS	11.3%	1.7%	73.5%
ASPI	8.2%	2.8%	-8.5%
Major Shareholders as at 31st March 2016			
Piramal Glass Limited	56.5%		
Employees Provident Fund	9.5%		
CITI Bank New York S/A Norges Bank Account 2	2.7%		
CITI Bank NY S/A Forward International Divider	1.9%		
Mr G Dangampola & Mrs N P Dangampola	1.1%		
Public Holdings	43.5%		

Price-Volume Chart



Source: CSE

P/E 31 March	FY15	FY16	FY17E	FY18E	FY19E
Revenue (LKR mn)	5,792	6,755	5,938	8,880	10,272
Net Profit (LKR Mn)	439	654	421	961	1,188
Recurring Profit (LKR Mn)	439	654	421	961	1,188
EPS (LKR)	0.5	0.7	0.4	1.0	1.3
YoY % Growth	139%	49%	-36%	128%	24%
Valuations					
PER (X)	13.0	8.7	13.5	5.9	4.8
PBV (X)	1.6	1.4	1.3	1.2	1.1
Dividend Yield (%)	3.8%	5.8%	3.8%	8.6%	10.6%
NAVPS	3.8	4.3	4.5	5.0	5.6
DPS (LKR)	0.2	0.4	0.2	0.5	0.6
Payout Ratio	50%	51%	51%	51%	51%

	4QFY16	4QFY15	YoY	3QFY16	QoQ
Revenue	1,938	1,642	18% ↑	1,778	9% ↑
Gross Profi	457	409	12% ↑	397	15% ↑
EBIT	242	254	-5% ↓	250	-3% ↓
Net Profit	201	209	-4% ↓	166	21% ↑

	1QFY16	2QFY16	3QFY16	4QFY16
Revenue	1,523	1,516	1,778	1,938
Gross Profi	333	310	397	457
EBIT	206	181	250	242
Net Profit	147	141	166	201

	FY16	FY15	YoY
Revenue	6,755	5,792	17% ↑
Gross Profi	1,497	1,117	34% ↑
EBIT	879	635	38% ↑
Net Profit	654	439	49% ↑

Earnings Performance

Earnings down 4% YoY: GLAS 4QFY16 earnings saw a marginal decline of 4%YoY to LKR 201mn amidst acceleration in Distribution and Administrative costs while the full year FY16 earnings grew by 49%YoY to LKR 654mn opposed to LKR 439mn recorded in FY15.

GP Margin marginally decline YoY: GP Margin for 4QFY16 was recorded at 24%, down YoY from 25% in 4QFY15 while improving QoQ from 3QFY16 amidst lower energy prices led by decline in LPG prices to LKR 1,496.0 from LKR 1,596.0. FY16 overall GP Margin improved to 22% on the back of reduced energy prices (19% in FY15).

Revenue growth dominated by domestic sales: Topline improved by 18%YoY to LKR 1.9Bn during the quarter resultant to the increase in both domestic sales and exports. Amidst the increased food and beverage consumption during the festive season domestic sales grew by 23%YoY to LKR 5.4Bn against LKR 4.4Bn the previous year, contributing 80% of the total revenue while revenue from exports declined by 4%YoY during the 4QFY16.

EBIT margins suffer YoY & QoQ: EBIT margins for 4QFY16 registered 12.5% in 4QFY16 illustrating a significant dip compared to 15.5% in 4QFY15 and 14.0% in 3QFY15. Distribution and Administration expenses together grew by 38%YoY recording at LKR 216mn in 4QFY16 against LKR 156mn in previous comparative quarter being the primary concern for GLAS. For FY16 it was recorded at LKR 623mn, a growth 27% YoY (LKR 489mn in FY15). EBIT dipped to LKR 242mn during 4QFY16 (-5%YoY and -3%QoQ) while for the FY16 EBIT stood at LKR 879mn as opposed to LKR 635mn in FY15 recording an improvement of 38%YoY.

