



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

DOWNGRADE TO SELL AND DISCONTINUE COVERAGE

“RISING COST PRESSURES TAKE TOLL ON MARGINS”

Fair Value: FY22E - LKR 59.0 [+6%] FY23E - LKR 55.0 [-1%]
Total Return with DPS: FY22E - 11% [AER 18%] FY23E - 7% [AER 4%]

FIRST CAPITAL RESEARCH

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Previous Report in Jun 2021 – DOWNGRADE TO HOLD

First Capital Research published an earnings update report on 21st Jun 2021 downgrading the earnings and share to a **HOLD** (with a fair value of LKR 85.0 for FY22E and LKR 80.0 for FY23E) considering the rise in production and other costs amidst the currency depreciation. Since then, the share price has declined by 27.5% to LKR 55.6 as at 09th Aug 2021.

EARNINGS FELL WELL BELOW OUR DOWNGRADED TARGETS– DOWNGRADE TO SELL AND DISCONTINUE COVERAGE

In the previous report published in Jun 2021, despite the top line growth, we estimated cost of sales to have pressure as TKYO is import dependent for clinker. Accordingly, we downgraded the bottom line by 16% to 4.7Bn for FY22E and by 20% to 4.5Bn for FY23E amidst the currency depreciation given that there will be no price hikes due to competition as well. In line with earnings, we also downgraded TKYO’s fair value to LKR 85.0 for FY22E from LKR 100.0 and to LKR 80.0 for FY23E. In 1QFY22, TKYO recorded earnings of LKR 297.8Mn (-56%YoY), performing even well below our expectations (we have estimated earnings of LKR 941.0Mn for 1QFY22). Earnings decline was primarily driven by surge in cost of sales by 53%YoY amidst escalating raw material prices and currency depreciation resulting in a decline in GP margins by 800bps YoY to 19.1% in 1QFY22. Moreover, distribution costs recorded a more than two-fold growth similar to the previous quarter further taking toll on the bottom line.

First Capital Research expects an overall depreciation of c.12% for 2021E for the rupee against USD assuming that LKR would reach c.210.0 (with an estimated range of 205.0-215.0) by end of the year warranting a significant rise in production and other costs for TKYO. Considering the expectations of further negative impact on the bottom line, we downgrade our earnings outlook to LKR 3.2Bn (-41%YoY) for FY22E and to LKR 3.1Bn for FY23E from previous forecast of LKR 4.7n for FY22E and LKR 4.5Bn for FY23E while fair value for TKYO.N is also downgraded to LKR 59.0 for FY22E and to LKR 55.0 for FY23E.

DOWNGRADE TO SELL AND DISCONTINUE COVERAGE

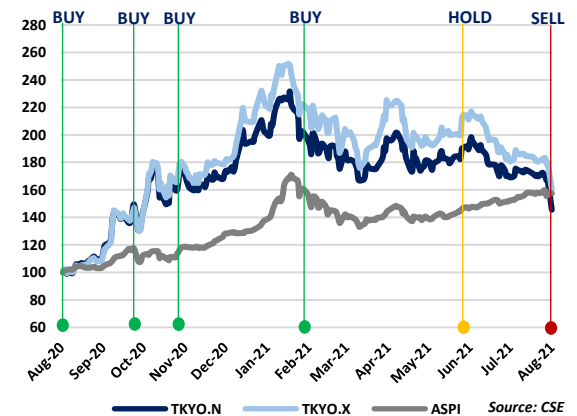
P/E 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Estimates (LKR 'Mn)							
Revenue	35,633	38,496	35,768	42,946	46,192	51,812	58,628
Gross Profit	8,472	7,888	10,256	12,495	11,318	11,928	12,612
EBIT	3,481	1,807	4,494	6,301	4,758	4,622	4,463
Net Profit	2,343	(492)	2,318	5,425	3,209	3,075	2,977
EPS (LKR)	5.8	(1.2)	5.8	13.5	8.0	7.7	7.4
YoY Growth (%)	-31%	-121%	371%	134%	-41%	-4%	-3%
DPS	1.3	0.3	1.5	3.5	2.1	2.0	1.9
Valuations							
PER (x)	9.5x	-45.3x	9.6x	4.1x	6.9x	7.3x	7.5x
PBV (x)	1.4x	1.5x	1.3x	1.0x	0.9x	0.9x	0.8x
DY (%)	2.2%	0.5%	2.7%	6.3%	3.7%	3.6%	3.5%

KEY DATA		
CSE Ticker	TKYO.N0000	TKYO.X0000
Bloomberg Ticker	TKYON SL	TKYOX SL
Share Price (LKR)	55.6	50.6
52w High (LKR)	88.5	79.3
52w Low (LKR)	37.8	31.3
Avg. Daily Volume (Shares)	709,100	1,223,947
Avg. Daily Turnover (LKR)	45,414,915	79,542,512
Issued Share Capital (Shares 'Mn)	267.3	134
Market Cap (LKR 'Mn)	14,862	6,763
Market Cap (USD 'Mn)	74	34

*1 USD = LKR 199.9

Price Performance (%)	1 mth	3 mths	12mths
TKYO.N	-14%	-18%	46%
TKYO.X	-2%	-9%	77%
ASPI	3%	14%	58%

Price Movement of TKYO vs ASPI and Past Recommendations



Source: CSE



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