



TOKYO CEMENT COMPANY (LANKA) PLC [TKYO.N0000]

MAINTAIN BUY

A STRONG SHOW!!!

Fair Value: FY22E - LKR 100.0 [+35%]

Total Return with DPS: FY22E - 39% [AER 34%]

TKYO recorded earnings of LKR 1.3Bn (+409%YoY) in 3QFY21, performing exceptionally well, exceeding our expectations. Earnings growth was mainly led by the revenue growth of 39%YoY and expansion in GP margin. Moreover, reduction in finance cost also favourably impacted the bottom line. Since our previous earnings update report published on 02nd Nov until as at today TKYO.N provided a return of 45% overshooting our fair value of LKR 85.0 and reaching a 52-week high price of LKR 88.5. On the back of growth in revenue and enhancement in GP margin, we upgrade our earnings outlook to LKR 5.6Bn for FY22E from the previous forecast of LKR 4.7n. We upgrade TKYO's fair value to LKR 100.0 for FY22E on stronger earnings while the counter provides an annualized return of 34%. **MAINTAIN BUY**

LKR (mn)	3QFY20	3QFY21	YoY	9MFY20	9MFY21	YoY
Earnings (LKR 'Mn)						
Revenue	8,268	11,456	+39%	27,382	30,590	+12%
Gross Profit	2,203	3,399	+54%	7,684	9,483	+23%
EBIT	823	1,639	+99%	5,396	5,396	0%
PBT	339	1,442	+326%	1,900.8	4,474	+135%
Net Profit	257	1,311	+409%	1,612	4,109	+155%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	16,504	20,664	+25%	16,504	20,664	+25%
Borrowings	14,371	9,814	-32%	14,371	9,814	-32%
NAVPS	41.2	51.5		41.2	51.5	

Top line growth of 39%YoY amidst increases in local cement production

TKYO's revenue grew by 39%YoY amidst the increased volume in local cement production as the construction is forging ahead despite the pandemic related disruptions. Local cement productions continued to grow for the sixth consecutive month in Nov 2021 while the imports continued to decline due to higher tax. We expect TKYO's market share to further improve with the grasp of volumes from importers as the new CESS tax for importers places local manufactures in an advantageous position in terms of the price. With the demand for cement mainly arising from the residential sector amidst the low interest rate environment and increasing market share of local cement manufacturers, we expect TKYO's revenue to grow by 18%YoY in FY21E and by 10% in FY22E respectively.

Bottom line improves with the margin expansion and reduction in net finance costs

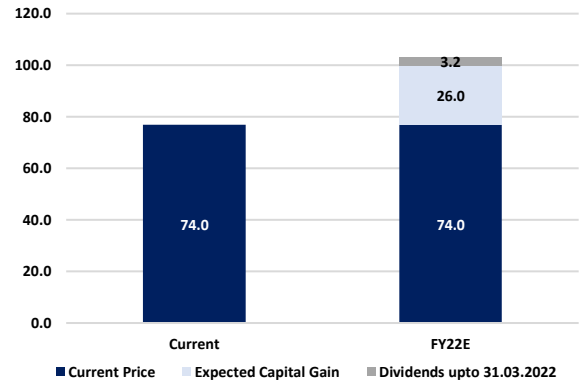
Gross profit recorded a significant growth of 54.0% growth YoY in 3QFY21 amidst GP margin improving by 300bps to 29.7% vs prior year corresponding period of 26.6% as a result of increased capacity utilisation, increased bag to bulk composition in cement and increased contribution by Blended Hydraulic Cement which accounts for nearly 40% of revenue and is considered a high margin product as 25% of input materials are contributed through locally sourced fly ash. Reduction in finance cost by 57% with the low interest rate environment and settlement of borrowings by LKR 1.2Bn during the quarter also aided in improving the bottom line. We expect the bottom line to record LKR 5.0Bn (116%YoY) in FY21E and LKR 5.6Bn (13%YoY) in FY22E while GP margins are expected to sustain at 31% levels in FY21E and FY22E.

