FC Research

First Capital

Analyst: Research Team

SRI LANKA

Initiating Coverage

HAYLEYS PLC (HAYL.N0000) — STRONG BUY

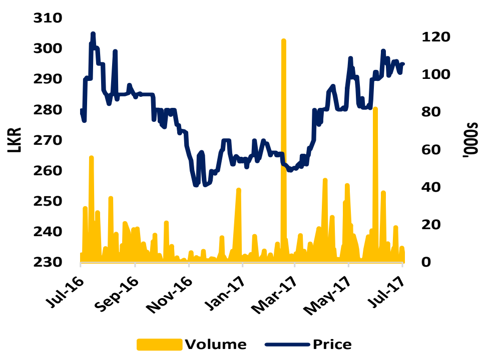
HAYL.N0000 | **Current Price: 295.0** | **Fair Value: LKR 470.0** | **Jul 2017**

KEY DATA			
Share Price (LKR)			295.0
52w High/Low (LKR)			305/255
Average Daily Volume (Shares)			6,376
Average Daily Turnover (LKR)			1,798,164
Issued Share Capital (Shares Mn)			75
Market Capitalisation (LKR mn)			22,125
Price Performance (%)	1 mth	3 mths	12mths
HAYL	1%	5%	6%
ASPI	-1%	2%	4%
Major Shareholders as at 31st Mar 2017			
Mr.K.D.D.Perera SBL			43.0%
Mr.K.D.D.Perera			4.5%
Trustees of the D.S.Jayasundera Trust			11.6%
Employees Provident Fund			5.0%
Vallibel One PLC			2.9%
Estimated Free Float			37.6%

Discount for liquidity:

The fair value of HAYL has been adjusted 5% downwards to reflect the lower trading volumes of the share compared to the average trading volume of the market.

Figure 1: HAYL Price Volume Graph



Source: CSE

Disclosure on Shareholding:

First Capital Group and its affiliates do not hold shares in HAYL. Neither First Capital Group nor its affiliates have traded in the shares in the three trading days prior to this document, and will not trade in the shares for three trading days following the issue of this document.

ANALYST CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 19

"Watch out for that growth spurt"

P/E 31 March	*FY16*	*FY17*	*FY18E*	*FY19E*	*FY20E*
Revenue (LKR Mn)	92,275	111,383	131,709	146,693	160,523
YoY % Growth	*0%*	*21%*	*18%*	*11%*	*9%*
Net Profit (LKR Mn)[1]	**3,118**	**2,784**	**3,518**	**4,168**	**4,639**
EPS	**41.6**	**37.1**	46.9	55.6	61.8
YoY % Growth	*21%*	*-11%*	*26%*	*18%*	*11%*
Valuations					
PER (x)	**7.1**	**7.9**	**6.3**	**5.3**	**4.8**
PBV (x)	**0.7**	**0.5**	**0.5**	**0.5**	**0.4**
Dividend yield (%)	**2.2%**	**2.5%**	**3.2%**	**3.9%**	**4.6%**
NAVPS	415	545	582	626	675
DPS	6.5	7.5	9.5	11.5	13.5
Payout ratio	16%	20%	20%	21%	22%

1. Attributable to equity holders

HAYL, Sri Lanka's most diversified conglomerate, is expected to grow at an impressive CAGR of c.19% in earnings during the period FY18E-FY20E, to reach LKR 4.2Bn in FY19E. The company is expected to grow its earnings mainly through its Transportation and Logistics, Agriculture and Construction Material Segments. FC Research expects HAYL to provide a total return of 63% at LKR 470.0. STRONG BUY

Transportation and Logistics segment boosted by both organic growth and inorganic growth: High CAPEX along with improved macroeconomic conditions for the freight management and shipping industry to improve performance. Revenue is expected to grow at a CAGR of *c.*23% while EBIT is forecasted to grow at a CAGR of *c.*25% from FY18E-20E.

Agriculture to grow through innovation and strengthening of backward integration: Through investments in Research and Developments and in strengthening backward integration, the agricultural segment is expected to continue in its growth path. FC Research expects revenue and EBIT to grow at CAGR *c.*17% and *c.*24% respectively for the period FY18E-20E.

Sustained growth in the construction sector combined with capacity expansions to drive growth in the construction materials segment: Capacity expansions being utilized from second half of FY18E was well timed to capture growth opportunities arising from growth in Sri Lanka's construction sector. Revenue and EBIT is expected to grow at a CAGR of *c.*19% and *c.*20% respectively for FY18E-20E.

Investment Risk: Operating in range of diverse sectors, HAYL is exposed to credit, liquidity, interest rate, foreign currency and commodity risks.

HAYL to provide a total return of 63%: FC Research expects HAYL to achieve a fair value of LKR 470.0 providing a total return of 63% (Capital Gains 59%, Dividend yield 3%) over a 20-month period [SOTP based valuation LKR 490.0 and illiquidity discount of 5%].

1.0 Introduction

1.1 Introduction to HAYL

Highly diversified conglomerate with global reach: HAYL is Sri Lanka's most diversified conglomerate with value creation across 12 main segments in Eco Solutions, Hand Protection, Purification, Textiles, Construction Material, Plantations, Agriculture, Consumer Products, Leisure, Industry Inputs, Power and Energy and Transportation and Logistics. The company is highly export oriented, generating 54% of its revenue from exports and contributing to 3.53% of Sri Lanka's total export earnings through operations in five regions around the world. These segments include 83 group companies as at 31st Mar 2017, of which 11 are listed on the Colombo Stock Exchange.

Transportation and Logistics biggest contributor to Profit Before Tax (PBT) followed by Purification Products, Agriculture, Construction Materials and Eco Solutions: Transportation and Logistics segmental PBT was at LKR 1.8Bn, representing 18% of the total PBT and remains the biggest contributor in FY17. Purification Products segment contributed to 12% of total PBT, while agriculture and construction materials contributed 10% each. In terms of total group revenue contribution, Transportation and Logistics (21%) remains the top contributor, followed by Hand Protection (13%), Purification Products (12%) and Agriculture (12%).

Figure 2: FY17 Segmental Revenue Mix

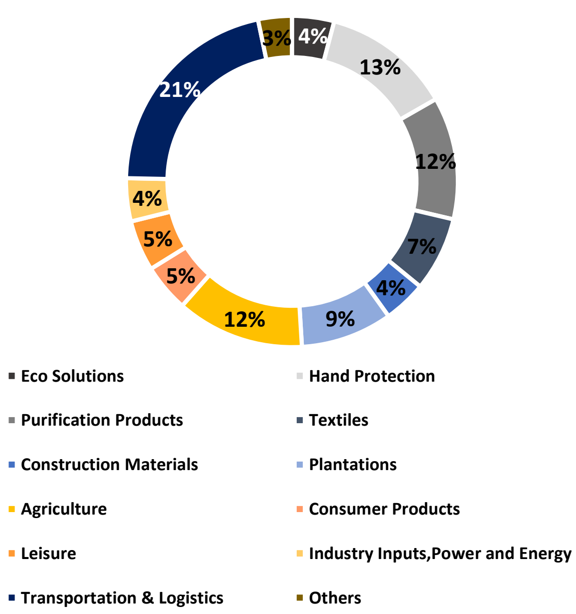
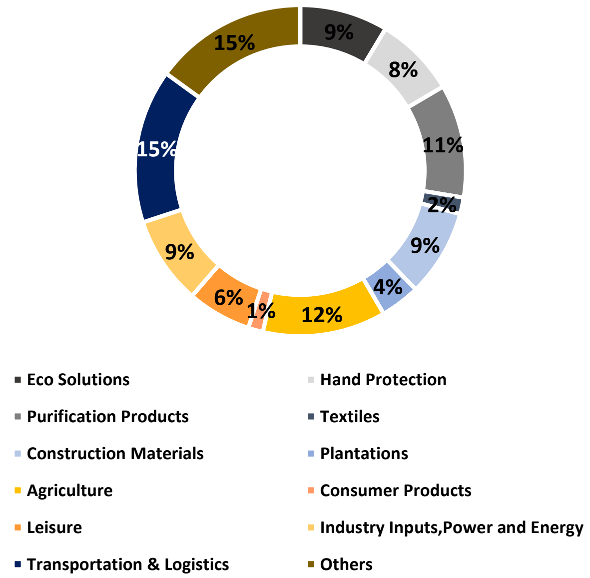
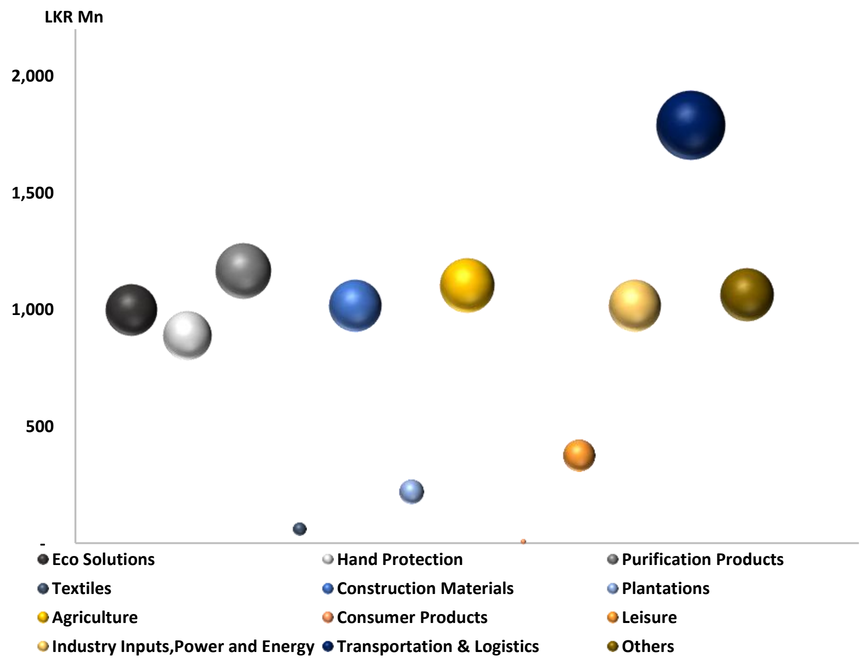


