



RICHARD PIERIS AND COMPANY PLC [RICH.N0000]

BOOK PROFITS

TAX SAVINGS BOOST BOTTOM LINE

Fair Value: FY22E – LKR 18.0 [0%]

Total Return with DPS: FY22E - +6% [AER 5%]

RICH's earnings for 3QFY21 up by 139%YoY to record at LKR 1.7Bn compared to the profit of LKR 707Mn made in 3QFY20. Group revenue grew by 8%YoY to record LKR 15.4Bn mainly driven by the growth in Retail, Plastics, Furniture and Electronics and supported by the Plantations segment. Group operating profit marginally exceeded our expectations and grew by 53%YoY on the back of strong top line growth in key segments. However, group profitability spiked on the back of tax savings applicable for the current year, hence, for FY21E the tax rate has been adjusted to est.16% from effective tax rate of 34%. Thereby, we revise our earnings targets for FY21E to LKR 4.5Bn (+44% from previous target) while broadly maintaining our FY22E earnings target of LKR 3.4Bn (+8% from previous target). In line with the minimal upgrade in earnings we revise our fair value for FY22E to LKR 18.0 from previous LKR 17.0. **BOOK PROFITS**

LKR (Mn)	3QFY20	3QFY21	YoY	9MFY20	9MFY21	YoY
Earnings (LKR 'Mn)						
Revenue	14,263	15,368	+8%	41,746	40,799	+2%
Gross profit	3,721	4,224	+14%	9,980	10,389	+4%
Operating profit	1,568	2,402	+53%	3,646	5,239	+44%
PBT	1,280	2,190	+71%	2,617	4,542	+74%
Net Profit	707	1,688	+139%	1,612	3,410	+112%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	15,029	16,987	+13%	15,029	16,987	+13%
Borrowings	22,433	21,230	-5%	22,433	21,230	-5%
NAVPS	7.4	8.4		7.4	8.4	

Three key segments drive group revenue and EBIT

Retail segment contributed LKR 7.9Bn to group revenue on the back of high frequency of store visits because of the intermittent curfews imposed to contain the second wave of Covid-19. Plastic, Furniture and Electronics contributed LKR 2.0Bn (up by 31%YoY) driven by the ongoing import restrictions which has resulted in an increase in demand for electronic items. The rise in tea and palm oil prices have heavily contributed to the performance in the Plantation segment to record a YoY growth of 9%YoY to LKR 2.0Bn. On the back of topline growth in key segments, group operating profit for 3QFY21 recorded LKR 2.4Bn up by 53%YoY. Retail EBIT margin improved to 9.1% (7.3% 3QFY20) while Plastic, Furniture and Electronics EBIT margin improved to 16.7% (12.8% 3QFY20). The turnaround in Plantation boosted EBIT margin to 18.4% (0.1% 3QFY20). We maintain our Retail revenue target of LKR 33.0Bn (9%YoY) while Plastic, Furniture and Electronics and Plantation segment revenue are expected to grow by 5%YoY (LKR 7.9Bn) and 2%YoY (LKR 10.5Bn) for FY22E.

Rubber & Tyre lift revenue while Financial Services show signs of improvement

Rubber segment contributed LKR 1.5Bn (up by 3%YoY) with the increased demand for latex as well as China imports contributing favourably. Meanwhile the Tyre segment continues to benefit with regional demand redirected to local players amidst the import restrictions placed on tyres. Therefore, the segment recorded a revenue growth of 15%YoY (LKR 1.0Bn). Notably, Financial services are indicating signs of recovery with top line marginally dipping by 5% to record LKR 1.2Bn. We maintain our group revenue targets for FY21E and FY22E to LKR 58.1Bn and LKR 61.9Bn, respectively.

