



First Capital
A Janashakti Group Company

EQUITY | SRI LANKA | FOOD BEVERAGE & TOBACCO

EARNINGS UPDATE | 03 Jun 2024

CEYLON COLD STORES PLC [CCS.N0000]

MAINTAIN BUY

“GROWTH FLOWS FROM EVERY CART...”

Fair Value: FY26E - LKR 130.0 [+22%] **Fair Value: FY27E - LKR 150.0 [+41%]**

Total Return with DPS: FY26E - 27% [AER 34%] **FY27E – 47% [AER 23%]**

CCS reported earnings of LKR 2.1Bn in 4QFY25, driven by double-digit volume growth across both the retail and manufacturing segments. This contributed to an all-time high annual profit of LKR 6.0Bn. Meanwhile, the retail and manufacturing bottom lines grew by 138.5%YoY and 3.9%YoY, respectively, supported by strong volume growth in the Frozen Confectionery (FC) and beverages segments, along with increased Same Store Sales (SSS) growth. Looking ahead, we expect both segments to benefit from rising disposable incomes driven by public sector salary hikes and continued volume growth. The retail segment is poised for a 10.2% CAGR in revenue through FY25 to FY28E, supported by increased consumer purchasing power, expanded SSS growth, and new store openings primarily in the high-GDP Western Province. Manufacturing revenue is projected to grow at a 3-year CAGR of 17.5%, driven by strategic focus on high-margin impulse products and market leadership, despite potential headwinds from electricity tariff increases and currency depreciation. FCR anticipates a strong economic rebound in 2H2025E, boosting private sector consumption and supporting sustained volume growth across both key segments. Consequently, earnings forecasts for FY26E and FY27E have been upgraded by 20.8% and 16.2%, respectively, to LKR 8.1Bn and LKR 9.4Bn. Fair value estimates are revised upward to LKR 130.0 for FY26E and LKR 150.0 for FY27E, implying total annualized returns of 33.7% and 23.4%, while CCS is expected to trade at a conservative P/E of 16.0x, well below its 10-year average of 23.0x. **MAINTAIN BUY.**

LKR (Mn)	4QFY24	4QFY25	YoY	FY24	FY25	YoY
Earnings (LKR 'Mn)						
Revenue	36,173	42,091	+16%	139,625	157,934	+13%
Gross profit	5,202	6,196	+19%	17,497	22,741	+30%
EBIT	3,097	3,998	+29%	8,155	11,314	+39%
PBT	2,397	3,336	+39%	4,931	9,002	+83%
Net Profit	1,617	2,146	+33%	3,427	5,958	+74%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	20,451	23,965	+17%	20,451	23,965	+17%
Borrowings	8,567	6,975	-19%	8,567	6,975	-19%
NAVPS	21.5	25.2		21.5	25.2	

Frequent visits to stores amid improving purchasing power to drive retail growth

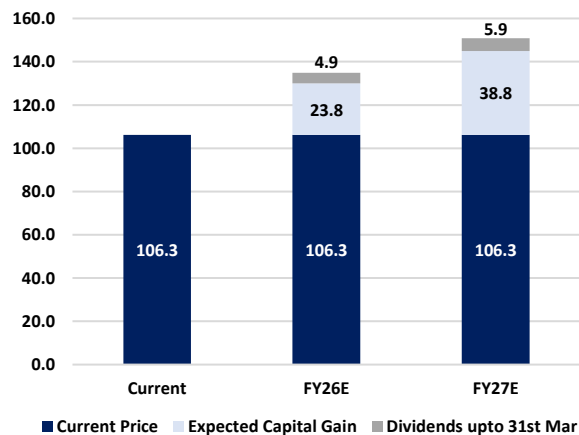
CCS's retail segment delivered robust revenue growth of 17.3%YoY, reaching LKR 32.7Bn in 4QFY25. Despite, cost saving initiatives and a significant reduction in electricity tariffs since early 2024, EBIT margins contracted YoY by 6bps to 4.8%, due to a decrease (or subdued growth) in Average Basket Value (ABV). However, the EBIT margin improved by 88 bps QoQ. Revenue growth was primarily driven by a YoY increase in SSS by 16.2%, supported by a 12.9%YoY rise in Same Store Footfall (SSF) despite a marginal 2.4% decline in ABV during the quarter. The growth in SSF was driven by a shift from general trade to modern trade, fueled by discounts, the convenience of consolidated product offerings, and increased purchasing power leading to more frequent visits. Although ABV was marginally down due to deflationary pricing, this was partly offset by an increase in the number of units purchased, reflecting improved consumer demand and sentiment. As a result, the segment's bottom line surged by 138.5% YoY to LKR 769.0Mn, further supported by an 8.4% YoY reduction in finance costs. Looking forward, CCS's retail revenue is expected to grow at a CAGR of 10.2% from FY25 to FY28E, driven by continued gains in SSS, an expected increase in ABV, and additional revenue from new store openings. The segment is well positioned to capitalize on rising GDP per capita and purchasing power amidst government sector salary hikes, supported by diversified product offerings, value-added products, and strong brand perception. With c.80.0% of stores located in the Western Province, the highest GDP-contributing region, CCS's locational strategy is strategically aligned to capture the rising demand. Considering these factors, EBIT margins are expected to hover between 3.85% and 4.1% from FY26E to FY28E, with segment profits projected to grow at a 3-year CAGR of 17.1%.

