



# CEYLON COLD STORES PLC [CCS.N0000]

## MAINTAIN BUY

### “RETAIL SOARS AS AFFORDABILITY RETURNS”

**Fair Value: FY25E - LKR 80.0 [+25%]**      **Fair Value: FY26E - LKR 100.0 [+56%]**  
**Total Return with DPS: FY25E - 30% [AER 99%]**      **FY26E – 63% [AER 42%]**

CCS reported impressive earnings growth of 59.4%YoY, reaching LKR 1.3Bn in 2QFY25, slightly exceeding FCR's projection of LKR 1.1Bn, driven by increases in both the topline and margins. The group's EBIT margin expanded by 78bps YoY to 6.4%, supported by significant margin improvement in the manufacturing segment, which rose from 14.0% in 2QFY24 to 20.8% in 2QFY25. Meanwhile, the retail segment also saw a modest margin increase to 4.1%, aided by cost-saving initiatives, reduced electricity tariffs, and improved same-store sales. Looking ahead, both the manufacturing and retail segments are expected to benefit from increased disposable income as cost pressures ease, supported by a deflationary trend recorded during 2H2024, core inflation decelerating to 3.0%YoY in Oct 2024, and reductions in electricity tariffs. Additionally, FCR projects economic growth for Sri Lanka at 2.0%-3.0% in 2024, with growth anticipated to accelerate in 2H2024, driven by a recovery in private sector credit. This positive outlook supports further increases in CSD and FC volumes, as well as growth in same-store sales, underpinned by economic normalization, improved purchasing power, and a recovery in tourist arrivals. With 2QFY25 earnings in line with our expectations, we maintain our earnings targets for FY25E and FY26E at LKR 5.2Bn and LKR 6.7Bn, respectively. Consequently, we maintain our fair value estimates at LKR 80.0 for FY25E and LKR 100.0 for FY26E. **MAINTAIN BUY**

LKR (Mn)	2QFY24	2QFY25	YoY	1HFY24	1HFY25	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	34,282	38,235	+12%	68,877	76,320	+11%
Gross profit	4,402	5,638	+28%	8,282	11,080	+34%
EBIT	1,927	2,449	+27%	3,304	4,776	+45%
PBT	1,135	1,876	+65%	1,551	3,607	+133%
Net Profit	787	1,254	+59%	1,109	2,429	+119%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	19,432	22,486	+16%	19,432	22,486	+16%
Borrowings	17,578	12,010	-32%	17,578	12,010	-32%
NAVPS	20.4	23.7		20.4	23.7	

#### Robust manufacturing profitability was driven by double-digit volume growth and substantial EBIT margin expansion

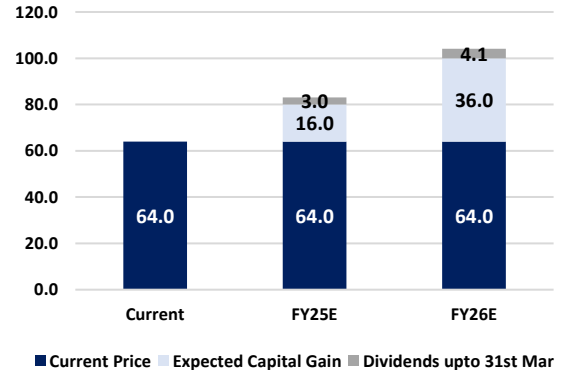
In 2QFY24, CCS's manufacturing segment achieved robust profit growth, surging 117.0%YoY to LKR 1.3Bn, driven by substantial EBIT margin expansion, which increased by 678bps YoY from 14.0% to 20.8%. Key contributors to the margin improvement were double-digit volume growth in both the Beverages (CSD) and Frozen Confectionery (FC) sectors, with volumes up by 17.0%YoY and 13.0%YoY, respectively. The ice cream segment recorded solid volume gains, both YoY and QoQ, boosted by higher sales in the impulse segment, which is known for its higher margins. Additionally, a recovery in the HoReCa sector, spurred by a rise in tourist arrivals, further boosted volumes in both CSD and FC categories. Looking ahead, with private sector salary increases and recent deflationary trends in Sep and Oct 2024, the first recorded since Sep 2015, consumer disposable income is expected to improve, likely boosting spending. We anticipate that the FC business will drive earnings growth by strategically focusing on high-margin impulse products and supporting margins through sustained volume growth. Furthermore, the partnership between Elephant House and Reliance for distributing soft drinks is progressing successfully, with plans to gradually expand the product portfolio over time. As a result, we project the manufacturing segment's revenue to grow at a CAGR of 14.3% from FY24 to FY27E.

