

**KEELLS FOOD PRODUCTS PLC [KFP.N0000]****MAINTAIN HOLD****MARGIN BEAT LIKELY TO HOLD UP****Fair Value: FY22E - LKR 173.0 [+6%]**

Total Return with DPS: FY22E - 13% [AER 17%]

FY23E - LKR 185.0 [+13%]

FY23E - 27% [AER 15%]

KFP's earnings grew by 2,669%YoY to LKR 123Mn in 4QFY21 mainly driven by increase in revenue, expanded margins and tax reversal. We expect a gradual improvement in consumer demand from 1QFY22 onwards, supporting KFP earnings for FY22E. Thereby, we maintain our recurring earnings of LKR 341.8Mn (6%YoY) for FY22E and LKR 379.8Mn (+11%YoY) for FY23E. We maintain our forecast and target price for FY22E at LKR 173.00 and FY23E at LKR 185.0. **MAINTAIN HOLD**

| LKR (Mn) | 4QFY20 | 4QFY21 | YoY | FY20 | FY21 | YoY |
|--------------------------------|--------|--------|-------|-------|-------|-------|
| Earnings (LKR 'Mn) | | | | | | |
| Revenue | 809 | 1,043 | 29% | 3,591 | 3,651 | +2% |
| Gross profit | 189 | 269 | 42% | 967 | 1,005 | +4% |
| EBIT | 2 | 85 | 4147% | 208 | 329 | +59% |
| PBT | -1 | 84 | 8527% | 205 | 326 | +59% |
| Net Profit | 4 | 123 | 2669% | 150 | 321 | +114% |
| Balance Sheet (LKR 'Mn) | | | | | | |
| Shareholders' Equity | 1,876 | 2,076 | +11% | 1,876 | 2,076 | +11% |
| Borrowings | 165 | 129 | -22% | 165 | 129 | -22% |
| NAVPS | 73.6 | 81.4 | | 73.6 | 81.4 | |

4QFY21 earnings up by 2,669% on finance income

KFP recorded a net profit of LKR 123Mn for 4QFY21 with revenue rising by 29% and EBIT margin improving to 8.15%. Revenue was mainly driven by modern retail trade while EBIT margin improved primarily due to lower raw material prices and effective cost control. We maintain our revenue and earnings target for FY22E at LKR 341.8Mn (6%YoY) and LKR 379.8Mn (11%YoY) respectively.

Volumes up in 4Q driven by slow pickup in consumer demand

KFP revenue was up by 29%YoY in 4QFY21, driven by the double-digit growth in overall volumes that are strongly linked to the modern retail trade (supermarket-based retail trade) and general retail trade shifting from HORECA segments. The new supermarkets being opened by the Keells chain coupled with the renewed promotions and re-branding campaigns are having a positive impact on KFP volumes.

EBIT margins improve on the back of better volume growth

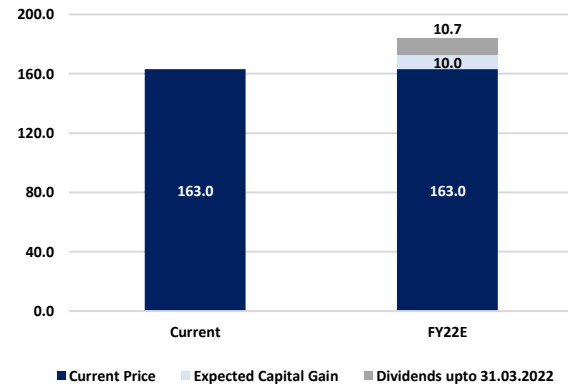
KFP saw 24.9%YoY improvement of COGS on the back of price increase in raw material (Chicken and Pork) prices. While distribution expenses were down by 13%YoY due to muted promotional activities, the admin expenses recorded an increase of 5%YoY. EBIT margins for 4QFY21 improved by 790bps to 8.15% compared to 0.25% in 4QFY20 while EBIT margin for FY21 improved to 9.02%. We expect promotional activities to continue in FY22E at a slower pace.

