



WATAWALA PLANTATIONS PLC [WATA.N0000]

MAINTAIN HOLD

TEMPORARY HEADWINDS REMAIN

Fair Value [FY19E]: LKR 28.0 [+27%], FY20E: LKR 33.0 [+50%]

Total Return: FY19E with DPS 32% [AER 75%], FY20E - with DPS 56% [AER 34%]

WATA's revenue declined by -66%YoY in 1QFY19 to LKR 673Mn relative to 1QFY18 while earnings for 1QFY19 was recorded at LKR 150Mn down 60% vis-a-vis LKR 377Mn in 1QFY18 which primarily reflects the absence of tea segment, which was spun off to Hatton Plantations PLC with effect from 30th September 2017. Revenue from continuing operations also remained flat on volatile palm oil prices and lower crop due to seasonal factors while earnings declined by 49% as a result of higher than expected startup losses in the Dairy segment. On the back of higher dairy losses and plunge in palm oil prices, we cut our earnings targets for FY19E to LKR 766 Mn (-29%) and adjusted the fair value estimate downwards to LKR 28.0 from previous estimate of LKR 32.0. **MAINTAIN HOLD**

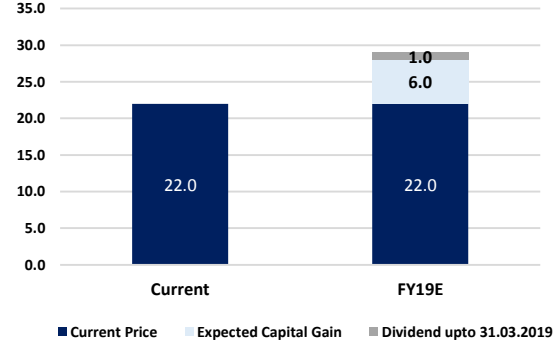
LKR (Mn)	Earnings including the tea segment			Earnings from continuing Ops.		
	1QFY18	1QFY19	YoY	1QFY18	1QFY19	YoY
Earnings (LKR 'Mn)						
Revenue	1,988	673	-66%	675	673	-0%
Gross Profit	501	237	-53%	326	237	-27%
EBIT	443	210	-52%	324	210	-35%
PBT	437	194	-56%	327	194	-41%
Net Profit	377	150	-60%	293	150	-49%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	5,937	3,485	-41%	5,937	3,485	-41%
Borrowings	661	1,392	+111%	661	1,392	+111%
NAVPS	26.3	17.3	-34%	26.3	17.3	-34%

Palm oil segment yields to increase but prices may remain volatile: Currently palm oil remains as the prime source of revenue and earnings for WATA with a contribution of 76% revenue until the Dairy Project matures. Price for palm oil is a key determinant of complex factors including the Malaysian palm oil prices, strength of the Malaysian ringgit, international crude oil prices and import duties based on government policies. As explained in the previous update in March 2018, palm oil prices saw a declining trend, while global prices have dropped by 15%YoY as of Sep 2018. Palm oil prices are expected to remain depressed on rising stock, but a recovery can be expected with a certain time lag on the strength of rising crude oil prices as palm oil serves as feedstock for biodiesels. We estimate WATA's yields to keep increasing, going forward since more than 70% of WATA's palm oil nurseries are in mature stage. Accordingly, output is expected to rise by 8%-10% p.a. till 2023. However, volatile palm oil price outlook and fluctuating duty component in the domestic prices can affect the contribution from Palm oil segment.

Dairy to be profitable beyond FY20E: Dairy segment generated a loss of LKR 91Mn for FY18 and a loss of LKR 45Mn for 1QFY19 as imported herd is not yet fully ready to be milked while the feed cost and other fixed costs are being incurred. We expect the segment to make losses in the short to midterm until the cattle reach subsequent lactation cycles, where yields tend to be higher.

