



# CEYLON TOBACCO COMPANY PLC [CTC.N0000]

## MAINTAIN BUY

### “EARNINGS ON A ROBUST GROWTH TREND”

**Fair Value: 2024E - LKR 1,500.0 [+57%]**

Total Return with DPS: 2024E - 73% [AER 67%]

CTC delivered an exceptional performance during 3Q2023, achieving its highest quarterly earnings to date with a 4.6%YoY and 10.0%QoQ growth, totalling LKR 6.9Bn broadly in line with our target of LKR 7.2Bn. Despite a slight dip in the top line by 5.0%YoY, the deflated operating expenditure resulted in the EBIT margin (EBIT/ Net Revenue) to grow by 164bpsYoY (1333bpsQoQ) which also contributed to the bottom-line exceptionally well. Whilst the illicit market poses a persistent threat to the legal industry, the anticipated economic recovery towards the latter part of the year coupled with the faster-than-expected decline in inflation, is anticipated to enhance purchasing power. Consequently, we foresee a rebound in volumes in the near future. Considering the growth potential and the proven track of record success of CTC projecting a stronger outlook, alongside the successful inflow of tourists arrivals during the peak season, is anticipated to reflect in both top and bottom lines. Thus, we broadly maintain our earnings target 2024E at LKR 32.1Bn and our target price for 2024E at LKR 1,500.0. **MAINTAIN BUY.**

LKR (Mn)	3Q2022	3Q2023	YoY	9M2022	9M2023	YoY
<b>Earnings (LKR 'Mn)</b>						
Gross Revenue	47,125	44,764	-5%	126,448	146,466	+16%
Net Revenue	12,911	13,223	+2%	32,207	40,117	+25%
EBIT	10,579	11,052	+4%	23,331	30,643	+31%
PBT	11,006	11,363	+3%	24,214	31,805	+31%
Net Profit	6,568	6,871	+5%	14,114	19,116	+35%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholder's Equity	12,977	9,976	-23%	12,977	9,976	-23%
Cash & Cash equivalents	25,640	20,195	-21%	25,640	20,195	-21%
NAVPS	69.3	53.3	-23%	69.3	53.3	-23%

#### Deflated operating expenditure further boost earnings to record at LKR 6.9Bn

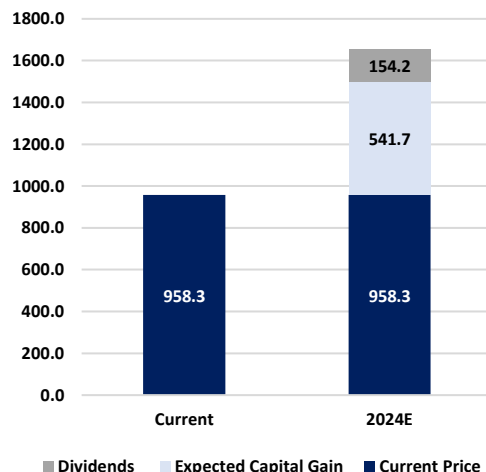
CTC earnings for 3Q2023 was recorded at LKR 6.9Bn highest quarterly earnings recorded yet, remaining broadly in line with our expectations of LKR 7.2Bn registering a 4.6%YoY and 10.0%QoQ growth. However, the top line of CTC recorded a degrowth of -5.0%YoY, -18.3%QoQ during 3Q2023 mainly influenced by the steep revision of prices which impacted the economically marginalized individuals gradually transform towards the cheaper and irregulated illicit market, which adversely affected the demand. Although the topline displayed a marginal contraction, the promising performance in the bottom line justifies the growth potential of CTC. Net Revenue during the 3Q2023 was recorded at LKR 13.2Bn recording an uptick of 2.4%YoY whilst, Net Revenue / Gross Revenue gained 214bpsYoY recording at 29.5% during 3Q2023. On a noteworthy observance, raw material cost of CTC had a significant contraction during 3Q2023 which recorded only LKR 655.0Mn which resulted in a decline of 34.8%YoY, (-30.2%QoQ) influenced by the lower inflationary pressure and economic recovery perception which also uplifted the bottom line. EBIT margin experienced an increase of 164bpsYoY (1333bpsQoQ). Furthermore, Operating costs witnessed notable decline of 47.5%QoQ, (4.9%YoY) stemming from cost saving strategies by transitioning into a local supplier base followed by the improved economic sentiment. On the bright side resulted by the peak tourism season high margin products such as Dunhill and Benson and Hedges may contribute mainly to the top line as the source markets improve, alongside the expected price revisions in Feb-24, we estimate earnings target for 2024E at LKR 32.1Bn.

