



CEYLON COLD STORES PLC [CCS.N0000]

MAINTAIN BUY

“GRADUAL RESURGENCE OF CONSUMER BRANDS”

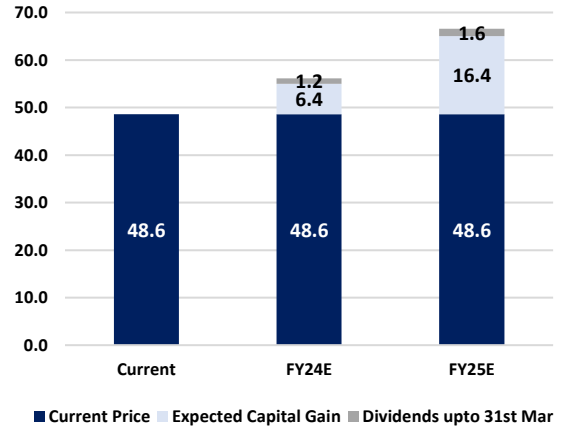
Fair Value: FY24E - LKR 55.0 [+13%]

Total Return with DPS: FY24E - 16% [AER 25%]

FY25E - LKR 65.0 [+34%]

FY25E - 37% [AER 21%]

CCS reported significant revenue growth of 14.1%YoY to LKR 34.6Bn in 1QFY24, supported by both retail and manufacturing segments' expansion amidst the YoY price increases, with costs being partly transferred to customers and a slight recovery in volumes. However, top-line growth was not reflected in the bottom line as group EBIT margins were severely impacted, declining by 227bps YoY to 4.0% due to cost escalations, primarily in electricity and staff costs during the period. Earnings from the Manufacturing and Retail businesses saw a setback of -58.0%YoY and -61.7%YoY, amounting to LKR 296.5Mn and LKR 152.4Mn, respectively despite recording top-line growth of 9.0%YoY and 15.5%YoY, driven by cost spike including materials and interest expenses. Meanwhile, the volume decline in the Beverages (-3.0%) and Frozen Confectionery (FC) (-10.0%) businesses has decelerated and displayed a promising recovery compared to the steep volume declines witnessed in the previous two quarters. Simultaneously, same-store sales in the retail segment surged by 22.8%YoY, driven by increased consumer footfall. Looking forward, the easing operating environment on the back of declining inflation, appreciation of LKR and a slowdown in global commodity prices are expected to alleviate margin pressures in the period ahead. As First Capital Research anticipates a recovery in economic activities from 2H2023, earnings targets for FY24E and FY25E marginally revised down to LKR 2.2Bn (-7.1%) and LKR 3.0Bn (-1.6%), respectively, while the FV for FY24E maintained at LKR 55.0. **MAINTAIN BUY**



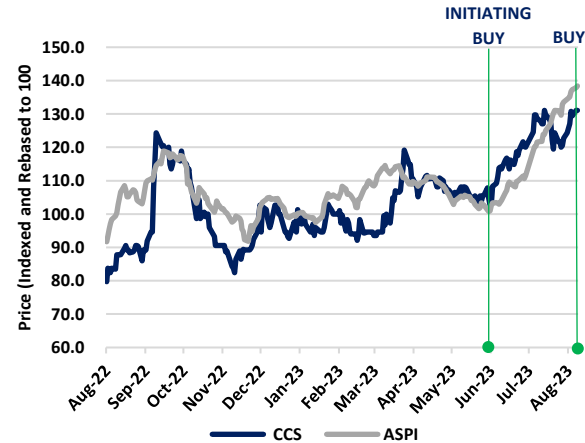
FIRST CAPITAL RESEARCH

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



Source: CSE

LKR (Mn)	1QFY23	1QFY24	YoY	FY22	FY23	YoY
Earnings (LKR 'Mn)						
Revenue	30,314	34,594	+14%	84,543	126,149	+49%
Gross profit	3,377	3,880	+15%	9,136	12,749	+40%
EBIT	1,896	1,377	-27%	4,744	6,185	+30%
PBT	1,216	415	-66%	2,782	2,239	-19%
Net Profit-Equity holders	919	322	-65%	2,068	2,513	+21%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	16,918	18,263	+8%	18,107	19,077	+5%
Borrowings	18,239	18,173	-0%	15,912	21,331	+34%
NAVPS	17.8	19.2		19.1	20.1	

Expansion in private sector consumption drives Manufacturing segment's topline to LKR 7.0Bn