TP is valued at LKR 28.0 –MAINTAIN HOLD

Considering the dip in profitability in previous quarters, expected volatile palm oil price outlook and Dairy sector losses, we downgrade WATA's fair value to LKR 28.0, a -9% adjustment to the previous forecast of LKR 32.0. However, we see an attractive mid-long term outlook in WATA where the profits would grow as Dairy segment stabilizes and start making profits (fair value for FY20E is LKR 33.00). Though our FY19E fair value suggests a BUY due to the plunge in market prices, we would prefer to wait, on the back of higher than expected losses in Dairy and stagnant prices of palm oil amidst higher global supplies. **MAINTAIN HOLD**



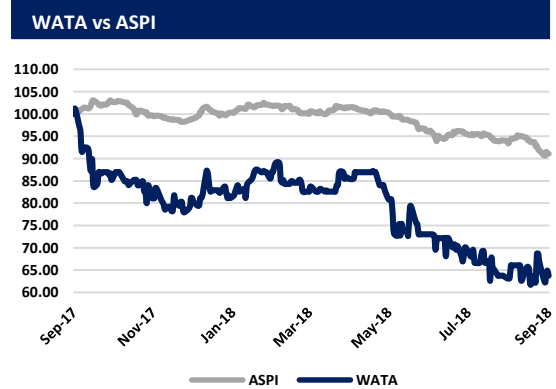
FIRST CAPITAL RESEARCH

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KEY DATA	
CSE Ticker	WATA.N0000
Bloomberg Ticker	WATA SL
Share Price (LKR)	22.00
52w High (LKR)	35.80
52w Low (LKR)	21.30
Avg. Daily Volume (Shares)	30,219
Avg. Daily Turnover (LKR)	895,223
Issued Share Capital (Shares 'Mn)	201.0
Market Cap (LKR 'Mn)	4,421
Market Cap (USD 'Mn)	26

*1 USD = LKR 168

Price Performance (%)	1 mth	3 mths	12mths
WATA	1%	-13%	-36%
ASPI	-2%	-5%	-9%



Source: CSE

Minimum Return for BUY:
Buy Below [AER of 17.46% with DPS]: LKR 26.79
 WATA categorized as 'Grade B' counter (Refer page 08 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:
 First Capital Group do not hold shares in WATA 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	3,351	3,041	-9%	4,102	3,378	-18%
Gross Profit	1,451	1,138	-22%	1,812	1,344	-26%
EBIT	1,333	1,061	-20%	1,635	1,241	-24%
Profit before Tax	1,280	946	-26%	1,555	1,168	-25%
Net Profit	1,072	766	-29%	1,320	946	-28%
EPS	5.3	3.8	-29%	6.6	4.7	-28%
Growth YoY	-10%	-18%		25%	24%	
Balance Sheet Estimate						
Shareholders' Equity	3,850	3,917	2%	4,710	4,631	-2%
Borrowings	1,095	1,306	19%	912	1,271	39%
NAVPS	21.0	19.5		25.3	23.0	
Ratio Estimate						
ROE (%)	27.3%	19.7%		28.9%	21.0%	
PER (x)	5.3	5.8		4.3	4.7	
PBV (x)	1.4	1.1		1.1	1.0	

Valuation Table

	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Estimates (LKR 'Mn)							
Revenue	6,848	6,299	6,502	4,949	3,041	3,378	3,771
EBIT	550	669	1,494	1,150	1,061	1,241	1,466
Net Profit	391	518	1226	939	766	946	1184
EPS (LKR)	1.7	2.2	5.2	4.7	3.8	4.7	5.9
YoY % Growth	-21%	33%	137%	-10%	-18%	24%	25%
Valuations							
PER (x)	13.3	10.1	4.2	4.7	5.8	4.7	3.7
PBV (x)	1.2	1.1	0.9	1.2	1.1	1.0	0.8
DY(%)	6.6%	2.3%	6.4%	7.3%	5.7%	5.7%	5.7%

Valuation Summary

Expected WATA price for FY19E		Return	
PER Valuation based target price	28.6	Target Price	28.0
DCF Valuation based target price	31.0	Current Price	22.0
Average Target Price	29.8	Capital Gain (LKR)	6.0
Discount for the Price Volatility (5%)	1.5	Dividends upto 31.03.2019	1.0
Target price after discount	28.3	Capital Gain (%)	27%
Target Price after Rounding off	28.0	Dividends Yield (%)	5%
		Total Return %	32%
		Annualized Return %	75%

