



CIC HOLDINGS PLC [CIC.N0000]

TRADING BUY

Company Profile

- CIC is a key conglomerate operating in Sri Lanka with its operations spanning mainly across 5 large segments such as Crop Solutions, Livestock Solutions, Agri produce, Industrial Solutions and Health & Personal care. Crop solution segment imports Plant nutrition, Plant protection and Seeds and caters to local farmers engaging in agriculture. Agri produce segment specializes in the areas of Rice, Dairy and Fresh produce. Under the Livestock segment, CIC manufactures feed, catering to the country's poultry feed market while also producing day-old broiler chick. Industrial solutions segment engages in the supply of binders for the local paint manufacturing industry, special chemical applications for the production of rubber and latex and flexible packaging solutions. Meanwhile, the Health & Personal care segment manufactures Pharmaceuticals and personal care products while importing medical devices.

Earnings Update

- 2QFY23 earnings of CIC displayed a massive upturn of 211.9%YoY and recorded at LKR 2.38n (cf. LKR 0.78n in 2QFY22) fuelled by the robust improvement in revenue by 86.9%YoY to LKR 17.88n (cf. LKR 9.58n in 2QFY22) with the largest contribution stemming from the Crop Solutions segment (31.2%) and Livestock Solutions segment (30.7%). Despite the negative impact emerging from the forex crisis on imports causing cost of sales to escalate, GP margin improved sharply by 1,158bps and recorded at 38.6%. However, net operating expense for 2QFY23 climbed up to LKR 1.88n compared to LKR 1.18n in 2QFY22 (+62.6%YoY) owing to the prevailing high inflationary environment. Earnings from the Industrial Solutions and Crop Solutions segments led CIC's profitability with Industrial Solutions recording a profit of LKR 1.08n (+531.1%YoY cf. LKR 0.28n in 2QFY22) owing to the improved export income derived from chemical applications for the production of rubber and the increased demand for packaging segment while profit from the latter was recorded at LKR 2.78n (+398.9%YoY cf. LKR 0.58n in 2QFY22) aided by the revoked fertilizer ban and high demand for plant nutrition and protection.

Future Outlook

- CIC is likely to grow further in the upcoming quarters primarily across its key segment Crop Solutions, followed by Livestock Solutions segment. With the government's revoke on the fertilizer ban, CIC was able to continue operations smoothly in the Crop Solutions segment while allowing to offer fertilizer to the market at a high retail price. Meanwhile, the subsidy system (government purchases from market players such as CIC at a subsidized price and offers to farmers at zero price) which was in place till Dec-21 is no longer taking place giving CIC an edge to further enhance profitability as CIC is now able to sell at an optimal price through dealers and distributors across the island. Moreover, we expect demand for fertilizers, pesticides and seeds will continue to see growth with the Maha season approaching as farmers begin the sowing process.
- Meanwhile, the Livestock Solutions segment is also expected to aid the profitability of CIC as many small players have exited the market owing to the crippling crisis, unfolding high demand for large players like CIC. CIC's ability to cater to the shortages created in the feed market while small players exiting will potentially expand CIC's market share in poultry feed market. Moreover, CIC is also set to materialize on the rising demand for chicken as the spiralling inflation has caused many households to resort to chicken due to its affordability compared to other meat items which are relatively more expensive and the demand for chicken is likely to climb up further following the recent price reduction. Besides, the upcoming Christmas season too shall positively impact the poultry sales while improvements in disposable income will further uplift the Livestock sector.
- Furthermore, the rise in demand from the apparel industry for dyes and chemicals and increase in exports of chemical applications for the production of rubber are expected to favourably impact the Industrial Solutions segment of CIC. As the country is facing troubles in importing essential medicines, local pharmaceutical manufacturers like CIC are much likely to experience high demand due to its availability and affordability while chronic diseases such as diabetes and high blood pressure require continuous medication which will possibly help demand to stay consistent.

