WATAWALA PLANTATIONS PLC — STRONG BUY

WATA.N0000 | **Current Price: LKR 19.0** | **Fair Value: LKR 30.0** | **Dec 2016**

KEY DATA	
Share Price (LKR)	19.0
52w High/Low (LKR)	24.3 / 17.3
Average Daily Volume (Shares)	27,892
Average Daily Turnover (LKR)	562,914
Issued Share Capital (Shares Mn)	237
Market Capitalisation (LKR mn)	4,497

Price Performance (%)	1 mth	3 mths	12mths
WATA	-3%	2%	-15%
ASPI	-2%	-3%	-8%

Major Shareholders as at 31st Mar 2016	
Estate Management Services (Pvt) Ltd	75.7%
Dr.T.Senthil Verl	10.9%
K.C.Vignarajah	0.9%
HSBC-SSBT-Deustche Bank	0.8%
Vyjayanthi & Company Limited	0.4%
Estimated Free Float	13.4%

Figure 1: WATA share price performance

Source: CSE

Disclosure on Shareholding:

First Capital Equities (Pvt) Ltd nor its entities 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.

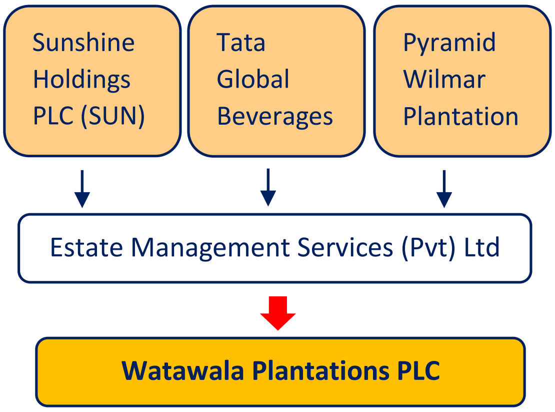
"Nurturing profits, nourishing wealth"

P/e 31 March	*FY15*	*FY16*	*FY17E*	*FY18E*	*FY19E*
Revenue (LKR Mn)	6,848	6,299	6,824	7,544	7,721
YoY % Growth	*10%*	*-8%*	*8%*	*11%*	*2%*
Net Profit (LKR Mn)	**391**	**518**	**741**	**1,163**	**1,176**
EPS	1.65	2.19	3.13	4.91	4.97
YoY % Growth	*-21%*	*33%*	*43%*	*57%*	*1%*
Valuations					
PER (x)	**11.5**	**8.7**	**6.1**	**3.9**	**3.8**
PBV (x)	**1.1**	**1.0**	**0.8**	**0.7**	**0.6**
Dividend yield (%)	**7.6%**	**3.9%**	**4.9%**	**7.8%**	**6.5%**
NAVPS	18.0	20.0	22.4	25.8	29.6
DPS	1.5	0.8	0.9	1.5	1.2
Payout ratio	88%	34%	30%	30%	25%

Watawala Plantations PLC (WATA) is primarily engaged in tea and palm oil cultivation. We initiate coverage on WATA at a time where the company has made a strategic move to dairy farming while adapting a "quality driven" strategy for tea having discontinued rubber. On the back of rising prices and yields in the palm oil segment which is the major enzyme of its profitability, WATA is expected to grow its earnings at a CAGR of 31% during FY16-19E, despite the headwinds from wage hike. FC Research estimates a fair value of LKR 30.0 giving a total annualized return of 53% in FY18E. STRONG BUY

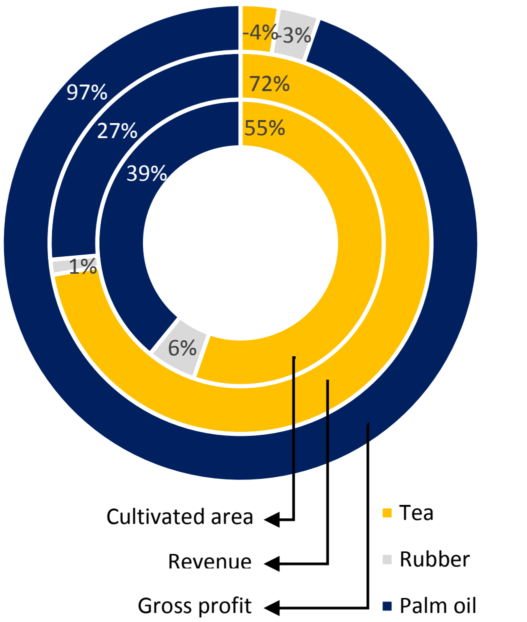
- **Oil palms shelter the bottom line**: With the rising global palm oil prices and increasing yields at WATA's palm oil nurseries, we expect palm oils to contribute significantly to the bottom-line. This we believe will completely offset the impact of recent wage hike which is estimated to be ~LKR 230Mn. Palm oil prices are expected to increase in close correlations to the rising crude oil prices. WATA is the largest palm oil planter in the sector with 3,157 hectares of palm oil of which 76% is mature where the yields are peaking. As ~756 hectares foster young plants with expectations to add ~200 more, we expect the yields to increase going forward. Palm oils generated ~55% of gross margins in FY16 which could be seen improving to ~70% in 1HFY17.
- **Strategic focus nurtures future profitability:** The Company adapted a "quality driven" strategy for tea, where they will produce less quantities for a superior standard. Moving away from quantities brings down the losses incurred in the tea segment, which is struggling with ever rising wage and utility costs that makes it difficult to sustain margins in a price-sensitive global market. Similarly WATA completely stopped its Rubber processing, putting a full stop to losses from the segment while converting them to palm oil. Further, they made an important strategic move to Dairy Farming which is expected to have a sizeable under-tapped demand.
- **WATA to provide a return of 53% by FY18E:** FC Research estimates WATA's fair value at LKR 30.0 (DCF based LKR 30.0, PER based LKR 29.0) providing an annualized return of 53% in FY18E.
- **Investment risks:** Extreme weather conditions, changing political and social landscape, pressure on costs from continuous wage demands and rising utility costs and difficulty of sourcing land for palm oil cultivations limiting further expansion are some of the risks WATA faces.

