

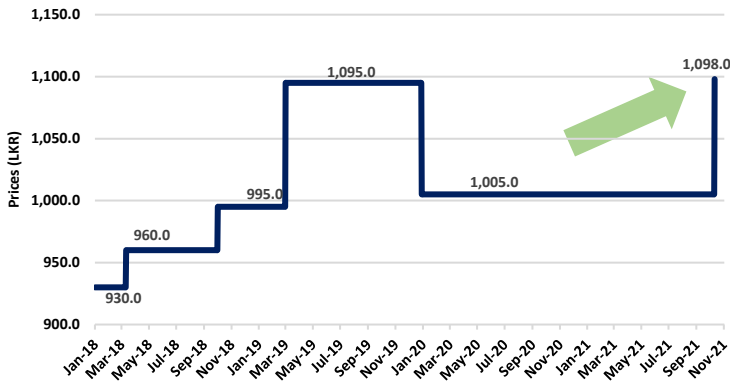


TOKYO CEMENT COMPANY (LANKA) PLC [TKYO.N0000]

FLASH NOTE

Removal of MRP favours TKYO; However, cost pressures to persist...

Maximum retail prices of Cement over the past 03 years



Source: Company Annual Reports and media

Currency is expected to have significant pressure on importers such as TKYO



Source: CBSL, First Capital Research

Removal of Maximum Retail Price (MRP) weighs positively on TKYO

We expect the recent decision to remove the price controls of cement to favour TKYO as current cost escalations have a significant negative impact on margins. Following the Maximum Retail Price removal, the price of a locally manufactured 50Kg cement bag has been increased by LKR 93.0 with effect from 11th Oct 2021 to LKR 1,098.0. We expect this move to positively effect on TKYO, since during the previous couple of months it became a victim of controlled prices as the company was contending with input and other costs, which saw a significant rise. Large cost increases mainly stemmed from rise in clinker prices, the depreciation of the LKR and significant increase in freight costs. With price controls of cement removed, TKYO is expected to see a relief on margins with the ability to pass down costs to customers to a certain extent.

However, multiple other factors could act as hurdles

However, we estimate that removal of MRP is expected to increase the competition eventually leading to price cutting in the industry while ability to produce improved margins will depend on multiple factors such as fluctuations in prices of inputs and volatility of the LKR. Further higher freight charges may increase the cost and any additional lockdowns that might arise as a result of the pandemic may impact future volumes.

Despite the recent price hike of LKR 93.0 per cement bag, we advise investors to remain cautious on the negative factors such as impact stemming from increased input cost and volatility in the LKR. We also expect TKYO to record weaker profits in 2QFY22 relative to the previous year comparative quarter as TKYO had to absorb a large cost increase attributed to the rise in clinker prices, the rapid depreciation of the LKR and significant increase of freight costs amidst controlled prices and lockdowns prevailed during 2QFY22.

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