Figure 3: FY17 Segmental Operating Profit Mix



Source: Company Annual Report

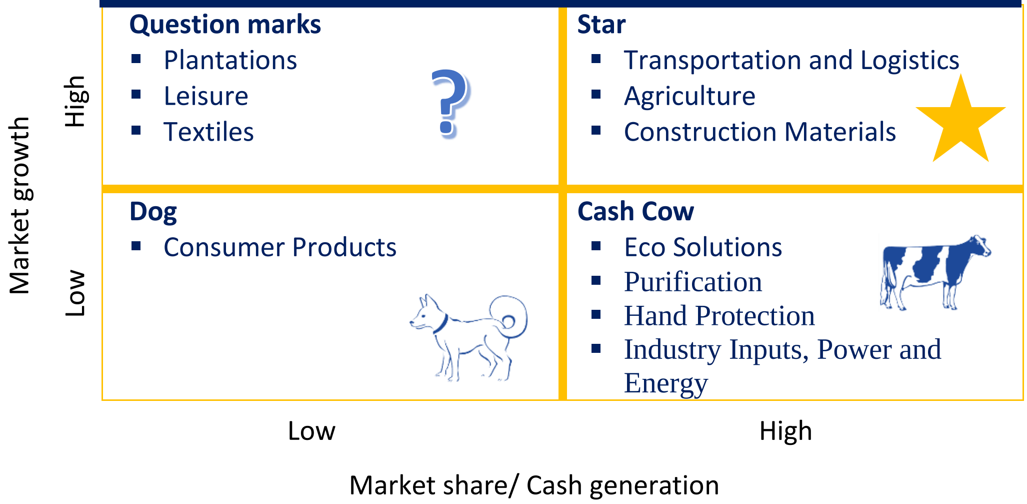
Figure 4: FY17 Segmental PBT Mix



Source: Company Annual Report

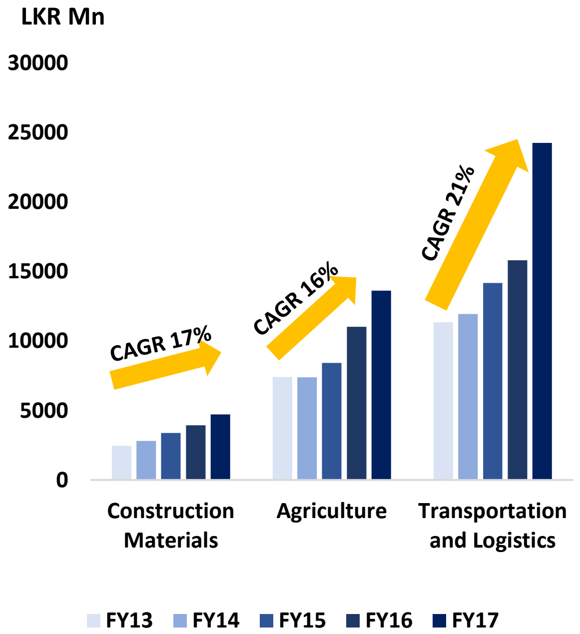
1.2 Boston Consulting Group (BCG) Matrix for HAYL

Figure 5: BCG Matrix



Source: FC Research

Figure 6: Segmental Revenue FY13-17



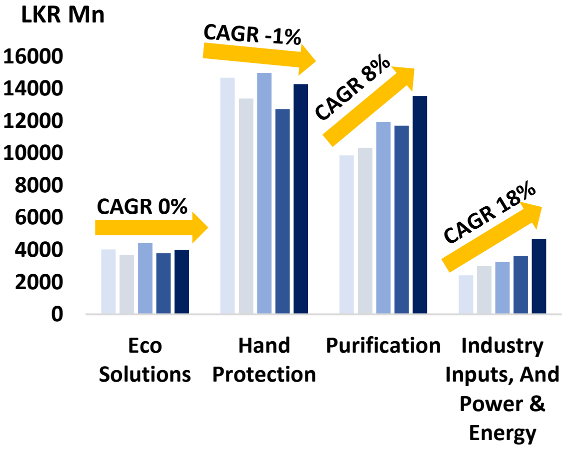
Source: Company Annual Report

Transportation and Logistics with high revenue growth rates and CAPEX is classified as a Star: Despite industry challenges, Transportation and Logistics recorded an impressive top line growth of 53% YoY to reach revenue of LKR 24.2Bn in FY17. The growth was backed by both the organic growth of existing business lines and the inorganic growth from heavy Capital Expenditures (CAPEX) focused on expansion. The combination of high top line growth and CAPEX, has led to high cash inflows from operating activities and high cash outflows from investing activities, which consequently leads to a net cash outflow from this segment in FY17. The combination of high revenue growth with high investments makes this segment a star.

High revenue growth rates in Agriculture expected to continue with increased CAPEX forecasted for this segment making this segment a star: High revenue and CAPEX for Agriculture results in this segment being classified as a star. Agriculture recorded a 23% growth in revenue in FY17. The company is expected to strengthen backward integration in its supply chain with overseas expansions. Therefore higher CAPEX is expected for this segment in upcoming years.

Favorable industry factors along with capacity expansions from FY17 to boost growth in Construction segment, making this segment also a star: Construction Materials, which is a relatively new segment with the acquisition of Alumex PLC, has posted high growth of 19% and 27% in both its top-line and bottom line (PBT) respectively. This segment has already captured a market share of 51% in Sri Lanka's aluminum extrusion market. But there is still opportunity for further expansion, and it is expected that the company would utilize these opportunities, resulting in this segment also being classified as a star.

Figure 7: Segmental Revenue FY13-17

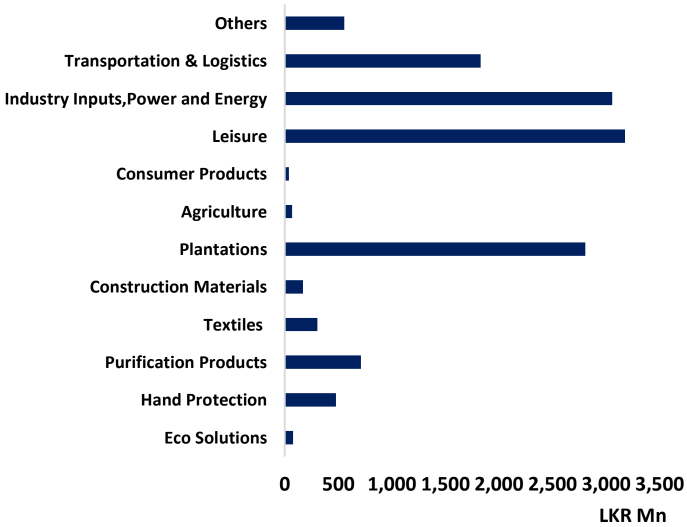


Source: Company Annual Report

Purification, Hand Protection, Eco-Solutions and Industry Inputs and Power and Energy are Cash Cows: The Company's Purification segment is the World's largest manufacturer of coconut-shell based activated carbon while the Hand Protection segment has a 5% global market share in non-medical rubber gloves. Both posted strong results in FY17 but relatively less CAPEX is anticipated for these segments. Thus high net cash inflows are expected from these two segments, making them cash cows. Similarly, Eco-solutions are also classified as a cash cow with its stable revenue growth of 6% and a net cash inflow in FY17. This stable growth in revenues and cash inflows is expected to continue. The Industry Inputs and Power and Energy segment has grown significantly with revenue increasing by 28% to LKR 4.7Bn coupled with a high CAPEX of LKR 3.0Bn. However expansion in this segment is hampered due to regulatory requirements such as the lack of permits to operate solar power plants. This barrier in expansion has led to this segment being classified as a cash cow with stable operating cash inflows and lower investment cash outflows.