Figure 2: WATA company structure



Source: Company reports

Figure 3: Performance of major crops (FY16)



Note 1: Excludes exports and other segments
Note2: Rubber has been discontinued from FY16

Source: Company reports

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1.0 Introduction and industry overview

1.1 Introduction to WATA

Outperforms the sector by profitability: WATA generated a gross margin of 14% and a net margin of 8% for FY16, which is the highest in the sector. Palm oils, with an average gross margin of 55%, contributed 97% to the total gross profit in FY16. Strategic and operational excellence are the major pillars behind its profitability.

Segmental overview: The Company processed ~9Mn kilograms of crude palm oil cultivated across 3,157 Ha, making it Sri Lanka's largest palm oil cultivator. WATA has its own production facility with a capacity of 45,000 kilograms per day. Tea segment was its largest revenue contributor (65% of total revenue) and the company produces high, low and medium grown tea in the forms of both Orthodox and CTC and generated exports of LKR 605Mn in FY16 (10% of total revenue). The company discontinued its rubber production at the end of FY16 having converted them into palm oil. The latest venture of WATA is the Dairy farm which is expected to produce ~30,000 liters of milk per day once it is in full operation.

Strategic partnerships with global giants*:* WATA is strengthened by three strategic partners (Figure 2). Singapore based Wilmar International (who manufactures Fortune cooking oil) is the world's largest palm oil processor and merchandiser, with over 500 manufacturing facilities and operations in over 50 countries. India based Tata Global Beverages is the world's second largest manufacturer and distributor of tea. Sunshine Holdings PLC (SUN), the Sri Lankan partner, is a CSE listed diversified conglomerate with operations in healthcare and FMCG apart from plantations. The latest venture – Watawala Dairy Limited – is a joint venture with Singapore based Duxton Asset Management who is a leading asset manager with agricultural expertise. Duxton manages over USD 700Mn assets, of which USD 450Mn are agricultural investments spread across five continents.

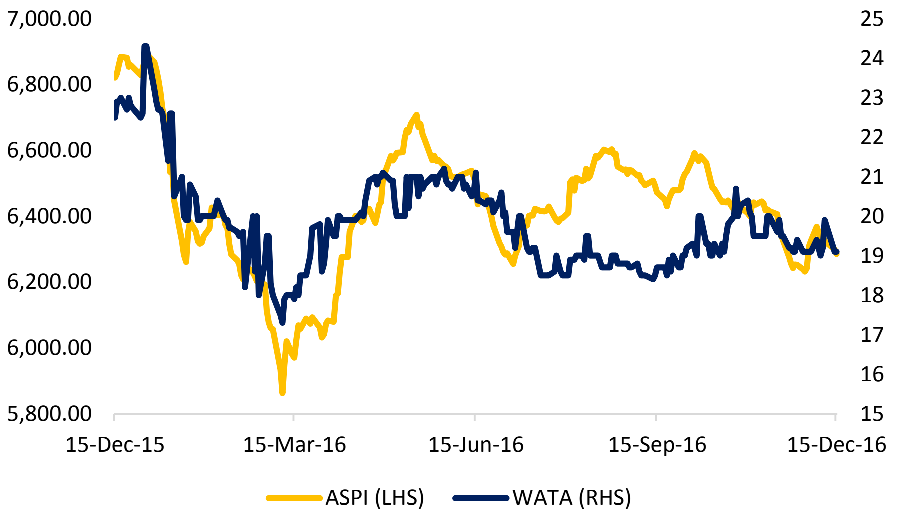
SWOT analysis:

Strengths ▪ Strategic partnerships ▪ Innovative strategic foresight ▪ Operational excellence	**Opportunities** ▪ Future profitability from the Dairy Farm operations ▪ Rising palm oil prices and yields ▪ Quality oriented tea strategy
Weaknesses ▪ High cost per kilogram for tea ▪ Dependency on labor in tea segment ▪ Difficulty of sourcing further land for palm oil	**Threats** ▪ Unpredictable weather ▪ Unfavorable government policies ▪ Continual wage demands

1.2 Share price performance

WATA has moved in line with ASPI during the last 12 months. Post Mar 2016, the share has moved sideways due to the uncertainties concerning the plantation sector.

Figure 4: WATA Vs. ASPI

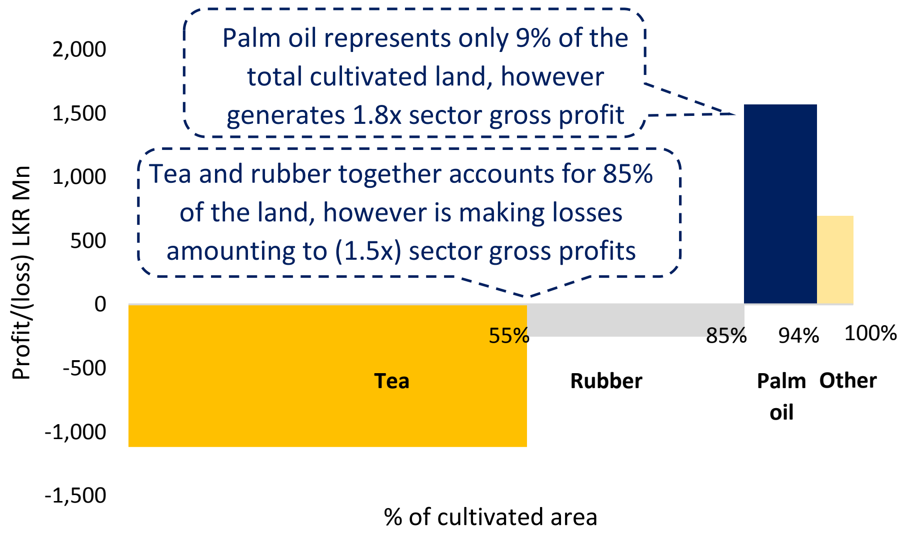


Source: CSE

1.3 Plantation sector overview

Sector snapshot: Sri Lankan plantation sector generated LKR 55Bn of revenues as of March 2016 and recorded a gross profit of LKR 898Mn. Tea and rubber together made a gross loss of LKR 1.4Bn while palm oils, with only a cultivated land area of 9%, generated LKR 1.6Bn gross profits, offsetting the gross losses from tea and rubber. However, the sector recorded a net loss of LKR 2.2Bn.