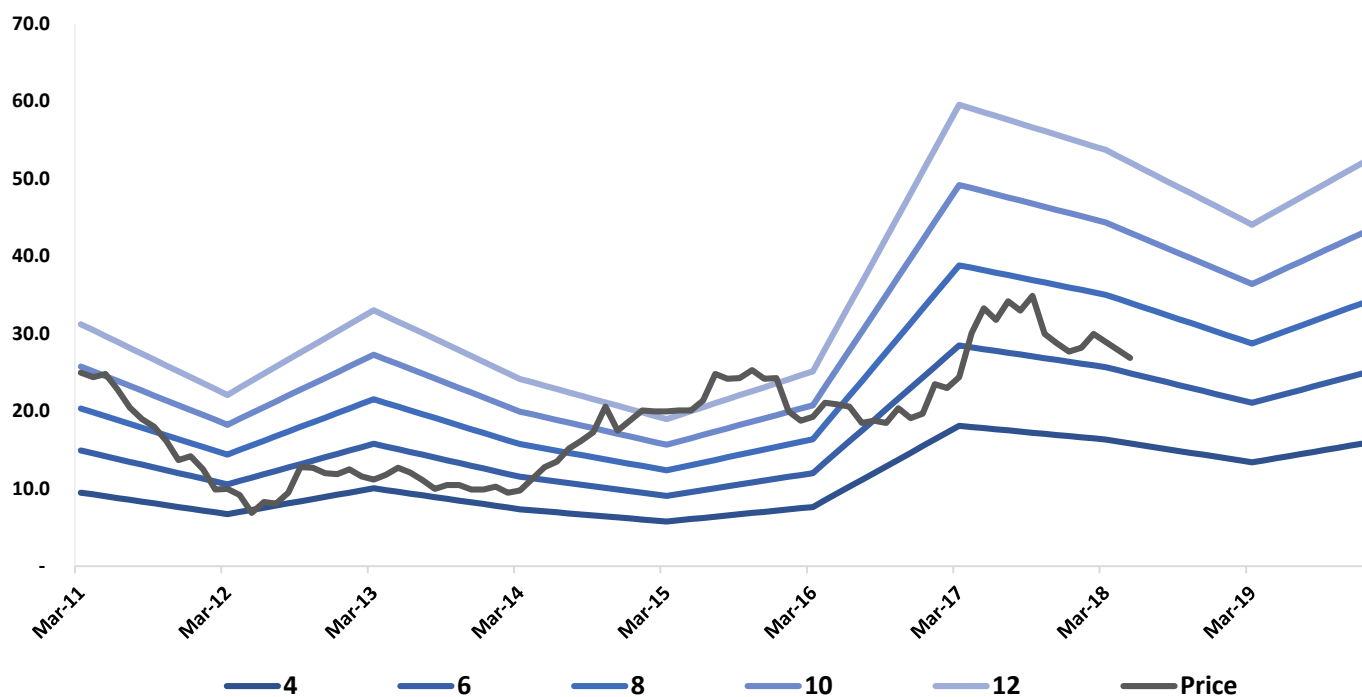
Discounted Cash Flow Valuation

DCF based Valuation	
Enterprise Value	7,210
(-) Debt	1,306
(+) Cash	329
Total Value of Equity	6,233
No. of shares	201
Target Price	31.0

WACC	
K_e	20%
K_d	11%
D/E Assumption	30/70
Terminal Growth (%)	1.5%
WACC	18%

COE	
R_f	9.5%
R_m	17.5%
Growth %	1.5%
Raw β	1.38
$K_e = R_f + \beta(R_m - R_f)$	20%

PER Valuation



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

PER based Valuation	
FY19E Earnings (LKR 'Mn)	766
No. of Shares ('Mn)	201
FY19E EPS	3.81
Expected Average PER	7.5x
Price at 7.5x FY19E Earnings	28.6

Appendix I: Statement of Income & Expenses

Income Statement (LKR Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Y/E 31st March							
Revenue	6,848	6,299	6,502	4,949	3,041	3,378	3,771
Cost of Sales	-6,048	-5,445	-4,829	-3,695	-1,903	-2,034	-2,170
Gross Profit	800	853	1,673	1,254	1,138	1,344	1,601
Other Operating Income	119	134	147	231	167	167	167
Administrative and Other Op.Expenses	-370	-319	-326	-335	-243	-270	-302
Operating Profit	550	669	1,494	1,150	1,061	1,241	1,466
Net Finance Cost	-86	-79	-48	14	-116	-73	-5
Profit Before Tax	464	590	1,446	1,163	946	1,168	1,462
Income Tax Expenses	-73	-72	-220	-225	-180	-222	-278
Profit for the Year	391	518	1,226	939	766	946	1,184
Equity holders of the parent	391	518	1,228	967	797	965	1,174
Non-controlling interests	0	0	-2	-29	-31	-19	11
EPS	1.7	2.2	5.2	4.7	3.8	4.7	5.9

