



CEYLON TOBACCO COMPANY PLC [CTC.N0000]

MAINTAIN BUY

“CTC SCALING HEIGHTS; SUCCESS ON A ROLL”

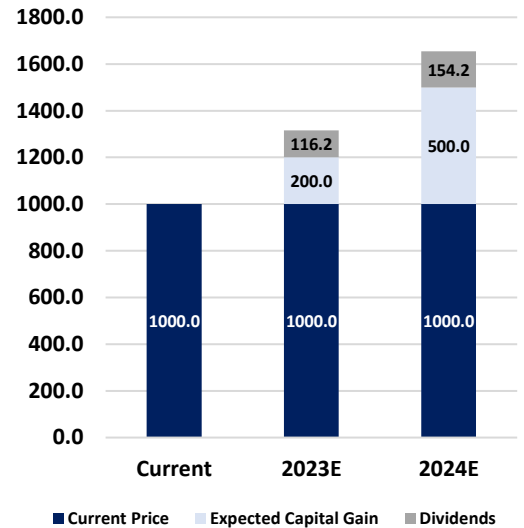
Fair Value: 2023E - LKR 1,200.0 [+20%]

Total Return with DPS: 2023E - 32% [AER 134%]

Fair Value: 2024E - LKR 1,500 [+50%]

Total Return with DPS: 2024E - 65% [AER 46%]

CTC yet again executed an outstanding performance during 2Q2023 on the back of sky-high cigarette prices resulted by the tax led price increase in line with the government revenue proposals, establishing its inelastic domain in the Food, Beverage and Tobacco sector as well as in the overall market. CTC recorded earnings of LKR 6.2Bn during 2Q2023, a growth of 85.9%YoY and 4.1%QoQ, exceeding our expectations due to net revenue margins expanding beyond our targets, while the volume dip partly offsetting the impact to earnings. We expect the earnings trend to continue with the expected economic recovery, consistent resurgence of tourist arrivals and the unexpectedly rapid decline in inflation, which is set to bolster consumer purchasing power offsetting the adverse effects from lower volumes. Even though the illicit market remains a major threat towards the legal industry, considering the boons which may overpower the banes we upgrade our earnings for 2023E to LKR 27.2Bn and LKR 32.1Bn for 2024E. Though fair value for 2023E remains static at LKR 1,200.0, we upgrade fair value for 2024E to LKR 1,500.0 (LKR 1,400.0 in 1Q2023) on a stronger anticipated growth outlook justifying future growth potential witnessed by the share price growth of 24.4%QoQ and 61.1%YoY significantly outperforming the ASPI. **MAINTAIN BUY.**



LKR (Mn)	2Q2022	2Q2023	YoY	6M2022	6M2023	YoY
Earnings (LKR 'Mn)						
Gross Revenue	42,321	54,767	+29%	79,323	101,702	+28%
Net Revenue	10,139	14,185	+40%	19,296	26,894	+39%
EBIT	6,180	9,965	+61%	12,752	19,591	+54%
PBT	6,441	10,324	+60%	13,208	20,442	+55%
Net Profit	3,360	6,246	+86%	7,546	12,245	+62%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	8,481	9,291	+10%	8,481	9,291	+10%
Cash & Cash equivalents	11,459	17,365	+52%	11,459	17,365	+52%
NAVPS	45.3	49.6	+10%	45.3	49.6	+9%

