



# CEYLON TOBACCO COMPANY PLC [CTC.N0000]

**MAINTAIN BUY**

## “EMBRACING THE THRIVING EARNINGS GROWTH”

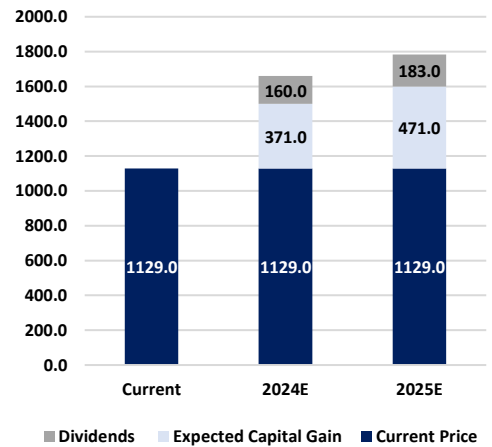
**Fair Value: 2024E - LKR 1,500.0 [+33%]**

Total Return with DPS: 2024E - 56% [AER 75%]

**Fair Value: 2025E - LKR 1,600 [+42%]**

Total Return with DPS: 2025E - 58% [AER 29%]

CTC delivered an outstanding performance during 4Q2023, achieving its highest quarterly earnings to date of LKR 8.5Bn, marking a 34.2%YoY growth (24.2%QoQ) broadly aligned with our target of LKR 8.1Bn. For the year ended 31st Dec-23, earnings totaled up to LKR 27.7Bn, closely in line with our target of LKR 27.2Bn. The impressive performance during the quarter was primarily driven by the robust top-line growth. Gross revenue saw a significant increase of 31.4%YoY (19.6%QoQ) recording at LKR 53.6Bn, while the net revenue/gross revenue experienced substantial growth of 326bps YoY, reaching 32.9%. This surge in top-line growth can be attributed to various price adjustments made in Jul and Oct -23, as customers gradually adapt, by the ongoing economic recovery. Moreover, operating expenditure rose by 68.2%YoY (66.5%QoQ) to LKR 3.7Bn owing to the pressure stemming from inflation. Despite a decline in volumes during 4Q2023, driven by higher taxes and expensive prices pushing consumers towards the illicit market, with the anticipated economic recovery that may bolster local purchasing power, potentially prompting a return to the legal industry, further coupled with the strong influx of tourists arrivals which may continue CTC's growth journey we broadly maintain our earnings forecast for 2024E at LKR 33.4Bn and our TP at LKR 1,500.0. **MAINTAIN BUY.**



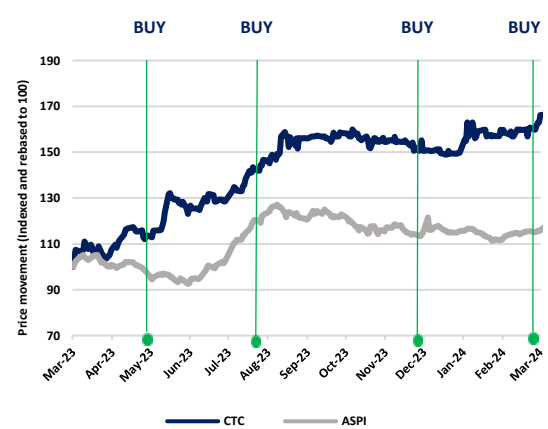
### FIRST CAPITAL RESEARCH

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



LKR (Mn)	4Q2022	4Q2023	YoY	2022	2023	YoY
<b>Earnings (LKR 'Mn)</b>						
Gross Revenue	40,746	53,553	+31%	167,194	200,019	+20%
Net Revenue	12,065	17,603	+46%	44,272	57,720	+30%
EBIT	9,865	13,907	+41%	33,196	44,552	+34%
PBT	10,184	14,333	+41%	34,392	44,552	+30%
Net Profit	6,360	8,537	+34%	20,469	27,656	+35%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholder's Equity	17,493	11,765	-33%	17,493	11,765	-33%
Cash & Cash equivalents	24,217	24,538	+1%	24,217	24,538	+1%
NAVPS	93.4	62.8	-33%	93.4	62.8	-33%