#### Volumes diminish due to elevated prices; yet resurgence in the horizon

As the tax led price gap between the legal and illegal cigarette markets continue to expand, it has yet again adversely affected the volumes of CTC decline during 3Q2023 caused by multiple price revisions during Jul and Oct -23 which led the illicit market to be increasingly appealing. However, taking into consideration of the faster than expected decline in inflation which may strengthen purchasing power along with the positive GDP growth expected towards 2024E (+3.0% to +4.0%) by FCR, we anticipate volumes to grow by 6.0% during 2024E. Moreover, the expected economic resurgence towards the latter half of 2023 which is anticipated to continue robustly in 2024 which may cause real wages to rise may help the consumer to return to the premium products. On the other hand, as FCR expects the tourist arrivals to record at 1.8Mn in 2024 (1.5Mn-2023) as the peak season is upon us alongside the government strategies to improve MICE tourism, we believe that the volumes may surge in the future.

#### TP for 2024E at LKR at 1,500.0 - MAINTAIN BUY

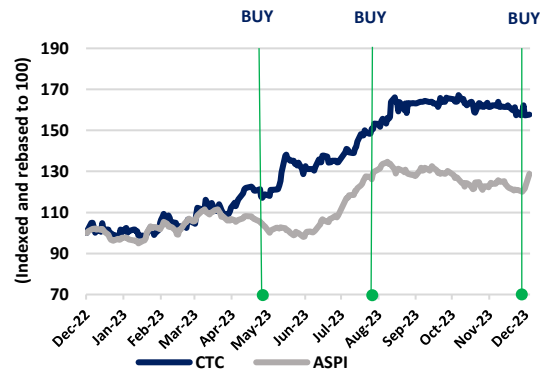
Taking into consideration the outstanding performance of CTC over the years alongside, the expected economic recovery and the strong numbers of tourists arrivals which has surpassed the 100,000 mark for the 6th consecutive month in Nov-23 since Jun-23 we maintain our target price for 2024E at LKR 1,500.0. Moreover, with expected price revision in Feb-24 and recovery in volumes towards 2024 we broadly uphold our earnings target for 2024E at LKR 32.1Bn. **MAINTAIN BUY.**



#### FIRST CAPITAL RESEARCH

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



Source: CSE

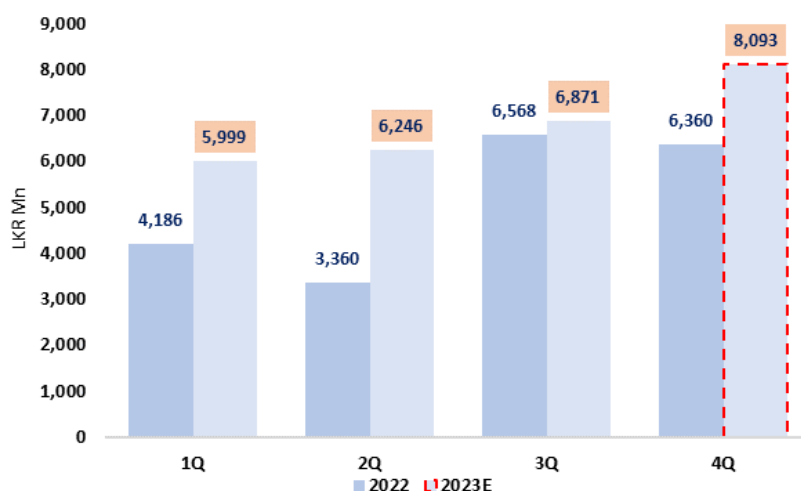
#### Minimum Return for BUY:

**Buy Below 2024E - [AER of 67% with DPS]: LKR 1,376.0**  
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.

## Quarterly Earnings



## Estimated Revision

In LKR Mn	2023E - O	2023E - R	% Change	2024E - O	2024E - R	% Change
<b>Earnings Estimate</b>						
Net Revenue	49,719	54,173	+9%	58,826	64,723	+10%
EBIT	37,091	42,442	+14%	36,945	51,505	+39%
Profit before Tax	38,786	45,348	+17%	42,023	53,495	+27%
Net Profit	23,503	27,209	+16%	25,464	32,097	+26%
Adjusted EPS	125.5	145.2		135.9	171.3	
Growth YoY	15%	33%		8%	18%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	22,198	22,935	+3%	24,744	26,145	+6%
Cash & Cash equivalents	29,687	22,113	-26%	31,272	16,834	-46%
<b>Adjusted NAVPS</b>	<b>93.4</b>	<b>93.4</b>		<b>118.5</b>	<b>122.4</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>106%</b>	<b>119%</b>		<b>103%</b>	<b>123%</b>	
<b>PER (x)</b>	<b>5.3</b>	<b>5.6</b>		<b>4.9</b>	<b>4.8</b>	
<b>PBV (x)</b>	<b>5.3</b>	<b>6.7</b>		<b>5.0</b>	<b>5.9</b>	

