

**CEYLON COLD STORES PLC [CCS.N0000]****INITIATING WITH A BUY****“UNLEASHING GROWTH POTENTIAL OF THE RETAIL GIANT”****Fair Value: FY24E - LKR 55.0 [+37%]**

Total Return with DPS: FY24E - 40% [AER 50%]

**FY25E - LKR 65.0 [+62%]**

FY25E - 66% [AER 32%]

CCS recorded a notable earnings growth of 20.8% to LKR 1.5Bn in 4QFY23 primarily driven by a deferred tax reversal of LKR 992.0Mn, which resulted from tax losses due to the claim of Enhanced Capital Allowance. However, considering recurring profitability, both the Manufacturing and Retail segments experienced a decline of 31.6%YoY and 26.6%YoY, which attributed to higher income tax expenses and a significant increase in interest rates, as the expansion of working capital was funded through bank overdraft. However, group's top-line showed strong growth, rising by 24.9% to LKR 32.2Bn which was supported by price escalations, with costs being partly transferred to customers. However, manufacturing segment volumes experienced a double-digit decline YoY (Beverages -40.0%, Frozen confectionery -30.0%), while same-store sales in the retail segment grew by 30.1%YoY. Looking ahead, the retail sector is expected to benefit from a gradual recovery in consumption and continued store expansion, while the manufacturing segment is anticipated to recover gradually as well, supported by a shift in product mix towards higher-margin impulse products, which will contribute to earnings growth while, normalizing global commodity prices may significantly boost the margins of the segment. Considering these factors, we initiate coverage on CCS with a projected 37.2% upside. This optimistic outlook is based on the expectation of normalizing economic activity post financial crisis, as well as the company's expanding retail presence. **INITIATING WITH A BUY**

LKR (Mn)	4QFY22	4QFY23	YoY	FY22	FY23	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	25,765	32,182	+25%	84,543	126,149	+49%
Gross profit	3,361	3,146	-6%	9,136	12,749	+40%
EBIT	2,426	1,486	-39%	4,744	6,185	+30%
PBT	1,913	418	-78%	2,782	2,239	-19%
Net Profit-Equity holders	1,218	1,472	+21%	2,068	2,513	+21%
Est. Recurring profit	1,218	480	-61%	2,068	1,521	-26%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	18,107	19,077	+5%	18,107	19,077	+5%
Borrowings	17,912	22,516	+26%	17,912	22,516	+26%
NAVPS	19.1	20.1		19.1	20.1	

**Price escalation drives manufacturing segments' top-line**

The manufacturing segment reported a YoY revenue growth of 10.7% in 4QFY23 to LKR 7.0Bn, amidst the significant spike in prices by nearly 52.0% during the quarter. Meanwhile, Frozen Confectionery volumes faced a double-digit degrowth of 30.0%, while Beverage volumes were down by 40.0%YoY, hampering the segments' profitability yet it was offset by the deferred tax reversal of LKR 992.0Mn. The segment's EBIT margins were impacted on a YoY basis due to escalations in raw material prices and higher direct and fixed costs related to the segment. Nevertheless, there are positive developments on the horizon. Global raw material prices are gradually decreasing from their peak levels, and there has been stabilization in the country's foreign exchange liquidity position, accompanied by the appreciation of the rupee by 19.5%YTD. As a result, the pressure on margins has begun to ease gradually since 4QFY23.

**Retail segments' margins on the verge of recovery**

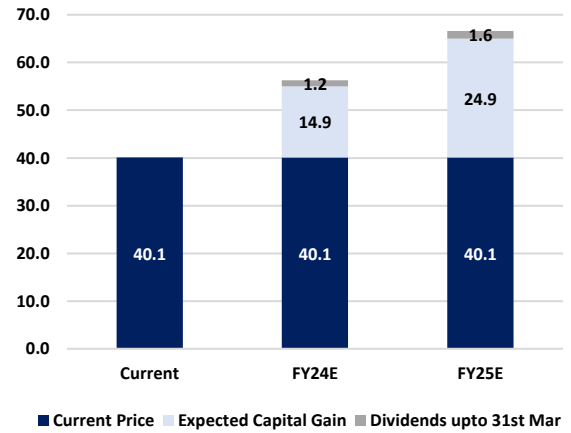
In the 4QFY23, the retail segment of CCS demonstrated QoQ strong profit growth of 36.2%, reaching LKR 268.5Mn. Although it was a degrowth of 26.6%YoY, the retail segment contributed significantly to the group's overall revenue, accounting for 78.3% of the total. Same Store Sales saw a substantial growth of 30.1% as the Average Basket Value (ABV) remained elevated at 30.0%. Escalation of prices reflect changing consumer buying patterns, although footfall remained relatively stable. However, due to the construction halt, store expansion was limited to only four locations throughout the year. Meanwhile, as inflation is expected to ease and close the year with single-digit figure, CCS anticipates an increase in store expansion to 5-7 new stores during FY24E, reflecting improved market conditions. Although the EBIT margin improved QoQ to 5.0% (up from 4.6%), a spike in commodity costs and higher staff and store-related expenses resulted in a setback in the EBIT margin compared to 4QFY22 (6.4%). Looking ahead, CCS expects to project a topline growth at a CAGR of 5.7% from FY23-FY26E, driven by improved Same Store Sales and incremental revenue from new store openings. Moreover, EBIT margins also expect to expand on the back of enhanced consumer discretionary spending and an increased penetration of private label products.

