

**CEYLON COLD STORES PLC [CCS.N0000]****MAINTAIN BUY****“RECOVERY PROJECTS SURPASS EXPECTATIONS”****Fair Value: FY25E - LKR 65.0 [+44%]**

Total Return with DPS: FY25E - 48% [AER 41%]

CCS reported a significant earnings turnaround, with a 322.1%YoY growth to LKR 700.9Mn in 3QFY24, driven by robust bottom-line growth in both manufacturing (+162.1%) and retail (+90.4%) businesses. The group's EBIT margin saw a modest increase of 103bps to 5.1%, supported by margin growth in the manufacturing sector. Despite a surge in revenue, the retail business encountered margin pressure due to consecutive energy tariff revisions, mitigated by a significant margin recovery in the manufacturing segment to 9.9%, boosted by declining raw material costs. Looking ahead, the retail segment is positioned for growth, benefiting from the ongoing shift towards modern retailing, expansion of new stores, and import ban relaxations, potentially boosting consumer engagement through improved product availability. Concurrently, the manufacturing segment is expected to capitalize on easing input prices and volume recovery. With earnings exceeding expectations in 3QFY24, we have revised our FY24E and FY25E targets upwards by 16.1% and 6.7% to LKR 2.6Bn and LKR 3.2Bn, respectively. Maintaining a fair value projection of LKR 65.0 for FY25E and considering CCS's discount trading multiple of 13.0x compared to the historical 5-year average PE of 22.0x, we believe the share is deeply undervalued. Thus, we maintain our recommendation to a **BUY**.

LKR (Mn)	3QFY23	3QFY24	YoY	9MFY23	9MFY24	YoY
Earnings (LKR 'Mn)						
Revenue	31,743	34,576	+9%	93,967	103,452	+10%
Gross profit	3,235	4,014	+24%	9,603	12,296	+28%
EBIT	1,283	1,755	+37%	4,699	5,059	+8%
PBT	132	983	+647%	1,821	2,534	+39%
Net Profit-Equity holders	(316)	701	+322%	1,040	1,810	+74%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	18,009	20,322	+13%	18,009	20,322	+13%
Borrowings	21,430	17,421	-19%	21,430	17,421	-19%
NAVPS	18.9	21.4		18.9	21.4	

Manufacturing EBIT margin rebound spurs bottom-line turnaround

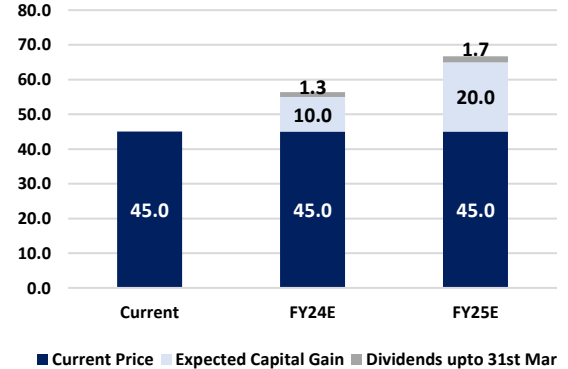
The manufacturing segment saw a remarkable turnaround, with profits of LKR 318.9Mn, and 162.1%YoY growth, driven by improved EBIT margin in 3QFY24. With raw material prices easing from their peaks, both the Beverages (CSD) and Frozen Confectionery (FC) businesses experienced a noteworthy improvement in their EBIT margins by 838bps, reaching 9.9%. Despite encountering adverse weather conditions in Oct and Nov 2023, resulting in flat volumes for the quarter, Dec 2023 saw significant volume growth due to seasonality. Moreover, to mitigate the margin impact of the increased Special Commodity Levy (SCL) on imported sugar, the beverages business implemented price increases on selected SKUs following the hike from 25 cents to LKR 50.0 p/kg in Nov 2023. Looking ahead, the segment's growth outlook remains anchored in the anticipated recovery of beverage volumes, supported by margin recovery and resurgence in tourist arrivals, although tax impositions may dampen demand for discretionary items, potentially affecting FC volumes in the short term. Nonetheless, the FC business aims for earnings growth through a strategic shift in product mix towards higher-margin impulse products, while an expected upward revision of Average Selling Prices (ASP) starting from the 1Q2024E due to the sugar tariff which is expected to uphold profit margins.