Source : Company Annual Reports and First Capital Research Estimates

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
As at 31st March							
ASSETS							
Non-Current assets							
Right to use of land-JEDB / SLSPC estates	213	206	198	80	75	69	64
Immovable estate assets on finance lease	142	125	107	30	26	23	20
Property, plant and equipment	1,922	1,835	2,424	2,072	2,491	2,887	3,261
Bearer plants	2,743	2,795	2,955	2,460	2,313	2,165	2,018
Biological assets - consumable	567	609	649	38	38	38	38
Biological assets - livestock	40	28	25	540	540	540	540
Investment fund- Gratuity Investments	220	234	258	289	289	289	289
Available for sale investments	11	22	22	0	0	0	0
Total Non Current Assets	5,858	5,853	6,639	5,509	5,770	6,010	6,228
Current assets							
Inventories	693	638	733	292	266	284	303
Biological assets-produce on bearer plants	0	0	36	29	29	29	29
Trade and other receivables	491	486	537	402	333	370	413
Amounts due from Related parties	0	75	280	0	0	0	0
Investments in Unit Trusts	0	565	0	0	0	0	0
Cash and cash equivalents	72	130	888	180	329	713	1,350
Total Current Assets	1,256	1,894	2,474	903	957	1,396	2,095
Total Assets	7,114	7,746	9,113	6,411	6,727	7,406	8,324
EQUITY AND LIABILITIES							
Capital and reserves							
Stated capital	460	460	460	460	460	460	460
Retained earnings and other reserves	3,823	4,320	5,299	2,912	3,457	4,171	5,092
Non controlling interest	0	0	291	263	232	213	225
Total Equity	4,283	4,780	6,050	3,635	4,149	4,844	5,777
Non-current liabilities							
Interest bearing Borrowings	188	389	325	1,306	1,271	1,237	1,202
Lease Liability to -SLSPC and JEDB	343	336	328	126	123	120	117
Retirement benefit obligations	1,005	977	908	194	194	194	194
Deferred income and capital grants	214	204	194	244	244	244	244
Deferred tax liability	207	267	331	355	355	355	355
	1,956	2,172	2,086	2,224	2,187	2,149	2,112
Current liabilities							
Interest bearing Borrowings	184	149	118	70	35	35	35
Lease Liability to -SLSPC and JEDB	6	6	7	3	3	3	3
Trade and other payables	672	611	688	439	313	334	357
Current tax liabilities	14	28	163	41	41	41	41
Total Current Liabilities	876	794	976	553	391	412	435
Total Equity and Liabilities	7,114	7,746	9,113	6,411	6,727	7,406	8,324
NAVPS	18.1	20.2	24.3	18.0	19.5	23.0	27.6

Source : Company Annual Reports and First Capital Research Estimates

Appendix III: Statement of Cash flow

Cashflow Statement (LKR Mn) Y/E 31st March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net profit before taxation	464	590	1,446	1,163	946	1,168	1,462
Adjustments for:							
Depreciation & amortisation	281	317	320	318	289	310	332
Net finance cost	86	79	48	-14	116	73	5
Other Adjustments	116	110	54	-134	0	0	0
Profit before working capital changes	946	1,095	1,868	1,334	1,350	1,551	1,798
Changes in working capital							
- Inventories	247	55	-95	-58	26	-18	-19
- Trade and other receivables	-44	-74	-51	-1	68	-37	-43
- Amount due from Related parties	0	4	-205	280	0	0	0
Trade and other payables	131	-61	78	110	-126	21	22
Net Change in WC	333	-75	-273	332	-32	-34	-40
Cash generated from operations	1,279	1,020	1,595	1,665	1,318	1,517	1,758
Net finance cost	-86	-79	-48	14	-116	-73	-5
Income Tax paid	-54	-14	-31	-326	-180	-222	-278
Retirement benefit obligations paid	-94	-98	-140	-81	0	0	0
Net cash generated from operating activities	1,045	829	1,377	1,272	1,023	1,223	1,476
Cash flows from investing activities							
Additions to property, plant and equipment	-590	-80	-755	-957	-550	-550	-550
Additions to Bearer plants	0	-183	-317	-345	0	0	0
Additions to Consumable biological assets	0	-26	-34	-24	0	0	0
Other	55	-523	921	-357	0	0	0
Net cash used in investing activities	-536	-813	-185	-1,683	-550	-550	-550
Cash flows from financing activities							
Dividends paid	-343	-118	-331	-352	-251	-251	-251
Payment for shares repurchased	0	0	0	-1,178	0	0	0
Proceeds from borrowings	250	341	71	1,335	0	0	0
Repayment of borrowings	-493	-78	-128	-94	-70	-35	-35
Repayment of lease principal	-6	-6	-8	-7	-3	-3	-3
Net cash used in financing activities	-593	139	-396	-297	-324	-289	-289
(Decrease) / Increase in cash and cash equivalent	-83	155	795	-708	148	384	637
Movement in cash and cash equivalents							
At the beginning of year	21	-62	93	888	180	329	713
(Decrease) / Increase for the year	-83	155	795	-708	148	384	637
At end of year	-62	93	888	180	329	713	1,350

