



# CEYLON COLD STORES PLC [CCS.N0000]

## MAINTAIN BUY

### “MARGIN EXPANSION FUELS STEADY PROFIT GROWTH”

**Fair Value: FY25E - LKR 80.0 [+45%]**      **Fair Value: FY26E - LKR 100.0 [+81%]**  
*Total Return with DPS: FY25E - 51% [AER 88%]*      *FY26E – 89% [AER 47%]*

CCS reported a substantial 264.7%YoY increase in earnings, reaching LKR 1.2Bn in 1QFY25, slightly surpassing FCR expectations. The growth was supported by notable increases in both top line and margins. The group's EBIT margin rose significantly by 213bps YoY to 6.11%, driven by a major improvement in the manufacturing segment (from 8.3% in 1QFY24 to 16.9% in 1QFY25). The retail segment saw a modest margin growth of 66bps to 4.0% amidst cost-effective measures and reduced electricity tariffs since early 2024. Meanwhile, the group is set to benefit from the anticipated economic recovery in 2H2024, as domestic demand picks up. 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 gain from easing input prices and volume growth. With 1QFY25 earnings in line with our estimates, we maintain our earnings targets for FY25E and FY26E at LKR 5.2Bn and LKR 6.7Bn, respectively. Consequently, we maintain the FV at LKR 80.0 for FY25E and LKR 100.0 for FY26E. **MAINTAIN BUY**

LKR (Mn)	1QFY24	1QFY25	YoY	FY23	FY24	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	34,594	38,085	+10%	126,149	139,625	+11%
Gross profit	3,880	5,442	+40%	12,749	17,497	+37%
EBIT	1,377	2,328	+69%	6,185	8,155	+32%
PBT	415	1,731	+317%	2,239	4,931	+120%
Net Profit	322	1,175	+265%	2,513	3,427	+36%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	18,263	20,932	+15%	19,077	20,451	+7%
Borrowings	9,638	8,272	-14%	10,206	8,567	-16%
NAVPS	19.2	22.0		20.1	21.5	

#### Substantial profit margin expansion by 862bps YoY to 16.9% drives bottom-line growth in manufacturing segment

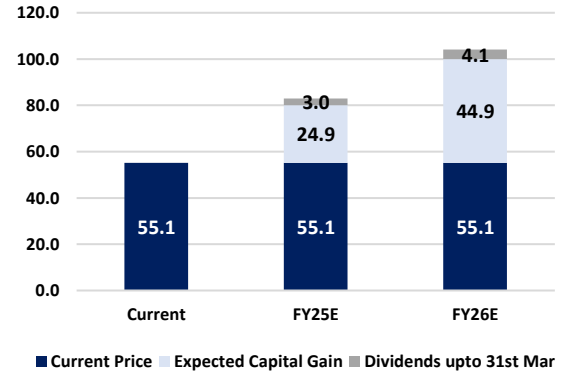
The manufacturing segment of CCS delivered impressive growth in earnings, surging by 214.5%YoY to LKR 932.5Mn in 1QFY25, driven by an improved EBIT margin. Easing raw material prices led to a significant enhancement in EBIT margins for both the Beverages (CSD) and Frozen Confectionery (FC) businesses, with margins improving by 862bps to 16.9%. Moreover, volumes improved on a YoY basis by 27% and 8%, respectively, due to a pick-up in seasonal sales in April 2024. Meanwhile, the ice cream business showed strong volume growth both YoY and QoQ, driven by bulk purchases that depicts a recovery in the Horeca sector due to rise in tourist arrivals. During the quarter, Elephant House's beverage segment began distributing 'Necto' to South India through a partnership with Reliance Consumer Products Limited (RCPL), a move expected to eventually expand the product portfolio. Looking ahead, consumer sentiment is showing signs of gradual recovery, as indicated by the consumer confidence index for June 2024 reaching an all-time high, signaling increased demand for purchases. Additionally, with private sector salary hikes and inflation moderating to below 5.0%, disposable income pressures are expected to ease, potentially boosting consumer spending. We believe the FC business aims for earnings growth through a strategic shift towards higher-margin impulse products while sustaining profit margins with continued volume growth.