Sustained volume momentum to drive margin stability in manufacturing

CCS's manufacturing segment delivered robust profit growth, rising 3.9%YoY to LKR 2.4Bn, driven by a 16.7%YoY increase in topline and a 28.0%YoY reduction in finance costs, despite a 439bps YoY decline in EBIT margins. The top-line growth was primarily supported by double-digit volume growth in both the Beverages (CSD) and Frozen Confectionery (FC) segments, with volumes increasing 16.0 YoY and 12.0%YoY, respectively. The decline in EBIT margins was largely attributable to a drop in impulse product volumes, which typically carry higher margins. The impulse product contribution to revenue decreased to 36.0% in 4QFY25, compared to 39.0% in 4QFY24. Looking ahead, with upcoming public sector salary hikes, consumer disposable income is expected to rise, facilitating higher spending. As a result, we project the manufacturing segment's revenue to grow at a CAGR of 17.5% from FY25 to FY28E, while an expected 3-year earnings CAGR of 4.9% will be supported by strong volume growth. Moreover, we anticipate the FC business will drive earnings growth by strategically refocusing on high-margin impulse products, and maintaining margins through continued volume growth, supported by Elephant House's market leadership. However, the proposed electricity tariff hike may reduce the EBIT margins YoY with expected LKR depreciation.

Fair value estimates are revised to LKR 130.0 for FY26E and LKR 150.0 for FY27E respectively

In line with First Capital Research's forecast of a rapid economic recovery in 2H2025E, private sector consumption and disposable income levels are expected to pick up, supporting volume growth in the manufacturing segment and increase consumer footfall and ABV in retail. Accordingly, FCR upgrades its earnings forecasts for FY26E and FY27E by 20.8% and 16.2%, to LKR 8.1Bn and LKR 9.4Bn, respectively, reflecting a 3-year bottom-line CAGR of 20.6%. As a result, our fair value estimates are revised to LKR 130.0 for FY26E and LKR 150.0 for FY27E, implying total annualized returns of 33.7% and 23.4%, respectively. Given the current economic outlook, we expect CCS to trade at a P/E of 16.0x, which remains significantly below the 10-year average of 23.0x in a conservative basis. **MAINTAIN BUY**

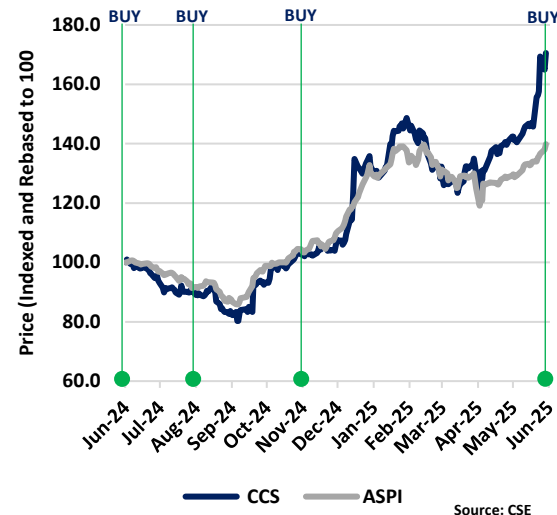


FIRST CAPITAL RESEARCH

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



Minimum Return for BUY:

Buy Below for FY27E [AER of 21.1% with DPS]:
LKR .117.0 CCS categorized as 'Grade A' 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