KFP to leverage growth from new outlets and rebranding

We expect a jump in KFP volumes and margins supported by the new supermarket outlets. KFP's product range being convenience foods, has experienced an annual organic volume growth of 5% and that trend is likely to continue during the FY22E-24E period as well. However, with the new outlets, we expect an additional boost to retail sales while the new in-house bakeries may further support to increase overall volume growth to 10% in FY22E and 11% in FY23E. We have factored in 15 new "Keells Super" outlets each in FY22E and FY23E taking the total number of outlets from 123 to 153. CCS has already opened 14 outlets in FY21 out of which 8 were opened during the 4QFY21. In addition, with retail sales (currently 1/3 of overall volumes) providing the biggest margins, we expect overall GP margins to improve to 30% in FY22E and FY23E.

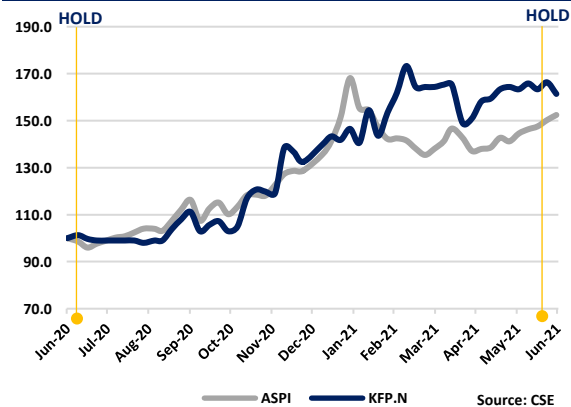
We recommend HOLD on KFP on the back consumer pickup

We are positive on KFP's focus on shifting its sale mix to higher margin products amidst increase in raw material prices. Our TP is maintained at LKR 173.0 for FY22E and 185.0 for FY23E. **MAINTAIN HOLD**

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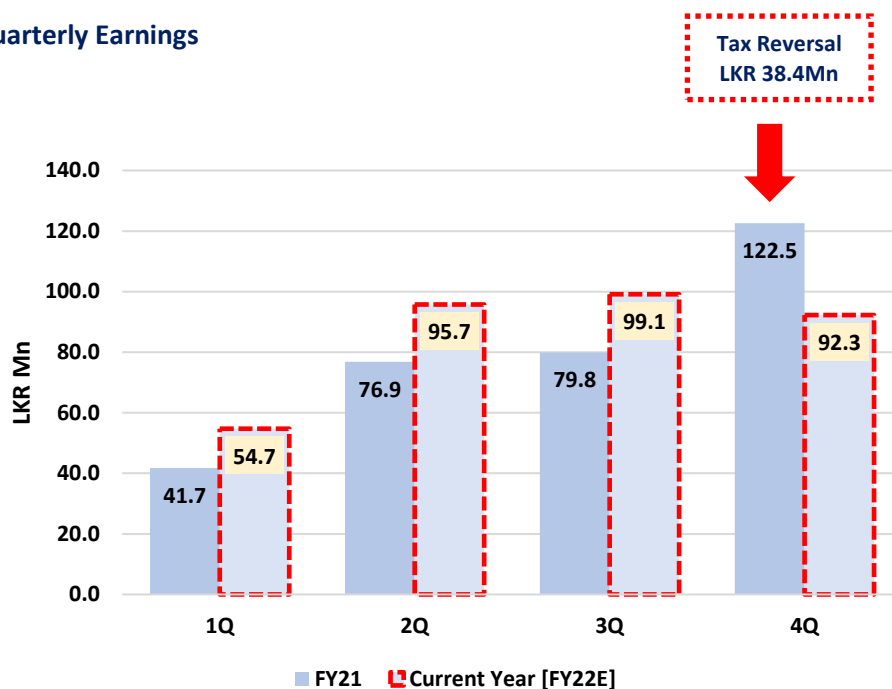
atchuthan@firstcapital.lk**Price movement of KFP vs ASPI and past recommendations****Minimum Return for BUY:**