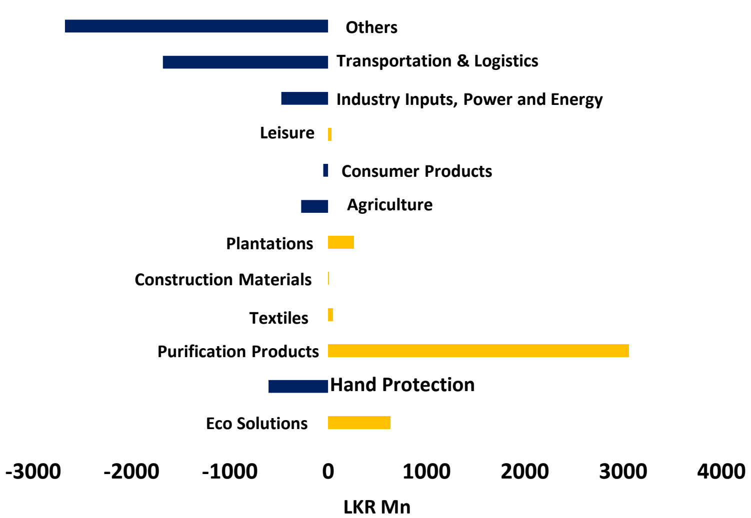
Plantations, Leisure and Textiles are Question Marks while Consumer Products is a Dog: Due to the high level of fluctuation in terms of performance the Plantations segment has been classified as a question mark. The segment made a strong come back in the 4QFY17 on the back of higher tea prices. However results for the first half of FY17 were weak. Nevertheless revenue grew to LKR 10.0Bn in FY 17, up 10% while PBT more than tripled to reach LKR 221Mn. Leisure segment saw an increase of revenues by 25% to LKR 5.6Bn but PBT saw a significant decline of 45% to LKR 376Mn. Whether the segment could be strengthened and developed into a star is yet to be seen, and is thus classified as a question mark. Textiles saw a decline in performance in FY17 but may show a turn around with renewal of GSP+ and is therefore classified as a question mark. Consumer Products saw a dip in both revenues and PBT in FY 17. The contribution to the company's total earnings and cash flows is also marginal. Thus it is classified as dogs.

Figure 8: Segmental CAPEX FY17



Source: Company Annual Report

Figure 9: Segmental Net Cash Inflow/Outflow FY17



Source: Company Annual Report

Figure 10: ASPI Vs HAYL Price Performance

Source: CSE

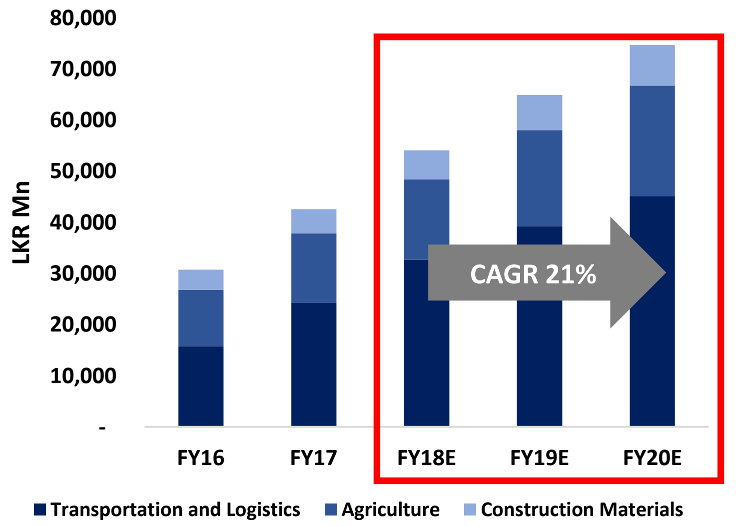
1.3 Share Price Performance

Share price movement in line with ASPI: HAYL's share price has moved in line with ASPI. The price has recently increased along with the ASPI and is slowly picking up.

2.0 Rapid growth in Transportation and Logistics, Agriculture and Construction Materials Segments

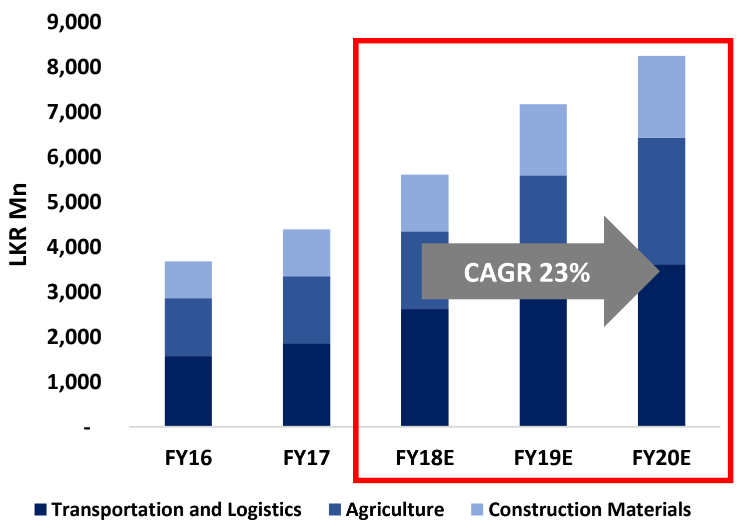
Revenue to grow at a CAGR of *c.*23%, *c.*17% and *c.*19% for Transportation and Logistics, Agriculture and Construction Materials respectively from FY18E-20E. Moreover, EBIT is also expected to increase at a CAGR of *c.*25%, *c.*24% and *c.*20% for Transportation and Logistics, Agriculture and Construction Materials respectively for the same period.

Figure 11: Segmental Revenue FY16-FY20E



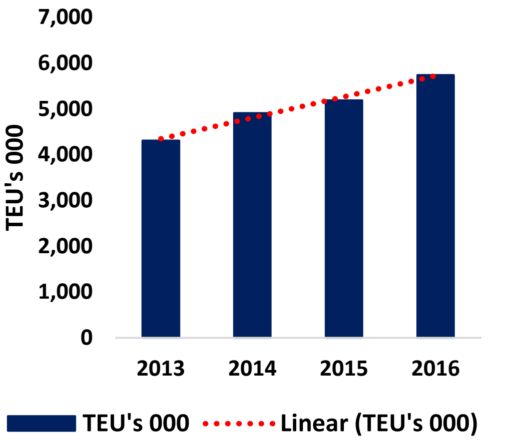
Source: Company Annual Report and FC Research Estimates

Figure 12: Segmental EBIT FY16-FY20E



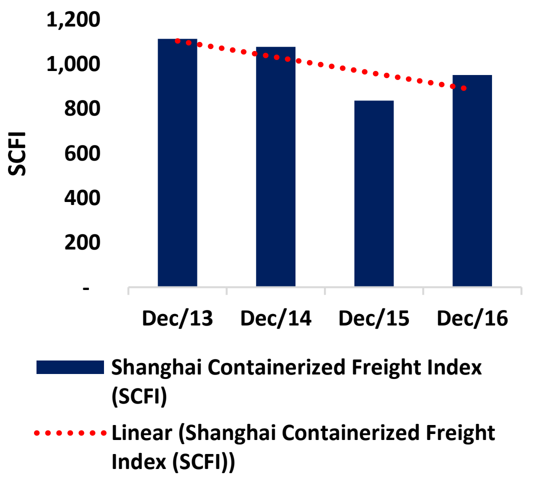
Source: Company Annual Report and FC Research Estimates

Figure 13: Colombo Port Container Throughput



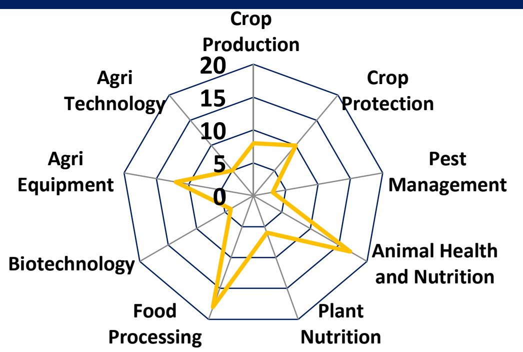
Source: Sri Lanka Ports Authority (SLPA)

Figure 14: Freight Rate Movement based on Shanghai Containerized Freight (SCFI) Index



Source: Shanghai Shipping Exchange (SSE)

Figure 15: Products in the Pipeline for Agriculture



Source: Company Annual Report

2.1 Transportation and Logistics to remain the key catalyst for growth

High CAPEX with expansion into existing and new markets: In line with expansion expectations, FC Research expects high CAPEX of LKR 3.5Bn to be spent over FY18E-20E. The company plans on regional expansion focusing on the East Asian region. HAYL also expanded the range of services offered in Maldives by adding two new landing crafts to their subsidiary Total Transport Solutions Maldives (Pvt) Limited. The state of the art facility constructed in the free zone in Katunayaka is being utilized for facilitating entrepot trade and will be contributing to company profitability in FY18E and beyond. Additionally, the license for TNT express was secured in FY17, which along with the existing license for FEDEX Sri Lanka, would increase market presence and improve performance.

