



LION BREWERY CEYLON PLC [LION.N0000]

MAINTAIN BUY

TAX AND TOURISM BOLSTERED VOLUMES

Fair Value: FY19E - LKR 680.0 [+23%], FY20E - LKR 720.0 [+30%]

Total Return: FY19E - without DPS 23% [AER 77%], FY20E - with DPS 32% [AER 23%]

LION posted an earnings of LKR 546Mn in 2QFY19 (LKR 91Mn for 2QFY18) while earnings of LKR 1.3Bn for 1HFY19 owing to growing topline and improving GP margins. Topline growth was attributable to increase in volumes with the encouraging shift from illicit liquor to soft liquor while growing tourist arrivals impacted favourably. With the earnings falling broadly in-line with our forecast of LKR 2.6Bn for FY19E, we maintain our earnings target for FY20E unchanged at LKR 3.2Bn. LION's share price peaked to LKR 679.00 in mid Aug 2018, almost touching our TP but now has plummeted back to attractive levels. We roll over our TP to FY20E with a TP of LKR 720.0 providing an annualised return of 23%. **MAINTAIN BUY**

LKR (mn)	2QFY18	2QFY19	YoY	1HFY18	1HFY19	YoY
Earnings (LKR 'Mn)						
Revenue	6,634	10,929	+65%	12,069	20,371	+69%
Gross profit	1,422	3,025	+113%	2,970	5,751	+94%
EBIT	473	1,507	+219%	1,236	3,043	+146%
PBT	123	1,257	+923%	585	2,484	+325%
Net Profit	91	546	+501%	407	1,283	+216%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	8,721	10,695	+23%	8,721	10,695	+23%
Borrowings	17,585	23,337	+33%	17,585	23,337	+33%
NAVPS	109.0	133.7		109.0	133.7	

Earnings normalising with increased volumes

LION's earnings was seen normalising in 2QFY19 to record at LKR 546Mn, growing by over 5 times as opposed to LKR 91Mn in 2QFY18 following the recovery from the impact of floods in 2016. Topline grew by +65%YoY to LKR 10.9Bn (LKR 6.6Bn in 2QFY18) supported by the alcohol content-based tax policy leading to customers shifting from illicit liquor to soft liquor while increase in tourist arrivals also supported the volume growth. We maintain our earnings target for FY19E at LKR 2.6Bn and LKR 3.2Bn for FY20E with a CAGR of 25% over FY18-20E.

Content based tax policy and tourist influx led volumes

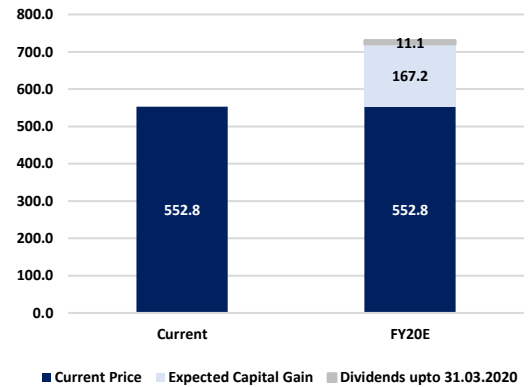
With the revision of excise duty on beer in Nov 2017, LION experienced a positive momentum in its volume growth as customers were seen shifting back to beer from hard liquor and illicit liquor which translated into revenue growth of +65%YoY to LKR 10.9Bn in 2QFY19 while for the 1HFY19 revenue grew by +69%YoY to LKR 20.4Bn (LKR 12.1Bn in 1HFY18). Further, upward price revision in beer with the imposition of NBT favourably impacted the topline growth. With tourists contributing much to the volume development in the beer industry, LION experience significant volume growth from the popular tourist destinations during the season time. We expect revenue of LKR 44.8Bn in FY19E and LKR 52.1Bn in FY20E.

Capacity expansion to meet the Urbanization and Tourism led volume growth

With the gradual regaining of lost volumes, at present LION operates appr at 1.1Mn hectolitres (hl) per annum. Resultant to the surge in volumes, LION is likely to reach its full capacity of 1.3Mn hl in FY19E. Company plans on increasing capacity by c.0.2Mn hl with an investment of LKR 600Mn in FY20E. Over last 1-2 years the company has already taken steps to upgrade all its processes to have a capacity of 2.1Mn hl. Thereby, LION is capable of upgrading its production capacity to 2.1Mn hl, which is an additional 0.6Mn hl from 1.5Mn hl, with an investment of LKR 3.0Bn as basic infrastructure is already in place. Sri Lanka's urbanization, which is 18% at present is on a rising trend and tourist arrival which grew by 10.6%YTD share a positive correlation with beer consumption.