**Easing off inflationary pressure to drive discretionary demand**

First Capital Research anticipates a positive GDP growth by 4Q2023, driven by increase in private sector consumption with the growth in disposable income. This positive outlook is expected to drive the retail segment of CCS, with new store expansion and improved footfall while demand for Frozen Confectionery (FC) and Carbonated Soft Drinks (CSD) is projected to recover in the 2HFY24E. Meanwhile, regional markets exhibit a significant growth potential for the Impulse category, as the Bulk-Impulse mix is heavily skewed towards Impulse markets. This has boarded well for CCS in terms of margin contribution, as impulse products yield higher margins. Moreover, in response to consumer preferences for more affordable products and pack sizes, the group continued to further expand its private label range with the aim to meet the demand for budget-friendly options.

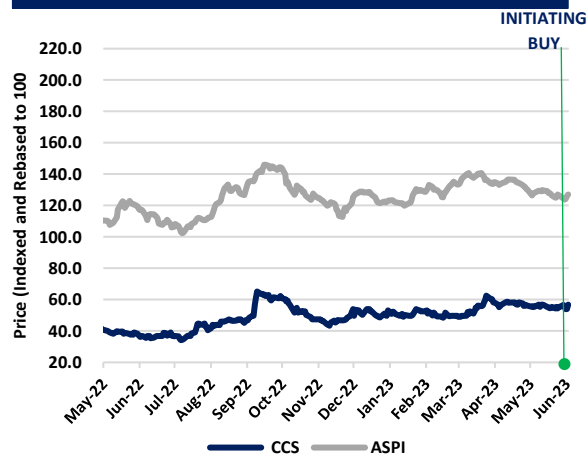
**Fair Value estimated at LKR 55.0 for FY24E – Initiating with a BUY**

Based on the analysis, we anticipate that the retail business unit will play a more significant role in both revenue and profitability, driven by the anticipated growth in modern retail. Simultaneously, we expect the manufacturing business unit to gradually recover in terms of volume and margins, benefiting from increased disposable income as inflation eases. Hence, we have forecasted the groups' profitability to grow at a 3Yr CAGR of 12.7% from FY23-FY26E whilst CCS is currently trading at a 7Yr low PE of 14.4x, a significant discount to its intrinsic value. In light of these factors, we are initiating coverage on the stock with an **INITIATING WITH A BUY**

**FIRST CAPITAL RESEARCH**

Tharusha Ashokgar

+94 11 263 9866

[tharushaash@firstcapital.lk](mailto:tharushaash@firstcapital.lk)**Price Movement of CCS vs ASPI (Indexed and rebased to 100)**