Buy Below for FY22E [AER of 15.1% with DPS]: LKR 158.0
KFP categorized as 'Grade B' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of KFP during the five trading days prior to the issuance of this document

Quarterly Earnings



Valuation Table

| P/E 31 March | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E | FY25E |
|----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Estimates (LKR 'Mn) | | | | | | | | |
| Revenue | 3,119 | 3,430 | 3,591 | 3,651 | 4,162 | 4,579 | 5,082 | 5,387 |
| Gross profit | 906 | 996 | 967 | 1,005 | 1,272 | 1,403 | 1,568 | 1,827 |
| Operating profit | 349 | 378 | 205 | 326 | 397 | 442 | 501 | 696 |
| Recurring earnings | 244 | 267 | 150 | 321 | 342 | 380 | 431 | 598 |
| Adjusted EPS (LKR) | 9.6 | 10.5 | 5.9 | 12.6 | 13.4 | 14.9 | 16.9 | 23.5 |
| YoY Growth (%) | -12% | 10% | -44% | 114% | 6% | 11% | 13% | 39% |
| Valuations | | | | | | | | |
| PER (x) | 17.1x | 15.6x | 27.7x | 12.9x | 12.2x | 10.9x | 9.6x | 6.9x |
| PBV (x) | 2.5x | 2.3x | 2.2x | 2.2x | 2.0x | 1.9x | 1.9x | 1.8x |
| DY (%) | 3.7% | 4.9% | 3.7% | 5.8% | 6.6% | 7.3% | 8.3% | 11.5% |

Valuation Summary

| Expected KFP price | FY22E | FY23E |
|--|--------------|--------------|
| PER Valuation based target price | 187.7 | 208.5 |
| DCF Valuation based target price | 198.3 | 207.5 |
| Average Target Price | 193.0 | 208.0 |
| Liquidity Discount (10%) | -19.3 | -20.8 |
| Target Price after Discount | 173.7 | 187.2 |
| Target Price after Rounding off | 173.0 | 185.0 |

| Return | FY22E | FY23E |
|----------------------------|--------------|--------------|
| Target Price | 173.0 | 185.0 |
| Current Price | 163.0 | 163.0 |
| Capital Gain (LKR) | 10.0 | 22.0 |
| Dividends | 10.7 | 22.6 |
| Capital Gain % | 6% | 13% |
| Dividend Yield % | 7% | 14% |
| Total Return % | 13% | 27% |
| Annualized Return % | 17% | 15% |