Figure 5: Cultivated areas Vs. profitability



Source: Company reports, FC Research estimates

Peer snapshot: There are 19 listed plantation companies on the CSE. WATA is the largest based on the market capitalization and stands out having the highest net and gross margins, outperforming its peers in terms of profitability. The key data for the largest 10 companies based on market capitalization are indicated below.

Figure 6: 10 largest players by market capitalization

Company ticker	MCAP (LKR Mn)	Cultivated area (Ha)	Revenue (LKR Mn)	Net Margin (Mar 16)	GP margin (Mar 16)	PER
WATA	4,733	8,246	6,299	8%	14%	9.1
KAHA	2,517	1,763	2,730	-7%	-5%	(13.1)
KVAL	2,040	8,348	6,069	0%	8%	(71.0)
NAMU	1,779	5,705	1,913	4%	3%	25.6
ELPL	1,457	5,989	2,444	8%	7%	7.4
KGAL	1,375	7,509	1,933	7%	0%	10.2
MADU	1,305	3,582	1,870	-15%	-19%	(4.5)
ASPM	969	5,989	2,444	6%	7%	7.1
TPL	834	5,149	3,435	3%	9%	7.0
BOPL	821	2,438	4,178	0%	7%	(699.7)

Source: Company reports, FC Research estimates

Competitive industry analysis: The industry is under pressure from high bargaining power of its competitive forces.

- **Supplier power: HIGH** as the industry is highly labor intensive and the scarcity of labor puts constant pressure on margin in the form of higher wage demands
- **Buyer power: HIGH** as buyers from Russia, Middle East and EU are highly price sensitive for tea and rubber
- **Threat of new entrants**: **MODERATE** as the start-up capital is low
- **Threat of substitutes: HIGH** as substitutes with similar price-performance are available (coffee for tea, synthetic rubber for natural rubber and sunflower oil for palm oil)
- **Rivalry: HIGH** as all players compete for the same market segment with less differentiation and high commoditization

Industry developments

- **Wage hike:** The recent wage agreement resulted in estate workers' wages rising to LKR 730 from LKR 620 previously. One advantage with the new wage structure is the introduction of a productivity incentive of LKR 140 which will only be paid to the workers who at least bring the estate norm quantity of leaves (varies from estate to estate and season to season). In addition, the attendance allowance will only be paid to the workers having at least 75% of attendance.

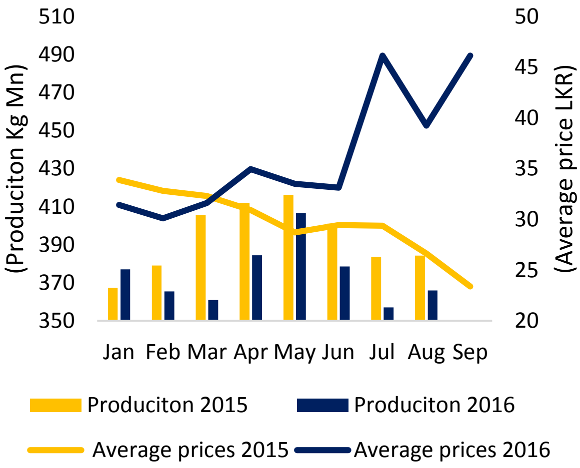
Figure 7: Wage structure

Component	New wage structure (LKR)	Previous wage structure (LKR)
Basic wage	500	450
Price share supplement	30	30
Attendance allowance	60	140
Wage before productivity incentive	**590**	**620**
Productivity incentive	140	-
Total wage	**730**	**620**

Source: Press releases, industry experts

- **Budget proposal for restricting land:** The Budget 2017 proposed restriction of land per maximum acreage that can be held by any stand-alone company, without being allowed to consolidate will be restricted to 5,000 acres. However, the budget also proposed that there will be no loss of employment and that RPCs will be granted the first right of refusal, when being allocated land. There is much ambiguity with this proposal and attracted severe protest from the RPCs. The Minister of Plantation Industries Navin Dissanayake said that the government will not force Regional Plantations Companies to reduce land holdings under a restructuring proposal in the budget for 2017 (Economynext, 08 Dec). Accordingly, at the moment we believe that WATA is not under a threat of reducing land holdings. Further it should be noted that the concern was more on the loss making companies as the Finance Minister Ravi Karunanayake stated that "there were only four out of 20 companies that had performed vigorously, and they would be given priority, while all the others would have to justify why they could not deliver results" (Daily FT, 15 Nov). Accordingly we are of the opinion that WATA, having a healthy track record of profitability, will be immune to any adverse impact from this proposal, if at all it is implemented.

Figure 8: Average tea prices and production



Source: John Keels Tea

Major crops

Sri Lanka's plantation sector's roots date back to the British colonial era where the first commercial scale coffee planting commenced in 1830's. Since then, the sector has thrived on many ups and downs to become an export oriented industry, contributing to 24% of total exports. Traditionally, for almost 150 years, Sri Lankan planters focused on tea and rubber as major export crops. Due to the heavy losses suffered in the tea and rubber segments, within the last five years, diversification into palm oil and other minor crops could be seen.

