



CEYLON TOBACCO COMPANY PLC [CTC.N0000]

MAINTAIN BUY

“SKY-HIGH PROFITS WITH INFLATED FAG PRICES”

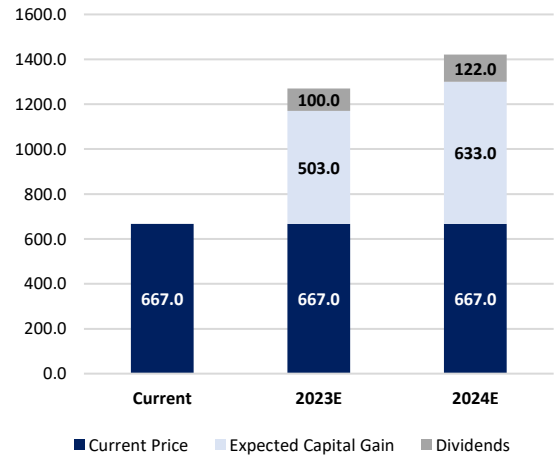
Fair Value: 2023E - LKR 1,170.0 [+75%]

Total Return with DPS: 2023E - 90% [AER 134%]

Fair Value: 2024E - LKR 1,300 [+95%]

Total Return with DPS: 2024E - 113% [AER 54%]

CTC performed remarkably in 2022, recording a profit of LKR 20.5Bn registering an increase of 26.8% compared to 2021. Multiple price upward revisions during the quarter aided the topline growth while margins reflected a sizeable improvement. Meanwhile, 4QFY22 earnings of CTC rose by 41.1%YoY to LKR 6.4Bn (-3.2%QoQ) largely led by the rise in Net Revenue to LKR 12.1Bn (+27.6%YoY). However, both Gross Revenue and Net Revenue declined on QoQ basis by 13.5% and 6.6%, respectively as volumes witnessed a dip following the steep increase in cigarette prices. Meanwhile, operating profit continued to remain escalated and recorded at LKR 9.9Bn (+37.3%YoY) as cost pressures were at minimum. Hence, taking into consideration the growth potential of CTC following the upward price revisions, moderation in volumes amidst improved purchasing power and rebounding tourism, we have broadly maintained our earnings target for 2023E and 2024E at LKR 23.5Bn and LKR 25.5Bn, respectively. Accordingly, fair value for 2023E is estimated at LKR 1,170.0 while 2024E fair value is estimated at LKR 1,300.0 providing an upside of 75% and 95%, respectively. **MAINTAIN BUY.**



FIRST CAPITAL RESEARCH

Zaeema Jihan

+94 11 263 9863

zaheema@firstcapital.lk

Price movement of CTC vs ASPI (Indexed and Rebased to 100)



LKR (Mn)	4Q2021	4Q2022	YoY	2021	2022	YoY
Earnings (LKR 'Mn)						
Gross Revenue	37,885	40,746	+8%	134,369	167,194	+24%
Net Revenue	9,456	12,065	+28%	33,616	44,272	+32%
EBIT	7,186	9,865	+37%	26,128	33,196	+27%
PBT	7,365	10,184	+38%	26,647	34,398	+29%
Net Profit	4,506	6,360	+41%	16,147	20,474	+27%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	8,989	17,497	+95%	8,989	17,497	+95%
Cash & Cash equivalents	8,593	24,217	+182%	8,593	24,217	+182%
NAVPS	48.0	93.4		48.0	93.4	

2022 earnings at record high while registering the highest growth in 10 years

CTC earnings for 2022 was at a record high of LKR 20.5Bn broadly in line with our earnings expectation of LKR 19.1Bn, while recording the highest bottom-line growth of 26.8% since 2011. Gross revenue of CTC displayed a sizeable increase of 24.4%YoY to LKR 167.2Bn led by the upward price revisions that came in Jun-22 and Sep-22, where prices were revised by 6.3%-7.1% and 6.7%-11.8%, respectively following the VAT hike. As prices were increased over and above the tax hike, Net Revenue/Gross Revenue margin of CTC for 2022 was at 26.5% which has improved by 146bps compared to 2021 margin of 25.02%. Accordingly, Net Revenue of CTC for 2022 was recorded at LKR 44.3Bn which is an uptick of 31.7%YoY. However, EBIT margin edged low during the year ended by 275bps to 75.0% cf. 77.7% owing to the higher inflationary environment that prevailed during 2022. Meanwhile, considering the upswing in topline after the price revision in Jan-23, following the excise duty, moderation in volumes after salary adjustments and falling inflation and rebounding tourism, we have slightly upgraded our Net Revenue target to LKR 49.7Bn (Previous: LKR 46.0Bn) for 2023E while earnings for 2023E is estimated at LKR 23.5Bn.