Retail segment achieves 5.5%YoY revenue growth amidst significant footfall increase

In 3QFY24, CCS's retail segment revenue continued its YoY growth, increasing by 5.5% to LKR 27.2Bn, albeit showing marginal stability compared to 2QFY24. The growth was predominantly fueled by a 15.7% increase in Same Store Footfall (SSF), translating into a 10.7% growth in Same Store Sales (SSS), driven by the gradual shift towards modern trade over general trade, facilitated by discounts and the convenience of consolidated product availability. Tax reforms led to price revisions, passed on to consumers through Retail Selling Price (RSP) increases. Consequently, reduced consumption of non-essential items due to decreased discretionary spending caused a 4.3% drop in Average Basket Value (ABV). Despite margin pressure from electricity tariff hikes, the retail segment recorded a significant 90.4%YoY growth in bottom line, aided by a notable 30.5% decrease in finance costs amidst a steep fall in the AWPLR to 12.1% in Dec 2023. Going forward, CCS's retail sector aims to benefit from import ban relaxations and a 3.7%YTD appreciation of the LKR against the USD, potentially enhancing consumer counts through improved product availability. Hence, we expect CCS to project top-line growth at a CAGR of 9.7% from FY23-FY26E, driven by sustained improvements in SSS and incremental revenue derived from the opening of new stores.

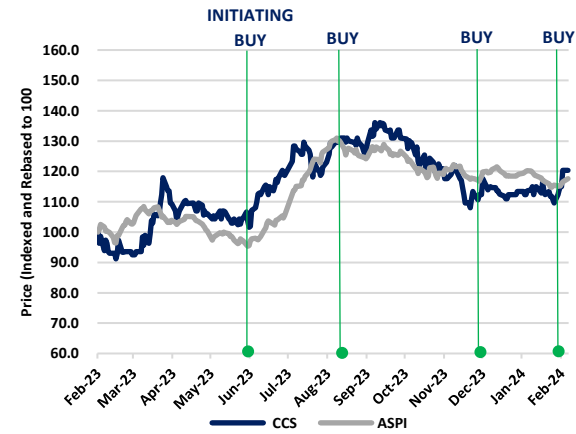
Earnings revised upwards; Fair Value maintained at LKR 65.0 for FY25E – MAINTAIN BUY

Based on our analysis, we anticipate a significant contribution from the retail business unit to both revenue and profitability, driven by the expected growth in modern retail and the expansion of new stores. Aligned with projections of economic recovery in 2024, both retail and manufacturing sectors are anticipated to see a gradual resurgence, boosting volumes and consumer footfall amidst the recovery in private consumption. With reported earnings surpassing our 3QFY24 forecast due to the better-than-expected recovery, we have revised our FY24E and FY25E targets upwards by 16.1% and 6.7% to LKR 2.6Bn and LKR 3.2Bn, respectively. Maintaining a positive outlook, we uphold our fair value projection at LKR 65.0 for FY25E. **MAINTAIN BUY**

**FIRST CAPITAL RESEARCH**

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Source: CSE

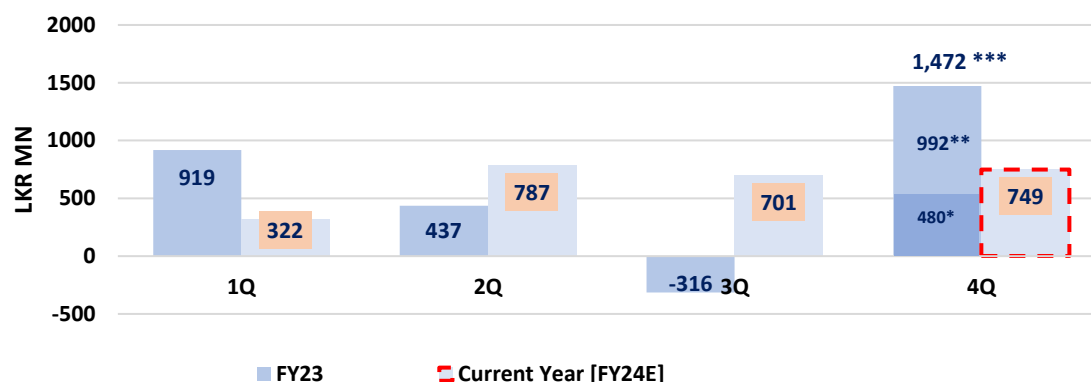
Minimum Return for BUY:

Buy Below for FY25E [AER of 23.0% with DPS]: LKR 52.6.
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 CCS 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 992.0Mn