Tea: Sri Lanka exports ~300Mn kilograms per annum, which is 90% of its production, reflecting an export market size of USD 1.2Bn. Middle East, Russia, Turkey and UK are among Ceylon Tea's major export markets. Sri Lanka is specialized in Orthodox black tea which it largely sells in bulk although it does CTC, green tea and value added forms of tea. Tea industry is going through a difficult time as lack of value addition cuts back prices in the global market while losing market share to countries with higher productivity such as Kenya. This highly labor oriented crop has constant pressure form wage hikes and increasing utility costs. For a kilogram of tea, the average cost is USD 3.3 against an average price of USD 2.9 which nets a loss of USD 0.4.

Rubber: Rubber industry is having an even more difficult situation as competition from low cost synthetic rubber intensifies. Rubber generates USD 24Mn revenues by exporting 89Mn kilograms predominantly in the forms of smoked sheets and latex to the EU and Japan. Average cost of a kilogram of rubber is USD 1.8 against an average price of USD 1.5, netting a loss of USD 0.3.

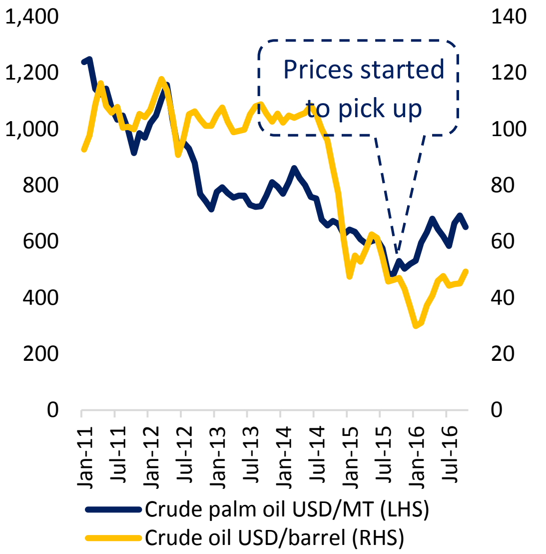
Oil palm: Palm oil is a high yielding crop which generates ~4-5x higher yield compared to other edible oils such as sunflower or soybean oil. Sri Lanka has two palm oil processing units, one operated by WATA and another (AEN Palm Oil Processing) which is a joint venture between Agalawatta, Elpitiya and Namunukula plantation, each with roughly the same capacity. This is a less labor oriented crop compared to tea and rubber where tea requires 4 workers per hectare, rubber requires 1 worker per hectare and palm oil requires only 0.1 worker per hectare. Of the edible oil consumptions in the world, over 55% represents palm oil and is used as an ingredient for margarine, confectionaries, personal care and cosmetics. Global palm oil demand is expected to grow at a CAGR of 7.3% by 2022 to 128Mn tons.

2.0 Oil palms shelter the bottom line

2.1 Palm oil prices and yields to improve

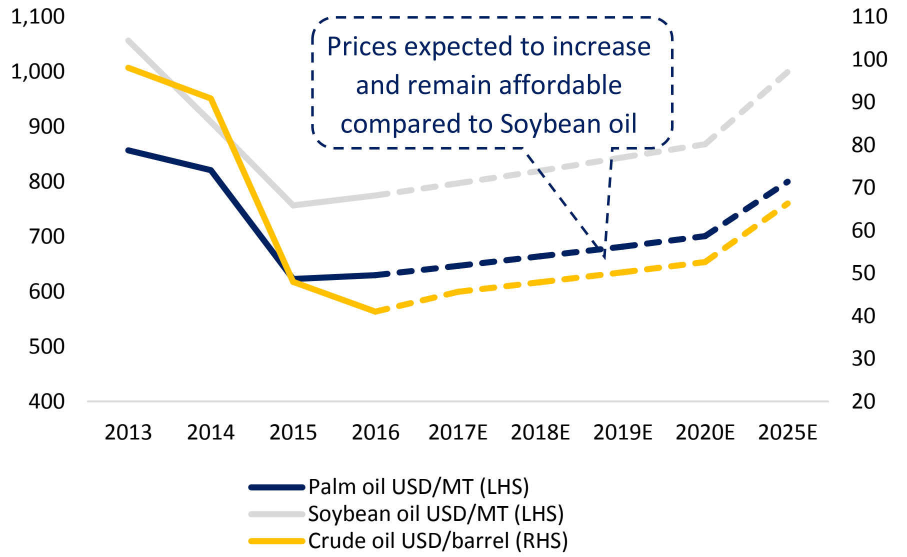
Rising palm oil prices: Palm oil prices are correlated to the crude oil prices which has started to incline from its record low levels of USD 30 per barrel. WATA's palm oil prices are based on the futures prices of Malaysian Pam Oil Board, thereby directly being exposed to any favorable movements in the global palm oil prices.

Figure 8: Palm oil Vs. crude oil prices



Source: Indexmundi

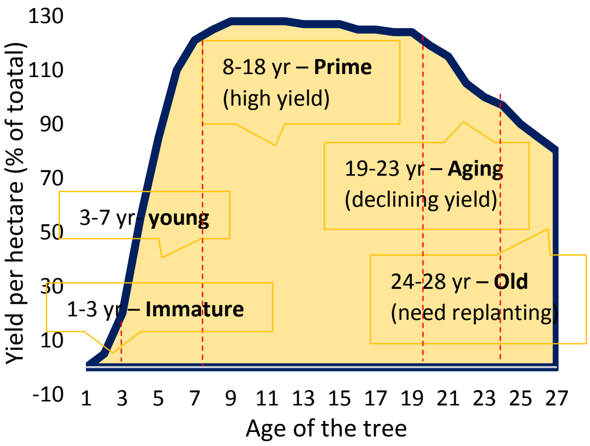
Figure 9: Palm oil price forecasted to rise