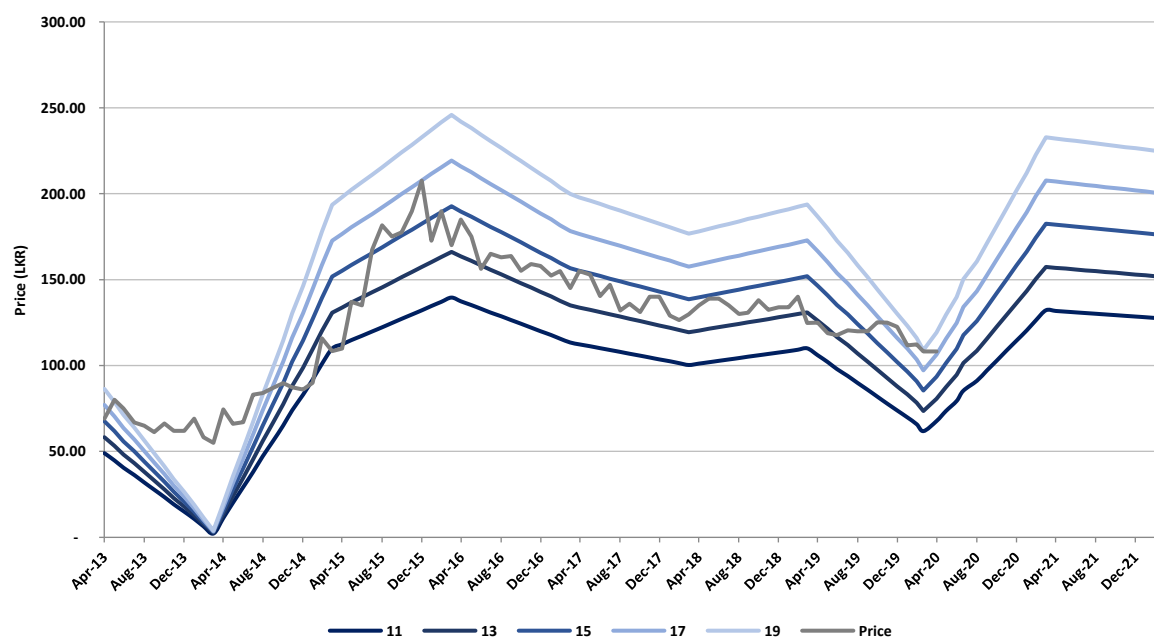
Discounted Cash flow Valuation

| DCF based Valuation | FY22E | FY23E |
|-----------------------|-------|-------|
| Enterprise Value | 5,265 | 5,400 |
| (-) Debt | (285) | (310) |
| (+) Cash | 76 | 202 |
| Total Value of Equity | 5,057 | 5,292 |
| No. of Shares (Mn) | 26 | 26 |
| Target Price | 198.3 | 207.5 |

| WACC | FY22E | FY23E |
|---------------------|-------|-------|
| Ke | 21.4% | 21.9% |
| Kd | 7.6% | 7.6% |
| D/E Assumption | 40/60 | 40/60 |
| Terminal Growth (%) | 3.0% | 3.0% |
| WACC | 15.9% | 16.2% |

| COE | FY22E | FY23E |
|----------------------|-------|-------|
| Rf | 7.0% | 7.5% |
| Rm | 15.0% | 15.5% |
| Growth % | 3.0% | 3.0% |
| β | 1.80 | 2.00 |
| $Ke=Rf+\beta(Rm-Rf)$ | 21.4% | 23.5% |

PER Valuation



| PER based Valuation | FY22E | FY23E |
|-----------------------|-------|-------|
| Earnings (LKR 'Mn) | 342 | 380 |
| No. of Shares ('Mn) | 26 | 26 |
| EPS | 13.4 | 14.9 |
| Expected PER | 14x | 14x |
| Price at 14x Earnings | 187.7 | 208.5 |

Appendix I: Statement of Income and Expenses

| Income Statement (LKR Mn) | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
|---------------------------------|-------------|-------------|-------------|--------------|--------------|--------------|---------------|
| P/E 31st March | | | | | | | |
| Revenue | 3,119 | 3,430 | 3,591 | 3,651 | 4,162 | 4,579 | 5,082 |
| Cost of Sales | -2,213 | -2,433 | -2,624 | -2,646 | -2,891 | -3,175 | -3,514 |
| Gross Profit | 906 | 996 | 967 | 1,005 | 1,272 | 1,403 | 1,568 |
| Other Income | 6 | 7 | 4 | 2 | 0 | 0 | 0 |
| Selling and distribution | -320 | -370 | -496 | -441 | -583 | -641 | -712 |
| Admin expenses | -159 | -167 | -190 | -190 | -208 | -229 | -254 |
| Other expences | -94 | -104 | -76 | -47 | -83 | -92 | -102 |
| Total Operating Expenses | -567 | -633 | -759 | -676 | -874 | -962 | -1,067 |
| EBIT | 339 | 363 | 208 | 329 | 397 | 442 | 501 |
| Finance Cost / Income | 11 | 15 | -3 | -3 | 0 | 0 | 0 |
| Profit Before Taxation | 349 | 378 | 205 | 326 | 397 | 442 | 501 |
| Income Tax | -106 | -111 | -55 | -5 | -56 | -62 | -70 |
| Profit for the Year | 244 | 267 | 150 | 321 | 342 | 380 | 431 |
| EPS | 9.6 | 10.5 | 5.9 | 12.6 | 13.4 | 14.9 | 16.9 |