Tax savings and low interest rates favour the bottom line

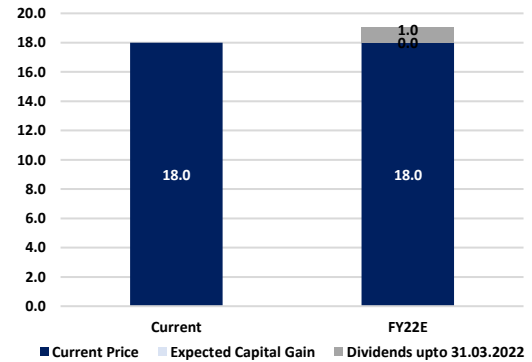
RICH is being taxed at 16% for FY21E owing to tax savings, hence, RICH has saved nearly LKR 1.1Bn of profit before tax. Net finance expenditure decreased by 25%YoY to record at LKR 231Mn compared to LKR 308Mn in 3QFY20 as a result of the low interest rate environment. We expect the low interest rate regime to continue to favour the bottom line in the midterm.

Wage hike to impact earnings

The increase of estate sector wage to LKR 1,000 from LKR 855 with effect from 1st Jan 2021 has been already taken into consideration in our FY22E valuation.

BOOK PROFITS

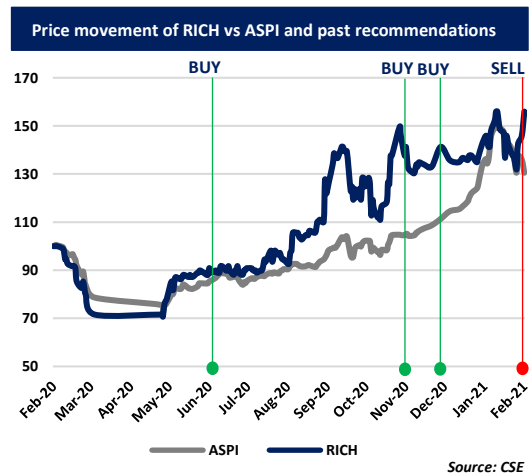
On the back of achieving our FY22E TP of LKR 18.0 we recommend to **BOOK PROFITS**.



FIRST CAPITAL RESEARCH

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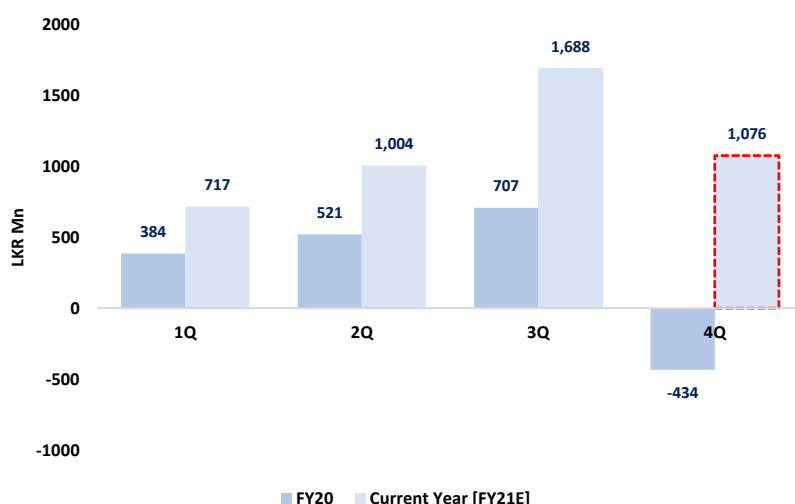
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Minimum Return for BUY:

Buy Below FY22E - [AER of 13% with DPS]: LKR 16.7
RICH categorized as 'Grade B' counter

Quarterly Earnings



Estimate Revision

	FY21E - O	FY21E - R	% Change	FY22E - O	FY22E - R	% Change
Earnings Estimate						
Revenue	58,097	58,097	0%	61,892	61,892	0%
Gross profit	14,524	14,524	0%	15,473	15,473	0%
Operating Profit	6,820	6,929	+2%	7,181	7,255	+1%
Pre Tax Profit	5,296	6,006	+13%	5,388	5,842	+8%
Net Profit	3,106	4,485	+44%	3,160	3,426	+8%
EPS	1.5	2.2		1.6	1.7	
Growth YoY	164%	281%		2%	-24%	
Balance Sheet Estimate						
Shareholders' Equity	31,277	32,078	+3%	33,678	34,682	+3%
Borrowings	20,734	20,734	0%	21,952	21,952	0%
NAVPS	9.3	9.6		10.0	10.4	
Ratio Estimate						
ROE (%)	9.9%	14.0%		9.4%	9.9%	
PER (x)	11.8	8.2		11.6	10.7	
PBV (x)	1.9	1.9		1.8	1.7	