Source: CSE

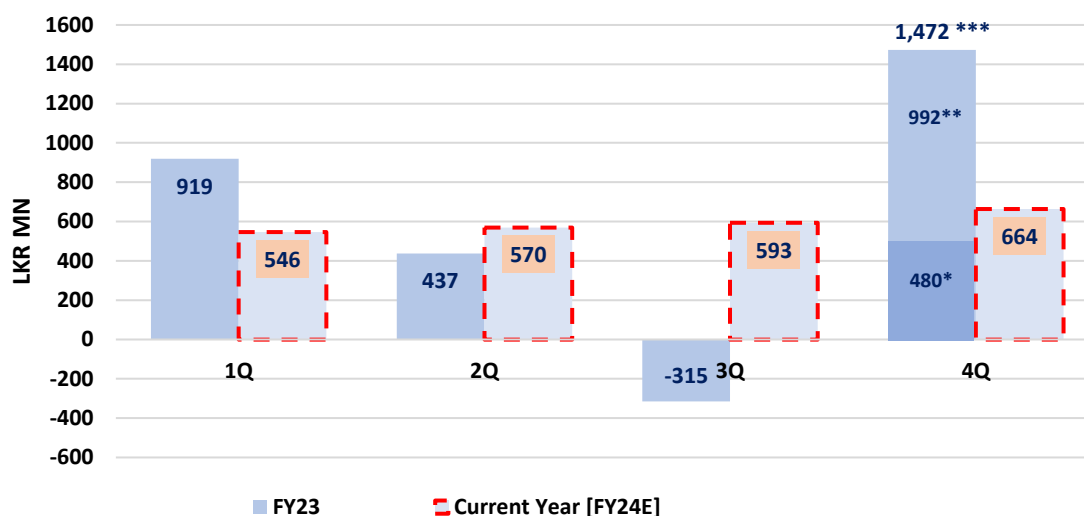
**Minimum Return for BUY:**

**Buy Below for FY24E [AER of 29.0% with DPS]: LKR 45.5.**  
CCS categorized as 'Grade B' counter

**Disclosure on Shareholding:**

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

### Quarterly Earnings



\*Estimated Recurring earnings for 4QFY23

\*\*Deferred tax reversal of LKR 992Mn

\*\*\*Total earnings reported for 4QFY23

### Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Estimates (LKR 'Mn)</b>								
Revenue	59,060	69,055	68,766	84,543	126,149	133,907	140,748	148,708
Gross profit	6,135	8,443	7,651	9,136	12,749	13,792	14,779	16,060
EBIT	2,606	4,786	4,112	4,744	6,185	6,959	7,743	8,585
Net Profit	1,310	2,135	2,338	2,068	2,513	2,373	3,072	3,760
Adjusted EPS (LKR)	1.4	2.2	2.5	2.2	2.6	2.5	3.2	4.0
YoY Growth (%)	-49%	63%	10%	-12%	21%	-6%	29%	22%
<b>Valuations</b>								
PER (x)	29.1	17.8	16.3	18.4	15.2	16.1	12.4	10.1
PBV (x)	2.5	2.4	2.3	2.1	2.0	1.9	1.7	1.6
DY (%)	3.7%	3.0%	4.2%	2.8%	3.2%	3.1%	4.0%	4.9%
NAVPS	16.2	16.6	17.7	19.1	20.1	21.3	22.9	24.9
DPS	1.5	1.2	1.7	1.1	1.3	1.2	1.6	2.0
Dividend Payout	109%	53%	69%	52%	49%	50%	50%	50%

### Valuation Summary

Return	FY24E	FY25E	Expected CCS price	FY24E	FY25E
Target Price	55.0	65.0	PER Valuation based target price	49.9	64.6
Current Price	40.1	40.1	SOTP Valuation based target price	54.4	69.3
Capital Gain (LKR)	14.9	24.9	<b>Average Target Price</b>	<b>52.2</b>	<b>67.0</b>
Dividends upto 31st Mar (LKR)	1.2	1.6	<b>Target Price after Rounding off</b>	<b>55.0</b>	<b>65.0</b>
Capital Gain %	37%	62%			
Dividend Yield %	3%	4%			
<b>Total Return %</b>	<b>40%</b>	<b>66%</b>			
Annualized Return %	50%	32%			