TKYO price is upgraded to LKR 100.0 for FY22E– MAINTAIN BUY

With upgraded earnings of LKR 5.0Bn for FY21E (116%YoY) and LKR 5.6Bn (13%YoY) in FY22E, we upgrade TP for FY22E to LKR 100.0 from previous fair value of LKR 85.0.

TKYO provides an annualised return of 34% at the current market price of LKR 74.0.

MAINTAIN BUY



FIRST CAPITAL RESEARCH

Hiruni Perera +94 11 263 9864
hiruni@firstcapital.lk

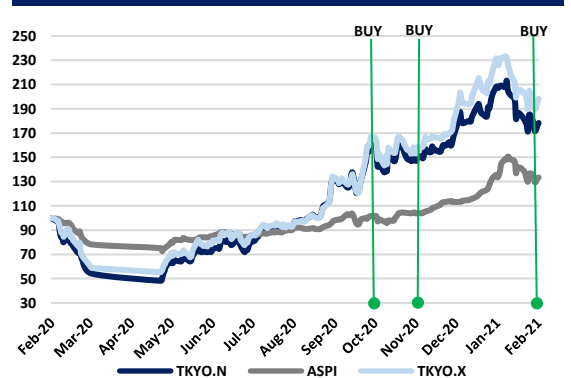
KEY DATA

	TKYO.N0000	TKYO.X0000
CSE Ticker	TKYO.N0000	TKYO.X0000
Bloomberg Ticker	TKYON SL	TKYOX SL
Share Price (LKR)	74.00	67.50
52w High (LKR)	88.50	79.30
52w Low (LKR)	20.00	18.80
Avg. Daily Volume (Shares)	936,778	1,373,267
Avg. Daily Turnover (LKR)	50,662,178	69,512,181
Issued Share Capital (Shares 'Mn)	267.3	134
Market Cap (LKR 'Mn)	19,780	9,021
Market Cap (USD 'Mn)	101	46

*1 USD = LKR 195

Price Performance (%)	1 mth	3 mths	12mths
TKYO.N	-11%	19%	77%
TKYO.X	-1%	38%	118%
ASPI	2%	29%	36%

Price Movement of TKYO vs ASPI and Past Recommendations



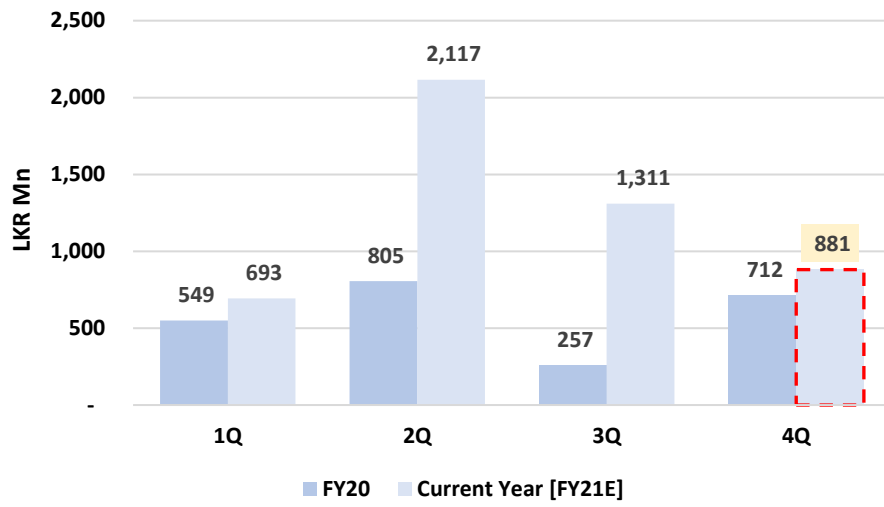
Source: CSE

Minimum Return for BUY:

Buy Below [AER of 10.0% with DPS]: LKR 92.9

TKYO categorized as 'Grade A' counter (Refer page 09 for Recommendation criteria of Grade A, B & C Stocks)