Valuation Table

P/E 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Estimates (LKR Mn)							
Revenue	49,149	52,973	55,045	54,240	58,097	61,892	64,921
EBIT	5,290	5,397	4,879	4,349	6,929	7,255	6,967
Net Profit	3,170	2,687	2,010	1,178	4,485	3,426	2,939
Adjusted EPS (LKR)	1.56	1.32	0.99	0.65	2.20	1.68	1.44
YoY Growth (%)	48%	-15%	-25%	-41%	281%	-24%	-14%
DPS	1.10	0.60	0.85	-	1.45	1.04	0.87
Valuations							
PER (x)	11.5x	13.6x	18.2x	27.7x	8.2x	10.7x	12.5x
PBV (x)	2.8x	2.8x	2.3x	2.1x	1.9x	1.7x	1.6x
DY (%)	6.1%	3.3%	4.7%	0.0%	8.1%	5.8%	4.8%

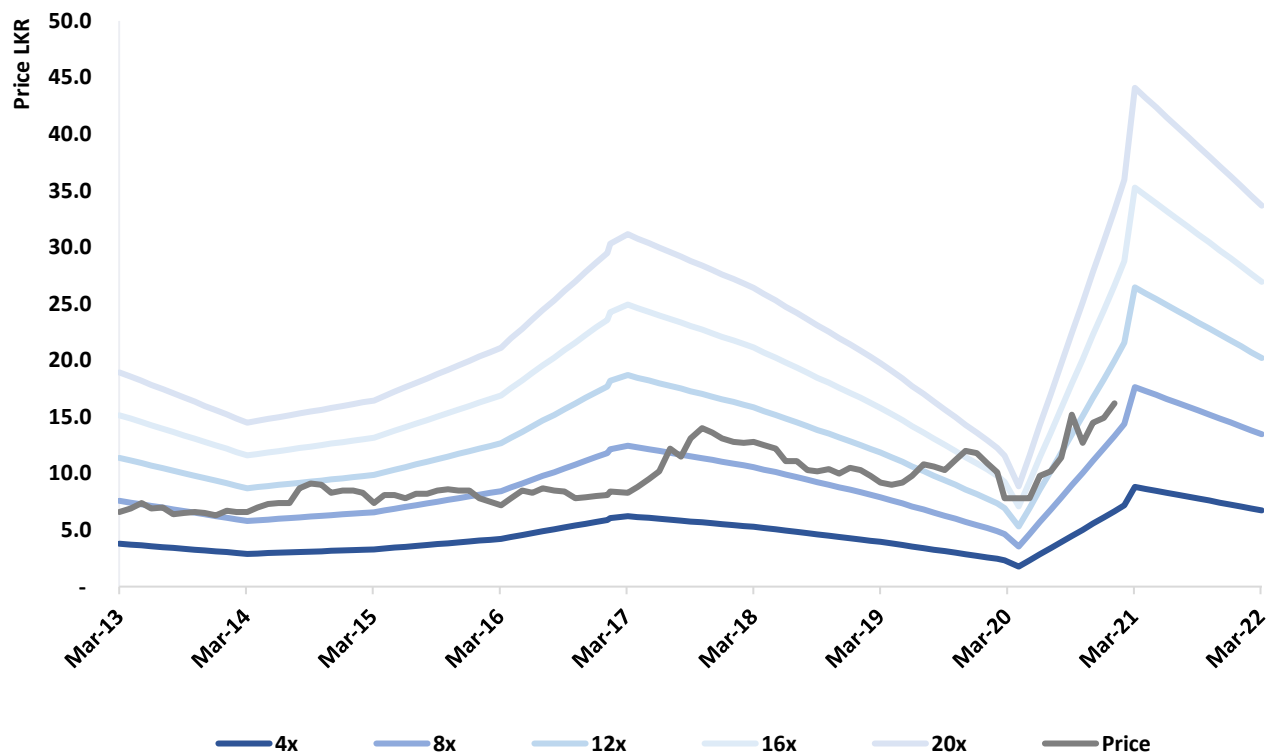
Valuation Summary

Return	FY22E
Target Price	18.0
Current Price	18.0
Capital gain	0.0
Dividends upto 31.03.2022 (LKR)	1.0
Capital Gain %	0%
Dividend Yield %	6%
Total return	6%
Annualized Return %	5%

SOTP Valuation

Segment	Valuation method	Valuation assumptions						Value in LKR Mn		RICH's Holding	Value per share	% of total
		D/E	CoE	WACC	Growth	PBV	PER	Firm value	Equity			
Retail	FCFF	40/60	11%	9%	3%			24,586		100%	12.10	46%
Plastics and furniture	FCFF	40/60	12%	9%	3%			4,922		100%	2.40	9%
Rubber	FCFF	50/50	14%	13%	2%			7,940		80%	3.90	15%
Tyre	FCFF	40/60	12%	10%	1%			4,055		100%	2.00	8%
Financial services	Justified PBV		14%		3%	0.20			777	82%	0.40	1%
Plantations	Justified Forward PER		16%		3%		4.71		4,505	76%	2.20	8%
Other services	Justified PBV		13%		3%	1.51			6,815	100%	3.30	13%
Fair value before net debt											26.30	100%
Less: debt											10.80	
Add: cash											2.40	
Fair value											18.00	

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
P/E 31st March							
Continuing operations							
Revenue	49,149	52,973	55,045	54,240	58,097	61,892	64,921
Cost of sales	(36,373)	(39,716)	(41,542)	(41,418)	(43,572)	(46,419)	(48,691)
Gross profit	12,776	13,257	13,504	12,822	14,524	15,473	16,230
Other operating income	1,072	1,285	1,397	1,458	1,386	1,439	1,424