Margins (Net Revenue/Gross Revenue) on an unstoppable raid gaining 26.0%QoQ

CTC recorded earnings of LKR 6.2Bn in 2Q2023, 59.3% higher than our expectations of LKR 3.9Bn. Gross Revenue of CTC also registered an uptick of 16.7%QoQ and 29.4%YoY positively contributing to the bottom line along with the gain on Net revenue which also recorded an uptick of 11.6%QoQ and 39.9%YoY. Furthermore, EBIT experienced an increase of 3.5%QoQ and recorded a growth of 57.9%YoY mainly influenced by the growth in the top line. The Net Revenue/Gross Revenue margin displayed a surge following the price increases over the last 12 months to 25.9% in 2Q2023, growth of 19bps YoY compared to 24.0% in 2Q2022. However, Net Revenue/Gross Revenue margin slightly dipped 10bps QoQ owing to the contraction in the economy and decline in volumes witnessed during 2Q2023. Influenced by price revision which took place during Jul-23 under four product categories by LKR 5.0, 15.0, 20.0 and 25.0 margins may experience significant increase due to the inelastic nature of CTC further supported by the potential price revisions expected in Oct-23 and Feb-24. Moreover, considering the steady revival and growth in the tourism sector recording 904,318 YTD tourists' arrivals the nation may witness higher spending visitors arriving which may favourably influence the bottom line, also backed by the SLTDA imposing a minimum room rate on Colombo city hotels effective from 1st Oct-23 which will favour high margin products namely Dunhill and Benson and Hedges to witness higher demand the net revenue may grow by 22.4% in 2024E which may positively back the earnings inline with the positive economic resurgence expected. On the other hand, with the faster than expected drop in inflation, strengthening purchasing power of consumers may also contribute to higher earnings in the future, therefore we upgrade our earnings target for 2023E to LKR 27.2Bn (increased by +12.4%) and 2024E to LKR 32.1Bn (increased by +21.6%).

Volumes further lose against the government revenue proposals

The broadened price gap between the legal fags and the illicit products such as beedi and smuggled cigarettes have adversely affected the volumes during 2Q2023 as it witnessed a dip owing to the tax led price hike earlier this year. However, taking into consideration of the contraction in GDP expected by FCR for 2023E to settle between (-3.0%) to (-4.0%) compared to +3.0% to +4.0% expected in 2024E, the confidence of the consumer and the purchasing power may increase displaying a positive outlook on volumes which we expect to rise by 6.0% in 2024E. Furthermore, taking the successful spike in tourist arrivals witnessed by the nation surpassing 80,000 arrivals consecutively throughout the off-season, with the peak season ahead, the volumes may recover in 4Q2023E and 2024E positively contributing to the expected recovery.

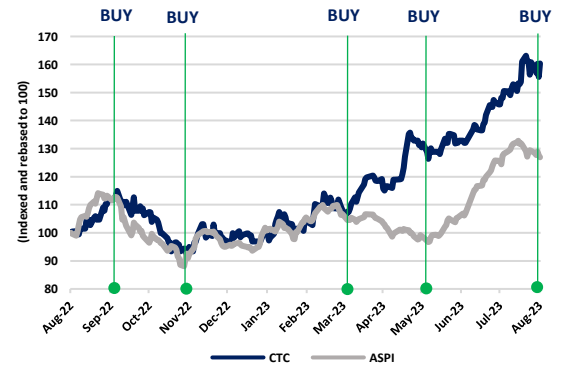
FIRST CAPITAL RESEARCH

Nethmi Fernando

+94 11 263 9863

nethmi@firstcapital.lk

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



Source: CSE

Minimum Return for BUY:

Buy Below 2024E - [AER of 19% with DPS]: LKR 1,180.0
CTC 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 CTC during the five trading days prior to the issuance of this document.