Quarterly Earnings Forecast for FY21E



Estimate Revision

In LKR Mn	FY21E - O	FY21E - R	% Change	FY22E - O	FY22E - R	% Change
Earnings Estimate						
Revenue	40,028	42,107	+5%	44,038	46,118	+5%
Gross Profit	12,497	13,146	+5%	13,900	14,557	+5%
EBIT	6,333	7,335	+16%	7,118	8,192	+15%
PBT	4,960	6,099	+23%	5,794	6,862	+18%
Net Profit	4,067	5,001	+23%	4,751	5,627	+18%
EPS	10.1	12.5	+23%	11.8	14.0	+18%
Growth YoY	75%	116%		17%	13%	
Balance Sheet Estimate						
Borrowings	11,172	11,208	+0%	8,139	8,195	+1%
Shareholders' Equity	20,623	21,556	+5%	24,316	25,883	+6%
NAVPS	51.4	53.8		60.6	64.6	
Ratio Estimate						
ROE (%)	21.5%	25.8%		21.1%	23.7%	
PER (x)	6.01	5.9		5.15	5.3	
PBV (x)	1.19	1.4		1.01	1.1	

Valuation Table

P/E 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Estimates (LKR 'Mn)							
Revenue	35,701	35,633	38,496	35,768	42,107	46,118	44,237
Gross Profit	8,941	8,472	7,888	10,256	13,146	14,557	13,933
EBIT	4,516	3,481	1,807	4,494	7,335	8,192	7,829
Net Profit	3,398	2,343	(492)	2,318	5,001	5,627	5,534
EPS (LKR)	8.47	5.84	(1.23)	5.78	12.47	14.03	13.80
YoY Growth (%)	76%	-31%	-121%	371%	116%	13%	-2%
DPS	1.9	1.3	0.3	1.5	3.2	3.6	3.6
Valuations							
PER (x)	8.7x	12.7x	-60.2x	12.8x	5.9x	5.3x	5.4x
PBV (x)	2.1x	1.9x	2.0x	1.7x	1.4x	1.1x	1.0x
DY (%)	2.5%	1.7%	0.4%	2.0%	4.4%	4.9%	4.8%

Valuation Summary

Expected TKYO.N price for FY22E	FY22E
DCF Valuation based target price	101.3
PER Valuation based target price	105.3
Average Target Price	103.3
Target Price after Rounding off	100.0

Expected TKYO.X price for FY22E	
Target Price for TKYO.N	100.0
Average 12 month discount	16%
Target Price for TKYO.X	84.1
Target Price after Rounding off	84.0

Return	FY22E
Target Price	100.0
Current Price	74.0
Capital Gain (LKR)	26.0
Dividends upto 31.03.2022 (LKR)	3.2
Capital Gain %	35%
Dividend Yield %	4%
Total Return %	39%
Annualized Return %	34%