#### Bottom line grace up by 34.2%YoY to LKR 8.5Bn during 4Q2023

CTC achieved a net profit of LKR 8.5Bn in 4Q2023, marking a 34.2%YoY increase and a 24.2%QoQ growth, closely aligning with our projections of LKR 8.1Bn. Additionally, the company's full-year net profit amounted to LKR 27.7Bn, consistent with our forecast of LKR 27.2Bn for the year ending, 31st Dec-23. The strong bottom-line performance was complemented by the substantial top-line growth, with revenue increasing by 31.4%YoY (+19.6%QoQ) to LKR 53.6Bn. This growth can be attributed to price adjustments implemented in Jul and Oct 2023, which are gradually being accepted by consumers amidst ongoing economic recovery which kicked off during the latter part of 2023. Despite facing challenges such as a higher government levy of LKR 36.0Bn recorded in 4Q2023, net revenue/gross revenue experienced substantial growth of 326bps YoY, reaching 32.9%. Raw material expenses rose by 49.5%YoY (+86.3%QoQ) to LKR 1.2Bn due to inflationary pressure, adversely impacting the company's initiative to locally source materials. Amidst the increase in operating expenses by 68.2%YoY (66.5%QoQ), the EBIT margin deteriorated by 277bpsYoY (-458bpsQoQ). Anticipated reductions in fuel prices influenced by the LKR appreciation and reduction in electricity tariffs during 2024E may mitigate operating costs in the future, bolstering the company's performance. On the brighter 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 economic recovery towards 2024E we broadly maintain our earnings target at LKR 33.4Bn for 2024E.

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

The increasing price gap between legal and illegal cigarette markets due to tax adjustments continued to hinder CTC's sales volume decline in the 4Q2023. This was further aggravated by price adjustments in Jul and Oct 2023, making illicit options more appealing to consumers. However, considering the faster than expected decline in inflation and the potential strengthening of purchasing power due to the possible wage hike in 2024E, coupled with projected positive GDP growth of +2.0% to +3.0% by FCR, we forecast a 3.0% recovery in volumes for 2024E. Additionally, the influx of tourists into the country is also expected to contribute to this growth as we forecast tourists' arrivals to reach 1.9Mn for 2024E.

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

Taking into consideration the outstanding performance of CTC over the years alongside, the expected economic recovery and the strong number of tourists' arrivals which has surpassed the 100,000 mark for the 9th consecutive month in Feb-24, alongside the expected recovery in volumes, we maintain our target price for 2024E at LKR 1,500.0. whilst broadly upholding our earnings target for 2024E at LKR 33.4Bn.

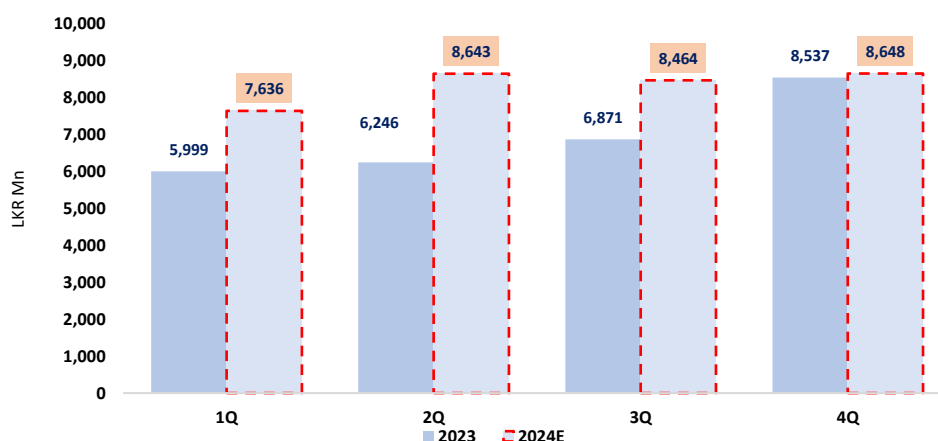
#### Minimum Return for BUY:

**Buy Below 2024E - [AER of 21% with DPS]: LKR 1,453.0**  
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 three trading days prior to the issuance of this document.