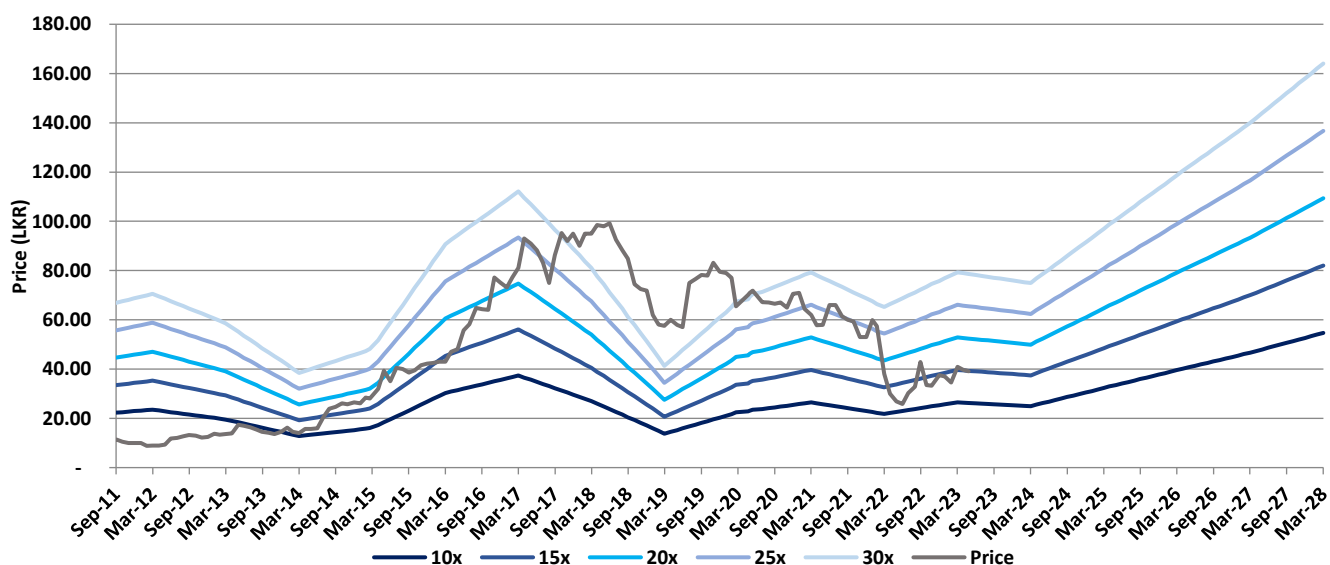
### PER Valuation

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	2,373	3,072
No. of Shares ('Mn)	950	950
EPS	2.5	3.2
Expected PER	20x	20x
<b>Price at 20x Earnings</b>	<b>49.9</b>	<b>64.6</b>

### SOTP Valuation

Segment	Valuation Method	Valuation assumption			Value in LKR Mn	
		CoE	WACC	Growth	Firm value FY24E	Firm value FY25E
Consumer Foods	DCF	29.0%	19.8%	5.0%	14,429.4	21,959.2
Retail	DCF	28.2%	17.1%	5.0%	37,243.8	43,903.3
Total per share					51,673.2	65,862.6
No. of shares					950.4	950.4
<b>Value per share</b>					<b>54.4</b>	<b>69.3</b>

### PER Chart



## Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)								
P/E 31st March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	59,060	69,055	68,766	84,543	126,149	133,907	140,748	148,708
Cost of sales	-52,925	-60,613	-61,115	-75,407	-113,400	-120,115	-125,970	-132,648
<b>Gross profit</b>	<b>6,135</b>	<b>8,443</b>	<b>7,651</b>	<b>9,136</b>	<b>12,749</b>	<b>13,792</b>	<b>14,779</b>	<b>16,060</b>
Other operating income	1,710	1,861	1,576	1,831	2,599	2,942	3,239	3,380
Selling and distribution expenses	-2,411	-2,788	-2,695	-3,149	-3,993	-4,285	-4,504	-4,759
Administrative expenses	-1,737	-1,960	-2,215	-2,837	-3,830	-4,151	-4,363	-4,610
Other operating expenses	-1,090	-770	-205	-237	-1,340	-1,339	-1,407	-1,487
<b>EBIT</b>	<b>2,606</b>	<b>4,786</b>	<b>4,112</b>	<b>4,744</b>	<b>6,185</b>	<b>6,959</b>	<b>7,743</b>	<b>8,585</b>
Change in fair value of investment property	25	42	4	17	21	0	0	0
Net Finance Income	-588	-1,761	-1,742	-1,979	-3,967	-2,498	-2,229	-2,024
Eliminations						-1,071	-1,126	-1,190
<b>PBT</b>	<b>2,043</b>	<b>3,067</b>	<b>2,375</b>	<b>2,782</b>	<b>2,239</b>	<b>3,390</b>	<b>4,389</b>	<b>5,371</b>
Taxation	-732	-932	-36	-714	273	-1,017	-1,317	-1,611
<b>Net Profit for the Period</b>	<b>1,310</b>	<b>2,135</b>	<b>2,338</b>	<b>2,068</b>	<b>2,513</b>	<b>2,373</b>	<b>3,072</b>	<b>3,760</b>
<b>Adjusted EPS</b>	<b>1.38</b>	<b>2.25</b>	<b>2.46</b>	<b>2.18</b>	<b>2.64</b>	<b>2.50</b>	<b>3.23</b>	<b>3.96</b>

## Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)								
As at 31st March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Non current assets</b>								
Property plant and equipment	18,121	20,137	22,289	25,580	27,250	27,640	28,905	32,613
Intangible Assets	462	658	1,941	2,822	3,601	3,781	3,970	4,169
Non-current financial assets	7,273	7,278	7,296	7,503	6,673	6,673	6,673	6,673
Other non-current asset	1,630	9,291	10,922	11,427	11,776	11,776	11,776	11,776
	<b>27,486</b>	<b>37,363</b>	<b>42,449</b>	<b>47,332</b>	<b>49,300</b>	<b>49,871</b>	<b>51,324</b>	<b>55,231</b>
<b>Current ssets</b>								
Inventories	5,088	5,621	7,109	9,075	14,490	15,955	16,624	17,607
Receivables and prepayment	3,154	3,115	3,358	4,270	5,089	6,112	5,977	6,396
Other current asset	1,127	1,683	1,497	1,514	1,597	1,597	1,597	1,597
Cash and cash equivalents	714	455	562	1,345	1,253	1,506	1,492	914
	<b>10,082</b>	<b>10,873</b>	<b>12,526</b>	<b>16,204</b>	<b>22,430</b>	<b>25,170</b>	<b>25,691</b>	<b>26,514</b>
<b>Total Assets</b>	<b>37,568</b>	<b>48,236</b>	<b>54,975</b>	<b>63,535</b>	<b>71,730</b>	<b>75,041</b>	<b>77,014</b>	<b>81,745</b>
<b>Capital and reserves</b>								
Ordinary shares	918	918	918	918	918	918	918	918
Retained Earnings	11,452	11,688	12,363	13,312	14,532	15,718	17,254	19,134
Other componants of equity	3,030	3,200	3,502	3,877	3,627	3,627	3,627	3,627
	<b>15,400</b>	<b>15,807</b>	<b>16,783</b>	<b>18,107</b>	<b>19,077</b>	<b>20,264</b>	<b>21,800</b>	<b>23,680</b>
<b>Non - current liabilities</b>								
Interest-bearing loans and borrowings	1,458	8,351	5,142	8,308	6,850	7,931	8,675	9,492
Lease liabilities	0	0	8,828	9,928	9,963	9,963	9,963	9,963
Other non-current liabilities	2,313	2,674	2,367	2,756	2,787	2,787	2,787	2,787
	<b>3,772</b>	<b>11,026</b>	<b>16,336</b>	<b>20,991</b>	<b>19,601</b>	<b>20,682</b>	<b>21,426</b>	<b>22,242</b>
<b>Current liabilities</b>								
Trade and other payables	7,367	7,956	9,824	12,353	14,326	17,326	18,210	21,310
Short term borrowings	1,646	1,541	3,071	2,000	1,185	665	632	600
Interest-bearing loans and borrowings	500	706	1,700	2,179	2,170	1,965	1,916	1,879
Bank overdrafts	7,424	9,843	5,404	5,425	12,310	11,079	9,971	8,974
Other current liabilities	1,460	1,358	1,857	2,479	3,060	3,060	3,060	3,060
	<b>18,397</b>	<b>21,404</b>	<b>21,856</b>	<b>24,437</b>	<b>33,052</b>	<b>34,095</b>	<b>33,788</b>	<b>35,823</b>
<b>Total Liabilities</b>	<b>22,168</b>	<b>32,430</b>	<b>38,192</b>	<b>45,428</b>	<b>52,653</b>	<b>54,777</b>	<b>55,214</b>	<b>58,065</b>
<b>Total Equity &amp; Liabilities</b>	<b>37,568</b>	<b>48,236</b>	<b>54,975</b>	<b>63,535</b>	<b>71,730</b>	<b>75,041</b>	<b>77,014</b>	<b>81,745</b>
<b>NAVPS</b>	<b>16.20</b>	<b>16.63</b>	<b>17.66</b>	<b>19.05</b>	<b>20.07</b>	<b>21.32</b>	<b>22.94</b>	<b>24.92</b>



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
Vinodhini Rajapoopathy	+94 11 2639 866	Nethmi Fernando	+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
--------------------	-------------------

## EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042
-----	------------------	-----------------

### Colombo

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

### Negombo

Priyanka Anuruddha	+94 70 2910 035	Priyantha Wijesiri	+94 70 2910 036
--------------------	-----------------	--------------------	-----------------

## UNIT TRUST SALES

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

## BRANCHES

<b>Kandy</b> CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	<b>Kurunegala</b> No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	<b>Matara</b> CSE Branch Office, 1 st Floor, E.H.Cooray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	<b>Negombo</b> Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500.
<b>Manager: Salinda Samarakoon</b> Tel: +94 81 2236 010	<b>Manager:</b> Tel: +94 37 2222 930	<b>Manager: Rohana Jayakody</b> Tel: +94 41 2222 988	<b>Manager:</b> Tel: +94 31 4937 072

### Disclaimer:

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or a connected person or associated person may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

### 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.