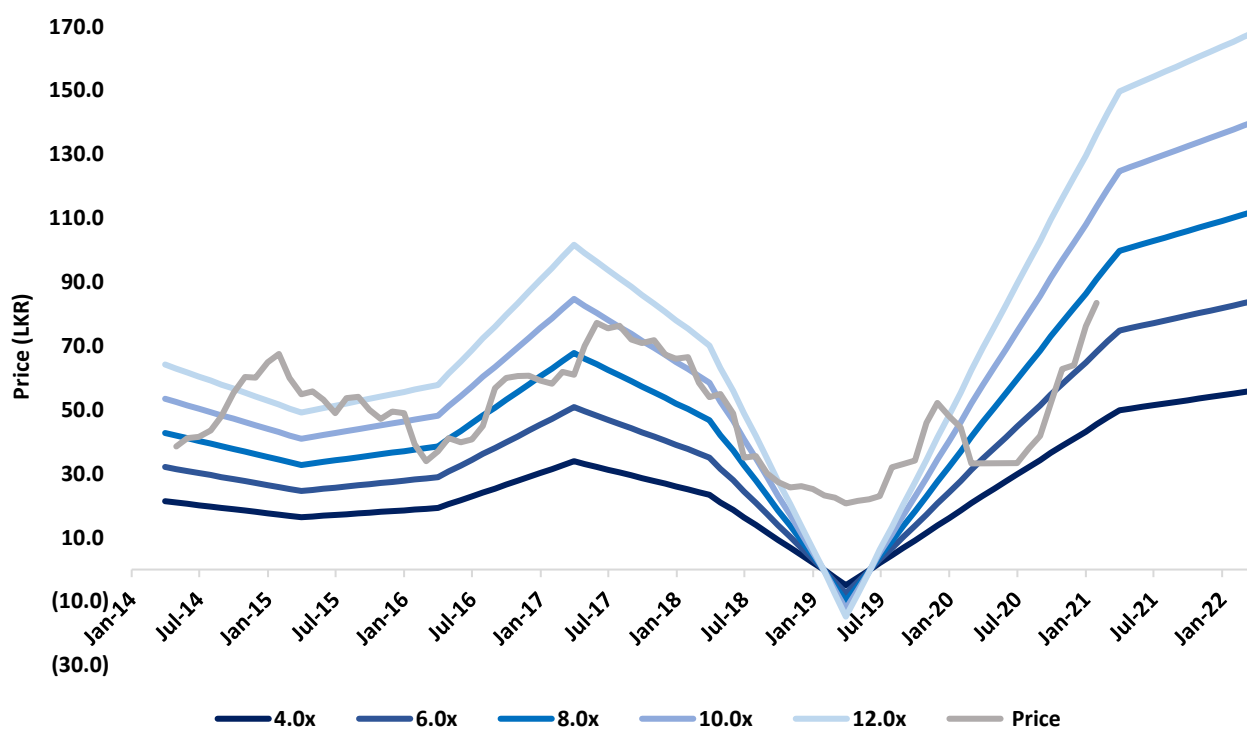
Discounted Cash flow Valuation

DCF based Valuation	
Enterprise Value	44,988
Debt (-)	8,195
Cash (+)	3,832
Total Value of Equity	40,625
No. of Shares (Mn)	401
Target Price	101.3

WACC	
Ke	34.5%
Kd	7.4%
D/E Assumption	40/60
Terminal Growth (%)	3.0%
WACC	23.7%

COE	
Rf	7.0%
Rm	18.0%
Growth %	3.0%
β	2.50
$Ke=Rf+\beta(Rm-Rf)$	35%

PER Valuation



PER based Valuation	
FY22E Earnings (LKR 'Mn)	5,627
No. of Shares ('Mn)	401
FY22E EPS	14.03
Expected PER	7.5x
Price at 7.5x FY22E Earnings	105.3

Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR mn) P/E 31st Mar	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	35,701	35,633	38,496	35,768	42,107	46,118	44,237
Cost of Sales	26,761	27,161	30,608	25,512	28,961	31,561	30,304
Gross Profit	8,941	8,472	7,888	10,256	13,146	14,557	13,933
Other Income	170	263	20	19	42	46	44
Total Operating Income	9,110	8,735	7,909	10,275	13,188	14,603	13,978
Distribution Cost	3,108	3,623	3,939	4,099	4,590	5,027	4,822
Administrative Expenses	1,486	1,631	1,782	1,682	1,263	1,384	1,327
Total Operating Expenses	4,594	5,254	6,102	5,781	5,853	6,410	6,149
Operating Profit	4,516	3,481	1,807	4,494	7,335	8,192	7,829
Finance Cost	533	967	1,819	1,888	1,237	1,331	1,080
Finance Income	95	58	11	23	1	1	1
Profit Before Taxation	4,078	2,572	(1)	2,629	6,099	6,862	6,749
Income Tax Expenses/(Income)	677	243	475	312	1,098	1,235	1,215
Profit for the Year	3,401	2,329	(476)	2,318	5,001	5,627	5,534
Minority Interest	3	(15)	16	0	-	-	-
Profit attributable to Equity Holders	3,398	2,343	(492)	2,318	5,001	5,627	5,534
EPS	8.5	5.8	- 1.2	5.8	12.5	14.0	13.8