## Valuation Table

P/E 31 December	2019	2020	2021	2022	2023E	2024E	2025E
<b>Estimates (LKR 'Mn)</b>							
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
<b>Net Profit</b>	<b>17,260</b>	<b>15,578</b>	<b>16,146</b>	<b>20,469</b>	<b>27,209</b>	<b>32,097</b>	<b>36,707</b>
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%
<b>Valuations</b>							
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%
<b>NAVPS</b>	<b>24.7</b>	<b>24.6</b>	<b>48.0</b>	<b>93.4</b>	<b>122.4</b>	<b>139.6</b>	<b>159.2</b>
<b>DPS (LKR)</b>	<b>92.1</b>	<b>82.9</b>	<b>53.0</b>	<b>89.0</b>	<b>116.2</b>	<b>154.2</b>	<b>176.4</b>
<b>Div Payout</b>	<b>100%</b>	<b>100%</b>	<b>61%</b>	<b>81%</b>	<b>80%</b>	<b>90%</b>	<b>90%</b>



**Valuation Summary**

Expected CTC price	2024E
PER based target price	1,542
DCF Valuation based target price	1,369
<b>Average Target Price</b>	<b>1,455</b>
<b>Target price after Rounding off</b>	<b>1,500</b>

Return	2024E
Target Price	1,500
Current Price	958
Capital Gain (LKR)	542
Dividend (LKR) 2024E	154
Capital Gain %	57%
Dividend Yield %	16%
<b>Total Return %</b>	<b>73%</b>
<b>Annualized Return %</b>	<b>67%</b>

**Discounted Cash Flow Valuation**

DCF based Valuation	2024E
Enterprise Value	239,548
(-) Debt	-
(+) Cash	16,834
<b>Total Value of Equity</b>	<b>256,382</b>
No. of shares	187
<b>Target Price</b>	<b>1,369</b>

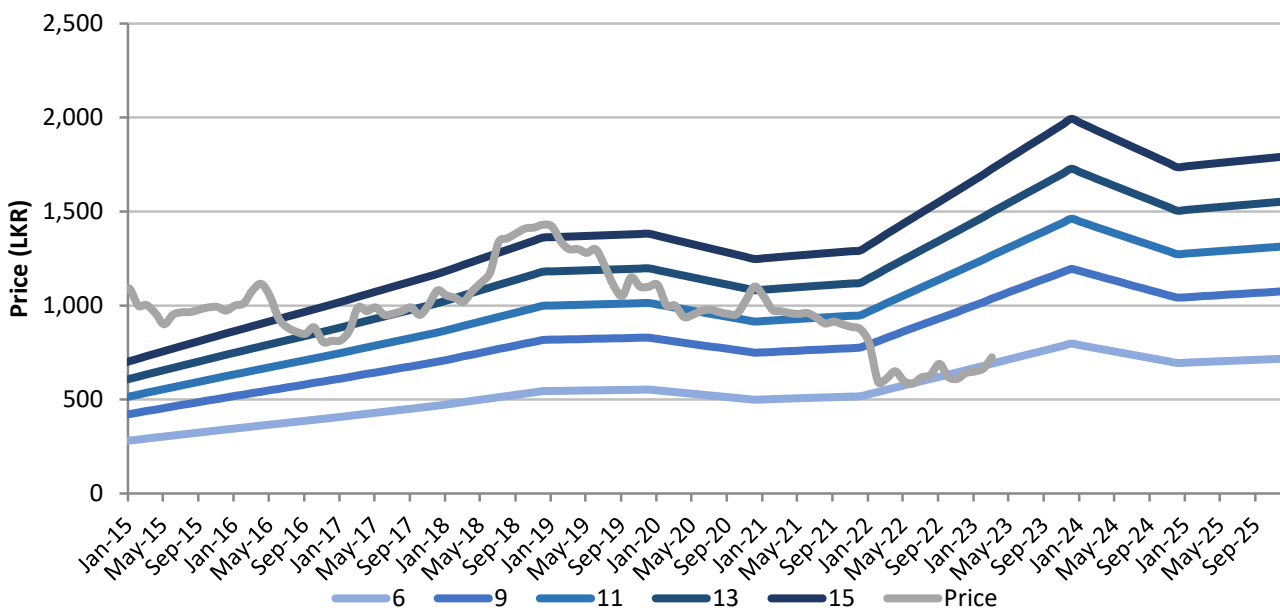
COE	2024E
Rf	11.0%
Rm	19.0%
Growth %	3.0%
$\beta$	0.80
<b>Ke=Rf+<math>\beta</math>(Rm-Rf)</b>	<b>17%</b>