Volumes during 4Q2022 curtail amidst higher prices for fags; yet earnings remain steady

4Q2022 earnings of CTC was recorded at LKR 6.4Bn (+41.1%YoY) remaining broadly stable on a QoQ basis as it dipped marginally by 3.2%, owing to the decline in the topline where Gross Revenue fell by 13.5% amidst low volumes. Impact from the steep price revisions made during the Jun-22 and Sep-22 trickled down to 4Q2022 resulting in a marginal decline in volumes high likely from low margin products as demand shifts to illicit market due to affordability concerns. However, the impact would be partly set off from the rising sales volumes stemming from higher margin products as tourist arrivals showed sizeable recovery during the latter part of 2022. Meanwhile, we anticipate volumes to moderate to healthy levels during 2023E with the expected salary adjustments and low inflationary environment. Furthermore, EBIT margin remained broadly stable at 81.8% during the quarter compared to 81.9% in 3Q2022 as all operating expenses declined on a QoQ basis except other operating expense which climbed higher by 26.9%QoQ to LKR 801.0Mn. Meanwhile, Net interest income displayed a sharp uptick of 78.2%YoY and recorded at LKR 319.0Mn further strengthening the bottom-line.

FV estimated at LKR 1,170.0 for 2023E - MAINTAIN BUY

Taking into consideration the growth potential of CTC following the upward price revisions made in Jan-23 where prices were increased nearly by LKR 15.0 per stick (Dunhill switch - LKR 110.0 from LKR 95.0 and John Player Gold leaf LKR 100.0 from LKR 85.0) following the Excise duty hike by 20%, moderation in volumes amidst improved purchasing power and rebounding tourism, we have broadly maintained our earnings target for 2023E and 2024E at LKR 23.5Bn and LKR 25.5Bn, respectively. Accordingly, fair value for 2023E is estimated at LKR 1,170.0 while 2024E fair value is estimated at LKR 1,300.0 providing an upside of 75% and 95%, respectively. **MAINTAIN BUY.**

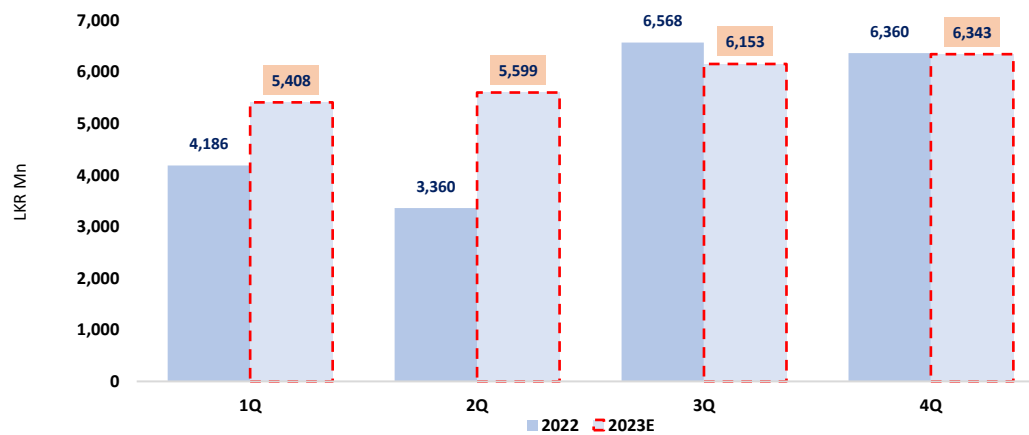
Minimum Return for BUY:

Buy Below 2023E - [AER of 20% with DPS]: LKR 1,047.0
CTC categorized as 'Grade A' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of CTC during the five trading days prior to the issuance of this document.

Quarterly Earnings



Estimate Revision

In LKR Mn	2023E - O	2023E - R	% Change	2024E - O	2024E - R	% Change
Earnings Estimate						
Net Revenue	45,957	49,719	+8%	53,236	53,826	+1%
EBIT	36,917	37,091	+0%	43,037	39,945	-7%
Profit before Tax	37,510	38,786	+3%	43,811	42,023	-4%
Net Profit	22,730	23,503	+3%	26,547	25,464	-4%
Adjusted EPS	121.3	125.5		141.7	135.9	
Growth YoY	19%	15%		17%	8%	
Balance Sheet Estimate						
Shareholders' Equity	14,853	22,198	+49%	17,508	24,744	+41%
Cash & Cash equivalents	11,054	29,687	+169%	11,446	31,272	+173%
Adjusted NAVPS	79.3	93.4		93.5	118.5	
Ratio Estimate						
ROE (%)	153%	106%		152%	103%	
PER (x)	5.0	5.3		4.3	4.9	
PBV (x)	7.7	5.6		6.5	5.0	