#### Double digit growth in Same store sales and operational efficiency leads to substantial profit growth

CCS's retail segment continued its strong performance, with revenue reaching LKR 481.5Bn, reflecting 8.8%YoY and 9.7% QoQ growth. Topline growth was driven by a 11.9% increase in Same Store Footfall (SSF), which translated into a 12.0% rise in Same Store Sales (SSS). The shift towards modern trade, supported by discounts and the convenience of consolidated product availability, contributed to the growth. The EBIT margin slightly increased to 4.0% (1QFY24: 3.4%) as the retail segment benefited from the reduction in electricity tariffs since early 2024, with an additional 20.0% decrease expected to further lower electricity costs. Additionally, after three consecutive periods of contraction, the Average Basket Value (ABV) turned positive during the quarter, although it remained flat on a YoY basis. The stability reflects a gradual recovery in the consumption of non-essential items, contributing to an increase in the Weight of Purchase (WOP). Consequently, the bottom line surged by 215.9% YoY to LKR 481.5Mn. Looking forward, we anticipate CCS's top-line growth to achieve a CAGR of 47.9% from FY24 to FY27E, driven by sustained improvements in SSS and ABV, as well as incremental revenue from the opening of new stores.

#### Earnings in par with expectations. Hence, fair value maintained at LKR 100.0 for FY26E – MAINTAIN BUY

In line with FCR's projection of rapid economic recovery in 2H2024E, we anticipate a gradual resurgence in both retail and manufacturing sectors. The revival is expected to drive volume growth, enhance margins, and boost consumer footfall, supported by increased private sector consumption. As reported earnings align with our target, we are maintaining our earnings forecasts for FY25E and FY26E at LKR 5.2Bn and LKR 6.7Bn, respectively. Consequently, our fair value projections remain at LKR 80.0 for FY25E and LKR 100.0 for FY26E. Given the economic developments, we expect the stock to re-rate to a P/E of 16.0x, which remains significantly below its 10-year average P/E of 24.0x. **MAINTAIN BUY**



### FIRST CAPITAL RESEARCH

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



#### Minimum Return for BUY:

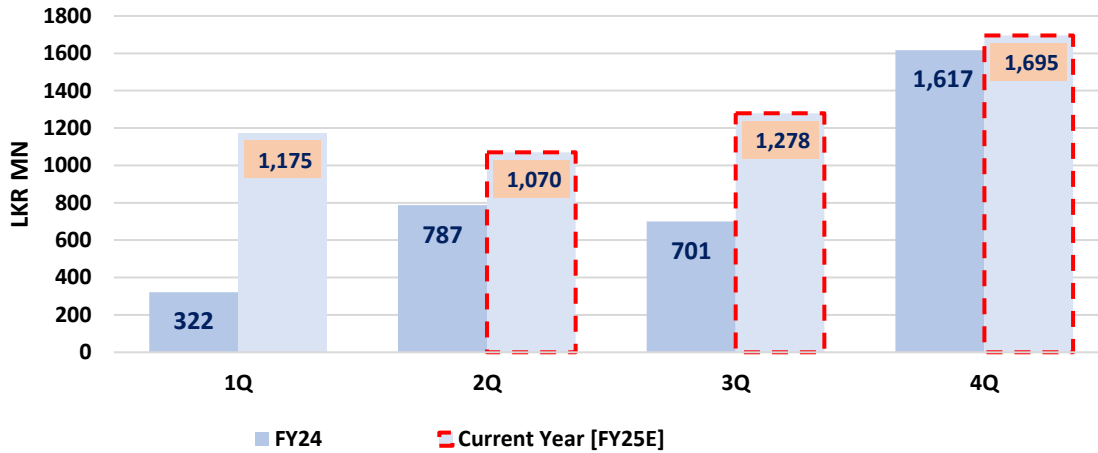
**Buy Below for FY26E [AER of 19.0% with DPS]: LKR 73.9.**  
 CCS categorized as 'Grade B' counter