Selling and distribution expenses	(2,888)	(3,196)	(3,334)	(3,631)	(3,776)	(4,023)	(4,220)
Administrative expenses	(5,614)	(5,903)	(6,651)	(6,262)	(5,164)	(5,590)	(6,422)
Other operating expenses	(55)	(46)	(38)	(38)	(40)	(43)	(45)
Operating profit	5,290	5,397	4,879	4,349	6,929	7,255	6,967
Finance cost	(956)	(1,291)	(2,109)	(2,310)	(1,635)	(2,166)	(2,744)
Finance income	384	516	556	479	595	613	622
Share of profit from associate	83	10	28	89	116	139	167
Profit before income tax	4,801	4,632	3,354	2,607	6,006	5,842	5,013
Income tax expense	(1,237)	(1,550)	(1,007)	(1,275)	(961)	(1,986)	(1,704)
Profit for the year (continuing)	3,564	3,082	2,347	1,332	5,045	3,856	3,308
Profit/(loss) from discontinued operations	(5)	(4)	(5)	(7)	(5)	(6)	(6)
Profit for the year	3,559	3,077	2,342	1,325	5,040	3,850	3,302
Equityholders	3,170	2,687	2,010	1,178	4,485	3,426	2,939
NCI	389	390	333	147	554	423	363
Segmental revenue							
Rubber	4,368	4,726	5,580	5,495	4,946	5,342	5,609
Tyre	4,263	4,511	4,477	4,892	5,626	5,794	5,968
Plastics and furniture	8,242	7,671	7,588	7,300	7,519	7,895	8,290
Retail	24,754	26,633	27,985	28,037	30,280	33,005	34,656
Financial services	2,685	3,350	4,218	4,541	4,087	4,414	4,855
Other services	2,750	3,036	3,182	1,770	1,788	1,806	1,824
Plantations	8,807	10,412	9,438	8,448	10,306	10,512	10,933
Inter segmental adjustments	(6,721)	(7,368)	(7,423)	(6,244)	(6,455)	(6,877)	(7,213)
Total	49,149	52,973	55,045	54,240	58,097	61,892	64,921
Segmental operating profits							
Rubber	839	814	1,168	1,244	1,024	1,175	1,234
Tyre	547	348	328	551	619	637	657
Plastics and furniture	1,096	502	387	789	1,015	1,026	912
Retail	1,722	1,874	1,898	2,318	2,574	2,805	2,946
Financial services	526	496	481	(559)	(123)	221	243
Other services	1,307	1,666	2,030	806	805	813	821
Plantations	799	1,572	672	(84)	1,855	1,472	1,093
Inter segmental adjustments	(1,546)	(1,875)	(2,086)	(715)	(839)	(894)	(938)
Total	5,290	5,397	4,879	4,349	6,929	7,255	6,967