Source: World Bank

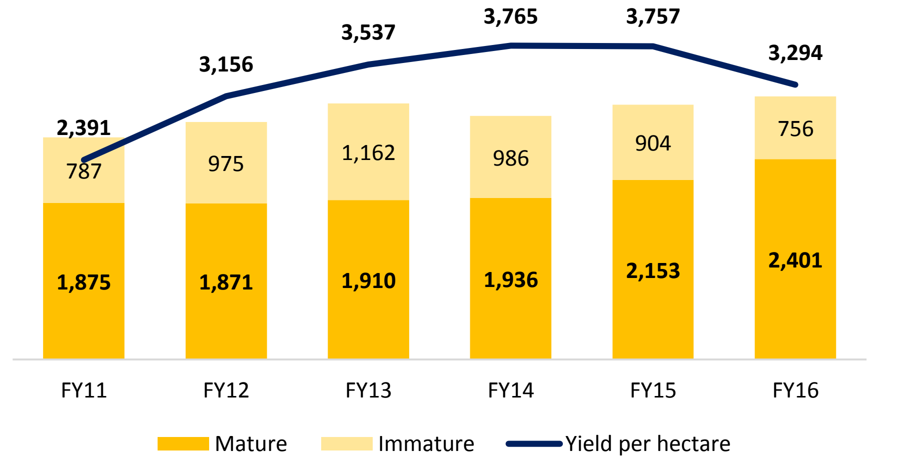
Palm oil yields to increase: WATA manages ~3,157 hectares of palm oil of which ~76% (2,401 hectares) is mature including "prime" stage. The company added ~500 hectares to its mature plantations during the last 3 years and is left with ~756 hectares of immature plantations as of Mar 2016 which will gradually start maturing from next year and move to "prime" category. Further the company expects to add ~200 more hectares to its immature nurseries. In general, palm oil cultivations starts yielding fruits in 3 years' time and the yields maximize in 8 years, sustaining up to 20 years of the tree's life. Hence, we expect that the yield per hectare will increase going forward.

Figure 10: Palm oil yield over lifetime



Source: A.H Ling, Malaysia

Figure 11: ~76% of the palm oil cultivation is mature



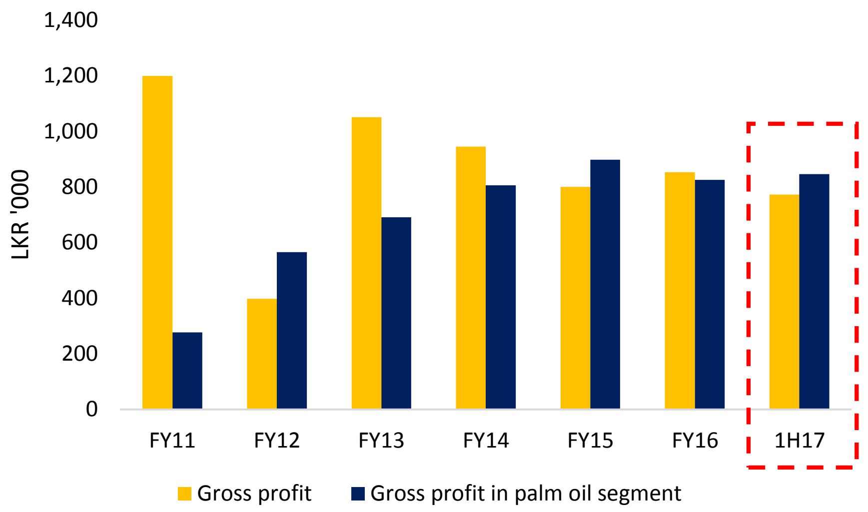
Note: The one-off drop in FY16 is due to El Nino weather effects in 2015

Source: Company reports

2.2 Palm oil profits overweight the impact of wage hike

Palm oils contribute substantially to bottom-line: Palm oils yielded exceptional gross margins of ~55% in FY16. As a result, the segment contributed 97% to the gross profit while it represented only 24% of the topline. The net income of the palm oil segment was 131% of the total net income of WATA. With the rising global palm oil prices and the higher yields the gross margins from palm oils could be seen further improving to ~70% in 1HFY17. We estimate the palm oil segment to contribute significantly to the bottom-line maintaining an average gross margin of ~65%, supporting WATA to boost its total average gross and net margins.

Figure 12: Palm oil contribution has significantly improved over the years



Source: Company reports

***Impact of wage hike to offset against healthy palm oil profits*:** FC research estimates the impact of the wage hike to be ~LKR 230Mn (Appendix VI). During the first half of FY17, the company has already made a substantial gross profit of LKR 772M and a net profit of LKR 548Mn which is almost close to the full year results of FY16 driven by healthy performance in palm oil segment. We believe that the full year results for FY17 will comfortably able to offset the impact of wage increase.

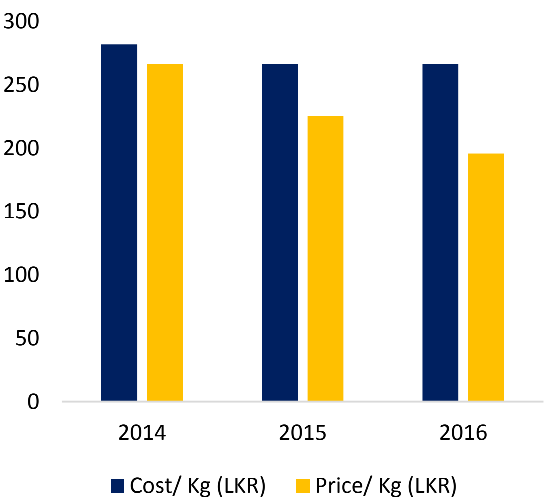
Going forward, the wage hike will mostly affects the tea segment of which ~70% of the cost of production reflects labor cost. However, the changing job aspirations of the estate workers have made it difficult for the company to source labor, thereby causing its workforce to decline over the years. As a solution, the company has started mechanizing the tea plucking which is currently practiced in ~20% of the tea plantations. Compared to tea, palm oil is extremely less labor oriented where tea requires ~4 workers per hectare while palm oil only requires 0.1 workers per hectare.