Source : Company Annual Reports and First Capital Research Estimates

Appendix IV: Top 20 Shareholders

Top 20 shareholders - (% held)	1QFY19	4QFY18	QoQ	1QFY18	YoY
Estate Management Services (Pvt) Ltd.	74.2%	74.2%	-	75.7%	-1.4%
Sampath Bank PLC/ Seylan Bank PLC/ Dr.T.Senthilvel	11.7%	11.2%	0.5%	10.1%	1.6%
K.C. Vignarajah	1.1%	1.1%	-	0.9%	0.2%
HSBC International Nominees Ltd-SSBT-Deutsche Bank	0.7%	0.7%	-	0.7%	0.0%
Vyjayanthi & Company Limited	0.5%	0.5%	-	0.4%	0.1%
N. Muljie	0.3%	0.3%	-	0.2%	0.1%
M.I. Abdul Hameed	0.2%	0.2%	-	0.2%	0.0%
S. Vignarajah	0.1%	0.1%	-	0.1%	0.0%
Cocoshell Activated Carbon Company Limited	0.1%	0.1%	-	0.1%	-
M.M. Hashim	0.1%	0.1%	0.1%	0.1%	0.0%
Union Investments Private Ltd	0.1%	0.1%	-	0.1%	-
Pershing Llc S/A Averbach Grauson & Co	0.1%	0.1%	-	0.1%	-
Best Real Invest Co Services (Private) Limited	0.1%	0.1%	-	0.1%	0.0%
C M Holdings PLC	0.1%	0.1%	-	0.1%	-
Adamjee Lukmanjee & Sons (Pvt) Ltd	0.1%	0.1%	-	0.0%	0.1%
D.C.D.L.S.D. Perera	0.1%	0.1%	-	0.0%	0.1%
K.G.M. Pieris	0.1%	0.1%	-	0.0%	0.1%
Al-Haj S.M.M. Hussain Charitable Trust	0.1%	0.0%	0.1%	0.0%	0.1%
M.H.M. Nazeer	0.1%	0.0%	0.1%	0.0%	0.1%
R.D.M. Perera	0.0%	0.0%	0.0%	0.0%	0.0%

Appendix V: Recommendation criteria

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

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	14.46%	10.46%	10.46%
Grade B	Rest of the Companies	17.46%	12.46%	12.46%
Grade C	Companies less than LKR 1Bn Market Cap	20.46%	15.46%	15.46%

Weighted Average 1-year T-bill rate during Jun 2018: 9.46%

Research Disclosure

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 1. A U.S. institutional investor that has, or has under management, total assets in excess of \$100 million; provided, however, that for purposes of determining the total assets of an investment company under this rule, the investment company may include the assets of any family of investment companies of which it is a part; or
 2. An investment adviser registered with the Commission under Section 203 of the Investment Advisers Act of 1940 that has total assets under management in excess of \$100 million.
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 2. A bank, savings and loan association, insurance company, business development company, small business investment company, or employee benefit plan defined in Rule 501(a)(1) of Regulation D under the Securities Act of 1933; a private business development company defined in Rule 501(a)(2); an organization described in Section 501(c)(3) of the Internal Revenue Code, as defined in Rule 501(a)(3) ; or a trust defined in Rule 501(a)(7).

In order to comply with the US regulations, our transactions with US Institutional Investors and Major US Institutional Investors are effected through the US-registered broker-dealer Global Alliance Securities LLC under the Service Agreement that we have with this organization.



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