Gradual recovery in freight management and shipping industry along with improved container throughput at the Colombo port to improve organic growth: Freight rates that dipped in 2015 have improved in 2016 and is expected to stabilize in 2017 and remain stable in the medium term. Furthermore the Colombo port shows a healthy performance, with total container handling increasing by 10.6% to 5.7Mn TEUs. These increased volumes are important to HAYL which handled 18% of the container throughput at the Colombo port in FY17. In addition to this, if the planned government infrastructure projects at the Colombo port materialize, this would enhance growth in this segment. In addition to this further consolidation in the bunkering industry is expected to contribute positively to the bottom line growth.

2.2 Strengthening of backward integration and innovation to drive growth in Agricultural segment

Expanding farming overseas with processing and packaging done in Sri Lanka: Higher CAPEX and growth is forecasted for this segment in line with expansion expectations. HAYL has already expanded its international operation in Bangladesh. Farming in Bangladesh has higher productivity and expansion into such markets would help improve margins. Currently HAYL has the capacity in Sri Lanka to absorb crop growth from overseas and therefore not expected to be investing in processing facilities yet.

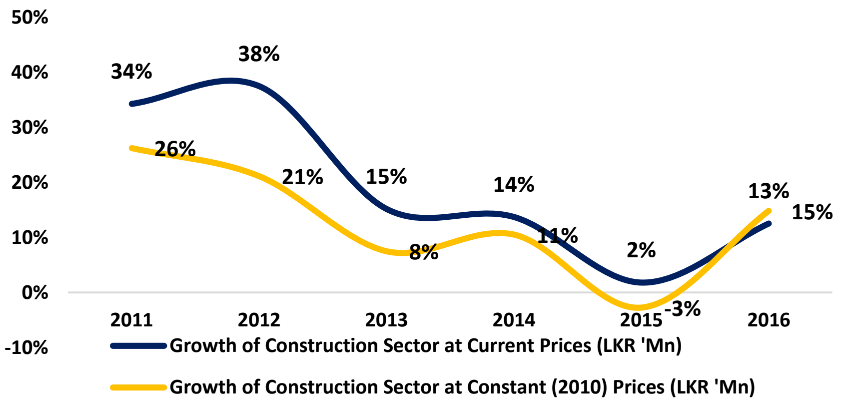
Focus on value addition with investments in R&D to improve margins: The Company focuses on creating innovative products with value addition through investments in R&D. An average value addition of approximately 30% is maintained in order to recover R&D expenditures. Currently the sector has about 82 product developments in the pipeline.

2.3 Capacity expansion along with sustained demand growth over the medium term in Sri Lanka's Construction sector to improve performance in the Construction Materials segment

Capacity expansions done in FY17 to improve production volumes in FY18E and beyond: Capacity expansions in FY17, to be utilized in the 2nd half of FY18E, would enable the segment to capture emerging growth opportunities arising from construction sector growth and maintain its dominance in the market. This in turn would help to further improve performance.

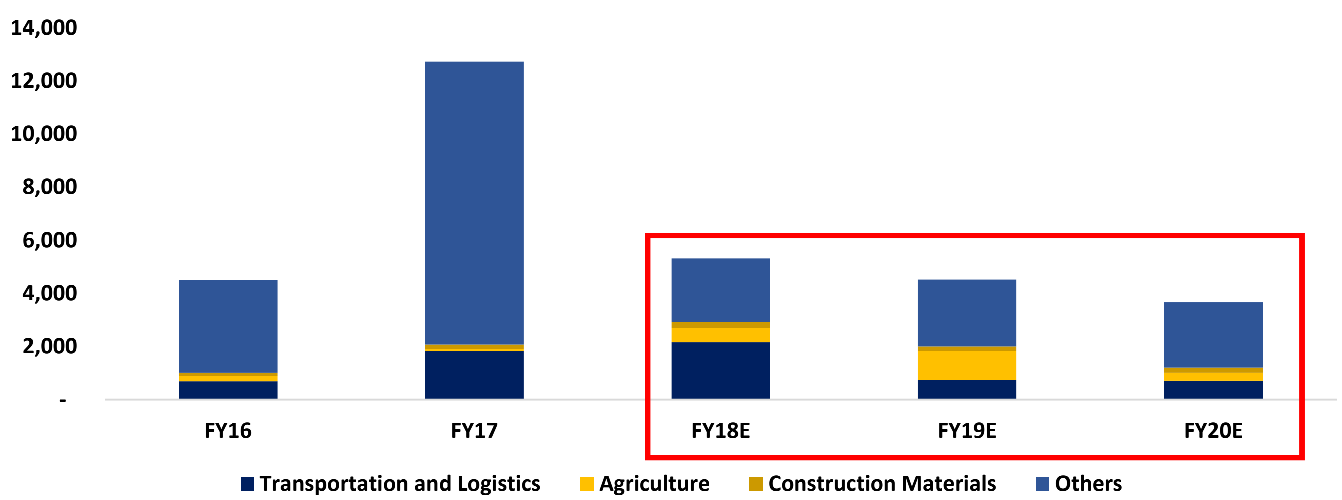
Sustained growth in Sri Lanka's construction sector to drive growth: FC Research expects sustained growth in Sri Lanka's construction sector in the medium term supported by rising affordability for housing, demand for skyscrapers and Government's Mega infrastructure drive. Accordingly growth in the construction sector would help boost the growth in the Construction Materials segment.

Figure 17: Sri Lanka Construction Sector Growth



Source: CBSL

Figure 18: Segmental CAPEX FY16-20E

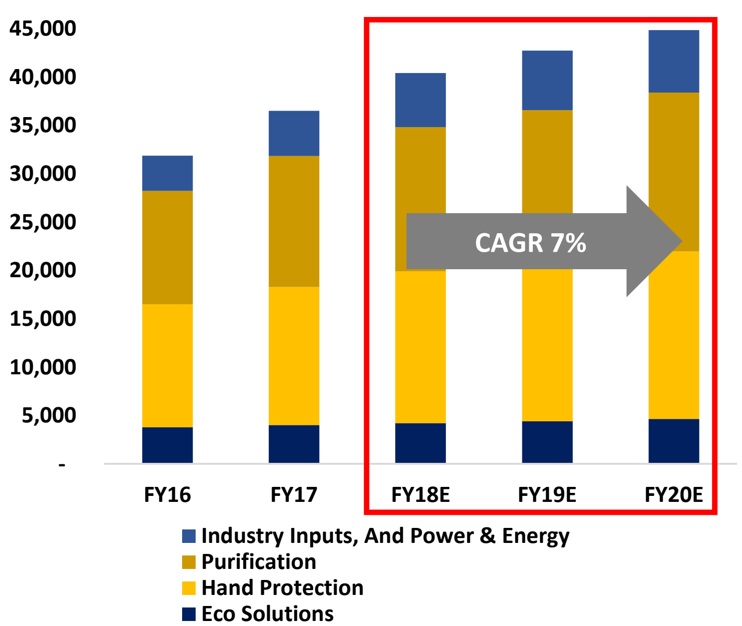


Source: Company Annual Report and FC Research Estimates

3.0 Stable growth expected in Eco Solutions, Hand Protection, Purification and Industry Inputs and Power and Energy segments