## Quarterly Earnings



## Estimate Revision

In LKR Mn	2024E - O	2024E - R	% Change	2025E - O	2025E - R	% Change
<b>Earnings Estimate</b>						
Net Revenue	64,723	66,567	+3%	79,210	75,940	-4%
EBIT	51,505	53,710	+4%	65,127	62,235	-4%
Profit before Tax	53,495	55,653	+4%	66,452	63,615	-4%
Net Profit	32,097	33,392	+4%	39,871	38,169	-4%
Adjusted EPS	171.3	147.6		212.9	178.3	
Growth YoY	18%	21%		18%	14%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	26,145	26,364	+1%	30,416	30,180	-1%
Cash & Cash equivalents	16,834	17,253	+2%	16,514	17,125	+4%
<b>Adjusted NAVPS</b>	<b>122.4</b>	<b>140.7</b>		<b>162.4</b>	<b>161.1</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>123%</b>	<b>127%</b>		<b>131%</b>	<b>126%</b>	
<b>PER (x)</b>	<b>4.8</b>	<b>4.6</b>		<b>3.9</b>	<b>4.0</b>	
<b>PBV (x)</b>	<b>5.9</b>	<b>5.8</b>		<b>5.1</b>	<b>5.1</b>	

## Valuation Table

P/E 31 December	2020	2021	2022	2023	2024E	2025E	2026E
<b>Estimates (LKR 'Mn)</b>							
Net Revenue	32,073	33,615	44,272	57,720	66,567	75,940	83,478
Operating profit	24,671	26,128	33,196	44,552	53,710	62,235	68,811
<b>Net Profit</b>	<b>15,578</b>	<b>16,146</b>	<b>20,469</b>	<b>27,656</b>	<b>33,392</b>	<b>38,169</b>	<b>42,109</b>
EPS (LKR)	83.2	86.2	109.3	147.6	178.3	203.8	224.8
YoY Growth (%)	-10%	4%	27%	35%	21%	14%	10%
<b>Valuations</b>							
PER (x)	9.9x	9.5x	7.5x	5.6x	4.6x	4.0x	3.6x
PBV (x)	33.4x	17.1x	8.8x	13.1x	5.8x	5.1x	4.5x
DY (%)	10.1%	6.5%	10.9%	14.4%	19.6%	22.4%	0.0%
<b>NAVPS</b>	<b>24.6</b>	<b>48.0</b>	<b>93.4</b>	<b>62.8</b>	<b>140.7</b>	<b>161.1</b>	<b>183.6</b>
<b>DPS (LKR)</b>	<b>82.9</b>	<b>53.0</b>	<b>89.0</b>	<b>118.1</b>	<b>160.4</b>	<b>183.4</b>	<b>202.3</b>
<b>Div Payout</b>	<b>100%</b>	<b>61%</b>	<b>81%</b>	<b>80%</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>



### Valuation Summary

Expected CTC price	2024E	2025E
PER based target price	1,604	1,732
DCF Valuation based target price	1,585	1,530
<b>Average Target Price</b>	<b>1,594</b>	<b>1,631</b>
<b>Target price after Rounding off</b>	<b>1,500</b>	<b>1,600</b>

Return	2024E	2025E
Target Price	1,500	1,600
Current Price	1,129	1,129
Capital Gain (LKR)	371	471
Dividend (LKR) 2024E	160	183
Capital Gain %	33%	42%
Dividend Yield %	14%	16%
<b>Total Return %</b>	<b>56%</b>	<b>58%</b>
<b>Annualized Return %</b>	<b>75%</b>	<b>29%</b>