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR mn) as at 31st Mar	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Assets							
Property, Plant & Equipment	13,147	23,820	26,877	26,949	26,623	26,244	25,821
Capital Work-in-Progress	7,603	2,953	749	545	409	307	230
Inventories	2,002	2,530	3,636	3,493	3,965	4,321	4,149
Trade and other Receivables	3,026	4,177	5,993	4,985	4,113	4,842	5,304
Tax Receivable	-	310	310	298	298	298	298
Other Assets	75	59	123	102	86	70	55
Cash and Cash Equivalents	2,524	718	341	430	2,924	3,832	6,159
Total Assets	28,439	35,002	38,461	38,148	39,765	41,260	43,361
Liabilities							
Interest Bearing Borrowings	7,099	12,957	14,065	13,512	11,208	8,195	6,312
Current and Deferred Tax	2,629	2,544	2,726	2,859	2,859	2,859	2,859
Trade & Other Payables	2,001	2,639	4,813	2,507	2,027	2,209	2,121
Retirement Benefits Obligation	130	182	225	297	297	297	297
Bank Overdrafts	545	1,181	1,589	1,388	1,388	1,388	1,388
Other liabilities	-	7	27	336	336	336	336
Total Liabilities	14,015	19,511	23,445	20,899	18,115	15,284	13,313
Shareholders Funds							
Stated Capital	2,894	4,240	4,240	4,240	4,240	4,240	4,240
Retained Earnings	11,478	11,189	10,683	12,917	17,316	21,643	25,715
Equity Attributed to Equity Holders of the Comp	14,372	15,429	14,922	17,157	21,556	25,883	29,954
Non - controlling interest	52	62	94	93	93	93	93
Total Liabilities & Shareholders' Funds	28,439	35,002	38,461	38,148	39,765	41,260	43,361
NAVPS	35.8	38.5	37.2	42.8	53.8	64.6	74.7

Appendix III: Statement of Cash flow

Statement of Cash flow (LKR mn) as at 31st Mar	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Profit before Taxation	4,078	2,572	(1)	2,629	6,099	6,862	6,749
Depreciation and Amortisation	1,106	1,171	1,301	1,373	1,923	2,001	2,081
Retirement Benefit Obligations	24	34	43	54	-	-	-
Profit (Loss) on Disposal of PPE	(21)	(248)	380	(0)	-	-	-
Interest Expenses	533	968	1,550	1,842	1,237	1,331	1,080
Interest Income	(95)	(57)	(4)	(1)	(1)	(1)	(1)
Other	14	-	156	65	-	-	-
	5,639	4,440	3,425	5,963	9,258	10,194	9,910
Changes in working capital:							
Inventories	(460)	(528)	(1,106)	143	(472)	(356)	172
Trade and other receivables	(384)	(1,223)	(2,262)	958	872	(729)	(461)
Trade and other payables	63	638	2,174	(2,307)	(480)	182	(88)
Cash generated from operations	4,858	3,326	2,232	4,758	9,178	9,291	9,533
Interest Paid	(533)	(967)	(1,548)	(1,817)	(1,237)	(1,331)	(1,080)
Income Tax Paid	(86)	(574)	-	(126)	(1,098)	(1,235)	(1,215)
Retirement Benefit Obligation Paid	(3)	(10)	(19)	(12)	-	-	-
Other	-	-	-	-	-	-	-
Net cash generated from operating activities	4,236	1,776	664	2,803	6,843	6,725	7,238
Cash flows from investing activities:							
Purchase & disposal of PPE	(812)	(2,873)	(731)	(482)	(1,494)	(1,556)	(1,619)
Expenditure Incurred on Capital Work-in-progre:	(3,787)	(4,313)	(2,304)	(793)	-	-	-
Interest Received	95	57	4	1	1	1	1
Proceeds from sale of Property, Plant & Equipme	30	270	489	10	50	53	55
Investment/Withdrawals on Short-term Deposits	(0)	(0)	(0)	(1)	(1)	(1)	(1)
Other	(2)	(379)	(25)	-	-	-	-
Net Cash from investing Activities	(4,477)	(7,237)	(2,568)	(1,265)	(1,444)	(1,504)	(1,565)
Cash flows from financing activities:							
Proceeds from issue of shares	-	25	15	-	-	-	-
Dividend paid	(451)	(1,251)	-	(120)	(601)	(1,300)	(1,463)
Net Borrowings	2,523	4,248	1,108	(554)	(2,304)	(3,013)	(1,883)
Other	-	(2)	(4)	(67)	-	-	-
	2,072	3,019	1,119	(741)	(2,905)	(4,314)	(3,346)
Net increase in cash and cash equivalents	1,831	(2,442)	(784)	796	2,494	907	2,327
Cash and cash equivalents at beginning of year	148	1,979	(463)	(1,248)	(958)	1,536	2,444
Cash and cash equivalents at end of year	1,979	(463)	(1,248)	(451)	1,536	2,444	4,771