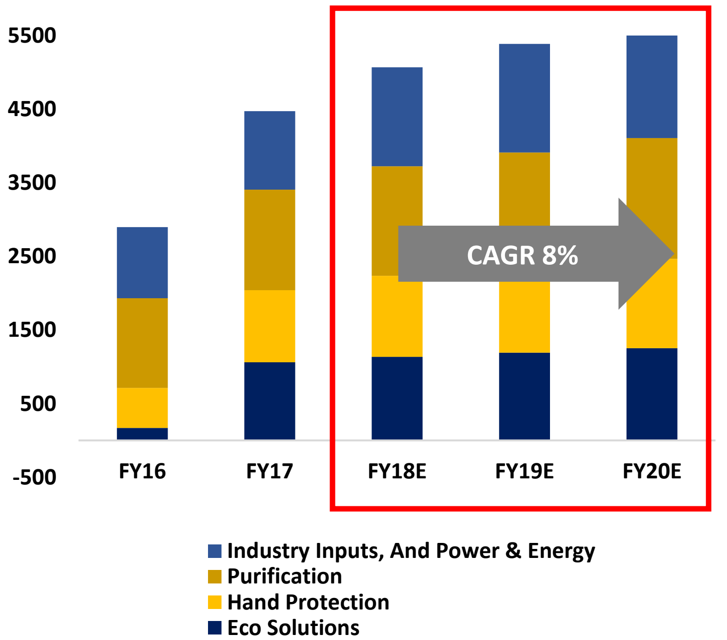
Revenue to grow at a CAGR of *c*.5%, *c*.7%, *c*.7% and *c*.11% in FY18E-20E for Eco Solutions, Hand Protection, Purification and Industry Inputs and Power and Energy segments respectively. Moreover, EBIT is also expected to increase at a CAGR of *c*.6%, *c*.7%, *c*.6% and *c*.13% for Eco Solutions, Hand Protection, Purification and Industry Inputs and Power and Energy segments respectively for the same period.

Figure 19: Segmental Revenue FY16-FY20E



Source: Company Annual Report and FC Research Estimates

Figure 20: Segmental EBIT FY16-FY20E

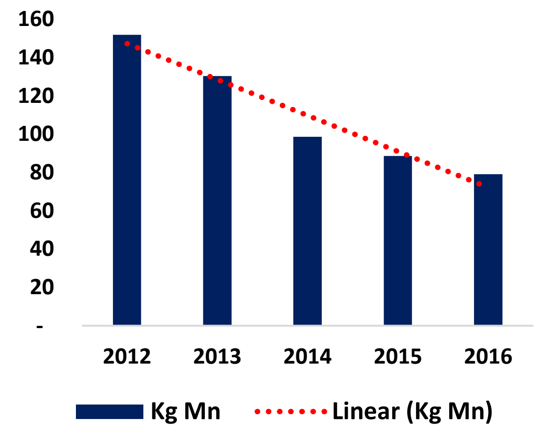


Source: Company Annual Report and FC Research Estimates

3.1 Eco Solutions to maintain margins through backward integration and better procurements strategies

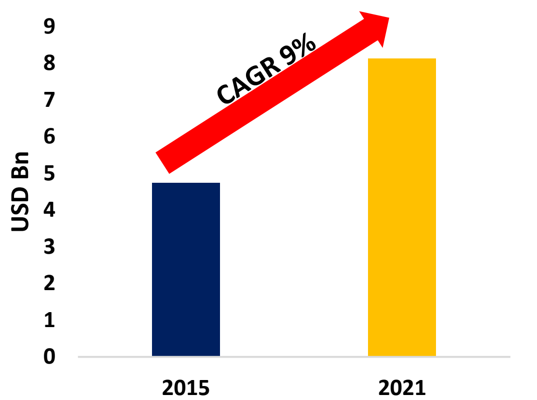
Improvements in backward integration and procurement strategies: High fluctuations in the supply and price of the segments primary raw material being coconut husk fiber has led the company to focus on strengthening and developing backward integration. Such initiatives have helped to significantly improve margins and these margins are expected to remain stable in the upcoming periods.

Figure 21: Rubber Production



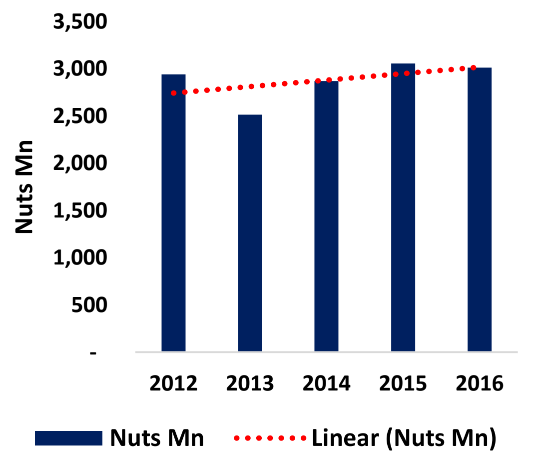
Source: CBSL

Figure 22: Global Market for Activated Carbon



Source: marketsandmarkets.com

Figure 23: Coconut Production



Source: CBSL

3.2 Hand Protection to benefit from GSP+ and growth in global demand for gloves, but may face raw material shortages

Benefit from GSP+ and demand growth but may face challenges from raw material shortages: Re-introduction of GSP+ would give the company a competitive advantage in its EU markets. In addition to this, a growth in global demand estimated at 8-10% by the Malaysian Rubber Glove Manufacturers Association, would help boost revenue. However, tight supply of the main raw material rubber may push costs up, and given the highly competitive nature of the global glove industry, passing on these increased costs to the customer is difficult.

3.3 Purification has steady increase in demand but face challenges from raw material supply shortages

Global demand to rise but segment margins are impacted by raw material supply shortages: The global activated carbon market was valued at USD 4.74Bn in 2015 and is projected to reach USD 8.12Bn by 2021, with a CAGR of 9.4% from 2016 to 2021. However margins were under pressure in FY17 due to shortage of coconut charcoal supply from Indonesia and price competition from low cost coconut shell activated carbon manufacturers in India and Philippines. The raw material supply shortage is expected to return to acceptable levels in Oct-Nov 2017.

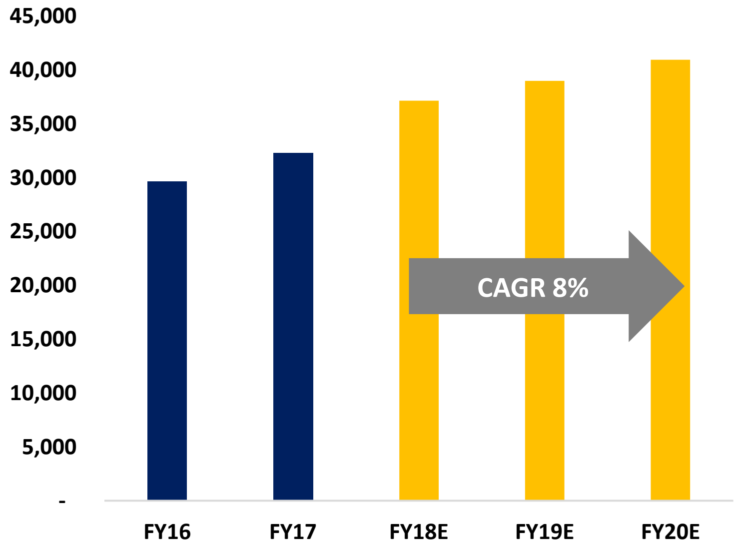
3.4 Industry Input and Power and Energy to show stable growth in revenue and margins

FY18E revenues expected to grow by 20% and slow down thereafter: High CAPEX of LKR 3.1Bn in FY17 helped boost top line growth. The impact of higher investments in FY17 would be carried into FY18E as well, thereby contributing to revenue growth. Stable revenue growth is expected from FY18E onwards which is in line with low CAPEX forecasts.

4.0 Plantations, Leisure and Textiles expected to perform better, but slow growth expected for Consumer Products.

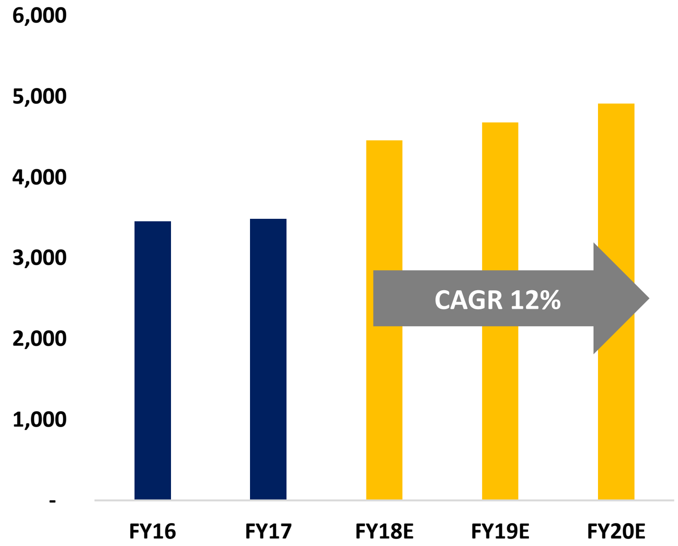
Revenue to grow at a CAGR of *c.*8% while EBIT is also expected to increase at a CAGR *c.*12% for FY18E-20E. This growth is mainly driven by Plantation and Leisure segments.