Amidst the economic recovery witnessed since the beginning of the quarter, the manufacturing segment recorded a significant YoY top-line growth of 9.0% to LKR 7.0Bn in 1QFY24. Despite a 12%YoY escalation in retail prices on average across the product range, there has been a moderation in the volume decline within the Beverages (-3.0%) and FC (-10.0%) businesses. This positive trend signifies an encouraging recovery compared to the steep volume declines experienced in the preceding two quarters. The segment's EBIT margins have been impacted on a YoY basis (-645bps) due to escalations in raw material prices. However, the margins of the Beverages business exhibited an improvement on a QoQ basis yet, the FC business displayed a lag effect in the translation to improved margins, attributed to the gradual easing of raw material prices. Anticipations for the segment's growth are anchored in the projected increase in volumes within the beverage business. This expansion is expected to be a direct outcome of the gradual normalization of economic and social activities, further bolstered by a resurgence in tourist arrivals that have already surpassed the figures recorded for the entire year of 2022 within the first seven months of 2023. Simultaneously, the FC business is positioned to benefit from a strategic shift in its product mix, particularly towards higher-margin impulse products. This deliberate shift is anticipated to contribute substantially to overall earnings growth.

Margins setbacks slumps Retail sector profitability by 61.7%

The retail segment reported a revenue of LKR 27.6Bn (+15.5%YoY, +9.6%QoQ), constituting 78.3% of the group's total revenue in 1QFY24. However, the translation to profitability has been impacted as EBIT margins reported a decline of 140bps on a YoY basis, settling at 3.4%, primarily due to escalated costs, notably in electricity and staff-related expenditures. The segment's substantial growth in Same Store Sales, indicating an increase of 22.8%, has largely been boosted by a 14.8% rise in Same Store Footfall. Despite a QoQ tapering down of inflation, the YoY increase in inflation, influenced by the base effect, led to an overall upswing in the Retail Selling Price (RSP) which resulted in a modest growth of 7.0% in Average Basket Value (ABV). Notably, despite the price escalations on a YoY basis reflecting changing consumer buying patterns, the increase in footfall remained pronounced. In the forward view, we expect CCS to project a top-line growth at a CAGR of 5.2% from FY23-FY26E which is poised to be driven by the continued improvement in Same Store Sales and incremental revenue derived from the openings of new stores. Furthermore, EBIT margins are also expected to expand due to enhanced consumer discretionary spending and heightened penetration of private label products.

Minimum Return for BUY:

Buy Below for FY24E [AER of 23.0% with DPS]: LKR 47.7.
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

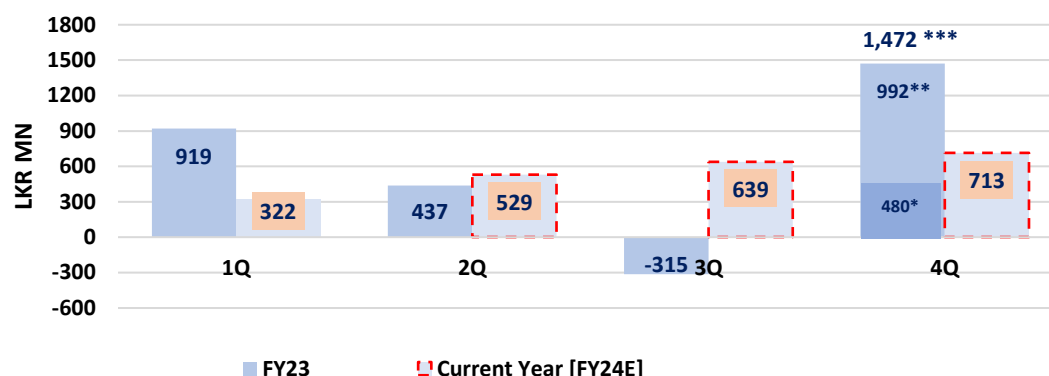
Revival of economic conditions from 2H2023

The rapid deceleration of inflation to 6.3% in Jul 2023, coupled with a sharp decline in 1-Year T-Bill interest rates to 13.94% (-1499bps YoY) in Aug 2023, has expanded private sector consumption, indicating economic normalization. In response to deceleration of interest rates, private sector credit witnessed a surge for the first time in 12-month by LKR 73.8Bn, further indicating a recovery in disposable income. Consequently, the retail sector of CCS is poised to benefit from import ban relaxations along with the 11.8%YTD appreciation LKR against USD, potentially boosting consumer counts due to improved product availability. Additionally, the Manufacturing segment's margins are anticipated to rebound as prices of essential raw materials, mainly CSD PET bottles, refined sugar, and skimmed milk powder, ease. Hence, the magnitude of the margin pressure is expected to be less severe compared to the previous quarters. Although Sri Lanka's manufacturing PMI for Jun 2023 remained below the benchmark, slight improvements in new orders and production within the F&B sector drove a marginal increase. This indicates a positive shift in manufacturing activities from 2H2023, in line with First Capital Research's projection of a gradual economic recovery, and an anticipated positive GDP growth by the 4Q2023.