### Discounted Cash flow Valuation

DCF based Valuation	2024E	2025E
Enterprise Value	279,593	269,562
(-) Debt	-	-
(+) Cash	17,253	17,125
<b>Total Value of Equity</b>	<b>296,846</b>	<b>286,687</b>
No. of shares	187	187
<b>Target Price</b>	<b>1,585</b>	<b>1,530</b>

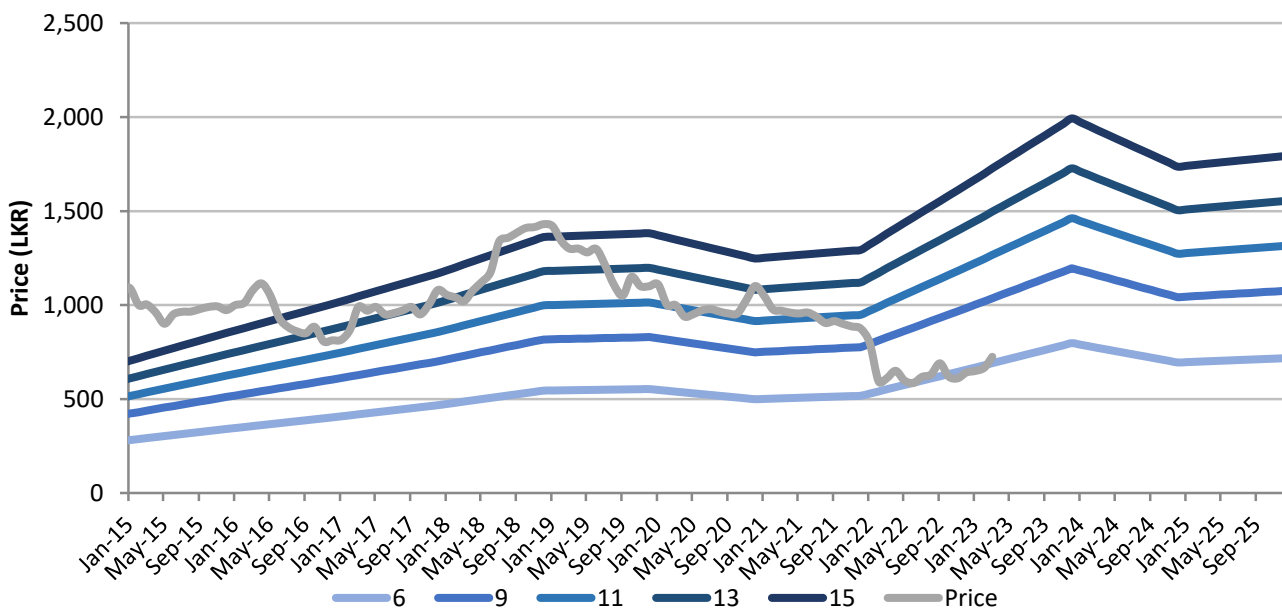
COE	2024E	2025E
Rf	11.0%	10.0%
Rm	19.0%	18.0%
Growth %	3.0%	3.0%
$\beta$	0.80	0.80
<b><math>Ke=Rf+\beta(Rm-Rf)</math></b>	<b>17%</b>	<b>16%</b>

### PER Valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	33,392	38,169
No. of Shares ('Mn)	187	187
EPS	178.3	203.8
Expected PER	9x	9x
<b>Price at 9x Earnings</b>	<b>1,604</b>	<b>1,732</b>

WACC	2024E	2025E
Ke	17%	16%
Kd	5%	5%
D/E Assumption	20/80	20/80
Terminal Growth (%)	3.0%	3.0%
<b>WACC</b>	<b>15%</b>	<b>14%</b>