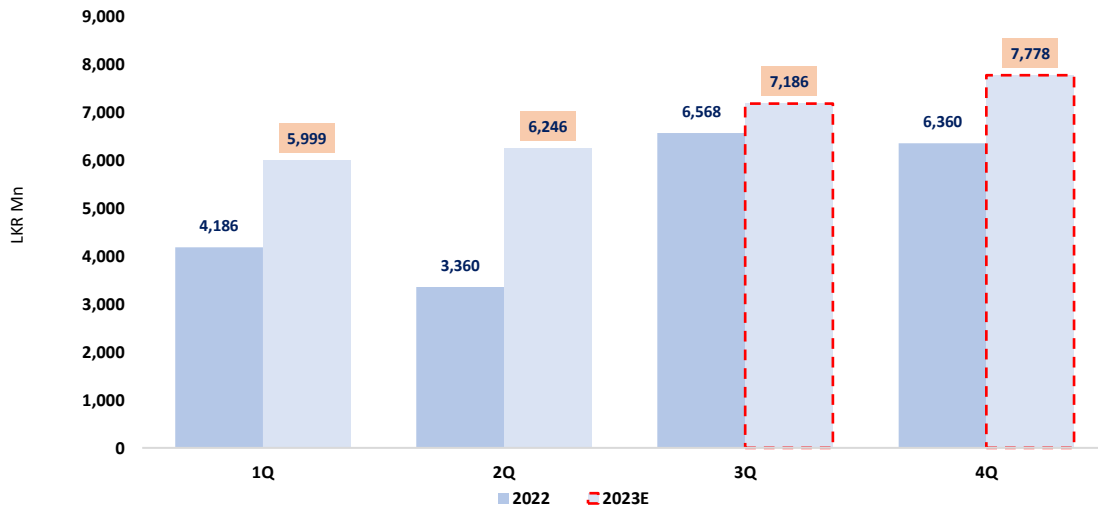
Inflated operating expenses continue its uptrend

Taking the initiative of depending on local sources rather than importing raw materials has resulted in the raw material expense to increase between the quarters only marginally as the expense was recorded at LKR 939.0Mn in 2Q2023, marginally higher than 1Q2023 which recorded LKR 893.0Mn. Furthermore, operating expenses witnessed an upsurge of 37.7%QoQ and 6.7%YoY influenced by the high inflationary levels earlier this quarter. The transition into local sources may benefit CTC in the long term with the economic recovery expected in the latter half of the year along with the economy adjusting to its pre-crisis/pre pandemic levels. With the inflationary pressure steadily decreasing in the favour of the consumers and the businesses, CTC may experience lower levels of operating expenditure during the forthcoming quarters which may justify higher growth in the bottom line.

TP for 2023E at LKR at 1,200.0 - MAINTAIN BUY

Taking into consideration of the significantly outstanding performance over the years we maintain our TP to LKR 1,200.0 for 2023E and LKR 1,500.0 for 2024E. The steady uptrend in tourists’ arrivals, the favourable trend of declining inflation further backed by the economic recovery we upgrade our earnings target for 2023E at LKR 27.2Bn and 2024E at LKR 32.1Bn. **MAINTAIN BUY.**

Quarterly Earnings



Estimated Revision

In LKR Mn	2023E - O	2023E - R	% Change	2024E - O	2024E - R	% Change
Earnings Estimate						
Net Revenue	50,563	54,173	+7%	54,739	64,723	+18%
EBIT	38,225	42,442	+11%	41,468	51,505	+24%
Profit before Tax	39,920	45,348	+14%	43,526	53,495	+23%
Net Profit	24,190	27,209	+12.5%	26,375	32,097	+21.7%
Adjusted EPS	129.1	145.2		140.8	171.3	
Growth YoY	18%	33%		9%	18%	
Balance Sheet Estimate						
Shareholders' Equity	22,198	22,935	+3%	24,969	26,145	+5%
Cash & Cash equivalents	29,339	22,113	-25%	30,802	16,834	-45%
Adjusted NAVPS	93.4	122.4		119.2	139.6	
Ratio Estimate						
ROE (%)	108%	119%		106%	123%	
PER (x)	5.2	5.6		4.9	4.8	
PBV (x)	5.6	6.7		5.0	5.9	

Valuation Table

P/E 31 December	2019	2020	2021	2022	2023E	2024E	2025E
Estimates (LKR 'Mn)							
Net Revenue	35,524	32,073	33,615	44,272	54,173	64,723	73,921
Operating profit	27,058	24,671	26,128	33,196	42,442	51,505	59,832
Net Profit	17,260	15,578	16,146	20,469	27,209	32,097	36,707
EPS (LKR)	92.1	83.2	86.2	109.3	145.2	171.3	196.0
YoY Growth (%)	2%	-10%	4%	27%	33%	18%	14%
Valuations							
PER (x)	8.9x	9.9x	9.5x	7.5x	5.6x	4.8x	4.2x
PBV (x)	33.2x	33.4x	17.1x	8.8x	6.7x	5.9x	5.2x
DY (%)	11.2%	10.1%	6.5%	10.9%	14.2%	18.8%	21.5%
NAVPS	24.7	24.6	48.0	93.4	122.4	139.6	159.2
DPS (LKR)	92.1	82.9	53.0	89.0	116.2	154.2	176.4
Div Payout	100%	100%	61%	81%	80%	90%	90%