TP of LKR 720.0 for FY20E – Maintain Buy

With earnings falling broadly in line with our expectation, we maintain our earnings forecasts for FY19E and FY20E unchanged at LKR 2.6Bn and LKR 3.2Bn respectively. We roll over our TP to FY20E with a TP of LKR 720.0 providing a total return of 32% and an annualised return of 23%. **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

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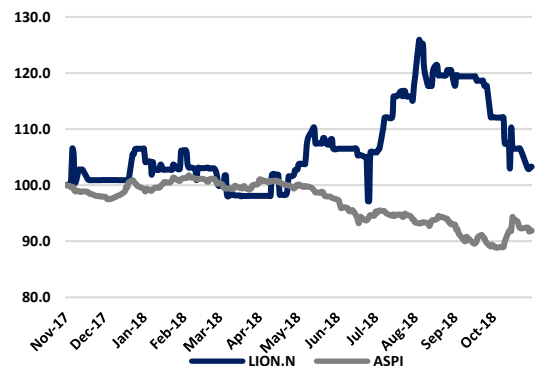
KEY DATA

CSE Ticker	LION.N0000
Bloomberg Ticker	LION SL
Share Price (LKR)	552.80
52w High (LKR)	673.60
52w Low (LKR)	520.10
Avg. Daily Volume (Shares)	12,555
Avg. Daily Turnover (LKR)	6,981,654
Issued Share Capital (Shares 'Mn)	80
Market Cap (LKR 'Mn)	44,224
Market Cap (USD 'Mn)	253

*1 USD = LKR 175

Price Performance (%)	1 mth	3 mths	12mths
LION	-8%	-12%	3%
ASPI	3%	-2%	-8%

LION vs ASPI



Minimum Return for BUY:

Buy Below [AER of 17% with DPS]: LKR 588.0

Lion categorized as 'Grade B' counter (Refer page 09 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:

First Capital Group do not hold shares in LION and will not trade in this share for three trading days following the issue of this document.

Estimate Revision

In LKR Mn	FY19E - O	FY19E - R	% Change	FY20E - O	FY20E - R	% Change
Earnings Estimate						
Revenue	44,852	44,852	0%	52,098	52,098	0%
Gross profit	11,213	11,213	0%	13,025	13,025	0%
EBIT	5,361	5,361	0%	6,046	6,046	0%
Net Profit	2,648	2,648	0%	3,240	3,240	0%
Adjusted EPS	33.1	33.1		40.5	40.5	
Growth YoY	27%	27%		22%	22%	
Balance Sheet Estimate						
Shareholders' Equity	12,328	12,328	0%	15,082	15,082	0%
Borrowings	15,303	15,303	0%	14,193	14,193	0%
Adjusted NAVPS	154.1	154.1		188.5	188.5	
Ratio Estimate						
ROE (%)	21.5%	21.5%		21.5%	21.5%	
PER (x)	16.7	16.7		13.6	13.6	
PBV (x)	3.6	3.6		2.9	2.9	

Valuation Table

P/E 31 March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Estimates (LKR 'Mn)							
Gross profit	8,132	8,816	4,468	6,802	11,213	13,025	14,360
Operating profit	2,984	3,877	-1,021	3,630	5,361	6,046	6,545
Net Profit	1,330	2,081	-1,447	2,089	2,648	3,240	3,659
Adjusted EPS (LKR)	16.6	26.0	-18.1	26.1	33.1	40.5	45.7
YoY Growth (%)	-1%	56%	-170%	-244%	27%	22%	13%
Valuations							
PER (x)	33.2x	21.3x	-30.6x	21.2x	16.7x	13.6x	12.1x
PBV (x)	5.6x	4.4x	5.3x	4.6x	3.6x	2.9x	2.4x
DY (%)	0.7%	0.5%	0.5%	0.7%	0.9%	1.1%	1.3%

Valuation Summary

Expected LION price for FY20E	
PER Valuation based target price	729.1
DCF Valuation based target price	716.8
Average Target Price	722.9
Target Price after Rounding off	720.0