Valuations

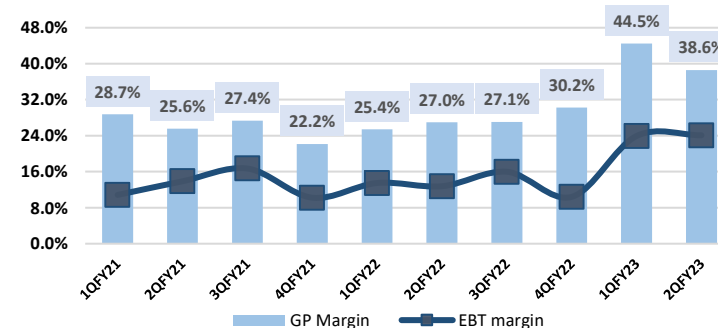
- We believe CIC is much likely in a position to experience higher profitability in the coming quarters, due to the rising demand that is expected broadly across all its segments, mainly Crop Solutions and Livestock Solutions. CIC currently trades at a TTM PER of 5.4x and a PBV of 2.2. **TRADING BUY**

P/E 31 March	FY18	FY19	FY20	FY21	FY22
LKR 'Mn					
Revenue	33,148	30,702	30,536	37,233	41,760
Gross profit	6,725	7,297	7,807	9,660	11,525
EBIT	1,890	2,314	3,187	5,394	7,028
Net Profit	(413)	483	833	3,132	3,684
Basic EPS (LKR)	(1.1)	1.3	2.2	8.3	9.7
YoY Growth (%)	-38%	217%	72%	276%	18%
Valuations					
PER (x)	(87.0)	74.4	43.2	11.5	9.8
PBV (x)	4.21	3.9	3.8	2.7	2.2
Dividend Yield (%)	1%	1%	1%	1%	2%
NAVPS	22.5	24.3	25.3	34.9	43.6
DPS (LKR)	1.00	1.00	0.50	1.25	2.25
Dividend Payout	-92%	78%	23%	15%	23%

LKR (Mn)	2QFY23	2QFY22	YoY	6MFY23	6MFY22	YoY
Revenue	17,830	9,539	+87%	33,141	18,589	+78%
Gross profit	6,879	2,576	+167%	13,684	4,874	+181%
EBIT	5,047	1,449	+248%	10,509	2,736	+284%
PBT	4,296	1,219	+252%	7,961	2,440	+226%
Net Profit	2,343	751	+212%	4,460	1,487	+200%

Quarterly	Dec-21	Mar-22	Jun-22	Sep-22	QoQ
Earnings (LKR 'Mn)					
Revenue	11,326	11,845	15,311	17,830	+16%
Gross profit	3,068	3,583	6,806	6,879	+1%
EBIT	1,849	2,443	5,462	5,047	-8%
Net Profit	1,150	1,047	2,117	2,343	+11%

GP margin and EBT margin of CIC for 1QFY21-2QFY23



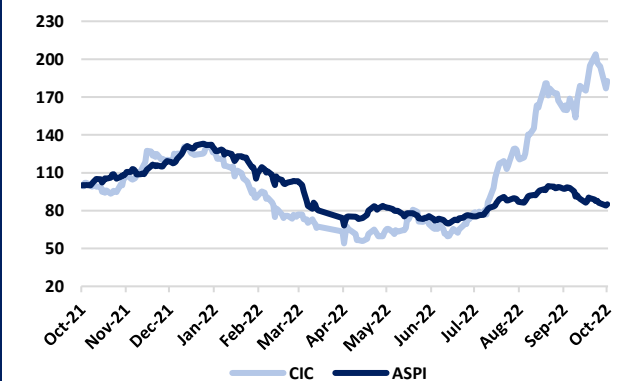
KEY DATA

CSE Ticker	CIC.N0000
Bloomberg Ticker	CIC SL
Share Price (LKR)	94.8
52w High (LKR)	108.0
52w Low (LKR)	27.0
Issued Share Capital (Shares 'Mn)	379
Market Cap (LKR 'Mn)	35,937
Market Cap (USD 'Mn)	100

*1 USD = LKR 360

Price Performance	1 mth	3 mth	12 mth
CIC	14%	140%	82%
ASPI	-13%	13%	-15%

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



Source: CSE

Top 5 Shareholders (30th Sep 2022)

Paints & General Industries Limited	53.31%
Employees Provident Fund	9.06%
Chacra Capital Holdings (Private) Limited	4.49%
Sri Lanka Insurance Corporation Limited - Life Fund	3.17%
Seylan Bank PLC/ ARRC Capital (Private) Limited	0.97%



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About us

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