3.0 Strategic focus nurtures future profitability

3.1 Quality driven tea strategy

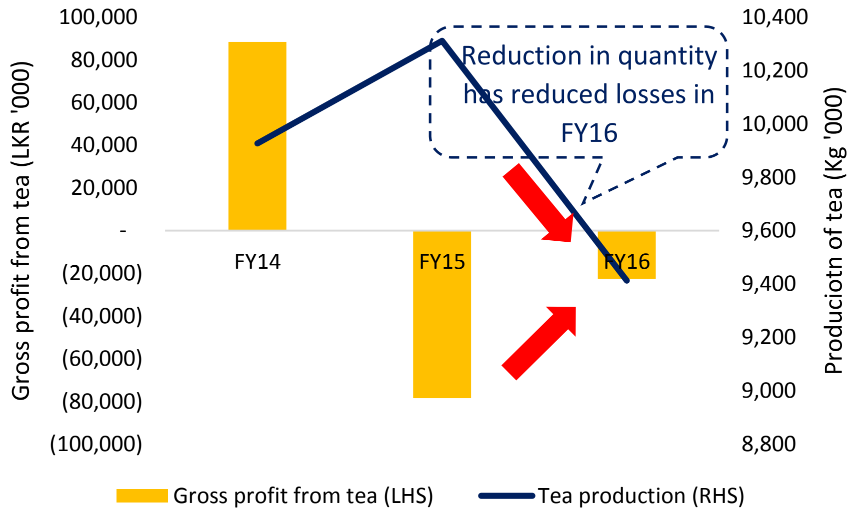
Losses to reduce when moving away from quantities: WATA changed its strategy in the tea segment from a quantity oriented to a "quality driven" from FY16. Accordingly, going forward, the company will process less quantities which are carefully produced meeting superior quality standards. This moving away from the quantities will help improve the performance of the tea segment in future.

Figure 13: Tea price Vs. cost of production



Source: Department of Census and Statistics, World Bank

Figure 14: Improved performance in tea after being "quality driven"

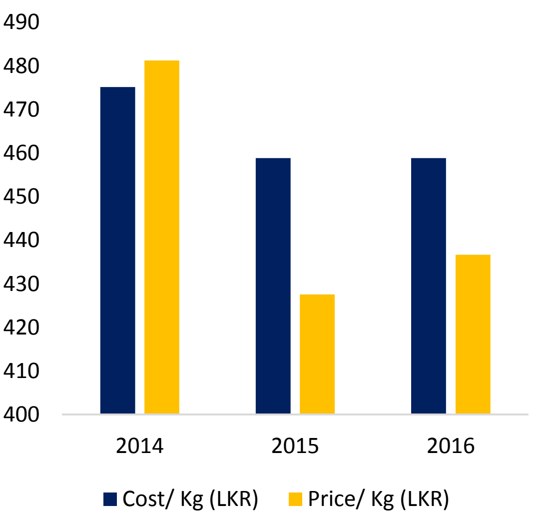


Source: Company reports

3.2 Discontinuation of rubber

Losses from rubber also to discontinue: The Company discontinued its rubber segment in FY16 while converting it to palm oil. The rubber industry in Sri Lanka has suffered severe losses due to declining natural rubber prices in the global market and the increasing competition from synthetic rubber. The company reported a loss of LKR 24Mn in FY16 in the rubber segment.

Figure 15: Rubber price V. cost of production



Source: Department of Census and Statistics, World Bank

3.3 Strategic move to dairy farming

Exploiting the under-tapped demand: The Company recently partnered with Duxton Asset Management, an agricultural oriented asset management firm, to set up a dairy farm. The company currently has a herd of ~200 cows producing ~1,000-1,500 liters of milk per day. Once this is in full operation, the company expects to produce ~30,000 liters per day, catering primarily to Milco and Ambewela. The company wishes to import additional cows in order to enhance the herd. The dairy operations are expected to deliver ~40% of margins and FC Research is in the opinion that it is an important strategic move to grow company's future profitability.

With the increasing duties on imported milk powder, locally manufactured dairy products is expected to have an increasing demand in future. This is evidenced by the capacity expansions at Milco. According to the Ministry of Finance, the milk production at Milco is expected to grow from 68Mn liters in 2015 to 105Mn liters in 2018 (CAGR of 16%).

4.0 WATA to provide a return of 53%

P/e 31 March	*FY15*	*FY16*	*FY17E*	*FY18E*	*FY19E*
Revenue (LKR Mn)	6,848	6,299	6,824	7,544	7,721
YoY % Growth	*10%*	*-8%*	*8%*	*11%*	*2%*
Net Profit (LKR Mn)[1]	**391**	**518**	**741**	**1,163**	**1,176**
EPS	1.65	2.19	3.13	4.91	4.97
YoY % Growth	*-21%*	*33%*	*43%*	*57%*	*1%*
Valuations					
PER (x)	**11.5**	**8.7**	**6.1**	**3.9**	**3.8**
PBV (x)	**1.1**	**1.0**	**0.8**	**0.7**	**0.6**
Dividend yield (%)	**7.6%**	**3.9%**	**4.9%**	**7.8%**	**6.5%**
NAVPS	18.0	20.0	22.4	25.8	29.6
DPS	1.5	0.8	0.9	1.5	1.2
Payout ratio	88%	34%	30%	30%	25%

WATA earnings CAGR of c.31% FY16-19E: We expect WATA's revenues to grow to LKR 7.7Bn in FY19E from current level of LKR 6.3Bn. WATA's net income is expected to grow to LKR 1.2Bn in FY19E from the current level of LKR 518Mn. It should be noted that the Company recorded a net income of LKR 548Mn in the first half of FY17.

4.1 Total return of 53% in FY18E

Capital gain of 58% and a dividend yield of 13%: FC Research estimates WATA's fair value to be LKR 30.0 in FY18E. The company would yield a capital gain of 58% in FY18E. We expect WATA to maintain its dividend payout ratios at 30% in FY17E and FY18E. The total annualized return stands at 53%.