NP Margin at 10%: Despite the decline in NP Margins which stood at 10% during 4QFY16 (12.7% 4QFY15), FY16 recorded an improvement in NP Margins recording at 10% opposed to 8% in FY15.



Future Outlook

Capacity Expansion in FY17: As indicated by the company, we expect GLAS to go through a capacity expansion increasing its current capacity of 250MT per day to 300MT per day during the August-September period affecting production in the 2QFY17 possibly flowing through to 3QFY17 as well. However, GLAS did lease out a large 6 acre land adjoining to its factory in Horana during FY16 in order to increase its storage capacity.

FY17E Earnings to dip on the back of expansion: FY17E earnings likely to dip to LKR 421mn. With the production disruption during the 2QFY17 & possibly in 3QFY17 as well, we expect a possible temporary slowdown in GLAS sales during the period. Further, subsequent to GLAS re-starting production with increased capacity, we expect a temporary dip in margins until GLAS grows back to its full capacity in production which is required to maximize margins.

GLAS return to be at 28%: FC Research expect a decline in GLAS' earning to record at LKR 421mn in line with the c.15%YoY drop in the topline resultant to the capacity expansion process scheduled to undertake during the 2QFY17 which would lead to halting the operations for a period of two months. We also expect a possible shrink in GP margins to c.22% in FY17E from 22% in FY16. We expect a fair value of LKR 7.5 [LKR 11.4 DCF based and LKR 3.5 PER based] providing a total return of +28% (capital gain of +25%) at current market price of LKR 6.0. **BUY**

Income Statement

Profit & Loss Statement					
P/E 31 March	FY15	FY16	FY17E	FY18E	FY19E
Revenue	5,792	6,755	5,938	8,880	10,272
Cost of Sales	(4,675)	(5,258)	(4,626)	(6,762)	(7,789)
Gross Profit	1,117	1,497	1,311	2,118	2,483
Other Operating Income	7	5	9	13	15
Profit on Disposal of Investment Property	-	-	-	-	-
Distribution Costs	(107)	(218)	(227)	(272)	(327)
Administrative Expenses	(382)	(405)	(421)	(484)	(556)
PBIT	635	879	673	1,375	1,615
Finance Cost	(126)	(74)	(133)	(143)	(92)
Profit/(Loss) Before Tax	509	805	540	1,232	1,523
Taxation	(69)	(150)	(119)	(271)	(335)
Net Profit	439	654	421	961	1,188

Source: Company Annual Reports and FC Research Estimates

Disclaimer on Shareholding:

First Capital Equities (Pvt) Ltd and any of its affiliates do not hold shares in GLAS and will not trade in this share for the seven trading days following the issue of this document.

Balance Sheet

Balance Sheet					
P/E 31 March	FY15	FY16	FY17E	FY18E	FY19E
Assets					
Non - Current Assets					
Property, Plant and Equipment	3,561	3,692	6,112	5,628	5,131
Other Assets	34	33	32	31	29
	3,595	3,725	6,144	5,659	5,161
Current Assets					
Inventories	1,433	1,444	1,484	1,954	2,157
Trade and Other Receivables	1,260	1,319	1,306	1,820	2,003
Other Current Assets	49	6	47	47	47
Cash and Bank Balances	128	161	157	217	272
	2,871	2,931	2,995	4,038	4,480
Total Assets	6,466	6,656	9,139	9,697	9,640
Equity and Liabilities					
Capital and Reserves					
Stated Capital	1,526	1,526	1,526	1,526	1,526
Other Reserves	135	131	131	131	131
Retained Earnings	1,965	2,410	2,618	3,090	3,674
Total Equity	3,626	4,067	4,275	4,747	5,332
Non - Current Liabilities					
Interest Bearing Loans and Borrowings	176	472	1,795	1,568	1,066
Other Non Current Liabilities	242	270	301	314	327
	418	742	2,097	1,881	1,394
Current Liabilities					
Trade and Other Payables	870	1,355	1,203	1,690	1,947
Other Current Liabilities	32	96	96	96	96
Interest Bearing Loans and Borrowings	1,520	396	1,469	1,283	872
	2,422	1,847	2,767	3,069	2,915
Total Equity and Liabilities	6,466	6,656	9,139	9,697	9,640

