



CEYLON COLD STORES PLC [CCS.N0000]

MAINTAIN BUY

“MARGIN SHAPE UP ON EMERGING CONSUMER DEMAND”

Fair Value: FY24E - LKR 55.0 [+25%]

Total Return with DPS: FY24E - 28% [AER 109%]

FY25E - LKR 65.0 [+48%]

FY25E - 51% [AER 37%]

CCS recorded a notable earnings growth of 80.2% to LKR 786.7Mn in 2QFY24, primarily fueled by a 7.4%YoY increase in revenue to LKR 34.3Bn. Meanwhile, the EBIT margin also expanded by 86bps to 5.6% in 2QFY24 supported by margin growth in manufacturing business. The group's profitability was further enhanced by the easing of finance costs amid falling interest rates, partly negating the negative sentiments. Despite a revenue surge, the EBIT margin of the retail business was under pressure amidst the consecutive energy tariff revision since the beginning of the year along with the energy price. However, it was offset by the recovery in margins in manufacturing segment by 543bps to 14.0%, supported by the decline in raw material prices. Looking forward, the group is poised to benefit from import ban relaxations and currency stabilization, potentially boosting consumer counts through improved product availability. Meanwhile, the easing operating environment, driven by moderating inflation and the normalization of consumption, is expected to alleviate margin pressures. Although the reported earnings outperformed our 2QFY24 forecast, we broadly maintain the earnings target for FY24E and FY25E at LKR 2.2Bn and LKR 3.0Bn, respectively. Consequently, we maintain the FV at LKR 55.0 for FY24E and LKR 65.0 for FY25E. **MAINTAIN BUY**

LKR (Mn)	2QFY23	2QFY24	YoY	1HFY23	1HFY24	YoY
Earnings (LKR 'Mn)						
Revenue	31,911	34,282	+7%	62,224	68,877	+11%
Gross profit	2,991	4,402	+47%	6,367	8,282	+30%
EBIT	1,520	1,927	+27%	3,416	3,304	-3%
PBT	473	1,135	+140%	1,690	1,551	-8%
Net Profit-Equity holders	437	787	+80%	1,356	1,109	-18%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	18,368	19,432	+6%	18,368	19,432	+6%
Borrowings	20,156	17,578	-13%	20,156	17,578	-13%
NAVPS	19.3	20.4		19.3	20.4	

Margin expansion in the Manufacturing segments amidst easing raw material prices

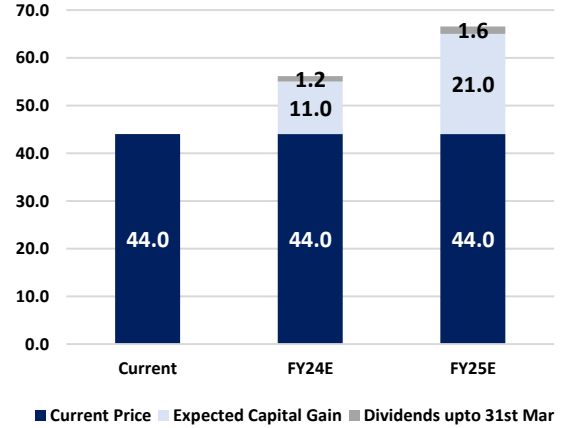
CCS manufacturing segment demonstrated robust bottom-line growth of 49.7%YoY to LKR 595.1Mn driven by improved EBIT margins in both the Beverages (CSD) and Frozen Confectionery (FC) businesses, attributed to declining raw material prices and stabilized currency. Amidst the gradual improvement in consumer sentiment, there has been a moderation in the volume decline within the FC business (-2.0%) while Beverages reported a 5.0% growth in volumes. Notably, consumer confidence has begun rising from 2H2023, evidenced by the Index of Consumer Sentiment (ICS) improving by 6bps to 30 points in Jul 2023, the highest since Oct 2021, indicating economic rebounding. The segment's growth outlook is anchored in projected beverage volume increases, supported by economic normalization and a resurgence in tourist arrivals. The FC business is strategically positioned for earnings growth through a product mix shift towards higher-margin impulse products. Additionally, an anticipated upward revision of Average Selling Prices (ASP) due to a sugar tariff from 1Q2024 is expected to uphold profit margins.