Valuation Summary

Expected CTC price	2023E	2024E
PER based target price	1,235	1,542
DCF Valuation based target price	1,295	1,369
Average Target Price	1,265	1,455
Target price after Rounding off	1,200	1,500

Return	2023E	2024E
Target Price	1,200	1,500
Current Price	1,000	1,000
Capital Gain (LKR)	200	500
Dividend (LKR) 2022E	116	154
Capital Gain %	20%	50%
Dividend Yield %	12%	15%
Total Return %	32%	65%
Annualized Return %	134%	46%

Discounted Cash Flow Valuation

DCF based Valuation	2023E	2024E
Enterprise Value	220,545	239,548
(-) Debt	-	-
(+) Cash	22,113	16,834
Total Value of Equity	242,657	256,382
No. of shares	187	187
Target Price	1,295	1,369

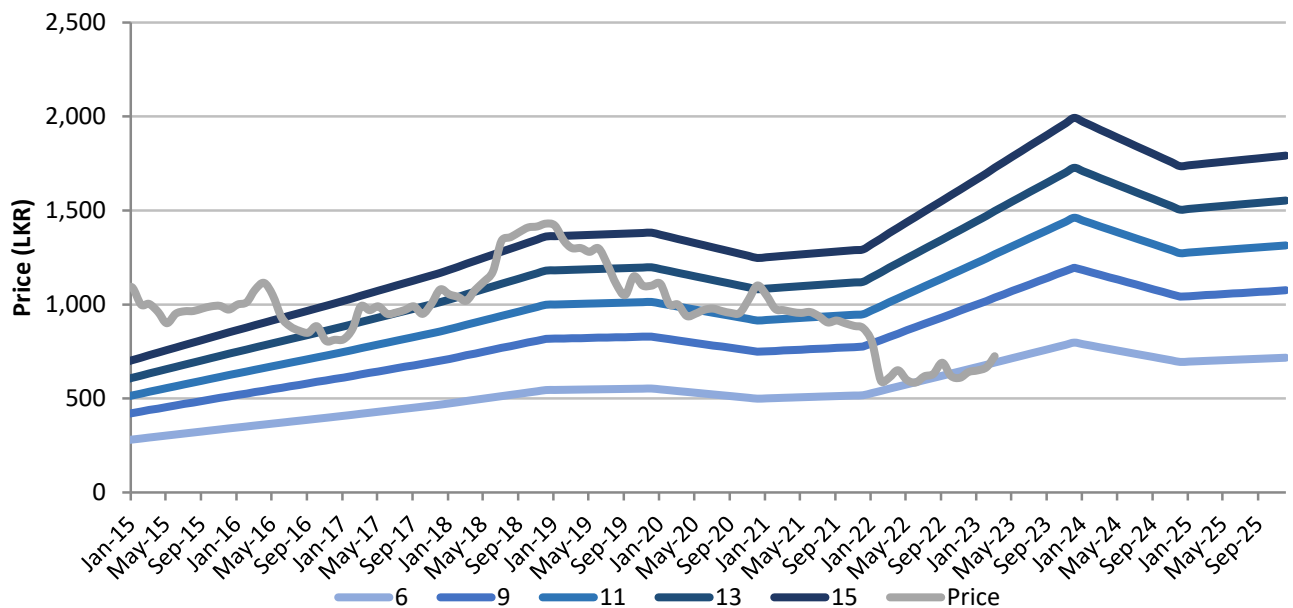
COE	2023E	2024E
Rf	12.0%	11.0%
Rm	20.0%	19.0%
Growth %	3.0%	3.0%
β	0.80	0.80
Ke=Rf+β(Rm-Rf)	18%	17%