Fair Value maintained at LKR 55.0 for FY24E – MAINTAIN BUY

We anticipate that retail and manufacturing business units are poised for a gradual recovery in terms of volume, margins, and consumer footfall fueled by the expansion of private sector consumption as inflation began to ease. Moreover, factors such as the easing of global commodity prices, currency appreciation, relaxation of import bans, and rise in discretionary purchases, are set to drive CCS's business model forward. As a result, we have forecasted the group's profitability to grow at a 3Yr CAGR of 14.2% from FY23 to FY26E while maintaining the TP for FY24E at LKR 55.0. MAINTAIN BUY

Quarterly Earnings



***Total earnings reported for 4QFY23

*Estimated Recurring earnings for 4QFY23

**Deferred tax reversal of LKR 992Mn

Estimate Revision

In LKR Mn	FY24E-0	FY24E - R	% Change	FY25E-0	FY25E - R	% Change
Earnings Estimate						
Revenue	133,907	136,270	+2%	140,748	142,156	+1%
EBIT	6,959	6,736	-3%	7,743	7,685	-1%
PBT	3,390	3,148	-7%	4,389	4,319	-2%
Net profit	2,373	2,204	-7.1%	3,072	3,023	-1.6%
Adjusted EPS	2.5	2.3		3.2	3.2	
Growth YoY	-6%	-12%		29%	37%	
Balance Sheet Estimate						
Shareholders' Equity	20,264	20,179	-0%	21,800	21,691	-1%
Cash and cash Equivalents	1,506	1,470	-2%	1,492	1,421	-5%
Adjusted NAVPS	21.3	21.2		22.9	-	
Ratio Estimate						
PER (x)	16.1	21.0		12.4	15.3	
PBV (x)	1.9	2.3		1.7	2.1	
DY (%)	3%	2%		4%	3%	

Valuation Table

P/E 31 March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)							
Revenue	69,055	68,766	84,543	126,149	136,270	142,156	148,760
Gross profit	8,443	7,651	9,136	12,749	14,036	14,926	16,066
EBIT	4,786	4,112	4,744	6,185	6,736	7,685	8,561
Net Profit	2,135	2,338	2,068	2,513	2,204	3,023	3,743
Adjusted EPS (LKR)	2.2	2.5	2.2	2.6	2.3	3.2	3.9
YoY Growth (%)	63%	10%	-12%	21%	-12%	37%	24%
Valuations							
PER (x)	21.6	19.8	22.3	18.4	21.0	15.3	12.3
PBV (x)	2.9	2.8	2.6	2.4	2.3	2.1	2.0
DY (%)	2.5%	3.5%	2.3%	2.7%	2.4%	3.3%	4.1%
NAVPS	16.6	17.7	19.1	20.1	21.2	22.8	24.8
DPS	1.2	1.7	1.1	1.3	1.2	1.6	2.0
Dividend Payout	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	51.0	70.0
Current Price	48.6	48.6	SOTP Valuation based target price	54.5	67.2
Capital Gain (LKR)	6.4	16.4	Average Target Price	52.7	68.6
Dividends upto 31st Mar (LKR)	1.2	1.6	Target Price after Rounding off	55.0	65.0
Capital Gain %	13%	34%			
Dividend Yield %	2%	3%			
Total Return %	16%	37%			
Annualized Return %	25%	21%			