Figure 24: Segmental Revenue FY16-FY20E



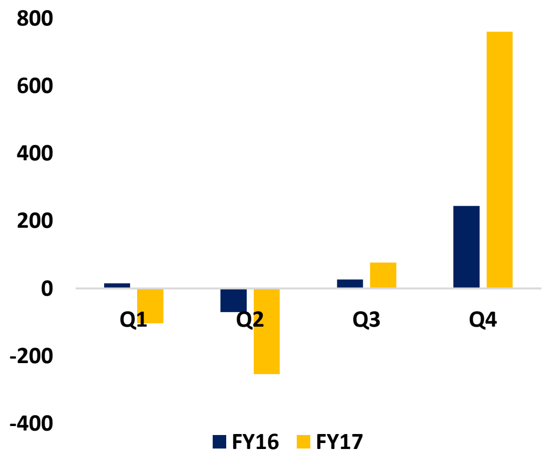
Source: Company Annual Report and FC Research Estimates

Figure 25: Segmental EBIT FY16-FY20E



Source: Company Annual Report and FC Research Estimates

Figure 26: Quarterly EBIT FY16-17



Source: Company Quarterly Reports

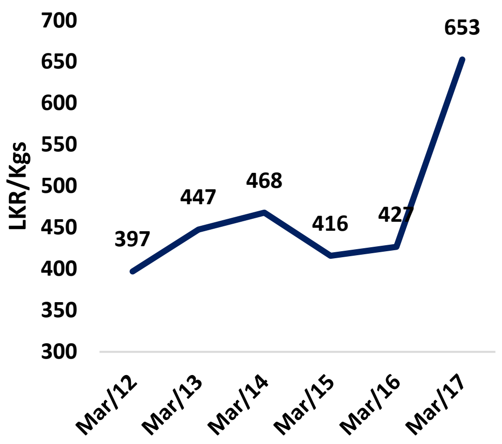
4.1 Higher tea prices in the 2nd half of the year helped turn around the Plantation segment from loss to profits

Tea Prices to boost margins but segment still faces challenge from wage rate hikes: Tea Prices to boost plantation sector earnings in FY18E. The increase in tea prices in the second half of FY17, plus rupee depreciation helped increase earnings and lead to a turn-around of the segment in 3QFY17. The rise in global tea prices were a result of supply constraints which led to an increase of 53% in average tea prices from FY16 to FY17. However, the segment still faces cost pressures from industry wide high wage rate hikes.

4.2 Amaya Kuda Rah to contribute positively to top line and bottom line growth in Leisure segment

The newly acquired Maldivian resort, Amaya Kuda Rah, is expected to improve revenue and EBIT, though weak performance from Amaya Pasikuddah may continue to weigh down the segment: Refurbishments in Amaya Kuda Rah have been completed in FY17, and it is expected to have a significant positive contribution to FY18E revenue and EBIT growth. However Amaya Pasikuddah weighed down on the segment profitability in FY17 due to low occupancy rates, and may continue to do so in future periods.

Figure 27: Average Tea Prices



Source: Forbes & Walker Tea Brokers (Pvt) Ltd

4.3 Renewal of GSP+ concessions and better utilization of capacity may help turnaround the Textile segment in FY18E

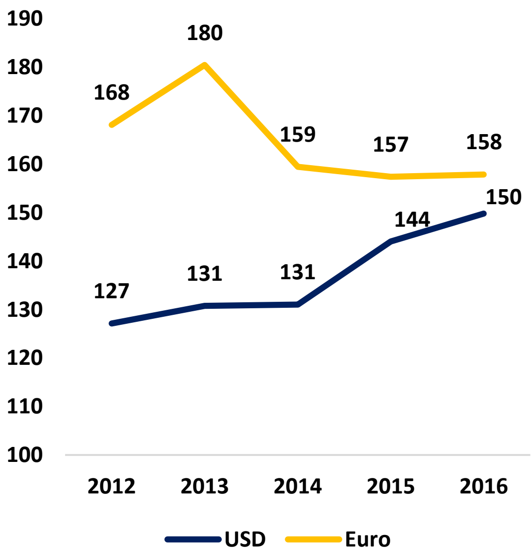
Renewal of GSP+ concessions coupled with higher capacity utilization can improve segment performance: Renewal of GSP+ concession would help improve competitiveness and increase revenues. Furthermore better implementation of segment strategy to move up the value spectrum with increased capacity utilization can help to boost performance.

4.4 Low growth in Consumption Expenditure, Currency Depreciation and Import duties weigh heavily on Consumer Products segment

Slowdown in Consumption Expenditure growth to slow down demand for consumer products segment: Consumption Expenditure, which accounted for 67% of the GDP in 2016, was stagnant; growing marginally at 0.7%.This slowdown in consumption expenditure growth is expected to continue and reflect in the segment through a slowdown in revenue growth.

Currency depreciation and import duties reduce affordability of products: Rupee depreciation against the USD, along with high import duties pushes the price of imported goods and thereby reduces the affordability of the segments products. This in turn has a negative impact on the segment demand.

Figure 28: USD and Euro Vs LKR



Source: CBSL

5.0 HAYL to provide *c.*34% annualized return

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Payout ratio	16%	20%	20%	21%	22%

1. Attributable to equity holders

HAYL earnings CAGR of c.19% FY18E-20E: FC Research estimates HAYL's earnings to grow to LKR 4.6Bn by FY20E from current level of LKR 2.8Bn. FC Research estimates HAYLs revenue to grow at a CAGR of *c.*13% between FY18E-20E to LKR 160.5Bn from current level of LKR 111.4Bn.The HAYL target price of LKR 470.0 is based on a SOTP valuation of LKR 490.0 subject to an illiquidity discount of 5%.

Capital gain of c.59% and a dividend yield of c.3%: FC Research estimates HAYL's fair value to be LKR 490.0 based on a Sum-of-the-Parts (SOTP) valuation, with a 5% discount for illiquidity. At current share price of LKR 292.0, HAYL would provide a capital gain of *c.*59% in FY19E and a dividend yield of *c.*3%, to provide a total return of *c.*63%

Expected HAYL price	FY19E
Sum-of-the-Parts valuation	960
Net debt adjustment	470
Discount for Illiquidity	5%
Target price	470

Return	FY19E
Target price	470.0
Current price (Cum Div)	295.0
Capital gain	175.0
Dividend FY18E	9.5
Capital gain %	59%
Dividend yield %	3%
Total return	**63%**
Total return (annualised)[1]	**34%**