Return	
Target Price	720.0
Current Price	552.8
Capital Gain (LKR)	167.2
Dividends upto 31.03.2020 (LKR)	11.1
Capital Gain %	30%
Dividend Yield %	2%
Total Return %	32%
Annualized Return %	23%

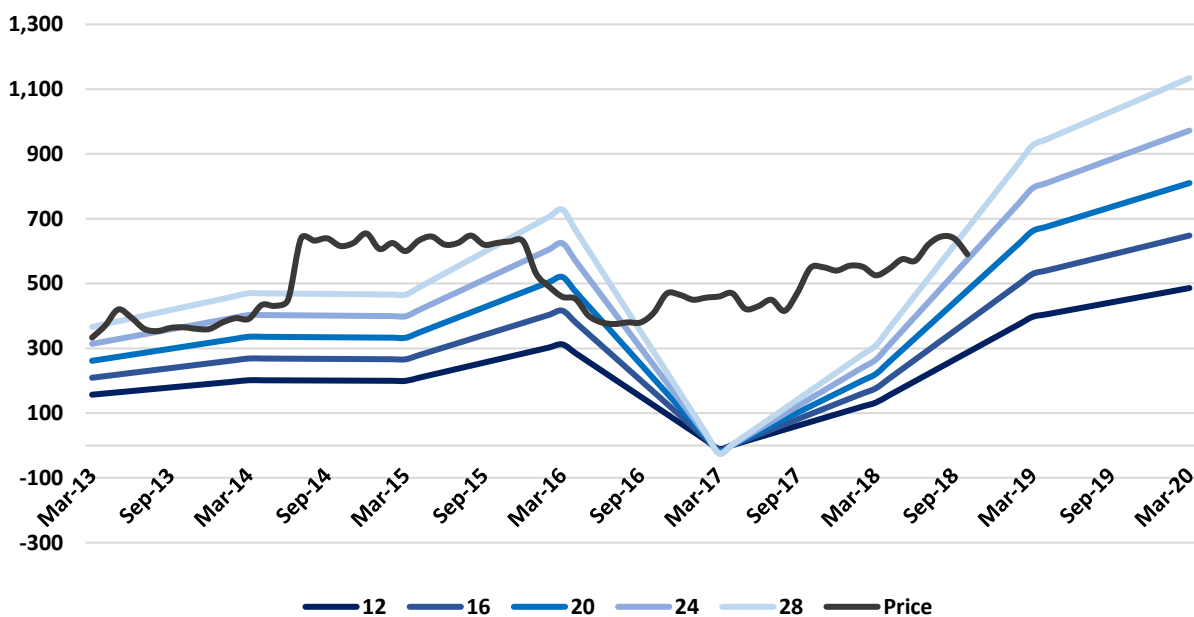
Discounted Cash flow Valuation

DCF based Valuation	
Enterprise Value	59,885
Debt (-)	(14,193)
Cash (+)	11,649
Total Value of Equity	57,340
No. of Shares (Mn)	80
Target Price	716.8

COE	
Rf	9.5%
Rm	17.5%
Growth %	3.0%
β	0.80
$Ke=Rf+\beta(Rm-Rf)$	15.9%

WACC	
Ke	15.9%
Kd	7.6%
D/E Assumption	40/60
Terminal Growth (%)	3.0%
WACC	12.6%

PER Valuation



Source: CSE, Company Annual Reports and First Capital Research Estimates

PER based Valuation	
FY20E Earnings (LKR 'Mn)	3,240
No. of Shares ('Mn)	80
FY20E EPS	40.5
Expected PER	18.0x
Price at 18x FY20E Earnings	729.1

Appendix I: Key Ratios

P/E 31st Mar	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Growth							
Revenue	+25%	+10%	-40%	+44%	+47%	+16%	+10%
Gross Profit	+36%	+8%	-49%	+52%	+65%	+16%	+10%
EBIT	+27%	+30%	-117%	-768%	+22%	+13%	+8%
PBT	+8%	+24%	-165%	-259%	+45%	+22%	+13%
Net Profit	-1%	+56%	-170%	-244%	+27%	+22%	+13%
Margin							
GP Margin	+25%	+25%	+21%	+22%	+25%	+25%	+25%
EBIT Margin	+9%	+11%	-3%	+14%	+12%	+12%	+11%
NP Margin	+4%	+6%	-7%	+7%	+6%	+6%	+6%
Gearing							
Debt/Equity	+171%	+121%	+216%	+164%	+124%	+94%	+67%
Debt/Debt+Equity	+63%	+55%	+68%	+62%	+55%	+48%	+40%