### PER Chart



## Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	2020	2021	2022	2023	2024E	2025E	2026E
<b>Y/E 31st December</b>							
Gross Revenue	132,149	134,369	167,194	200,019	252,965	282,992	305,066
Government Levies	-100,076	-100,753	-122,922	-142,299	-186,399	-207,052	-221,587
<b>Net Revenue</b>	<b>32,073</b>	<b>33,615</b>	<b>44,272</b>	<b>57,720</b>	<b>66,567</b>	<b>75,940</b>	<b>83,478</b>
Other operating income	101	33	36	94	67	76	83
Raw materials	-2,169	-2,645	-3,439	-3,707	-4,467	-4,776	-5,055
Employee benefits	-1,365	-1,519	-2,020	-2,609	-2,400	-2,616	-2,852
Other operating expenses	-3,629	-3,023	-5,288	-6,460	-5,691	-5,972	-6,350
<b>Operating profit</b>	<b>24,671</b>	<b>26,128</b>	<b>33,196</b>	<b>44,552</b>	<b>53,710</b>	<b>62,235</b>	<b>68,811</b>
Net interest income	763	519	1,196	1,588	1,943	1,380	1,370
<b>Profit Before Taxation</b>	<b>25,434</b>	<b>26,646</b>	<b>34,393</b>	<b>46,140</b>	<b>55,653</b>	<b>63,615</b>	<b>70,181</b>
Income Tax	-9,855	-10,500	-13,924	-18,484	-22,261	-25,446	-28,072
<b>Profit for the Year</b>	<b>15,578</b>	<b>16,146</b>	<b>20,469</b>	<b>27,656</b>	<b>33,392</b>	<b>38,169</b>	<b>42,109</b>
EPS	83.2	86.2	109.3	147.6	178.3	203.8	224.8

## Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	2020	2021	2022	2023	2024E	2025E	2026E
<b>As at 31st December</b>							
<b>Non-Current Assets</b>							
Property plant and equipment	4,682	5,347	5,552	5,885	7,676	9,212	11,160
Intangible assets	2	1	0	0	1	1	1
Investments in subsidiaries	0	0	0	0	0	0	0
Net surplus assets on retirement benefit plan	181	370	158	89	158	158	158
Receivables	112	136	181	219	181	181	181
	<b>4,977</b>	<b>5,854</b>	<b>5,891</b>	<b>6,193</b>	<b>8,015</b>	<b>9,552</b>	<b>11,500</b>
<b>Current Assets</b>							
Inventories	3,732	4,612	6,303	6,611	12,794	14,313	14,313
Trade & other receivables	3,230	7,409	5,151	5,603	12,794	14,313	14,313
Assets held for sale	0	0	1	0	1	1	1
Cash & cash equivalents	9,782	8,593	24,217	24,538	17,253	17,125	17,854
<b>Total Assets</b>	<b>21,721</b>	<b>26,468</b>	<b>41,561</b>	<b>42,945</b>	<b>50,564</b>	<b>54,975</b>	<b>59,859</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	2,729	7,114	15,620	9,892	24,490	28,307	32,518
<b>Total equity</b>	<b>4,602</b>	<b>8,987</b>	<b>17,493</b>	<b>11,765</b>	<b>26,364</b>	<b>30,180</b>	<b>34,391</b>
<b>Current Liabilities</b>							
Trade & other payables	7,827	5,169	9,028	19,221	9,000	9,594	10,267
Current tax Liabilities	4,967	4,219	6,754	11,030	6,914	6,914	6,914
Dividends payable	3,465	7,220	7,108	0	7,108	7,108	7,108
	<b>16,639</b>	<b>17,003</b>	<b>23,268</b>	<b>30,251</b>	<b>23,401</b>	<b>23,995</b>	<b>24,669</b>
<b>Total Liabilities</b>	<b>17,119</b>	<b>17,481</b>	<b>24,068</b>	<b>31,180</b>	<b>24,201</b>	<b>24,795</b>	<b>25,468</b>
<b>Total Equity &amp; Liabilities</b>	<b>21,721</b>	<b>26,468</b>	<b>41,561</b>	<b>42,945</b>	<b>50,564</b>	<b>54,975</b>	<b>59,859</b>
NAVPS	24.6	48.0	93.4	62.8	140.7	161.1	183.6



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