#### Purchasing power returning to normalcy is driving Keells's same-store sales growth

CCS's retail segment achieved significant revenue growth of 10.5%YoY, reaching LKR 30.1Bn in 2QFY25. The EBIT margin improved by 57bps YoY to 4.1%, supported by cost-saving initiatives and a notable reduction in electricity tariffs since early 2024. Revenue growth was primarily driven by a 13.8% increase in Same Store Sales (SSS), supported by a 12.9% rise in Same Store Footfall (SSF) and a 1.4% expansion in Average Basket Value (ABV). This growth occurred amid a shift from general trade to modern trade, fueled by discounts and the convenience of consolidated product offerings. With inflation consistently remaining below 3% in 2QFY25, coupled with instances of recorded deflation, discretionary spending increased, contributing to a 1.4%YoY rise in ABV. The trend reflects a steady recovery in non-essential spending, contributing to a rise in Weight of Purchase (WOP). Consequently, the segment's bottom line surged by 111.4%YoY, further bolstered by a 23.4%YoY reduction in finance costs, as the AWPLR fell below the 10% threshold in 2QFY25. Looking ahead, we expect CCS's retail top-line growth to achieve a CAGR of 12.3% from FY24 to FY27E, driven by ongoing gains in SSS and ABV, along with additional revenue from new store openings.

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

In line with First Capital Research's forecast of a rapid economic recovery in the 2H2024E, we expect a gradual rebound in both the retail and manufacturing sectors. The revival is anticipated to drive volume growth, improve margins, and increase consumer footfall, fueled by higher private sector consumption. As the reported earnings align with our projections, we are maintaining our earnings forecasts for FY25E and FY26E at LKR 5.2Bn and LKR 6.7Bn, respectively. Accordingly, our fair value estimates remain unchanged at LKR 80.0 for FY25E and LKR 100.0 for FY26E. Given the current economic outlook, we foresee the stock re-rating to a P/E of 16.0x, which is still well below its 10-year average of 24.0x. **MAINTAIN BUY**



#### FIRST CAPITAL RESEARCH

Tharusha Ashokgar +94 11 263 9866  
[tharushaash@firstcapital.lk](mailto:tharushaash@firstcapital.lk)

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



Source: CSE

#### Minimum Return for BUY:

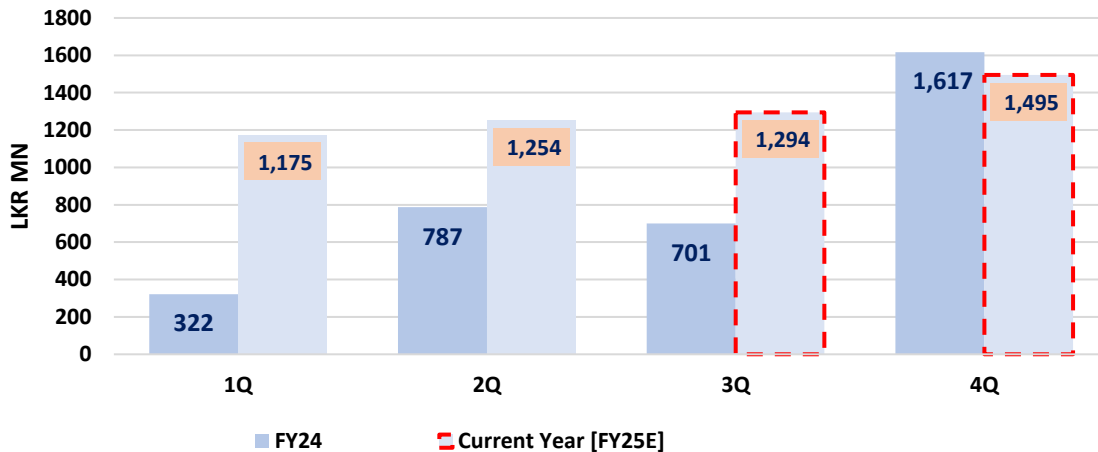
**Buy Below for FY26E [AER of 19.0% with DPS]: LKR 81.9.**  
 CCS categorized as 'Grade B' counter

#### 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>						
<b>PER (x)</b>	<b>10.0</b>	<b>11.7</b>		<b>7.8</b>	<b>9.1</b>	
<b>PBV (x)</b>	<b>1.9</b>	<b>2.2</b>		<b>1.7</b>	<b>2.0</b>	
<b>DY (%)</b>	<b>5%</b>	<b>5%</b>		<b>7%</b>	<b>6%</b>	

### 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>							
<b>PER (x)</b>	<b>26.0</b>	<b>29.4</b>	<b>24.2</b>	<b>17.7</b>	<b>11.7</b>	<b>9.1</b>	<b>7.5</b>
<b>PBV (x)</b>	<b>3.6</b>	<b>3.4</b>	<b>3.2</b>	<b>3.0</b>	<b>2.2</b>	<b>2.0</b>	<b>1.8</b>
<b>DY (%)</b>	<b>2.7%</b>	<b>1.8%</b>	<b>2.0%</b>	<b>3.6%</b>	<b>4.7%</b>	<b>6.4%</b>	<b>8.0%</b>
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	64.0	64.0	SOTP Valuation based target price	80.8	101.9
Capital Gain (LKR)	16.0	36.0	<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 %	25%	56%			
Dividend Yield %	5%	6%			
<b>Total Return %</b>	<b>30%</b>	<b>63%</b>			
Annualized Return %	99%	42%			