**PER Valuation**

PER based Valuation	2024E
Earnings (LKR 'Mn)	32,097
No. of Shares ('Mn)	187
EPS	171.3
Expected PER	9x
<b>Price at 9x Earnings</b>	<b>1,542</b>

WACC	2024E
Ke	17%
Kd	5%
D/E Assumption	20/80
Terminal Growth (%)	3.0%
<b>WACC</b>	<b>21%</b>

**PER CHART**



## Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	2019	2020	2021	2022	2023E	2024E	2025E
<b>Y/E 31st December</b>							
<b>Gross Revenue</b>	<b>141,342</b>	<b>132,149</b>	<b>134,369</b>	<b>167,194</b>	<b>209,912</b>	<b>255,883</b>	<b>286,257</b>
Government Levies	-105,818	-100,076	-100,753	-122,922	-155,739	-191,160	-212,336
<b>Net Revenue</b>	<b>35,524</b>	<b>32,073</b>	<b>33,615</b>	<b>44,272</b>	<b>54,173</b>	<b>64,723</b>	<b>73,921</b>
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
<b>Operating profit</b>	<b>27,058</b>	<b>24,671</b>	<b>26,128</b>	<b>33,196</b>	<b>42,442</b>	<b>51,505</b>	<b>59,832</b>
Net interest income	1,634	763	519	1,196	2,906	1,990	1,347
<b>Profit Before Taxation</b>	<b>28,692</b>	<b>25,434</b>	<b>26,646</b>	<b>34,393</b>	<b>45,348</b>	<b>53,495</b>	<b>61,179</b>
Income Tax	-11,432	-9,855	-10,500	-13,924	-18,139	-21,398	-24,472
<b>Profit for the Year</b>	<b>17,260</b>	<b>15,578</b>	<b>16,146</b>	<b>20,469</b>	<b>27,209</b>	<b>32,097</b>	<b>36,707</b>
<b>EPS</b>	<b>92.1</b>	<b>83.2</b>	<b>86.2</b>	<b>109.3</b>	<b>145.2</b>	<b>171.3</b>	<b>196.0</b>

## Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	2019	2020	2021	2022	2023E	2024E	2025E
<b>As at 31st December</b>							
<b>Non-Current Assets</b>							
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
	<b>4,294</b>	<b>4,977</b>	<b>5,854</b>	<b>5,891</b>	<b>6,818</b>	<b>8,015</b>	<b>9,552</b>
<b>Current Assets</b>							
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
<b>Total Assets</b>	<b>26,667</b>	<b>21,721</b>	<b>26,468</b>	<b>41,561</b>	<b>46,774</b>	<b>50,438</b>	<b>54,718</b>
<b>Equity and Liabilities</b>							
<b>Equity</b>							
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
<b>Total equity</b>	<b>4,623</b>	<b>4,602</b>	<b>8,987</b>	<b>17,493</b>	<b>22,935</b>	<b>26,145</b>	<b>29,815</b>
<b>Current Liabilities</b>							
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
	<b>21,328</b>	<b>16,639</b>	<b>17,003</b>	<b>23,268</b>	<b>23,040</b>	<b>23,494</b>	<b>24,103</b>
<b>Total Liabilities</b>	<b>22,044</b>	<b>17,119</b>	<b>17,481</b>	<b>24,068</b>	<b>23,840</b>	<b>24,294</b>	<b>24,903</b>
<b>Total Equity &amp; Liabilities</b>	<b>26,667</b>	<b>21,721</b>	<b>26,468</b>	<b>41,561</b>	<b>46,774</b>	<b>50,438</b>	<b>54,718</b>
<b>NAVPS</b>	<b>24.7</b>	<b>24.6</b>	<b>48.0</b>	<b>93.4</b>	<b>122.4</b>	<b>139.6</b>	<b>159.2</b>



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



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