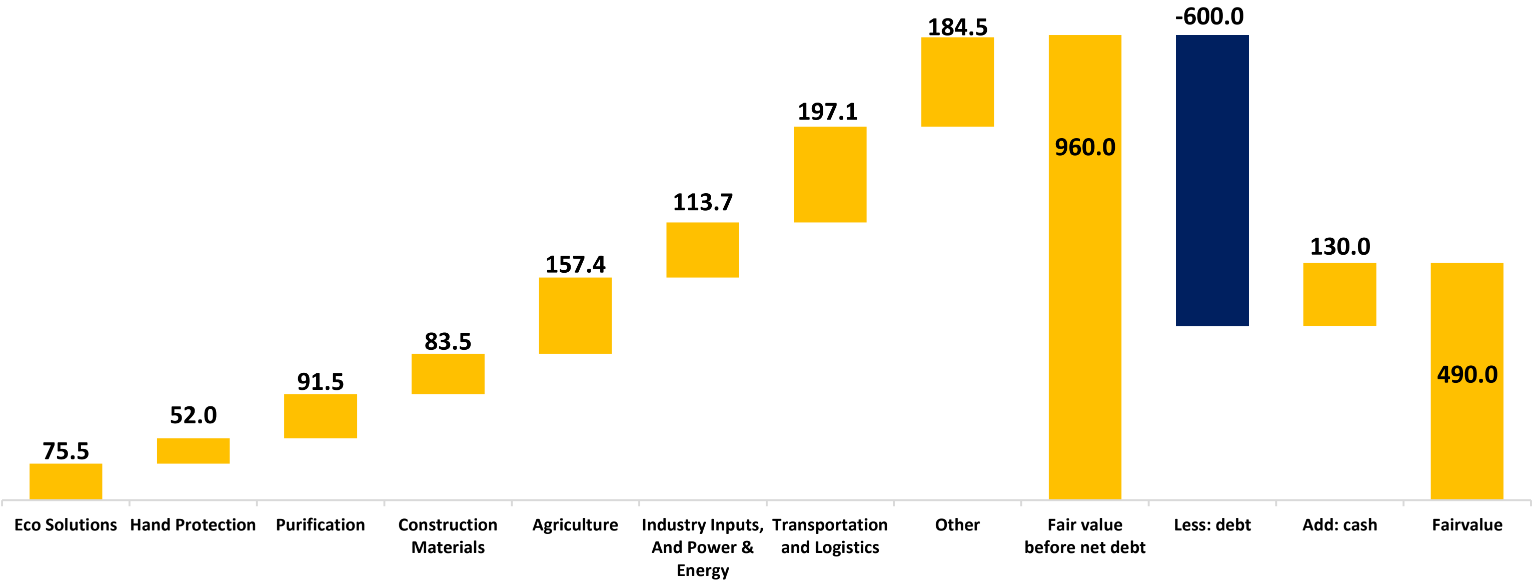
1. Annualised over 20 months

2. FY18E dividend is paid in FY19E

Sum-of-the-Part (SOTP) Valuation

Since HAYL is a diversified holding operating in 12 main businesses segments with varying risk and growth profiles, a SOTP valuation was followed.

Figure 29: SOTP Valuation



Source: FC Research Estimates

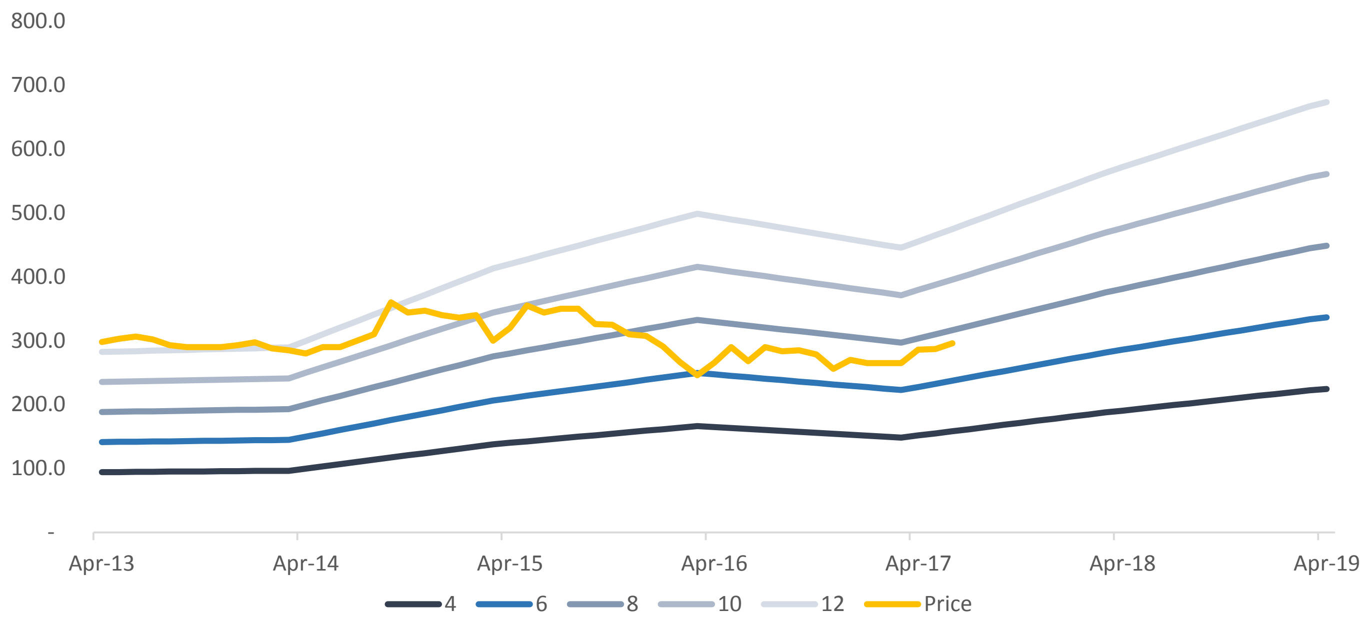
Segment	Valuation method	Valuation assumptions				Value in LKR Mn		HAYL's Holding[1]	Value per share	% of total
		D/(D+E)	CoE	WACC	Growth	Firm value	Equity			
Eco Solutions	DCF	0.30	19%	16%	3%	5,659		70%	75	8%
Hand Protection	DCF	0.40	19%	15%	2%	3,901		51%	52	5%
Purification	DCF	0.50	17%	14%	2%	6,865		68%	92	10%
Construction Materials	DCF	0.50	19%	15%	3%	6,265		52%	84	9%
Agriculture	DCF	0.70	19%	14%	3%	11,805		70%	157	16%
Industry Inputs, And Power	DCF	0.50	17%	14%	2%	8,528		60%	114	12%
Transportation and Logistics	DCF	0.60	19%	14%	3%	14,783		94%	197	21%
Other	Justified PBV		20%		2%		13,840	60%	185	19%
Fair value before net debt									960	100%
Less: debt									600	
Add: cash									130	
Fair value									490	

1. Approximation

Source: FC Research Estimates

Average PER of 8.0x

HAYL trading at an average PER of 8.0x which is significantly below the industry PER of 12.8x.



5.0 Investment Risks

Credit risk: Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The company is exposed to credit risk from its operating activities (primarily from trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Liquidity risk: Liquidity risk is the risk that the company will encounter difficulty in meeting its short term obligations. Given the high level of cash and cash equivalents, FC Research expects liquidity risk to be low for HAYL.

Interest Rate risk: Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company mainly borrows in the short term to fund its working capital requirement which are linked to floating interest rates. Thereby the recent trend of higher interest rates pushed up HAYL finance costs. However FC Research expects interest rates to decline in latter half of the year, which would be beneficial for a prominently short term borrower like HAYL.

Foreign Currency Risk: Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company is exposed to foreign currency risk on sales, purchases and borrowings and net investments in foreign subsidiaries that are denominated in a currency other than the respective functional currencies of the company. These currencies primarily are the Euro, US Dollars (USD), Bangladesh Taka, Pound Sterling (GBP), Indonesia Rupiah and Thailand Baht. In order to mitigate its exposure to fluctuations on the translation of its foreign operations, HAYL holds net borrowings in foreign currencies and uses foreign currency swaps and forwards contracts.

Commodity Risk: The Company is affected by the volatility of certain commodities used in its operating activities. These commodities mainly include the Charcoal, Rubber, Aluminum and Yarn prices. The Company closely monitors the price fluctuations in these commodities and invests in bulk purchases when low prices are prevalent and revises the selling prices based on the commodity prices whenever possible.

Appendix 1 – Recommendation Criteria

Categorization	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 21-07-2017 – 10.18%

Appendix 2 – Income Statement

LKR Mn	FY16	FY17	FY18E	FY19E	FY20E
Revenue	92,275	111,383	131,709	146,693	160,523
Cost of sales	(69,643)	(85,462)	(100,099)	(111,487)	(121,997)
Gross profit	**22,632**	**25,921**	**31,610**	**35,206**	**38,525**
Group dividend	-	-			
Other income	688	1,024	611	661	649
Distribution expenses	(3,171)	(3,419)	(3,951)	(4,401)	(4,816)
Administrative expenses	(11,460)	(13,579)	(16)	(17)	(18)
Other expenses	(178)	(273)	(250)	(275)	(300)
Results from operating activities	**8,510**	**9,675**	**12,499**	**14,308**	**15,610**
Finance income	844	719	238	373	521
Finance cost	(2,775)	(3,830)	(4,178)	(4,488)	(4,727)
Net finance cost	**(1,931)**	**(3,112)**	**(3,940)**	**(4,114)**	**(4,206)**
Change in fair value of investment properties	130	249	190	220	205
Share of profit of equity accounted investees (net of tax)	243	213	228	220	224
Profit before tax	**6,952**	**7,025**	**8,976**	**10,633**	**11,833**
Tax expense	**(1,756)**	**(1,977)**	**(2,693)**	**(3,190)**	**(3,550)**
Profit for the year	**5,195**	**5,048**	**6,283**	**7,443**	**8,283**
Profit for the period attributable to:					
Owners of the parent	3,118	2,784	3,518	4,168	4,639
Non-controlling interest	2,078	2,264	2,765	3,275	3,645
Profit for the year	**5,195**	**5,048**	**6,283**	**7,443**	**8,283**