Expected WATA price	**FY18E**
DCF based valuation	30
PER based target price	29
Average target price	30

Return	**FY18E**
Target price	30.0
Current price	19.0
Capital gain	11.0
Dividend	1.5
Capital gain %	58%
Dividend yield %	13%
Total return	**71%**
Total return (annualised)[1]	**53%**

1. Annualised over 15 months

4.2 Discounted Cash Flow valuation

DCF value of LKR 30.0: FC Research estimates WATA to have a DCF value of LKR 30.0 based on an equity value of LKR 7.0Bn.

COE	
R_f	10%
R_m	18%
R_m - R_f	8%
β	1.62
K_e=R_f+β (R_m-R_f)	**23%**

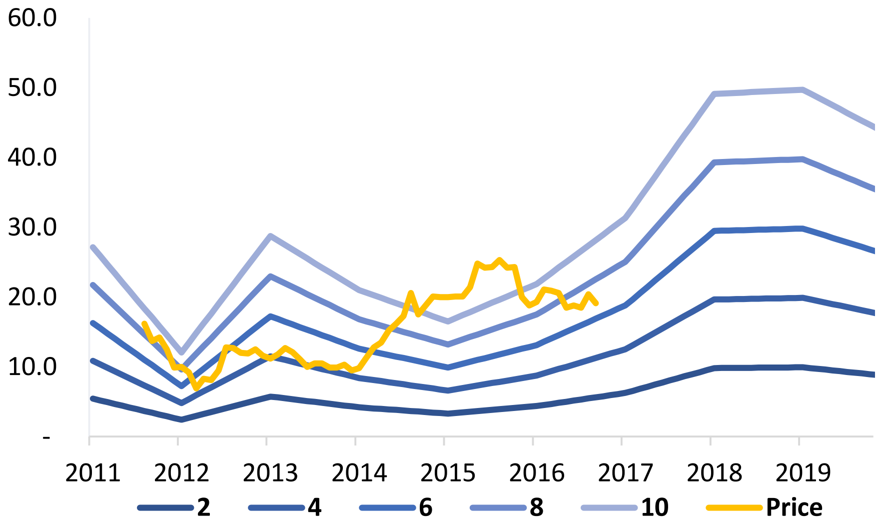
WACC	
K_e	23%
K_d	18%
D/ E	16 / 84
Terminal Growth rate	3%
WACC	**22%**

Valuations (LKR Mn)	FY18E
NPV	6,071
Less: debt	740
Add: cash and cash equivalents	1,757
Total value of Equity	7,088
No. of Shares (Mn)	237
Value of Equity per share	**30**

		WACC				
		18%	**20%**	**22%**	**24%**	**26%**
Terminal growth rate	**1%**	33	30	28	27	25
	2%	34	31	29	27	26
	3%	35	32	30	28	26
	4%	37	33	31	29	27
	5%	39	35	32	30	28

4.3 PER based valuation

Average PER of 6x: FC Research estimates an average PER of 6x for WATA giving a PER valuation of LKR 29.0 per share. The company is trading at 9x PER, however a lower PER was estimated to account for the investment risks.



PER valuation	FY18E
Earnings (LKR Mn)	1,163
No of shares (Mn)	237
EPS	4.9
Expected PER	6x
Price at 6x expected earnings	**29**

5.0 Investment risks

5.1 Environmental risk

Extreme weather may affect output: Tea is highly prone to adverse weather conditions. The ideal weather for tea will be morning sunshine and afternoon mild showers, yet the weather patterns have become erratic and unpredictable due to changes in climatic conditions, which affects output. Compared to tea, oil palms are less affected with the movements in weather conditions unless it is an exceptional situation. For example extreme weather conditions such as El nino experienced in 2015 with prolonged dry seasons can affect the palm oil output. For palm oil, the weather would be an important factor at the growing age of the tree, however, after maturing, it is more resilient with weather conditions.

5.2 Pressure on costs

Continual wage demands and rising utility costs: The margins from tea plantations are is highly affected by the never-ending demand for wages by the workers. Labor accounts for ~70% of the cost of production. In addition, the utility costs also keep increasing, putting further pressure on production cost.

5.3 Changing industry structure

Adverse political and social trends*:* The Budget 2017 proposed that the maximum acreage of land that can be held by any stand-alone company, without being allowed to consolidate will be restricted to 5,000 acres. The Finance Minister Ravi Karunanayake stated that "there were only four out of 20 companies that had performed vigorously, and they would be given priority, while all the others would have to justify why they could not deliver results" (Daily FT, 15 Nov). WATA has a healthy track record of profitability, hence we are of the opinion that this proposal is highly unlikely to affect WATA's land holdings. However, such a move by the government will result in changing the industry structure with more players entering. In addition social trends such as changing job aspirations of workers in estates have made it difficult to source labor for tea planting, leaving companies to move to mechanizing as a solution.

5.4 Sourcing land

Limited land**:** The arable land for cultivation of palm oil is scare to find as most of the available land has been already used. This is limiting the potential to gain profits from palm oil after a certain point. WATA is already taking steps to improve the productivity in the existing land adopting sustainable practices. In addition, they have considered further diversifying into dairy farming with a long term view.