Appendix IV: Top 20 Shareholders

Top 20 Voting Shareholders - (% held)	3QFY21	2QFY21	QoQ	3QFY20	YoY
ST. ANTHONYS CONSOLIDATED (PVT) LTD	27.5%	27.5%	-	27.5%	-
SOUTH ASIAN INVESTMENT (PVT) LTD	20.1%	20.1%	-	20.1%	0.0%
UBE SINGAPORE HOLDINGS PTE. LTD	10.0%	10.0%	-	10.0%	-
MARINA BAY HOLDING AND INVESTMENT PTE.LTD.	6.2%	6.2%	-	6.0%	0.2%
CAPITAL CITY HOLDINGS (PRIVATE) LIMITED	3.0%	3.0%	-	3.0%	-
J.B. COCOSHELL (PVT) LTD	2.9%	2.7%	0.2%	2.9%	0.0%
NORTHERN TRUST COMPANY S/A APOLLO ASIA FUND LIMITE	1.2%	1.2%	-	0.0%	1.2%
PEOPLES LEASING & FINANCE PLC/HI LINE TRADING (PV	1.0%	1.0%	-	0.0%	1.0%
SEYLAN BANK PLC/S.R. FERNANDO	0.9%	0.9%	-	0.0%	0.9%
STATE STREET LUXEMBOURG C/O SSBT-GOODHART PARTNERS	0.9%	0.6%	0.3%	0.9%	-
SEYLAN BANK PLC/ARRC CAPITAL (PVT) LTD	0.7%	0.5%	0.2%	0.0%	0.7%
HATTON NATIONAL BANK PLC-NDB WEALTH GROWTH AND INC	0.6%	0.5%	0.1%	0.0%	0.6%
MISS M.P. RADHAKRISHNAN	0.4%	0.4%	-	0.4%	0.0%
MISS A. RADHAKRISHNAN	0.4%	0.4%	-	0.4%	0.0%
SEZEKA LIMITED	0.4%	0.4%	-	0.0%	0.4%
MR. R. MAHESWARAN	0.4%	0.4%	-	0.0%	0.4%
MR. K.R. KAMON	0.3%	0.4%	-0.1%	0.0%	0.3%
DFCC BANK PLC A/C 1	0.3%	0.4%	-0.1%	0.0%	0.3%
UNION COMMODITIES (PVT) LTD.	0.3%	0.3%	-	0.0%	0.3%
HATTON NATIONAL BANK PLC/SRI DHAMAN RAJENDRAM ARUD	0.3%	0.3%	-	0.0%	0.3%