#### 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



## Estimate Revision

In LKR Mn	FY25E-0	FY25E - R	% Change	FY26E-0	FY26E - R	% Change
<b>Earnings Estimate</b>						
Revenue	161,708	161,708	0%	180,909	180,909	0%
EBIT	10,480	10,480	0%	12,522	12,522	0%
PBT	7,673	7,673	0%	9,825	9,825	0%
Net profit	5,218	5,218	0%	6,681	6,681	0%
Adjusted EPS	5.5	5.5		7.0	7.0	
Growth YoY	52%	52%		28%	28%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	27,183	27,183	0%	29,989	29,989	0%
Cash and cash Equivalents	3,117	3,117	0%	2,045	2,045	0%
<b>Adjusted NAVPS</b>	<b>28.6</b>	<b>28.6</b>		<b>31.6</b>	<b>31.6</b>	
<b>Ratio Estimate</b>						
PER (x)	11.1	10.0		8.7	7.8	
PBV (x)	2.1	1.9		1.9	1.7	
DY (%)	5%	5%		7%	7%	

## Valuation Table

P/E 31 March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Estimates (LKR 'Mn)</b>							
Revenue	68,766	84,543	126,149	139,625	161,708	180,909	200,007
Gross profit	7,651	9,136	12,749	17,497	19,728	22,433	25,601
EBIT	4,112	4,744	6,185	8,155	10,480	12,522	14,472
<b>Net Profit</b>	<b>2,338</b>	<b>2,068</b>	<b>2,513</b>	<b>3,427</b>	<b>5,218</b>	<b>6,681</b>	<b>8,075</b>
<b>Adjusted EPS (LKR)</b>	<b>2.5</b>	<b>2.2</b>	<b>2.6</b>	<b>3.6</b>	<b>5.5</b>	<b>7.0</b>	<b>8.5</b>
YoY Growth (%)	10%	-12%	21%	36%	52%	28%	21%
<b>Valuations</b>							
PER (x)	22.4	25.3	20.8	15.3	10.0	7.8	6.5
PBV (x)	3.1	2.9	2.7	2.6	1.9	1.7	1.6
DY (%)	3.1%	2.1%	2.4%	4.2%	5.5%	7.4%	9.3%
NAVPS	17.7	19.1	20.1	21.5	28.6	31.6	35.0
DPS	1.7	1.1	1.3	2.3	3.0	4.1	5.1
Dividend Payout	69%	52%	49%	64%	55%	58%	60%



### Valuation Summary

Return	FY25E	FY26E	Expected CCS price	FY25E	FY26E
Target Price	80.0	100.0	PER Valuation based target price	87.8	112.5
Current Price	55.1	55.1	SOTP Valuation based target price	80.8	101.9
Capital Gain (LKR)	24.9	44.9	<b>Average Target Price</b>	<b>84.3</b>	<b>107.2</b>
Dividends upto 31st Mar (LKR)	3.0	4.1	<b>Target Price after Rounding off</b>	<b>80.0</b>	<b>100.0</b>
Capital Gain %	45%	81%			
Dividend Yield %	5%	7%			
<b>Total Return %</b>	<b>51%</b>	<b>89%</b>			
Annualized Return %	88%	47%			