Appendix I: 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 at 15-12-2016 – 10.10%**

Appendix II: Income Statement

LKR (Mn)	*FY15*	*FY16*	*FY17E*	*FY18E*	*FY19E*
Revenue	6,848	6,299	6,824	7,544	7,721
Cost of sales	(6,048)	(5,445)	(5,630)	(5,816)	(5,982)
Gross profit	800	853	1,194	1,728	1,738
Other operating income	119	134	103	104	103
Administrative expenses	(370)	(319)	(376)	(402)	(430)
Operating profit	550	669	921	1,430	1,411
Finance income	15	17	17	26	50
Finance cost	(100)	(96)	(96)	(104)	(94)
Net finance cost	(86)	(79)	(79)	(78)	(43)
Profit before income tax	464	590	842	1,352	1,368
Income tax expense	(73)	(72)	(101)	(189)	(191)
Profit for the year	391	518	741	1,163	1,176
Equityholders	391	518	741	1,163	1,176
EPS (reported)	1.65	2.19	3.13	4.91	4.97

Appendix III: Balance Sheet

LKR (Mn)	*FY15*	*FY16*	*FY17E*	*FY18E*	*FY19E*
Assets					
Non current assets					
PPE	1,922	1,835	1,767	1,727	1,722
Biological assets	3,350	3,431	3,467	3,493	3,509
Other non current assets	586	586	562	537	513
	5,858	5,853	5,797	5,757	5,744
Current Assets					
Inventories	693	638	721	797	816
Trade and other receivables	491	561	609	623	626
Cash and cash equivalents	72	695	1,106	1,757	3,357
	1,256	1,894	2,436	3,177	4,799
Total assets	7,114	7,746	8,232	8,934	10,543
Equity and liabilities					
Capital and reserves					
Stated capital	460	460	460	460	460
Retained Earnings	3,823	4,320	4,839	5,653	6,535
Total equity - equityholders	4,283	4,780	5,299	6,113	6,995
Non current Liabilities					
Borrowings	188	389	186	137	86
Other non current liabilities	1,768	1,784	1,768	1,753	1,738
	1,956	2,172	1,954	1,890	1,825
Current liabilities					
Trade and other payables	672	611	621	626	631
Other current liabilities	204	183	358	304	1,093
	876	794	979	930	1,724
Total equity and liabilities	7,114	7,746	8,232	8,934	10,543
NAVPS	18	20	22	26	30

Appendix IV: Cash Flow Statement

(LKR Mn)	FY15	FY16	FY17E	FY18E	FY19E
Profit/Loss before tax	464	590	842	1,352	1,368
Adjustments for:					
Depreciation	281	310	301	297	295
Profit from sale of PPE	(8)	(14)	(15)	(12)	(9)
Profit from sale of bio assets	(36)	(16)	(19)	(20)	(20)
Movement in live stock	5	13	1	1	2
Timber fair value (gain)/loss	(7)	(29)	(20)	(20)	(20)
Amortization of leasehold properties	7	7	7	7	7
Amortization of capital grants	(10)	(10)	(10)	(10)	(10)
Interest Income	(15)	(17)	(17)	(26)	(50)
Interest Expense	100	96	96	104	94
Changes in working capital	-	-	-	-	-
(Increase)/ decrease in inventories	247	55	(83)	(76)	(19)
(Increase)/ decrease in Receivable	(94)	(70)	(48)	(14)	(3)
Increase/ (decrease) Trade and Other Payables	131	(75)	10	5	5
Defined benefit obligations	170	172	-	-	-
Cash generated from operations	1,235	1,012	1,046	1,589	1,637
Interest paid	(100)	(96)	(96)	(104)	(94)
Tax paid	(4)	(0)	(101)	(189)	(191)
Defined benefit obligations paid	(94)	(98)	-	-	-
Interest received	15	17	17	26	50
Net Cash from operating actvities	**1,050**	**835**	**866**	**1,322**	**1,403**
Cash Flow from Investing Activities	-	-	-	-	-
Field development expenditure	(362)	(209)	-	-	-
Purchase of property, plant and equipment	(233)	(80)	(254)	(267)	(291)
Proceeds from sale of property, plant and equipment	13	20	20	16	13
Proceeds from sale of consumable biological assets	73	29	34	36	37
Re-investment / investment in gratuity fund	(20)	(14)	-	-	-
Purchase of shares in related company	(11)	-	-	-	-
Net cash used in investing activities	**(540)**	**(254)**	**(200)**	**(215)**	**(241)**
Cash Flow from Financing Activities	-	-	-	-	-
Dividends paid	(343)	(118)	(222)	(349)	(294)
Proceeds from borrowings	250	341	200	40	1,000
Repayment of borrowings	(493)	(78)	(190)	(143)	(262)
Repayment of lease principal	(6)	(6)	(5)	(5)	(5)
Net Cash Flow from Investing Activities	**(593)**	**139**	**(218)**	**(457)**	**438**
Increase/ decrease in cash and cash equivalents	(83)	720	449	651	1,600
Movement in Cash and Cash Equivalents					
At the beginning of the year	21	(62)	658	1,106	1,757
Increase/ decrease in cash and cash equivalents	(83)	720	449	651	1,600
Cash and cash equivalents at the end of the Year	**(62)**	**658**	**1,106**	**1,757**	**3,357**

Appendix V: Key ratios

P/e 31st Mar		FY15	FY16	FY17E	FY18E	FY19E
Growth	Revenue	10%	-8%	8%	11%	2%
	Cost of Sales	14%	-10%	3%	3%	3%
	Gross Profit	-15%	7%	40%	45%	1%
	EBIT	-19%	22%	38%	55%	-1%
	Net Profit	-21%	33%	43%	57%	1%
Margins	GP Margin	12%	14%	17%	23%	23%
	EBIT Margin	8%	11%	14%	19%	18%
	NP Margin	6%	8%	11%	15%	15%
Gearing	Debt/Equity	9%	11%	10%	7%	16%
	Debt/Debt+Equity	8%	10%	9%	6%	14%
	Debt/Total assets	9%	11%	10%	7%	16%

Appendix VI: Impact of wage hike

Impact of wage hike (on an incremental basis)

Increase in total wage per day per worker (LKR)	110
No of estate workers '000	9.6
(Figures in LKR '000)	
Increase in total wage	317,166
Productivity incentive impact	(100,917)
Attendance of 75% impact	(192)
EPF	11,533
ETF	4,325
Impact from wage hike	231,916
<u>Assumptions</u>	
No of total workforce	*10,679*
% of estate workers	*90%*
% of employees who may not bring the norm	*25%*
% of employees who may not have 75% attendance	*25%*
Days of plucking	*300*