Source: Company Annual Reports and First Capital Research Estimates

Appendix II: Statement of Income & Expenses

Profit & Loss Statement (LKR Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
P/E 31st Mar							
Revenue	32,350	35,526	21,211	30,511	44,852	52,098	57,438
Cost of sales	-24,218	-26,710	-17,743	-23,710	-33,639	-39,074	-43,079
Gross profit	8,132	8,816	3,468	6,802	11,213	13,025	14,360
Progressive Insurance receipts	0	0	-308	1,958	0	0	0
Other income	393	19	65	76	76	76	76
Selling, Distribution & Admin expenses	-4,699	-4,645	-3,668	-4,149	-5,609	-6,720	-7,539
Other expenses	-842	-313	-212	-304	-319	-335	-351
Operating profit	2,984	3,877	-656	4,382	5,361	6,046	6,545
Non operating income	0	0	-702	0	0	0	0
EBIT	2,984	3,877	-1,357	4,382	5,361	6,046	6,545
Net finance income	-598	-919	-1,259	-1,335	-948	-645	-446
Profit before tax	2,386	2,958	-1,915	3,048	4,413	5,401	6,099
Income tax expense	-1,056	-878	468	-958	-1,765	-2,160	-2,439
Profit for the Year	1,330	2,081	-1,447	2,089	2,648	3,240	3,659
EPS	16.6	26.0	(18.1)	26.1	33.1	40.5	45.7

Source : Company Annual Reports and First Capital Research Estimates

Appendix III: Statement of Financial Position

Balance Sheet (LKR Mn) as at 31st Mar	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Assets							
Property, plant & equipment	14,584	16,106	17,899	18,127	20,315	21,373	21,633
Intangible assets	4,206	4,157	2,436	2,386	2,329	2,275	2,222
Inventories	2,798	2,080	2,032	1,614	1,751	2,034	2,242
Trade and other receivables	1,874	1,686	1,368	2,571	1,720	1,856	2,046
Cash and cash equivalents	2,312	3,704	7,602	8,901	10,470	11,649	12,416
Other Assets	748	307	33	6	6	6	6
Total Assets	26,521	28,040	31,370	33,605	36,590	39,193	40,565
Liabilities							
Trade and other payables	796	679	562	1,235	1,843	2,141	2,360
Loans and borrowings	8,648	7,360	14,060	12,845	12,676	12,255	10,592
Debentures	4,930	4,757	3,937	3,111	2,627	1,938	1,608
Tax liability	3,058	3,968	3,268	5,251	5,662	6,321	6,377
Retirement benefit obligations	102	109	74	185	185	185	185
Other Liabilities	1,062	1,181	1,154	1,270	1,270	1,270	1,270
Total Liabilities	18,595	18,054	23,055	23,897	24,262	24,110	22,392
Shareholders Funds							
Stated capital	2,538	2,538	2,538	2,538	2,538	2,538	2,538
Capital reserves	719	1,302	1,302	950	1,302	1,302	1,302
Retained earnings	4,669	6,146	4,474	6,219	8,488	11,242	14,333
Shareholders Funds	7,927	9,986	8,314	9,707	12,328	15,082	18,173
Total Liabilities & Shareholders' Funds	26,521	28,040	31,370	33,605	36,590	39,192	40,565
NAVPS	99.1	124.8	103.9	121.3	154.1	188.5	227.2