Gradual recovery in consumer sentiment expected to drive footfall

In 2QFY24, Retail segment reported a revenue growth of 9.7%YoY (-1.3%QoQ) to LKR 27.3Bn driven by a robust 10.4% increase in Same Store Sales, driven by a significant 10.6% rise in customer footfall, although Average Basket Value experienced a modest decline of 0.2%. The sustained increase in footfall is largely driven by the change in consumer buying patterns amidst the steep decline in inflation to 1.3% in Sep 2023 compared to the record high of 69.8% in Sep 2022. Despite the top-line growth, EBIT margin remained under pressure, marginally decreasing from 3.6% to 3.5% due to heightened operating costs, including the impact of an electricity tariff hike. The gradual easing of the AWPLR to 14.7% in Sep (-1,128bps YoY) further supported the retail segment's profitability, witnessing a substantial 686.3%YoY growth to reach LKR 200.5Mn. Looking ahead, the retail sector of CCS is poised to capitalize on import ban relaxations and the 9.8%YTD appreciation of the LKR against the USD, potentially boosting consumer counts through improved product availability. Hence, we expect CCS to project top-line growth at a CAGR of 5.2% from FY23-FY26E, driven by sustained improvements in Same Store Sales and incremental revenue derived from the opening of new stores. Furthermore, gradual expansion of EBIT margins is expected, fueled by enhanced consumer discretionary spending and an increased penetration of private label products.

Fair Value maintained at LKR 65.0 for FY25E – MAINTAIN BUY

In line with First Capital Research's projection of an economic recovery from the 2H2023E, we foresee a gradual resurgence in both the retail and manufacturing businesses. This revival is expected to drive volumes, enhance margins, and increase consumer footfall, fueled by the expansion of private sector consumption. Despite the reported earnings outperforming our 2QFY24 forecast, we are maintaining our earnings targets for FY24E and FY25E at LKR 2.2Bn and LKR 3.0Bn, respectively. As a result, our FV projection remains steady at LKR 55.0 for FY24E and LKR 65.0 for FY25E. **MAINTAIN BUY**



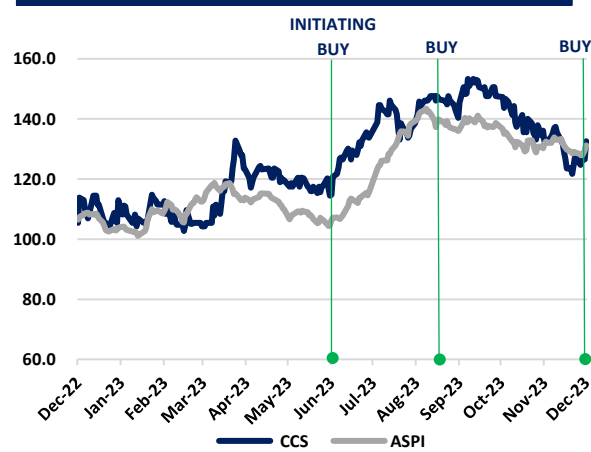
FIRST CAPITAL RESEARCH

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



Source: CSE

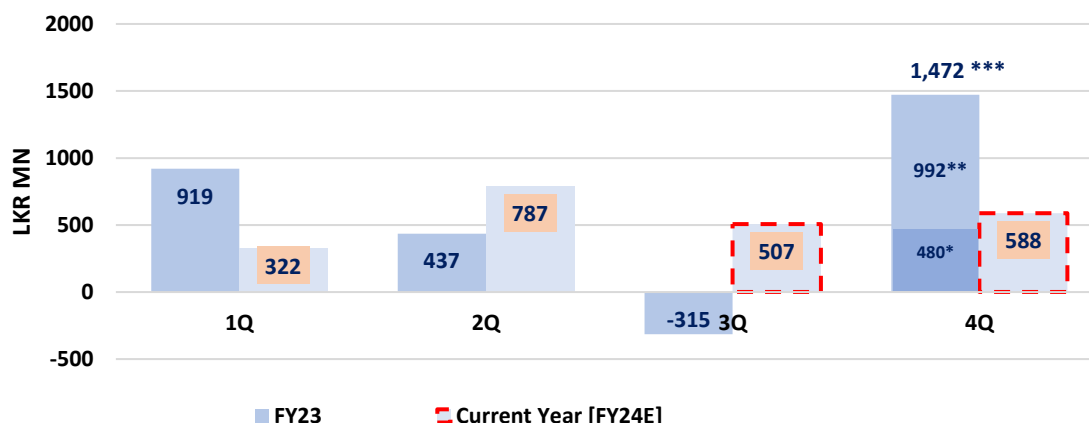
Minimum Return for BUY:

Buy Below for FY25E [AER of 23.0% with DPS]: LKR 50.5.
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



***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	136,270	136,270	0%	142,156	142,156	0%
EBIT	6,736	6,736	0%	7,685	7,685	0%
PBT	3,148	3,148	0%	4,319	4,319	0%
Net profit	2,204	2,204	0%	3,023	3,023	0%
Adjusted EPS	2.3	2.3		3.2	3.2	
Growth YoY	-12%	-12%		37%	37%	
Balance Sheet Estimate						
Shareholders' Equity	20,179	20,179	0%	21,691	21,691	0%
Cash and cash Equivalents	1,470	1,470	0%	1,421	1,421	0%
Adjusted NAVPS	21.2	21.2		22.8	22.8	
Ratio Estimate						
PER (x)	19.0	19.0		13.8	13.8	
PBV (x)	2.1	2.1		1.9	1.9	
DY (%)	3%	3%		4%	4%	

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)	19.6	17.9	20.2	16.6	19.0	13.8	11.2
PBV (x)	2.6	2.5	2.3	2.2	2.1	1.9	1.8
DY (%)	2.7%	3.9%	2.6%	3.0%	2.6%	3.6%	4.5%
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	44.0	44.0	SOTP Valuation based target price	54.5	67.2
Capital Gain (LKR)	11.0	21.0	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 %	25%	48%			
Dividend Yield %	3%	4%			
Total Return %	28%	51%			
Annualized Return %	109%	37%			

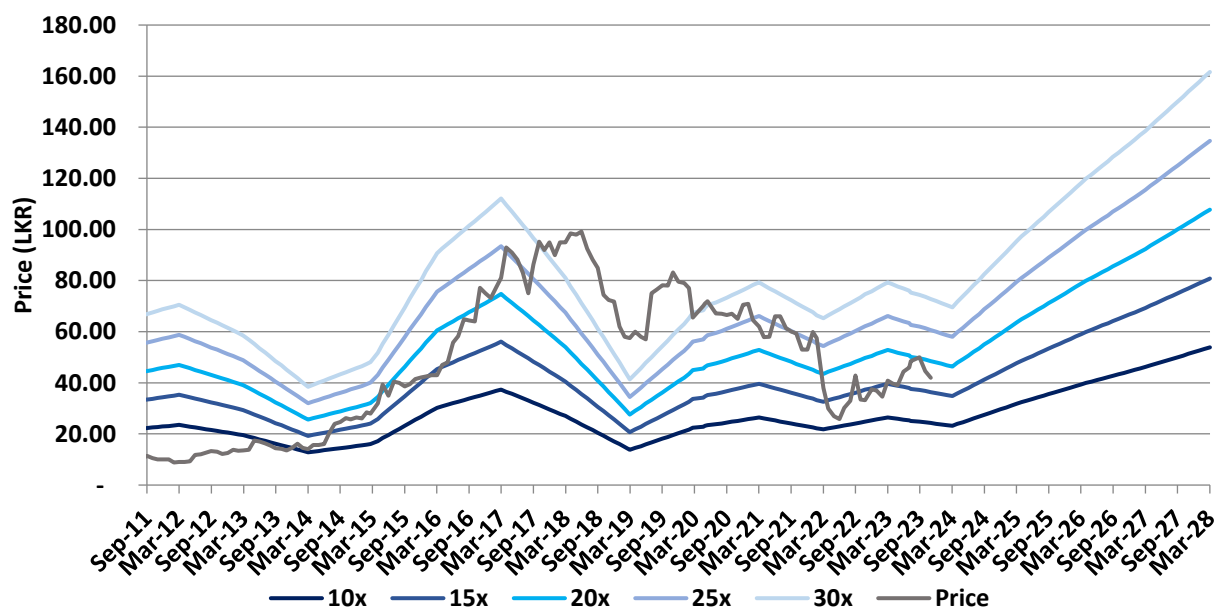
PER Valuation

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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