Valuation Table

P/E 31 December	2019	2020	2021	2022E	2023E	2024E	2025E
Estimates (LKR 'Mn)							
Net Revenue	35,524	32,073	33,615	44,272	49,719	53,826	55,433
Operating profit	27,058	24,671	26,128	33,196	37,091	39,945	40,773
Net Profit	17,260	15,578	16,146	20,474	23,503	25,464	26,033
EPS (LKR)	92.1	83.2	86.2	109.3	125.5	135.9	139.0
YoY Growth (%)	2%	-10%	4%	27%	15%	8%	2%
Valuations							
PER (x)	7.2x	8.0x	7.7x	6.1x	5.3x	4.9x	4.8x
PBV (x)	27.0x	27.1x	13.9x	7.1x	5.6x	5.0x	4.6x
DY (%)	13.8%	12.4%	7.9%	13.3%	15.0%	18.3%	18.8%
NAVPS	24.68	24.57	47.98	93.41	118.50	132.09	145.99
DPS (LKR)	92.13	82.85	53.00	89.00	100.37	122.34	125.08
Div Payout	100%	100%	61%	81%	80%	90%	90%



Valuation Summary

Expected CTC price	2023E	2024E
PER based target price	1,093	1,254
DCF Valuation based target price	1,251	1,297
Average Target Price	1,172	1,275
Target price after Rounding off	1,170	1,300

Return	2023E	2024E
Target Price	1,170	1,300
Current Price	667	667
Capital Gain (LKR)	503	633
Dividend (LKR) 2022E	100	122
Capital Gain %	75%	95%
Dividend Yield %	15%	18%
Total Return %	90%	113%
Annualized Return %	134%	54%

Discounted Cash flow Valuation

DCF based Valuation	2023E	2024E
Enterprise Value	204,661	211,636
(-) Debt	-	-
(+) Cash	29,687	31,272
Total Value of Equity	234,348	242,908
No. of shares	187	187
Target Price	1,251	1,297

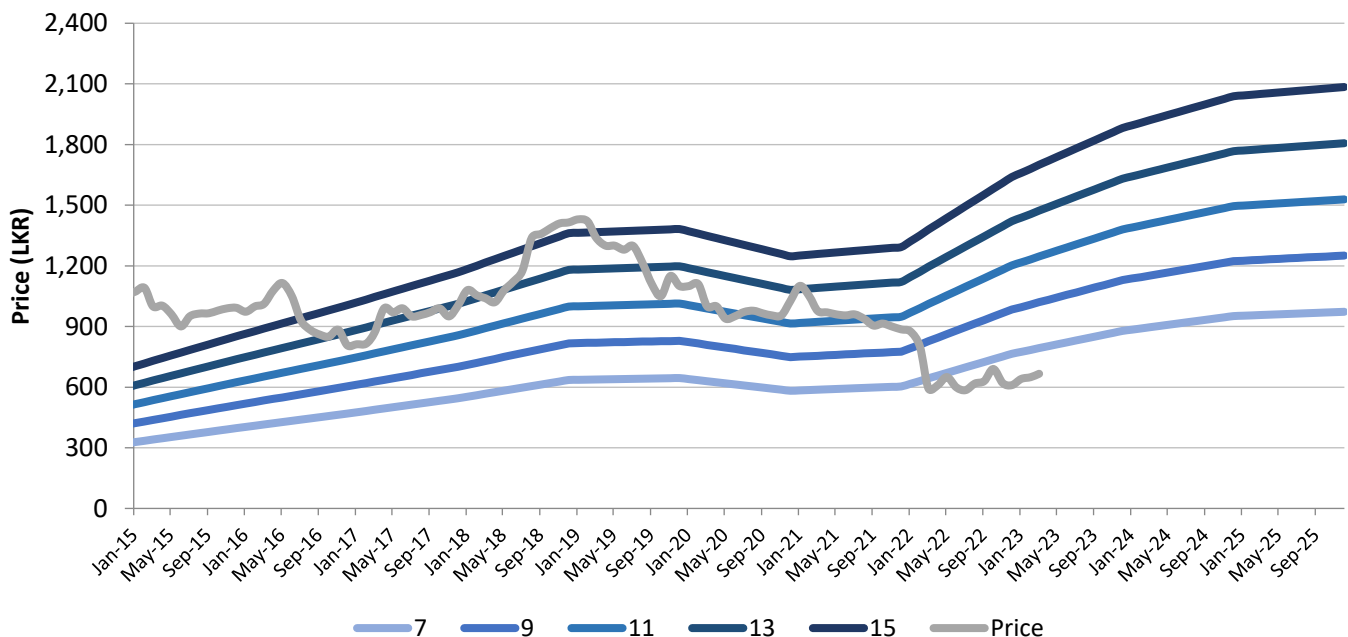
COE	2023E	2024E
Rf	21.0%	21.0%
Rm	29.0%	29.0%
Growth %	3.0%	3.0%
β	0.80	0.41
$Ke=Rf+\beta(Rm-Rf)$	27%	24%