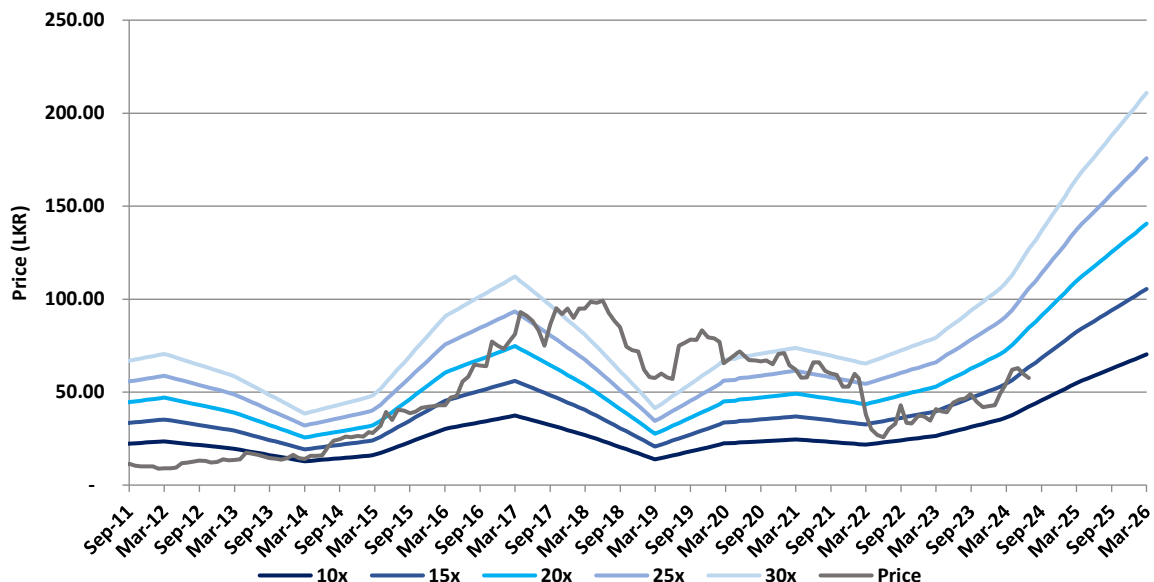
### PER Valuation

PER based Valuation	FY25E	FY26E
Earnings (LKR 'Mn)	5,218	6,681
No. of Shares ('Mn)	950	950
EPS	5.5	7.0
Expected PER	16x	16x
<b>Price at 16x Earnings</b>	<b>87.8</b>	<b>112.5</b>

### SOTP Valuation

Segment	Valuation Method	Valuation assumption			Value in LKR Mn	
		CoE	WACC	Growth	Firm value FY25E	Firm value FY26E
Consumer Foods	DCF	19.0%	12.9%	3.0%	36,462.9	42,333.8
Retail	DCF	18.6%	12.7%	3.0%	40,346.3	54,511.7
Total per share					76,809.1	96,845.5
No. of shares					950.4	950.4
<b>Value per share</b>					<b>80.8</b>	<b>101.9</b>

### PER Chart





## Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)							
P/E 31st March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	68,766	84,543	126,149	139,625	161,708	180,909	200,007
Cost of sales	-61,115	-75,407	-113,400	-122,127	-141,980	-158,476	-174,406
<b>Gross profit</b>	<b>7,651</b>	<b>9,136</b>	<b>12,749</b>	<b>17,497</b>	<b>19,728</b>	<b>22,433</b>	<b>25,601</b>
Other operating income	1,576	1,831	2,599	2,954	6,114	7,275	7,871
Selling and distribution expenses	-2,695	-3,149	-3,993	-4,965	-6,145	-6,875	-7,600
Administrative expenses	-2,215	-2,837	-3,830	-4,880	-5,983	-6,694	-7,400
Other operating expenses	-205	-237	-1,340	-2,451	-3,234	-3,618	-4,000
<b>EBIT</b>	<b>4,112</b>	<b>4,744</b>	<b>6,185</b>	<b>8,155</b>	<b>10,480</b>	<b>12,522</b>	<b>14,472</b>
Change in fair value of investment property	4	17	21	0	0	0	0
Net Finance Income	-1,742	-1,979	-3,967	-3,246	-2,807	-2,697	-2,596
PBT	<b>2,375</b>	<b>2,782</b>	<b>2,239</b>	<b>4,909</b>	<b>7,673</b>	<b>9,825</b>	<b>11,875</b>
Taxation	-36	-714	273	-1,504	-2,455	-3,144	-3,800
<b>Net Profit for the Period</b>	<b>2,338</b>	<b>2,068</b>	<b>2,513</b>	<b>3,405</b>	<b>5,218</b>	<b>6,681</b>	<b>8,075</b>
<b>Adjusted EPS</b>	<b>2.5</b>	<b>2.2</b>	<b>2.6</b>	<b>3.6</b>	<b>5.5</b>	<b>7.0</b>	<b>8.5</b>

## Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)							
As at 31st March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Assets</b>							
<b>Non - current assets</b>							
Property plant and equipment	22,289	25,580	27,250	27,746	28,989	32,636	36,830
Intangible Assets	1,941	2,822	3,601	4,485	4,709	4,944	5,192
Non-current financial assets	7,296	7,503	6,673	6,271	6,271	6,271	6,271
Other non-current asset	10,922	11,427	11,776	11,814	11,814	11,814	11,814
	<b>42,449</b>	<b>47,332</b>	<b>49,300</b>	<b>50,315</b>	<b>51,782</b>	<b>55,665</b>	<b>60,106</b>
<b>Current assets</b>							
Inventories	7,109	9,075	14,490	12,559	18,117	20,659	22,642
Receivables and prepayment	3,358	4,270	5,089	7,224	8,800	9,980	11,129
Other current asset	1,497	1,514	1,597	1,484	1,484	1,484	1,484
Cash and cash equivalents	562	1,345	1,253	2,161	3,117	2,045	1,568
	<b>12,526</b>	<b>16,204</b>	<b>22,430</b>	<b>23,429</b>	<b>31,518</b>	<b>34,168</b>	<b>36,823</b>
<b>Total Assets</b>	<b>54,975</b>	<b>63,535</b>	<b>71,730</b>	<b>73,744</b>	<b>83,301</b>	<b>89,833</b>	<b>96,929</b>
<b>Equity and Liabilities</b>							
<b>Capital and reserves</b>							
Ordinary shares	918	918	918	918	918	918	918
Retained Earnings	12,363	13,312	14,532	16,066	22,799	25,605	28,835
Other components of equity	3,502	3,877	3,627	3,466	3,466	3,466	3,466
	<b>16,783</b>	<b>18,107</b>	<b>19,077</b>	<b>20,451</b>	<b>27,183</b>	<b>29,989</b>	<b>33,219</b>
<b>Non - current liabilities</b>							
Interest-bearing loans and borrowings	5,142	8,308	6,850	3,164	3,359	3,527	3,703
Lease liabilities	8,828	9,928	9,963	10,690	10,690	10,690	10,690
Other non-current liabilities	2,367	2,756	2,787	4,026	4,026	4,026	4,026
	<b>16,336</b>	<b>20,991</b>	<b>19,601</b>	<b>17,879</b>	<b>18,075</b>	<b>18,243</b>	<b>18,419</b>
<b>Current liabilities</b>							
Trade and other payables	9,824	12,353	14,326	17,451	18,911	21,140	23,360
Short term borrowings	3,071	2,000	1,185	900	380	361	343
Interest-bearing loans and borrowings	1,700	2,179	2,170	4,503	5,365	5,804	6,292
Bank overdrafts	5,404	5,425	12,310	8,269	9,096	10,005	11,006
Other current liabilities	1,857	2,479	3,060	4,290	4,290	4,290	4,290
	<b>21,856</b>	<b>24,437</b>	<b>33,052</b>	<b>35,414</b>	<b>38,042</b>	<b>41,601</b>	<b>45,291</b>
<b>Total Liabilities</b>	<b>38,192</b>	<b>45,428</b>	<b>52,653</b>	<b>53,293</b>	<b>56,117</b>	<b>59,844</b>	<b>63,710</b>
<b>Total Equity &amp; Liabilities</b>	<b>54,975</b>	<b>63,535</b>	<b>71,730</b>	<b>73,744</b>	<b>83,301</b>	<b>89,833</b>	<b>96,929</b>
<b>Adjusted NAVPS</b>	<b>17.7</b>	<b>19.1</b>	<b>20.1</b>	<b>21.5</b>	<b>28.6</b>	<b>31.6</b>	<b>35.0</b>



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