Source: Company Annual Reports and FC Research Estimates



Valuation

Expected GLAS price for FY17E	
DCF Valuation based target price	11.4
PER based target price	3.5
Average Target Price	7.5

Return	
Target Price	7.5
Current Price	6.0
Capital Gain (LKR)	1.5
Dividend FY17 (LKR)	0.2
Capital Gain %	25%
Dividend Yield %	4%
Total Return %	28%

Discounted Cash flow Valuation

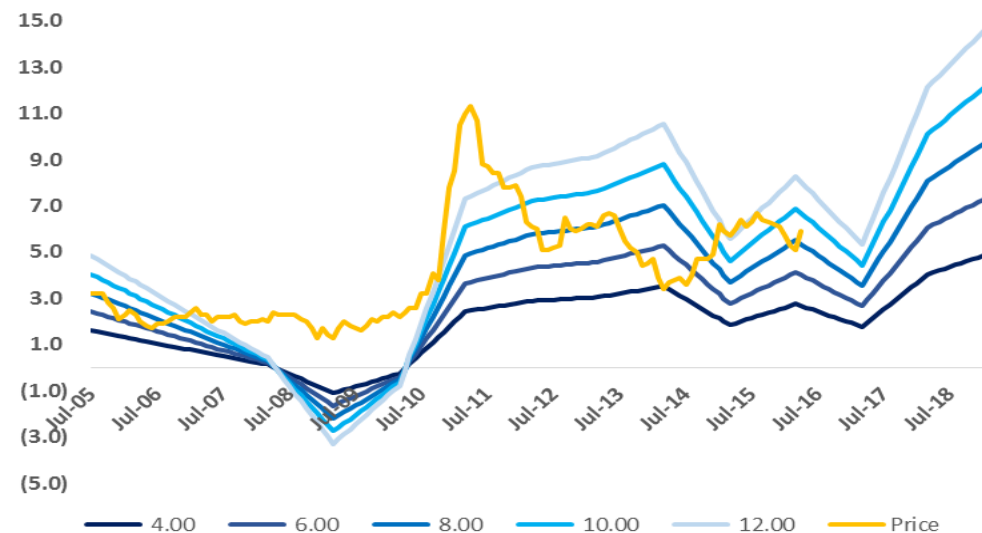
COE (K_e)	
R_f	10%
R_m	17%
β	1.10
$K_e = R_f + \beta (R_m - R_f)$	18%

WACC	
K_e	18%
K_d	9%
D/E Assumption	40 / 60
Terminal Growth (%)	0%
WACC	15%

Valuations	
NPV	13,938
Debt (-)	-3,264
Cash (+)	157
Total Value of Equity	10,830
No. of Shares	950
Value of Equity per Share	11.4

		WACC				
		13%	14%	15%	16%	17%
Terminal Growth (%)	1%	11.4	10.2	9.3	8.2	7.4
	2%	12.7	11.3	10.3	9.0	8.1
	3%	14.3	12.6	11.4	9.9	8.9
	4%	16.2	14.1	12.7	11.0	9.8
	5%	18.5	16.0	14.3	12.3	10.9

PE Band Graph



Source: CSE and FC Research

PER based Valuation	
FY17E Earnings (LKR 'Mn)	421
No. of Shares ('Mn)	950
FY17E EPS	0.44
Expected PER	8.0x
Price at 8.0x FY17E Earnings	3.5

Recommendation Criteria

Catagorisator	Company Category	Strong Buy	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 10% & Above	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 13% & Above	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 16% & Above	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

*1 Year T Bill rate as of 11-05-2016 - 10.37%