Appendix II: Statement of Financial Position

| Balance Sheet (LKR Mn) | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| As at 31st March | | | | | | | |
| Non-Current Assets | | | | | | | |
| Property,Plant & Equipment | 1,184 | 1,250 | 1,584 | 1,546 | 1,395 | 1,296 | 1,195 |
| Intangible Assets | 243 | 242 | 242 | 245 | 245 | 245 | 245 |
| Other Financial Assets | 40 | 40 | 43 | 45 | 45 | 45 | 45 |
| | 1,477 | 1,545 | 1,889 | 1,854 | 1,703 | 1,605 | 1,503 |
| Current Assets | | | | | | | |
| Inventories | 309 | 337 | 399 | 543 | 578 | 635 | 703 |
| Trade and other Receivables | 330 | 418 | 398 | 463 | 541 | 595 | 661 |
| Amounts due from Related Parties | 117 | 141 | 128 | 163 | 163 | 163 | 163 |
| Short Term Investment | 108 | 37 | 2 | 1 | 0 | 0 | 0 |
| Other Current Assets | 11 | 49 | 23 | 15 | 40 | 40 | 40 |
| Cash | 81 | 41 | 40 | 30 | 76 | 202 | 297 |
| Total Assets | 2,432 | 2,568 | 2,887 | 3,068 | 3,102 | 3,240 | 3,367 |
| EQUITY & LIABILITIES | | | | | | | |
| Equity | | | | | | | |
| Stated Capital | 1,295 | 1,295 | 1,295 | 1,295 | 1,295 | 1,295 | 1,295 |
| Reserves | 221 | 286 | 286 | 423 | 491 | 567 | 653 |
| Other Components of Equity | 232 | 266 | 295 | 359 | 359 | 359 | 359 |
| Total Equity | 1,747 | 1,847 | 1,876 | 2,076 | 2,145 | 2,221 | 2,307 |
| Non-Current Liabilities | | | | | | | |
| Interest Bearing Borrowings | 0 | 19 | 131 | 94 | 94 | 94 | 94 |
| Retirement Benefit Obligation | 243 | 243 | 251 | 158 | 158 | 158 | 158 |
| Deferred Tax Liabilities | 83 | 89 | 103 | 121 | 121 | 121 | 121 |
| | 326 | 351 | 485 | 374 | 374 | 374 | 374 |
| Current Liabilities | | | | | | | |
| Trade & Other Payables | 245 | 277 | 286 | 367 | 376 | 413 | 457 |
| Amounts due to Related Parties | 10 | 8 | 13 | 9 | 0 | 0 | 0 |
| Income tax Liability | 42 | 34 | 0 | 19 | 0 | 0 | 0 |
| Current portion of borrowings | 33 | 5 | 44 | 43 | 43 | 43 | 43 |
| Other Current Liabilities | 27 | 31 | 6 | 18 | 17 | 17 | 17 |
| Bank Overdrafts | 1 | 16 | 176 | 161 | 147 | 172 | 169 |
| | 359 | 370 | 526 | 618 | 583 | 645 | 686 |
| Total Liabilities | 685 | 720 | 1,011 | 991 | 957 | 1,019 | 1,060 |
| Total Equity & Liabilities | 2,432 | 2,568 | 2,887 | 3,068 | 3,102 | 3,240 | 3,367 |
| NAVPS | 68.5 | 72.4 | 73.6 | 81.4 | 84.1 | 87.1 | 90.5 |



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EQUITY SALES

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