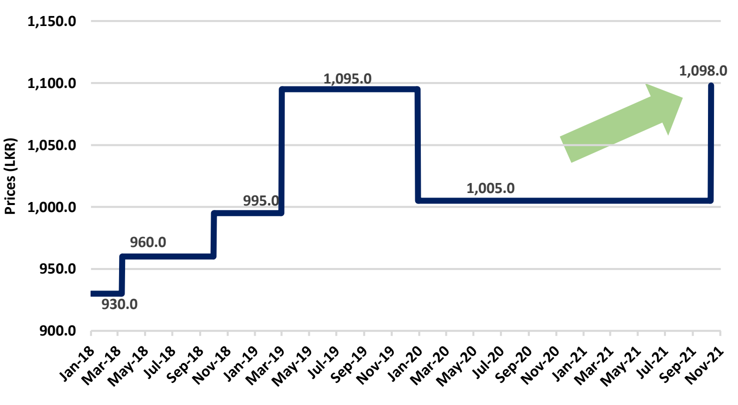
TOKYO CEMENT COMPANY (LANKA) PLC [TKYO.N0000]

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 2QYF22 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.

FIRST CAPITAL RESEARCH

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

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	Vidushika Perera	+94 11 2639 864
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
Rasika Indra Kumara		+94 77 7072 698		
Isuru Jayawardena		+94 76 7084 953		
Nishantha Mudalige		+94 70 2910 041		
Ifadh Marikar		+94 77 9625 679		
Anushka Buddhika		+94 71 4310 600		
Thushara Pathiraja		+94 70 2910 037		
Chandika Jayawardana		+94 77 3940 070		

UNIT TRUST SALES

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

BRANCHES

Kandy	**Kurunegala**	**Matara**	**Negombo**
2nd Floor,	Ground Floor	2nd Floor, E.H. Cooray Building	1st Floor
No.121 Kotugodella Veediya	No. 42,	No: 24, 1/3,	No: 163B,
(E L Senanayake Veediya)	Mihindu Mawatha,	Anagarika Dharmapala Mawatha,	Colombo Road,
Kandy 20000.	Kurunegala 60000.	Matara 81000.	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

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.