PER Valuation

PER based Valuation	2023E	2024E
Earnings (LKR 'Mn)	27,209	32,097
No. of Shares ('Mn)	187	187
EPS	145.2	171.3
Expected PER	9x	9x
Price at 9x Earnings	1,235	1,542

WACC	2023E	2024E
Ke	18%	17%
Kd	5%	5%
D/E Assumption	20/80	20/80
Terminal Growth (%)	3.0%	3.0%
WACC	16%	21%

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	209,912	255,883	286,257
Government Levies	-105,818	-100,076	-100,753	-122,922	-155,739	-191,160	-212,336
Net Revenue	35,524	32,073	33,615	44,272	54,173	64,723	73,921
Other operating income	70	101	33	36	54	65	74
Raw materials	-2,213	-2,169	-2,645	-3,439	-3,997	-4,661	-4,984
Employee benefits	-1,477	-1,365	-1,519	-2,020	-2,202	-2,400	-2,616
Other operating expenses	-4,550	-3,629	-3,023	-5,288	-5,262	-5,857	-6,146
Operating profit	27,058	24,671	26,128	33,196	42,442	51,505	59,832
Net interest income	1,634	763	519	1,196	2,906	1,990	1,347
Profit Before Taxation	28,692	25,434	26,646	34,393	45,348	53,495	61,179
Income Tax	-11,432	-9,855	-10,500	-13,924	-18,139	-21,398	-24,472
Profit for the Year	17,260	15,578	16,146	20,469	27,209	32,097	36,707
EPS	92.1	83.2	86.2	109.3	145.2	171.3	196.0

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
Intangible assets	3	2	1	0	1	1	1
Investments in subsidiaries	0	0	0	0	0	0	0
Net surplus assets on retirement benefit plan	197	181	370	158	158	158	158
Receivables	116	112	136	181	181	181	181
	4,294	4,977	5,854	5,891	6,818	8,015	9,552
Current Assets							
Inventories	2,729	3,732	4,612	6,303	9,446	12,794	14,313
Trade & other receivables	2,799	3,230	7,409	5,151	8,396	12,794	14,313
Assets held for sale	0	0	0	1	1	1	1
Cash & cash equivalents	16,845	9,782	8,593	24,217	22,113	16,834	16,539
Total Assets	26,667	21,721	26,468	41,561	46,774	50,437	54,717
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	15,620	21,062	24,271	27,942
Total equity	4,623	4,602	8,987	17,493	22,935	26,145	29,815
Current Liabilities							
Trade & other payables	10,680	7,827	5,169	9,028	8,798	9,253	9,862
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	23,268	23,040	23,494	24,103
Total Liabilities	22,044	17,119	17,481	24,068	23,839	24,293	24,902
Total Equity & Liabilities	26,667	21,721	26,468	41,561	46,774	50,438	54,718
NAVPS	24.7	24.6	48.0	93.4	122.4	139.6	159.2



CTC Product Portfolio of Key Brands [LKR per stick]

CTC Product Portfolio of Key Brands [LKR per stick]																		
Brands	2012		2013		2014	2015	2016		2017	2018	2019		2020	2021	2022		2023	
	Apr	Oct	Apr	Jun	Oct	Oct	Jan	Oct	Nov	Aug	Mar	Oct			May	Aug	Jan	Jul
Lower end																		
Capstan	8	9	9	10	10	10	11	-	-	-	-	-	-	-	-	-	-	-
Low Priced - Mid range																		
Navy Cut	-	-	-	-	-	-	-	-	-	40	45	55	-	-	50	-	70	70
Bristol	-	-	-	20	20	20	22	22	33	40	45	55	-	-	50	-	70	70
High Priced - Mid range																		
John Player Gold Leaf	23	25	25	28	30	33	35	42	50	55	65	65	65	70	75	80	100	130
Premium																		
Dunhill Switch	26	28	30	34	35	37	40	45	55	60	70	70	-	-	85	95	110	135
Dunhill Light	-	-	-	-	-	-	-	-	-	55	70	70	-	-	85	95	110	135



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

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