Estimate Revision

In LKR Mn	FY24E-0	FY24E - R	% Change	FY25E-0	FY25E - R	% Change
Earnings Estimate						
Revenue	136,270	136,832	+0%	142,156	149,063	+5%
EBIT	6,736	6,923	+3%	7,685	7,950	+3%
PBT	3,148	3,656	+16%	4,319	4,609	+7%
Net profit	2,204	2,559	+16.1%	3,023	3,226	+6.7%
Adjusted EPS	2.3	2.7		3.2	3.4	
Growth YoY	-12%	2%		37%	26%	
Balance Sheet Estimate						
Shareholders' Equity	20,179	20,357	+1%	21,691	21,970	+1%
Cash and cash Equivalents	1,470	1,737	+18%	1,421	1,333	-6%
Adjusted NAVPS	21.2	21.4		22.8	23.1	
Ratio Estimate						
PER (x)	19.0	16.7		13.8	13.3	
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	136,832	149,063	161,261
Gross profit	8,443	7,651	9,136	12,749	15,325	17,142	19,029
EBIT	4,786	4,112	4,744	6,185	6,923	7,950	9,187
Net Profit	2,135	2,338	2,068	2,513	2,559	3,226	4,485
Adjusted EPS (LKR)	2.2	2.5	2.2	2.6	2.7	3.4	4.7
YoY Growth (%)	63%	10%	-12%	21%	2%	26%	39%
Valuations							
PER (x)	20.0	18.3	20.7	17.0	16.7	13.3	9.5
PBV (x)	2.7	2.5	2.4	2.2	2.1	1.9	1.8
DY (%)	2.7%	3.8%	2.5%	2.9%	3.0%	3.8%	5.2%
NAVPS	16.6	17.7	19.1	20.1	21.4	23.1	25.5
DPS	1.2	1.7	1.1	1.3	1.3	1.7	2.4
Dividend Payout	53%	69%	52%	49%	50%	50%	50%

Valuation Summary

Return	FY25E
Target Price	65.0
Current Price	45.0
Capital Gain (LKR)	20.0
Dividends upto 31st Mar (LKR)	1.7
Capital Gain %	44%
Dividend Yield %	4%
Total Return %	48%
Annualized Return %	41%

Expected CCS price	FY25E
PER Valuation based target price	67.9
SOTP Valuation based target price	68.6
Average Target Price	68.3
Target Price after Rounding off	65.0

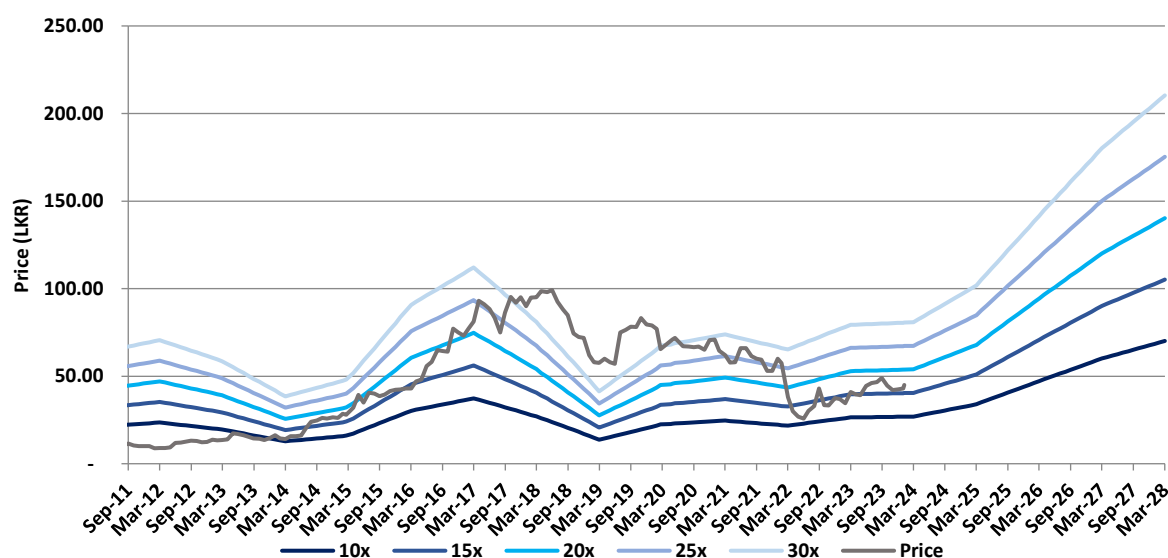
PER Valuation

PER based Valuation	FY25E
Earnings (LKR 'Mn)	3,226
No. of Shares ('Mn)	950
EPS	3.4
Expected PER	20x
Price at 20x Earnings	67.9