Top 20 Voting Shareholders - (% held)	3QFY21	2QFY21	QoQ	3QFY20	YoY
Northern Trust Company S/A Apollo Asia Fund Limite	7.9%	4.0%	3.9%	7.9%	-
Serendip Investments Limited	5.1%	4.4%	0.7%	12.2%	-7.1%
Employees Provident Fund	4.2%	2.1%	2.1%	4.2%	0.0%
Deutsche Bank Ag As Trustee For Jb Vantage Value E	3.7%	1.8%	1.9%	3.7%	0.0%
Deutsche Bank Ag-National Equity Fund	2.5%	1.3%	1.2%	1.3%	1.2%
J.B. Cocoshell (Pvt) Ltd	2.4%	1.3%	1.1%	1.8%	0.6%
Gf Capital Global Limited	2.2%	1.5%	0.7%	3.2%	-1.0%
Hatton National Bank Plc/Rizmy Ahamed Rishard	2.2%	0.0%	2.2%	0.0%	2.2%
Dfcc Bank Plc A/C 1	1.7%	0.6%	1.1%	1.1%	0.6%
Mr. J.M.I. Jayaweera	1.0%	0.4%	0.6%	0.0%	1.0%
Peoples Leasing & Finance Plc/Hi Line Trading (Pv	0.9%	0.0%	0.9%	1.4%	-0.5%
Mr. A.H. Rajkotwala	0.9%	0.5%	0.4%	0.9%	0.0%
Bank Of Ceylon A/C Ceybank Century Growth Fund	0.9%	0.4%	0.5%	0.0%	0.9%
Askold (Private) Limited	0.9%	0.5%	0.4%	0.8%	0.1%
Mr. Y.A.H. Rajkotwala	0.8%	0.4%	0.4%	0.8%	0.0%
Bank Of Ceylon-No2 A/C (Boc Ptf)	0.8%	0.4%	0.4%	0.8%	0.0%
Hatton National Bank Plc/Mr.Gerad Shamil Niranjana	0.8%	0.0%	0.8%	0.0%	0.8%
Sezeke Limited	0.7%	0.3%	0.4%	0.0%	0.7%
Mr. M.F. Shabdeen	0.7%	0.0%	0.7%	0.0%	0.7%
Mr. V.A.D.L.W. Perera	0.7%	0.3%	0.4%	0.0%	0.7%

Appendix V: Recommendation criteria

Company Category	Buy	Hold	Sell
S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Weighted Average 1-year T-bill rate during Dec 2020: 5.01%

Company Category	Buy	Hold	Sell
S&P SL20 Companies	10.01%	6.01%	6.01%
Rest of the Companies	13.01%	8.01%	8.01%
Companies less than LKR 1Bn Market Cap	16.01%	11.01%	11.01%



First Capital

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Nisansala Kuruppumudali	+94 11 2639 866
Atchuthan Srirangan	+94 11 2639 863		
Hiruni Perera	+94 11 2639 864		

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Nethalie De Mel	+94 11 2639 854
-----------------	-----------------

EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
Nishantha Mudalige	+94 70 2910 041			
Ifadh Marikar	+94 77 9625 679			
Thushara Pathiraja	+94 70 2910 037			

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
---------------------	-----------------	-----------------------	-----------------

BRANCHES

Kandy	Kurunegala	Matara	Negombo
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagarika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 2233 299

Disclaimer:

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the correctness, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or its principal, their respective Directors, or Employees may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

About us:

This report providing a snapshot of fixed income, equity and unit trust is composed and circulated by First Capital Holdings PLC an investment bank in Sri Lanka. The company operates in the capital market of Sri Lanka with operations in government securities - treasury bills and bonds, stock brokering and share market investments, asset management, private wealth management, retirement planning, personal financial planning, unit trust, margin trading, capital market research, trustee services, corporate finance advisory services including corporate debt structuring (debentures, trust certificates, commercial papers), valuations, restructuring, mergers and acquisitions, initial public offerings (IPOs) and project advisory. The First Capital Group consists of First Capital Treasuries PLC, First Capital Limited, First Capital Markets Limited, First Capital Asset Management Limited and First Capital Equities (Private) Limited covering Colombo, Negombo, Matara, Kandy and Kurunegala.