PER Valuation

PER based Valuation	2023E	2024E
Earnings (LKR 'Mn)	20,474	23,503
No. of Shares ('Mn)	187	187
EPS	109.3	125.4
Expected PER	10.0x	10.0x
Price at 10.0x Earnings	1,093	1,254

WACC	2023E	2024E
Ke	27%	24%
Kd	5%	5%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3.0%	3.0%
WACC	18%	17%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn) Y/E 31st December	2019	2020	2021	2022	2023E	2024E	2025E
Gross Revenue	141,342	132,149	134,369	167,194	181,279	194,186	197,914
Government Levies	-105,818	-100,076	-100,753	-122,922	-131,559	-140,360	-142,481
Net Revenue	35,524	32,073	33,615	44,272	49,719	53,826	55,433
Other operating income	70	101	33	36	50	54	55
Raw materials	-2,213	-2,169	-2,645	-3,439	-4,086	-4,587	-4,900
Employee benefits	-1,477	-1,365	-1,519	-2,020	-2,101	-2,185	-2,272
Other operating expenses	-4,550	-3,629	-3,023	-5,288	-6,167	-6,797	-7,127
Operating profit	27,058	24,671	26,128	33,196	37,091	39,945	40,773
Net interest income	1,634	763	519	1,202	1,695	2,078	2,189
Profit Before Taxation	28,692	25,434	26,646	34,398	38,786	42,023	42,962
Income Tax	-11,432	-9,855	-10,500	-13,924	-15,283	-16,559	-16,929
Profit for the Year	17,260	15,578	16,146	20,474	23,503	25,464	26,033
EPS	92.1	83.2	86.2	109.3	125.5	135.9	139.0

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn) As at 31st December	2019	2020	2021	2022	2023E	2024E	2025E
Non-Current Assets							
Property plant and equipment	3,978	4,682	5,347	5,552	6,478	7,676	9,212
	4,294	4,977	5,854	5,892	6,818	8,015	9,552
Current Assets							
Cash & cash equivalents	16,845	9,782	8,593	24,217	29,687	31,272	32,747
Total Assets	26,667	21,721	26,468	41,563	47,529	51,095	54,334
Equity and Liabilities							
Equity							
Stated capital	1,873	1,873	1,873	1,873	1,873	1,873	1,873
Retained earnings	2,750	2,729	7,114	15,624	20,325	22,871	25,474
Total equity	4,623	4,602	8,987	17,497	22,198	24,744	27,348
Current Liabilities							
Trade & other payables	10,680	7,827	5,169	9,025	10,290	11,310	11,946
Current tax Liabilities	6,475	4,967	4,219	6,754	6,754	6,754	6,754
Dividends payable	3,746	3,465	7,220	7,108	7,108	7,108	7,108
	21,328	16,639	17,003	23,266	24,530	25,551	26,186
Total Liabilities	22,044	17,119	17,481	24,066	25,331	26,351	26,987
Total Equity & Liabilities	26,667	21,721	26,468	41,563	47,529	51,095	54,334
NAVPS	24.7	24.6	48.0	93.4	118.5	132.1	146.0



First Capital

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	Tharusha Ashokgar	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Zaeema Jihan	+94 11 2639 863

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

Tharusha Ekanayake	+ 94 77 7 809 154
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EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042
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Colombo

Rasika Indra Kumara	+94 77 7072 698	Chandika Jayawardana	+94 77 3940 070
Isuru Jayawardena	+94 76 7084 953	Anjelo LaBrooy	+94 77 7546 645
Nishantha Mudalige	+94 70 2910 041	Dillon Lowe	+94 76 616 0647
Anushka Buddhika	+94 71 4310 600	Evelyn John	+94 77 779 2452
Thushara Pathiraja	+94 70 2910 037	Yudheshan Kannadasan	+94 77 415 5809

Negombo

Priyanka Anuruddha	+94 70 2910 035	Priyantha Wijesiri	+94 70 2910 036
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UNIT TRUST SALES

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

Kandy	Kurunegala	Matara	Negombo
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1 st Floor, E.H.Cooray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, 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 4937 072

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