SOTP Valuation

Segment	Method	Valuation assumption			Value in LKR Mn
		CoE	WACC	Growth	Firm value FY25E
Consumer Foods	DCF	20.0%	13.9%	3.0%	15,142.1
Retail	DCF	19.6%	15.2%	3.0%	50,087.8
Total per share					65,229.9
No. of shares					950.4
Value per share (LKR)					68.6

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)							
P/E 31st March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	69,055	68,766	84,543	126,149	136,832	149,063	161,261
Cost of sales	-60,613	-61,115	-75,407	-113,400	-121,507	-131,921	-142,232
Gross profit	8,443	7,651	9,136	12,749	15,325	17,142	19,029
Other operating income	1,861	1,576	1,831	2,599	3,502	2,435	2,253
Selling and distribution expenses	-2,788	-2,695	-3,149	-3,993	-4,789	-4,770	-5,160
Administrative expenses	-1,960	-2,215	-2,837	-3,830	-4,652	-4,621	-4,999
Other operating expenses	-770	-205	-237	-1,340	-2,463	-2,236	-1,935
EBIT	4,786	4,112	4,744	6,185	6,923	7,950	9,187
Change in fair value of investment property	42	4	17	21	0	0	0
Net Finance Income	-1,761	-1,742	-1,979	-3,967	-3,267	-3,341	-2,781
PBT	3,067	2,375	2,782	2,239	3,656	4,609	6,407
Taxation	-932	-36	-714	273	-1,097	-1,383	-1,922
Net Profit for the Period	2,135	2,338	2,068	2,513	2,559	3,226	4,485
Adjusted EPS	2.25	2.46	2.18	2.64	2.69	3.39	4.72

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)							
As at 31st March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Assets							
Non - current assets							
Property plant and equipment	20,137	22,289	25,580	27,250	27,640	28,905	32,613
Intangible Assets	658	1,941	2,822	3,601	3,781	3,970	4,169
Non-current financial assets	7,278	7,296	7,503	6,673	6,673	6,673	6,673
Other non-current asset	9,291	10,922	11,427	11,776	11,776	11,776	11,776
	37,363	42,449	47,332	49,300	49,871	51,324	55,231
Current assets							
Inventories	5,621	7,109	9,075	14,490	15,569	17,287	18,714
Receivables and prepayment	3,115	3,358	4,270	5,089	5,712	5,735	6,229
Other current asset	1,683	1,497	1,514	1,597	1,597	1,597	1,597
Cash and cash equivalents	455	562	1,345	1,253	1,737	1,333	2,065
	10,873	12,526	16,204	22,430	24,616	25,952	28,606
Total Assets	48,236	54,975	63,535	71,730	74,486	77,275	83,837
Equity							
Ordinary shares	918	918	918	918	918	918	918
Retained Earnings	11,688	12,363	13,312	14,532	15,811	17,425	19,667
Other components of equity	3,200	3,502	3,877	3,627	3,627	3,627	3,627
	15,807	16,783	18,107	19,077	20,357	21,970	24,212
Non - current liabilities							
Interest-bearing loans and borrowings	8,351	5,142	8,308	6,850	6,938	7,583	8,290
Lease liabilities	0	8,828	9,928	9,963	9,963	9,963	9,963
Other non-current liabilities	2,674	2,367	2,756	2,787	2,787	2,787	2,787
	11,026	16,336	20,991	19,601	19,688	20,333	21,040
Current liabilities							
Trade and other payables	7,956	9,824	12,353	14,326	17,755	19,349	23,298
Short term borrowings	1,541	3,071	2,000	1,185	665	632	600
Interest-bearing loans and borrowings	706	1,700	2,179	2,170	4,344	4,176	4,026
Bank overdrafts	9,843	5,404	5,425	12,310	8,617	7,755	7,600
Other current liabilities	1,358	1,857	2,479	3,060	3,060	3,060	3,060
	21,404	21,856	24,437	33,052	34,441	34,972	38,584
Total Liabilities	32,430	38,192	45,428	52,653	54,129	55,305	59,624
Total Equity & Liabilities	48,236	54,975	63,535	71,730	74,486	77,275	83,837
Adjusted NAVPS	16.63	17.66	19.05	20.07	21.42	23.12	25.48



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