



CEYLON TOBACCO COMPANY PLC [CTC.N0000]

INITIATING WITH A BUY

FAGS IGNITE BOTTOM-LINE BOOST....

P/E 31 December	2018	2019	2020	2021	2022E	2023E	2024E
Estimates (LKR 'Mn)							
Net Revenue	32,930	35,524	32,073	33,615	34,089	38,010	43,286
Operating profit	25,903	27,058	24,671	26,128	26,599	29,905	34,400
Net Profit	17,004	17,260	15,578	16,146	16,483	18,241	20,979
EPS (LKR)	90.8	92.1	83.2	86.2	88.0	97.4	112.0
YoY Growth (%)	17%	2%	-10%	4%	2%	11%	15%
Valuations							
PER (x)	6.5x	6.4x	7.1x	6.9x	6.7x	6.1x	5.3x
PBV (x)	20.7x	23.9x	24.1x	12.3x	25.5x	18.0x	13.4x
DY (%)	15.4%	15.6%	14.0%	9.0%	13.4%	14.8%	17.1%
NAVPS	28.61	24.68	24.57	47.98	23.14	32.88	44.08
DPS (LKR)	90.77	92.13	82.85	53.00	79.19	87.64	100.79
Div Payout	100%	100%	100%	61%	90%	90%	90%

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Price Performance (%)	1 mth	6 mths	12mths
CTC	-9%	-33%	-38%
ASPI	-11%	-38%	-6%

Gross Revenue to thrive led by price hikes and rebound in tourism sector

Gross Revenue of CTC is estimated to accelerate to achieve a CAGR of 6% during the period 2022E-2024E mainly attributing to continuous price hikes and swift bounce back in the tourism sector which was significantly curbed since 2020. Gross Revenue of CTC is expected to enhance in 2022E amidst the current economic crisis on account of VAT rate hike by 4.0%, which consequently increased the price of a cigarette by LKR 5.00 reflecting a rise in price by 6.3%-7.1% in major brands of CTC. In line with the past trend, we anticipate an annual tax hike in cigarettes resulting in further price hikes which will be far greater than the tax increase as the pricing power the company holds as the Tobacco Monopolist allows to pass on such increases to the consumer. We estimate the Gross Revenue of CTC to set on a marginal growth of 1.2% to LKR 135.9Bn in 2022E compared to LKR 134.4Bn in 2021, with volumes reacting negatively to the unfavourable economic climate. However, growth in turnover would expedite in 2023E as turnover is expected to rise by 5.3% to LKR 143.3Bn and by 6.4% to LKR 152.5Bn in 2024E with easing economic conditions improving purchasing power of consumers and positive developments in the political front and expected financial assistance from external parties bringing in hope for revamp in tourism and recovery of volumes.

Margins to remain stable despite ebbing volumes

It is expected for CTC's margins (Net Revenue/Gross Revenue) to increase narrowly to 25.1% for 2022E while reaching 26.5% for 2023E (+146bps) and 28.4% for 2024E (+186bps). Moreover, operating profit margin of CTC too is expected to increase marginally to 78.0% in 2022E compared to 77.7% in 2021 (+30bps). A possible shift in demand from domestic consumers to low margin products from high margin products and an overall decline in volumes coupled with a probable rise in demand for illicit beedi market as a result of depleting disposable income has a potential of hampering margins of CTC in the short term. However, the potential negative impact from this is offset by the escalation in demand for high margin products of CTC owing to the revival in the tourism sector in 2022 with tourist arrivals expected to rise beyond 800,000 by the end of 2022 while it has already crossed the 400,000 level for the period of January-June for the first time after 2019. Although, we expect volumes to decline by 12.0% in the current financial year, volumes would normalize by 2023E as the demand for cigarettes is expected to rebound due to its inelastic nature following the past trend of consumers adjusting to price hikes at a rapid pace. Thus, bottom line of CTC is expected to grow by 2.1% in 2022E and record at LKR 16.5Bn while it is expected to grow at 10.7% in 2023E recording an earnings of LKR 18.2Bn.

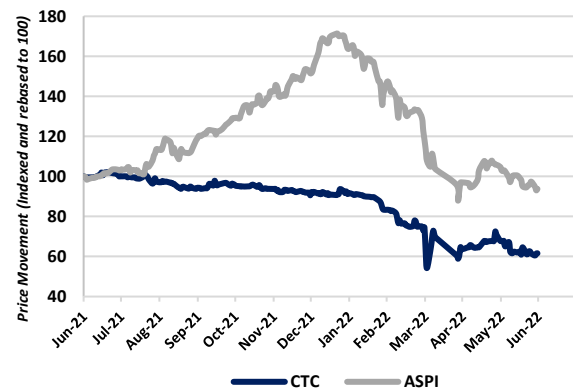
High dividend payout

CTC is more likely to maintain its average payout of c.90.0% in order to repatriate profits to its parent company British American Tobacco which owns 84% of CTC while providing a dividend yield of 13.4% and 14.8% in 2022E and 2023E respectively.

Undervalued at the current price level

In FY22E, we expect CTC to record a profit of LKR 16.5Bn (2%YoY) while FY23E net profit is expected to record at LKR 18.2Bn (11%YoY). For FY22E, CTC is expected to deliver a total return of 94.3% including a DY of 13.4% while for FY23E a total return of 103.8% is expected inclusive of 14.8% DY.

Price Movement of CTC vs ASPI (Indexed and rebased to 100)



Source: CSE



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