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
As at 31st March							
Assets							
Non-Current Assets							
Property, plant and equipment	17,114	19,449	20,210	20,353	21,371	22,439	23,561
Leasehold property	521	1,224	1,294	1,193	1,166	1,138	1,110
Intangible assets	1,141	1,166	1,155	1,142	1,131	1,120	1,109
Biological assets	866	951	1,027	1,138	1,148	1,158	1,168
Other non-current financial asse	1,683	1,771	2,317	2,041	2,041	2,041	2,041
Total non current assets	21,685	24,996	26,821	31,259	32,363	33,542	34,803
Current Assets							
Inventories	5,621	6,509	6,997	8,124	8,707	9,357	9,933
Trade and other Receivables	6,334	8,189	10,233	8,336	8,929	9,513	9,978
Loans and advances	11,128	10,665	13,719	13,407	14,907	16,407	17,907
Other current financial assets	508	879	1,287	1,263	1,263	1,263	1,263
Cash and cash equivalents	4,468	4,544	5,467	4,962	4,906	4,974	4,837
Total current assets	28,244	30,990	37,999	36,426	39,047	41,848	44,253
Total Assets	49,929	55,986	64,820	67,685	71,411	75,391	79,056
Equity and Liabilities							
Capital and Reserves							
Stated Capital	1,973	1,973	1,973	1,973	1,973	1,973	1,973
Retained Earnings	10,807	11,137	11,245	12,678	14,203	15,505	16,680
Equity attributable to equity hold	12,931	13,279	13,285	14,514	16,039	17,341	18,516
Non-controlling interests	2,614	2,613	2,838	2,878	3,432	3,856	4,219
Total Equity	15,545	15,892	16,122	17,392	19,471	21,197	22,735
Non-current Liabilities							
Interest-bearing loans and borro	6,925	5,071	5,879	4,840	5,484	5,568	5,631
Net liability to the lessor	584	571	559	4,620	4,610	4,599	4,589
Insurance provision	815	1,154	1,392	1,622	1,622	1,622	1,622
Government grants	534	538	527	509	514	519	524
Deferred tax liabilities	493	855	975	943	943	943	943
Employee benefit liabilities	2,426	2,704	2,843	2,911	2,911	2,911	2,911
Total non-current liabilities	11,894	11,006	12,298	15,581	16,220	16,299	16,357
Current Liabilities							
Trade and other payables	8,013	8,889	9,933	7,867	10,445	11,128	11,672
Public deposits	3,935	5,070	6,680	8,711	9,057	9,418	9,793
Current portion of borrowings	3,433	4,053	5,191	3,846	2,350	2,386	2,413
Short term borrowings	6,844	10,717	14,231	13,322	12,900	13,998	15,118
Total current liabilities	22,490	29,088	36,400	34,711	35,719	37,895	39,963
Total Liabilities	34,384	40,094	48,698	50,293	51,939	54,194	56,320
Total Equity and Liabilities	49,929	55,986	64,820	67,685	71,411	75,391	79,056
NAVPS	7.6	7.8	7.9	8.5	9.6	10.4	11.2



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