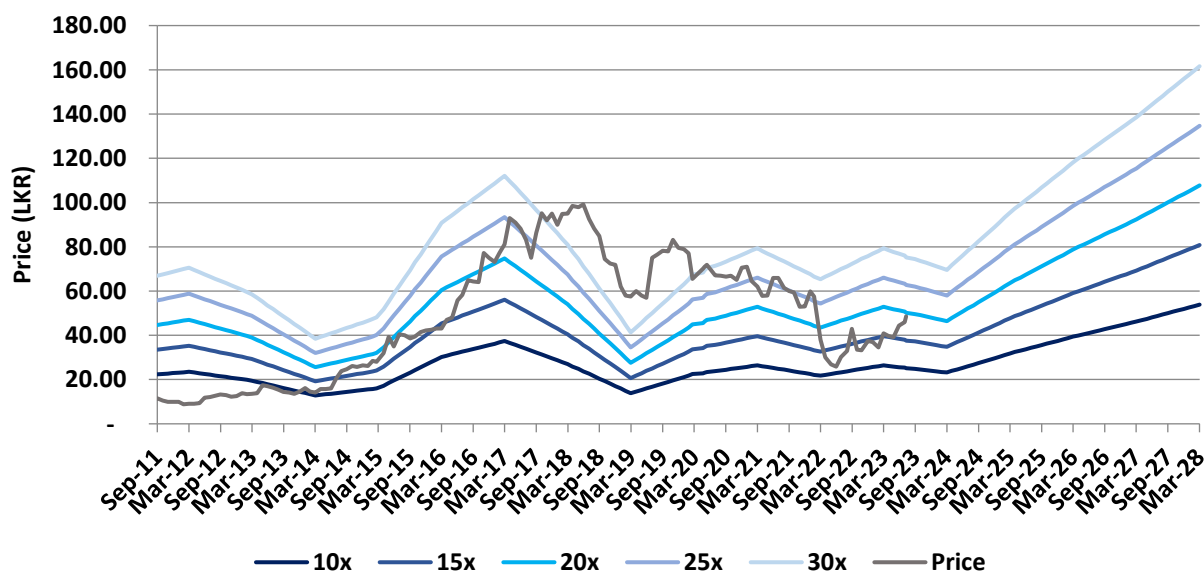
PER Valuation

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	2,204	3,023
No. of Shares ('Mn)	950	950
EPS	2.3	3.2
Expected PER	22x	22x
Price at 22x Earnings	51.0	70.0

SOTP Valuation

Segment	Valuation Method	Valuation assumption			Value in LKR Mn	
		CoE	WACC	Growth	Firm value FY24E	Firm value FY25E
Consumer Foods	DCF	23.0%	17.4%	5.0%	13,208.7	19,745.3
Retail	DCF	22.2%	15.0%	5.0%	38,563.2	44,136.9
Total per share					51,771.9	63,882.2
No. of shares					950.4	950.4
Value per share					54.5	67.2

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	136,270	142,156	148,760
Cost of sales	-52,925	-60,613	-61,115	-75,407	-113,400	-122,234	-127,229	-132,694
Gross profit	6,135	8,443	7,651	9,136	12,749	14,036	14,926	16,066
Other operating income	1,710	1,861	1,576	1,831	2,599	2,648	3,136	3,354
Selling and distribution expenses	-2,411	-2,788	-2,695	-3,149	-3,993	-4,361	-4,549	-4,760
Administrative expenses	-1,737	-1,960	-2,215	-2,837	-3,830	-4,224	-4,407	-4,612
Other operating expenses	-1,090	-770	-205	-237	-1,340	-1,363	-1,422	-1,488
EBIT	2,606	4,786	4,112	4,744	6,185	6,736	7,685	8,561
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						-1,090	-1,137	-1,190
PBT	2,043	3,067	2,375	2,782	2,239	3,148	4,319	5,347
Taxation	-732	-932	-36	-714	273	-944	-1,296	-1,604
Net Profit for the Period	1,310	2,135	2,338	2,068	2,513	2,204	3,023	3,743
Adjusted EPS	1.38	2.25	2.46	2.18	2.64	2.32	3.18	3.94

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)								
As at 31st March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Non current assets								
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
	27,486	37,363	42,449	47,332	49,300	49,871	51,324	55,231
Current assets								
Inventories	5,088	5,621	7,109	9,075	14,490	16,194	16,763	17,585
Receivables and prepayment	3,154	3,115	3,358	4,270	5,089	6,138	5,987	6,346
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	1,470	1,421	890
	10,082	10,873	12,526	16,204	22,430	25,399	25,769	26,418
Total Assets	37,568	48,236	54,975	63,535	71,730	75,270	77,093	81,649
Capital and reserves								
Ordinary shares	918	918	918	918	918	918	918	918
Retained Earnings	11,452	11,688	12,363	13,312	14,532	15,634	17,145	19,017
Other components of equity	3,030	3,200	3,502	3,877	3,627	3,627	3,627	3,627
	15,400	15,807	16,783	18,107	19,077	20,179	21,691	23,562
Non - current liabilities								
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
	3,772	11,026	16,336	20,991	19,601	20,682	21,426	22,242
Current liabilities								
Trade and other payables	7,367	7,956	9,824	12,353	14,326	17,639	18,397	21,331
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
	18,397	21,404	21,856	24,437	33,052	34,409	33,976	35,844
Total Liabilities	22,168	32,430	38,192	45,428	52,653	55,090	55,402	58,086
Total Equity & Liabilities	37,568	48,236	54,975	63,535	71,730	75,270	77,093	81,649
NAVPS	16.20	16.63	17.66	19.05	20.07	21.23	22.82	24.79



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