

KEELLS FOOD PRODUCTS PLC [KFP.N0000]

BOOK PROFIT AND DISCONTINUE COVERAGE

FLASHNOTE

“RISING RAW MATERIAL COST CONCERNS, MARGIN HEADWINDS AHEAD”

Fair Value: FY22E - LKR 173.0 [+6%]
Total Return with DPS: FY22E - 13% [AER 17%]

FY23E - LKR 185.0 [+13%]
FY23E - 27% [AER 15%]

FIRST CAPITAL RESEARCH

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Previous Report in Jun 2021 – MAINTAIN HOLD

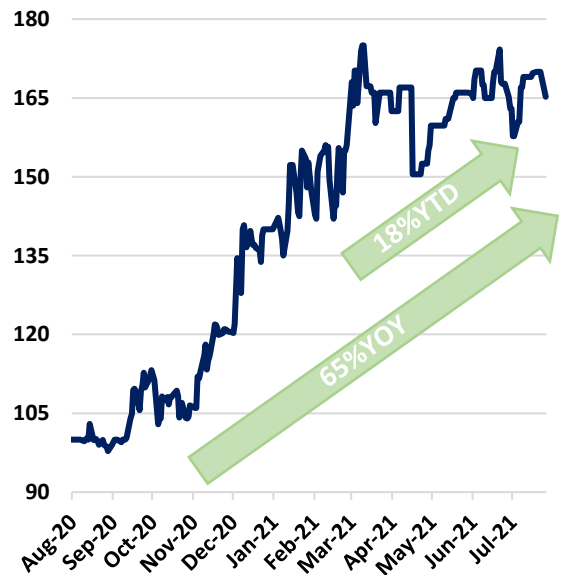
First Capital Research maintained HOLD on KFP despite a substantial increase in share price (+18%YTD) on the grounds of increased volumes and margins supported by the newly opened supermarkets. KFP’s new product range being convenience foods, has experienced an annual organic volume growth of 5% and that trend is likely to continue during the FY22E-24E period as well. With our earnings update published on 28th Jun 2021, we recommended to **MAINTAIN HOLD**.

KFP – BOOK PROFIT

KFP’s earnings for 1QFY22 recorded a profit of LKR 20.4Mn down by 51% compared to LKR 41.7Mn in 1QFY21. Revenue increased by 30.7%YoY to LKR 887.5Mn while GP margin dropped by 226bps to 24.1% as a result of the significant increase in cost of production. Prices of chicken and pork recorded a gradual increase in recent months and have touched historically high prices driven by escalating costs of animal feed. KFP witnessed price escalations in other input materials as well, further impacting margins. In addition, selling & distribution, and administrative expenses for 1QFY22 also increased significantly.

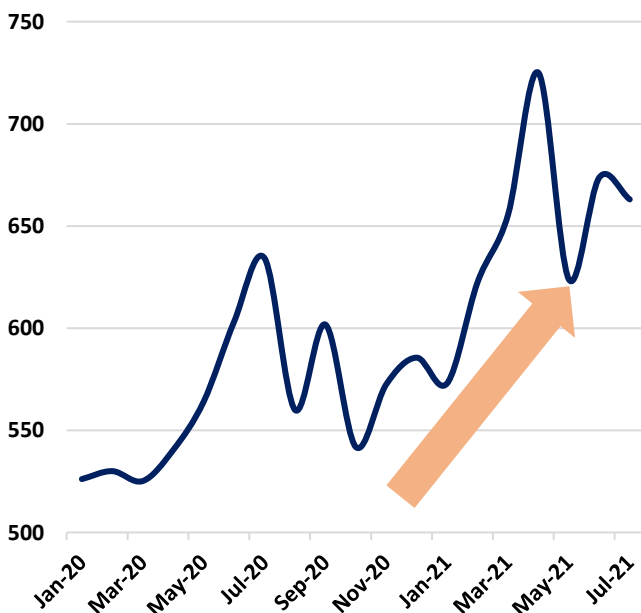
We expect price of chicken and pork to continue to rise due to disruption in feed and maize supplies drying up amid import controls, which may invariably influence a further increase in cost of sales adversely impacting earnings. **BOOK PROFIT AND DISCONTINUE COVERAGE**.

Price movement of KFP



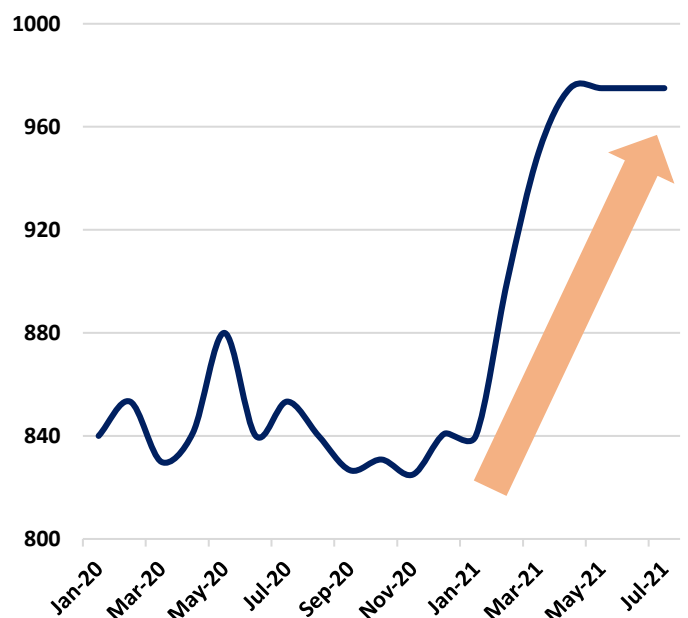
Source: CSE

Fresh Chicken Price – 1KG



Source: Department of Census & Statistics

Fresh Pork Price – 1KG



Source: Department of Census & Statistics



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