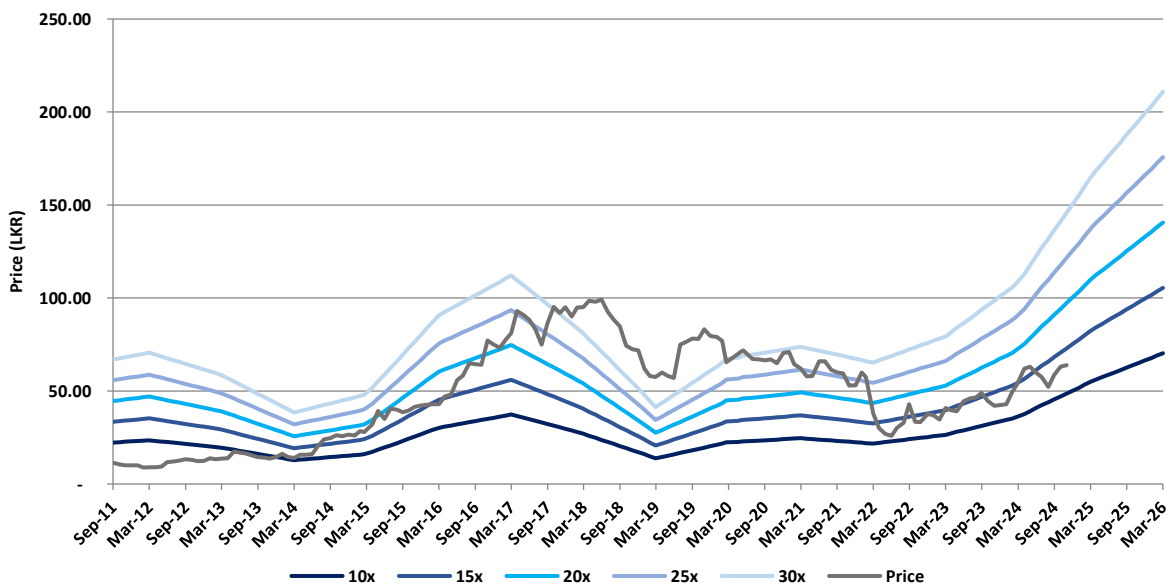
### PER Valuation

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
<b>PBT</b>	<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>



**First Capital**  
A Janashakthi Group Company

# First Capital Holdings PLC

No.2, Deal Place,  
Colombo 3

Tel: +94 11 2145 000  
Fax: +94 11 2145 050

## RESEARCH

Dimantha Mathew	+94 11 2639 853	Zaeema Jihan	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Anjali Mathews	+94 11 2639 866
Vinodhini Rajapooopathy	+94 11 2639 866	Manusha Kandanaarachchi	+94 11 2639 866
Tharusha Ashokgar	+94 11 2639 866		

## GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Arun Kandasamy	+94 75 4861 506
Anushka Dissanayake	+94 77 2220 021		
Anushi Ranawaka	+94 77 3876 819		

## CORPORATE DEBT SALES

Tharusha Ekanayake	+ 94 77 7 809 154
--------------------	-------------------

## EQUITY SALES

		Equity Branches			
<b>CEO</b>	Jaliya Wijeratne	+94 71 5329 602	<b>Negombo</b>	Priyanka Anuruddha	+94 77 4546 070
				Priyantha Wijesiri	+94 77 9065 779
<b>Colombo</b>			<b>Agents</b>		
Rasika Vidanalage	+94 77 7072 698		<b>Colombo</b>	Kithsiri Jayasinghe	+94 77 7790 657
Isuru Jayawardana	+94 76 7084 953		<b>Anuradhapura</b>	Amila Luwishewa	+94 71 0628 195
Nishantha Mudalige	+94 77 3204 929		<b>Galle</b>	Nuwan Abeynayake	+94 77 7288 274
Anushka Buddhika	+94 71 4310 600		<b>Kandy</b>	Ajith Ihalawatta	+94 77 8477 530
Thushara Pathiraja	+94 77 0076 314		<b>Embilipitiya</b>	Ruwan Wanniarachchi	+94 77 3877 734
Anjelo LaBrooy	+94 77 7546 645				
Dillon Lowe	+94 76 6160 647				
Evelyn John	+94 77 779 2452				
Yudheshan Kannadasan	+94 77 415 5809				

## UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
---------------------	-----------------	-----------------------	-----------------

## BRANCHES

Kandy	Kurunegala	Matara	Negombo
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1st Floor, E.H.Cooray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500.
<b>Manager: Salinda Samarakoon</b>	<b>Manager:</b>	<b>Manager: Rohana Jayakody</b>	<b>Manager:</b>
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 4937 072

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