Source : Company Annual Reports and First Capital Research Estimates

Appendix IV: Statement of Cash flow

Cash flow Statements (LKR Mn) as at 31st Mar	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Profit before tax	2,386	2,958	-1,915	3,048	4,413	5,401	6,099
Adjustments for							
Depreciation & Amortisation	776	1,076	1,140	1,178	1,392	1,519	1,628
Interest income	-222	-274	-447	-820	-678	-658	-658
Interest expenses	791	1,202	1,723	2,160	1,626	1,303	1,104
Profit on disposal of PPE	154	-9	525	38	0	0	0
Other	246	-17	338	-1,270	0	0	0
	4,131	4,936	1,364	4,333	6,753	7,565	8,172
Changes in working capital							
Inventories	-127	707	5	344	-137	-283	-208
Trade and other receivables	509	188	0	-1,204	851	-135	-190
Trade and other payables	21	-117	-120	673	608	298	219
Other	69	-27	257	791	0	0	0
Cash generated from operations	4,603	5,688	1,506	4,938	8,075	7,444	7,993
Net Interest Income	-768	-1,174	-1,644	-2,058	-1,626	-1,303	-1,104
Income Tax paid	-408	-107	-76	-145	-1,213	-1,501	-2,384
Retirement benefit obligations paid	-25	-7	-24	-16	0	0	0
Other	0	-288	0	0	0	0	0
Net cash generated from operating activities	3,402	4,112	-237	2,719	5,235	4,641	4,505
Cash flows from investing activities							
Purchase of PPE	-4,053	-1,452	-3,312	-1,363	-2,549	-2,524	-1,834
Purchase of intangible assets	-4,002	-5	-3	-2	0	0	0
Proceeds from sale of PPE	147	196	29	0	0	0	0
Other	-188	290	326	947	678	658	658
Net cash used in investing activities	-8,096	-971	-2,960	-419	-1,871	-1,866	-1,176
Cash flows from financing activities							
Dividend paid	-288	-288	-216	-288	-404	-486	-569
Net Borrowings - Bank	-2,035	-895	6,440	-105	-1,088	-421	-1,664
Net Borrowings - Debenture	1,799	-201	-799	-799	-672	-689	-329
Other	-8	0	1,066	752	0	0	0
	-532	-1,384	6,491	-440	-2,164	-1,596	-2,562
Net increase in cash and cash equivalents	-5,226	1,756	3,294	1,860	1,200	1,179	767
Cash and cash equivalents at beginning of year	6,056	783	2,518	6,244	8,105	9,305	10,484
Cash and cash equivalents at end of year	783	2,518	6,244	8,105	9,305	10,484	11,251

Source : Company Annual Reports and First Capital Research Estimates

Top 20 Shareholders

Top 20 shareholders - (% held)	2QFY19	1QFY19	QoQ	2QFY18	YoY
Ceylon Beverage Holdings PLC	52.3%	52.3%	-	52.3%	-
Carlsberg Brewery Malaysia Berhad	25.0%	25.0%	-	25.0%	-
Carson Cumberbatch PLC A/C No. 02	5.1%	5.1%	-	5.1%	-
RBC Investor Services Bank-Coeli Sicav I- Frontier Markets Fund	2.2%	2.2%	-	1.0%	1.3%
HSBC Intl Nominees Ltd-JPMLU-T Rowe Price Funds Sicav	2.0%	2.1%	0.0%	1.1%	1.0%
Pershing LLC S/A Averbach Grauson & Co.	1.7%	1.7%	-	0.9%	0.8%
Bukit Darah PLC A/C No. 02	1.6%	1.6%	-	1.6%	-
Carson Cumberbatch PLC A/C No. 01	1.1%	1.1%	-	1.8%	-0.6%
Citibank Newyork S/A Norges Bank Account 2	1.0%	1.4%	-0.4%	0.0%	1.0%
Northern Trust Global Services London S/A Verdipapirfondet Odin Err	0.7%	0.7%	-	0.7%	-
GF Capital Global Limited	0.7%	0.7%	-0.1%	0.7%	-0.1%
Mellon Bank N.A.-Florida Retirement System	0.6%	0.6%	-	0.6%	-
HSBC Intl Nom-BBH-Rondure New World Fund	0.6%	0.3%	0.3%	0.0%	0.6%
HINL-SSBT-AL Mehwar Commercial Investments L.L.C.	0.6%	0.0%	0.6%	0.0%	0.6%
Sampath Bank PLC/Mrs.Priyani Dharshini Ratnagopal	0.4%	0.4%	-	0.4%	-
HSBC Intl Nom Ltd-SSBT- Russell Investments Institutional Funds Publi	0.3%	0.3%	-	0.2%	0.1%
HSBC Intl Nominees Ltd-SSBT-Frank Russel Trust Company Comingled	0.3%	0.3%	0.0%	0.0%	0.3%
JPMCB -T.Rowe Price Institutional Frontier Markets Equity Fund	0.3%	0.3%	0.0%	0.0%	0.3%
HSBC Intl Nom Ltd-Ssbt-Russell Trust Company Commingled Employe	0.2%	0.2%	-	0.0%	0.2%
Portelet Limited	0.2%	0.2%	-	0.0%	0.2%



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