Source: Company Annual Report and FC Research Estimates

Appendix 3 – Balance Sheet

LKR Mn	FY16	FY17	FY18E	FY19E	FY20E
ASSETS					
Non-Current Assets					
Property, plant & equipment	50,350	66,407	67,734	68,185	67,254
Investment properties	1,935	1,764	1,954	2,174	2,379
Biological assets	343	374	374	374	374
Intangible assets	6,297	6,434	6,572	6,746	6,905
Investments in subsidiaries	-	-	-	-	-
Investments in equity accounted investees	672	722	949	1,170	1,394
Other non- current financial assets	223	198	198	198	198
Other non-current assets	596	1,657	1,657	1,657	1,657
Deferred tax assets	399	604	604	604	604
Total non-current assets	**60,815**	**78,161**	**80,043**	**81,108**	**80,765**
Current Assets					
Inventories	15,033	17,678	19,514	21,734	23,783
Amounts due from subsidiaries	-	-	-	-	-
Amounts due from equity accounted investees	30	68	68	68	68
Trade and other receivables	19,054	23,877	25,863	28,806	31,521
Other current assets	1,471	1,462	1,462	1,462	1,462
Income tax recoverable	194	345	345	345	345
Other current financial assets	930	480	480	480	480
Short term deposits	1,972	2,921	4,978	6,950	9,877
Cash in hand and at bank	3,694	5,007	7,466	10,423	12,071
Assets classified as held for sale	3	3	3	3	3
Total current assets	**42,381**	**51,841**	**60,179**	**70,271**	**79,610**
Total assets	**103,196**	**130,002**	**140,222**	**151,378**	**160,375**
Equity and liabilities					
Stated capital	1,575	1,575	1,575	1,575	1,575
Employee share trust loan	-	-	-	-	-
Capital reserves	1,068	944	944	944	944
Other components of equity	11,577	19,013	19,013	19,013	19,013
Revenue reserves	16,876	19,334	22,140	25,446	29,072
Total equity attributable to equity holders of the company	31,096	40,866	43,672	46,977	50,604
Non-controlling interest	15,818	17,173	19,938	23,213	26,857
Total equity	**46,913**	**58,039**	**63,609**	**70,190**	**77,461**
Non-current liabilities					
Interest-bearing borrowings	12,236	20,635	23,162	19,017	26,156
Grants	740	743	691	645	595
Deferred tax liabilities	1,555	1,853	1,853	1,853	1,853
Employee benefit obligations	5,679	5,609	5,609	5,609	5,609
Total non-current liabilities	**20,209**	**28,840**	**31,315**	**27,124**	**34,213**
Current liabilities					
Trade and other payables	13,131	16,766	17,277	18,937	20,723
Provisions	23	15	15	15	15
Other current liabilities	1,312	1,405	1,405	1,405	1,405
Other current financial liabilities	1	1	1	1	1
Amounts due to subsidiaries	-	-	-	-	-
Amounts due to equity accounted investees	-	-	-	-	-
Income tax payable	721	822	822	822	822
Current portion of long term interest-bearing borrowings	6,394	5,061	6,533	12,678	6,539
Short-term interest-bearing borrowings	14,493	19,052	19,243	20,205	19,195
Liabilities directly associated with assets classified as held for sale	0	0	0	0	0
Total current liabilities	**36,075**	**43,123**	**45,297**	**54,065**	**48,701**
Total liabilities	**56,283**	**71,963**	**76,612**	**81,188**	**82,914**
Total equity and liabilities	**103,196**	**130,002**	**140,222**	**151,378**	**160,375**

Source: Company Annual Report and FC Research Estimates

Appendix 4 – Cash Flow Statement

LKR Mn	FY16	FY17	FY18E	FY19E	FY20E
Profit before tax	6,952	7,025	8,976	10,633	11,833
Adjustments for:					
Net finance costs	1,931	3,112	3,940	4,114	4,206
Share of profits from equity accounted investees	(243)	(213)	(228)	(220)	(224)
Depreciation on property, plant & equipment	2,514	2,998	3,984	4,064	4,091
Impairment of property, plant & equipment	27	75	-	-	-
Change in fair value of investment properties	(130)	(249)	(190)	(220)	(205)
Change in fair value of bearer biological assets	2	(19)	-	-	-
Change in fair value of biological assets	(28)	(24)	-	-	-
(Gain)/loss on the disposal of property, plant & equipment	(61)	(36)	-	-	-
Gain on the disposal of long term investment	-	(71)	-	-	-
Loss on the disposal of current financial assets	-	0	-	-	-
Gain on bargain purchase of subsidiary	(4)	(86)	-	-	-
Amortisation of intangible assets	141	182	236	260	286
Net gains/(loss) on translation of foreign currency	399	(26)	-	-	-
Impairment of trade & other receivables	117	6	-	-	-
Provision for unrealised profit and write-down of inventories	244	(49)	-	-	-
Impairment/ amortisation of other non -current assets	33	47	-	-	-
Gain on the disposal of equity accounted investees	(107)	(25)	-	-	-
Provision for post employee benefit obligations	645	839	-	-	-
Grants amortised	(64)	(41)	(52)	(46)	(49)
	12,368	**13,443**	**16,667**	**18,585**	**19,938**
(Increase)/decrease in trade and other receivables	(598)	(4,858)	(1,986)	(2,942)	(2,716)
(Increase)/decrease in inventories	(2,166)	(2,577)	(1,836)	(2,220)	(2,049)
Increase/(decrease) in trade and other payables	1,013	3,723	511	1,660	1,785
Employee Benefit Paid	(411)	(528)	-	-	-
Income Tax Paid	(1,402)	(2,004)	(2,693)	(3,190)	(3,550)
Super gain tax paid	(940)	-	-	-	-
Net cash used in operating activities	**7,864**	**7,199**	**10,663**	**11,893**	**13,408**
Cash flows from investing activities	-	-	-	-	-
Purchase and construction of property, plant & equipment	(6,362)	(11,301)	(5,311)	(4,515)	(3,160)
Investments in other non- current assets	(132)	(1,108)	(374)	(434)	(445)
Investments in other current financial assets	-	(2,469)	-	-	-
Investments in other non -current financial assets	(895)	-	-	-	-
Development of biological assets	(8)	(5)	-	-	-
Grants received - capital	90	44	-	-	-
Improvements to investment property	(2)	-	-	-	-
Proceeds from disposal of property, plant & equipment/ Investment property	204	205	-	-	-
Proceeds from disposal of intangible assets	1	2	-	-	-
Proceeds from disposal of current financial assets	-	2,922	-	-	-
Proceeds from disposal of subsidiaries	-	330	-	-	-
On acquisition of right to generate hydro power/ ERP system	(66)	(216)	-	-	-
Proceeds from buy back of shares of non current financial assets	-	99	-	-	-
Proceeds from the sale of equity accounted investees	460	-	-	-	-
Long term investments in group companies and others	(0)	-	-	-	-
Acquisition through business combinations	(860)	-	-	-	-
Interest received	178	273	238	373	521
Dividends received from equity accounted investees	194	163	-	-	-
Dividends received from non-group companies	6	10	-	-	-
Net cash used in investing activities	(7,191)	(11,051)	(5,447)	(4,575)	(3,084)
Net cash inflow before financing	**673**	**(3,853)**	**5,215**	**7,318**	**10,324**
Cash flows from financing activities					
Capital payment on finance lease	(29)	(27)	-	-	-
Recovery of employee share trust loan	149	-	-	-	-
Interest paid (including interest capitalized)	(2,012)	(3,153)	(4,178)	(4,488)	(4,727)
Dividend paid to non-controlling interest	(1,134)	(1,487)	-	-	-
Proceeds from interest-bearing borrowings	6,800	13,859	9,000	8,000	8,000
Repayment of interest-bearing borrowings	(5,026)	(7,131)	(5,000)	(6,000)	(7,000)
Forward contract liability payment	(15)	(1)	-	-	-
Long term loan facility fee	-	(6)	-	-	-
Debenture issue fee	-	(12)	-	-	-
Dividends paid to equity holders of parent	(450)	(488)	(713)	(863)	(1,013)
Net cash inflow / (outflow) from financing activities	**(1,719)**	**1,555**	**(891)**	**(3,350)**	**(4,739)**
Net increase / (decrease) in cash and cash equivalents	**(1,046)**	**(2,298)**	**4,325**	**3,968**	**5,584**
Cash and cash equivalents at beginning of the year	**(7,780)**	**(8,825)**	**(11,123)**	**(6,798)**	**(2,831)**
Cash and cash equivalents at end of the year	**(8,825)**	**(11,123)**	**(6,798)**	**(2,831)**	**2,754**

Source: Company Annual Report and FC Research Estimates

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