



WATAWALA PLANTATIONS PLC [WATA.N0000]

UPGRADE TO BUY

FLASHNOTE

Fair Value FY21E: LKR 35.0 [+17%] FY22E - LKR 42.0 [+40%]

Previous Report in Nov 2019 – DOWNGRADE TO SELL AND DISCONTINUE COVERAGE

With our earnings update published on 28th Nov 2019, our recommendation was **DOWNGRADE TO SELL AND DISCONTINUE COVERAGE** as WATA achieved the target price of LKR 28.0 for FY20E.

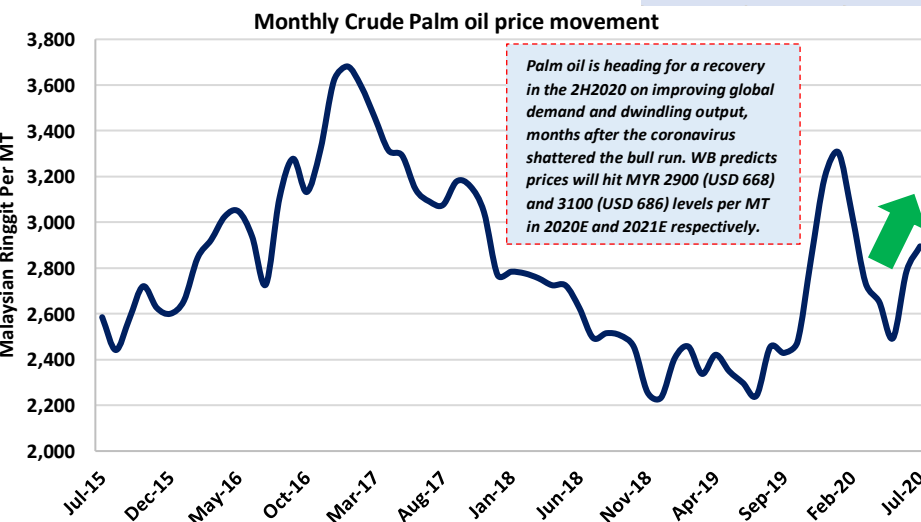
WATA FY21E TP ESTIMATED AT LKR 35.0- UPGRADE TO BUY

WATA reached First Capital Research TP of LKR 28.0 on 18th Nov 2019 and afterwards recorded a declining trend up to Jun 2020. The counter has recovered since then, however, the share price still stands at LKR 30.0 (52-week high LKR 30.30).

We expect WATA to benefit from the circumstances that were created by the pandemic where the focus increasingly shifted towards scaling up local production and import substitution. Palm oil is a close substitute for coconut oil and is being used for cooking and manufacturing of confectionaries. We expect increased import taxes on palm oil to benefit local manufactures such as WATA while rising global palm oil prices would be a further bonus element.

Moreover, Watawala Dairy Limited, the firm's dairy arm, increased its revenues and returned to an operating profit for the first time, attributable to better milk prices and stringent cost optimization measures. Before the government's decision to restrict further cultivation of oil palm, WATA had already completed the conversion of its unproductive rubber lands to grow oil palm which matures during the next couple of years thus increasing volume and productivity. We believe that extension of import control requests the easing of restrictions on oil palm cultivation in line with the govt's import substitution policy, thus further benefiting local palm cultivators such as WATA. We expect WATA to record earnings of LKR 1.3Bn in FY21E with a TP of LKR 35.0. **UPGRADE TO BUY**

P/E 31st Mar	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Estimates (LKR 'Mn)							
Revenue	6,502	4,949	3,082	3,327	4,316	4,786	5,193
EBIT	1,494	1,150	1,036	1,166	1,767	2,006	2,170
Net Profit	1,228	967	837	832	1,390	1,680	1,925
EPS (LKR)	6.1	4.8	4.1	4.1	6.8	8.3	9.5
YoY % Growth	179%	-21%	-14%	-1%	67%	21%	15%
Valuations							
PER (x)	4.9	6.2	7.3	7.3	4.4	3.6	3.2
PBV (x)	1.2	1.7	1.6	1.3	1.1	0.8	0.6
DY(%)	4.7%	5.3%	6.7%	10.0%	6.7%	6.7%	6.7%



Source: Index mundi, Bloomberg

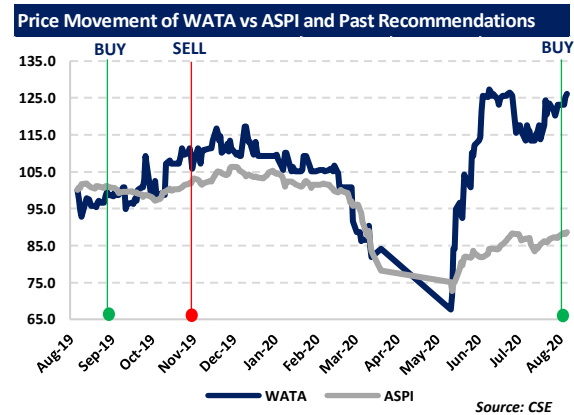
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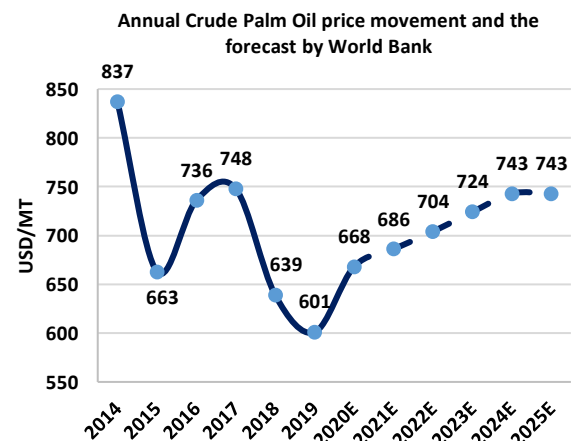
KEY DATA	
CSE Ticker	WATA.N0000
Bloomberg Ticker	WATA SL
Share Price (LKR)	30.00
52w High (LKR)	30.30
52w Low (LKR)	16.10
Avg. Daily Volume (Shares)	10,302
Avg. Daily Turnover (LKR)	281,238
Issued Share Capital (Shares 'Mn)	203.3
Market Cap (LKR 'Mn)	6,099
Market Cap (USD 'Mn)	33

*1 USD = LKR 185

Price Performance (%)	1 mth	6 mths	12mths
WATA	7%	15%	29%
ASPI	4%	4%	5%



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.



Source: World Bank, Commodity outlook, Apr, 2020



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