Key risks associated with our recommendation

Downside risks

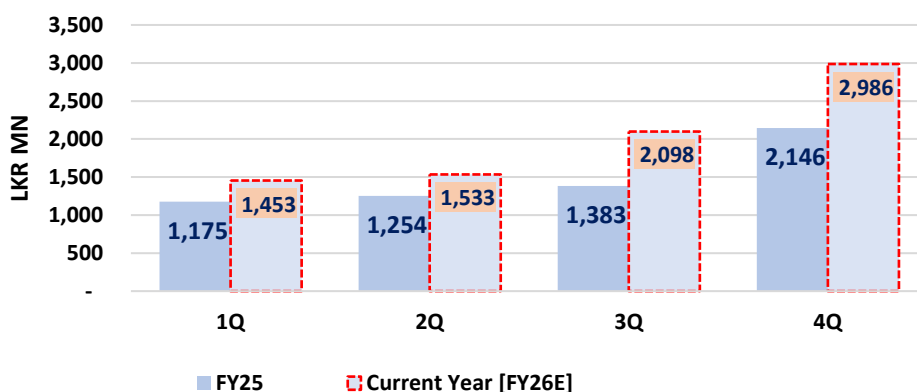
- Gradually increasing inflation level
- Interest and exchange rate risks
- Competition from CARG and other supermarket players
- Proposed electricity tariff hikes from Jul-2025
- Lower than expected growth of impulse product range

Upside risks

- Greater than anticipated volume growth due to economic recovery
- Easing raw material prices



Quarterly Earnings



Estimate Revision

In LKR Mn	FY26E-O	FY26E-R	% Change	FY27E-O	FY27E-R	% Change
Earnings Estimate						
Revenue	180,909	188,132	+4%	200,007	221,645	+11%
Gross Profit	22,433	26,339	+17%	25,601	30,809	+20%
EBIT	12,522	14,011	+12%	14,472	16,211	+12%
Profit before Tax	9,825	11,869	+21%	11,875	13,796	+16%
Net Profit	6,681	8,071	+21%	8,075	9,382	+16%
Adjusted EPS	7.0	8.5	+21%	8.5	9.9	+16%
Growth YoY	28%	35%		21%	16%	
Balance Sheet Estimate						
Shareholders' Equity	25,605	27,354	+7%	28,835	31,107	+8%
Borrowings	9,692	7,292	-25%	10,338	7,594	-27%
Adjusted NAVPS	26.9	28.8	+7%	30.3	32.7	+8%
Ratio Estimate						
ROE (%)	22.3%	29.5%		28.0%	30.2%	
PER (x)	15.1x	12.5x		12.5x	10.8x	
PBV (x)	3.4x	3.7x		3.5x	3.2x	
DY (%)	4%	5%		5%	6%	

Valuation Table

P/E 31 March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Estimates (LKR 'Mn)							
Revenue	84,543	126,149	139,625	157,934	188,132	221,645	256,986
Gross profit	9,136	12,749	17,497	22,741	26,339	30,809	35,464
EBIT	4,744	6,185	8,155	11,314	14,011	16,211	17,946
Net Profit	2,068	2,513	3,427	5,958	8,071	9,382	10,463
Adjusted EPS (LKR)	2.2	2.6	3.6	6.3	8.5	9.9	11.0
YoY Growth (%)	-12%	21%	36%	74%	35%	16%	12%
Valuations							
PER (x)	48.8	40.2	29.5	16.9	12.5	10.8	9.7
PBV (x)	5.6	5.3	4.9	4.2	3.7	3.2	2.9
DY (%)	1.1%	1.2%	2.2%	4.0%	4.6%	5.6%	6.2%
NAVPS	19.1	20.1	21.5	25.2	28.8	32.7	37.1
DPS	1.1	1.3	2.3	4.3	4.9	5.9	6.6
Dividend Payout	52%	49%	64%	69%	58%	60%	60%



Valuation Summary

Return	FY26E	FY27E
Target Price	130.0	150.0
Current Price	106.3	106.3
Capital Gain (LKR)	23.8	43.8
Dividends upto 31st Mar (LKR)	4.9	5.9
Capital Gain %	22%	41%
Dividend Yield %	5%	6%
Total Return %	27%	47%
Annualized Return %	34%	23%

Expected CCS price	FY26E	FY27E
PER Valuation based target price	135.9	157.9
SOTP Valuation based target price	123.9	131.6
Average Target Price	129.9	144.8
Target Price after Rounding off	130.0	150.0

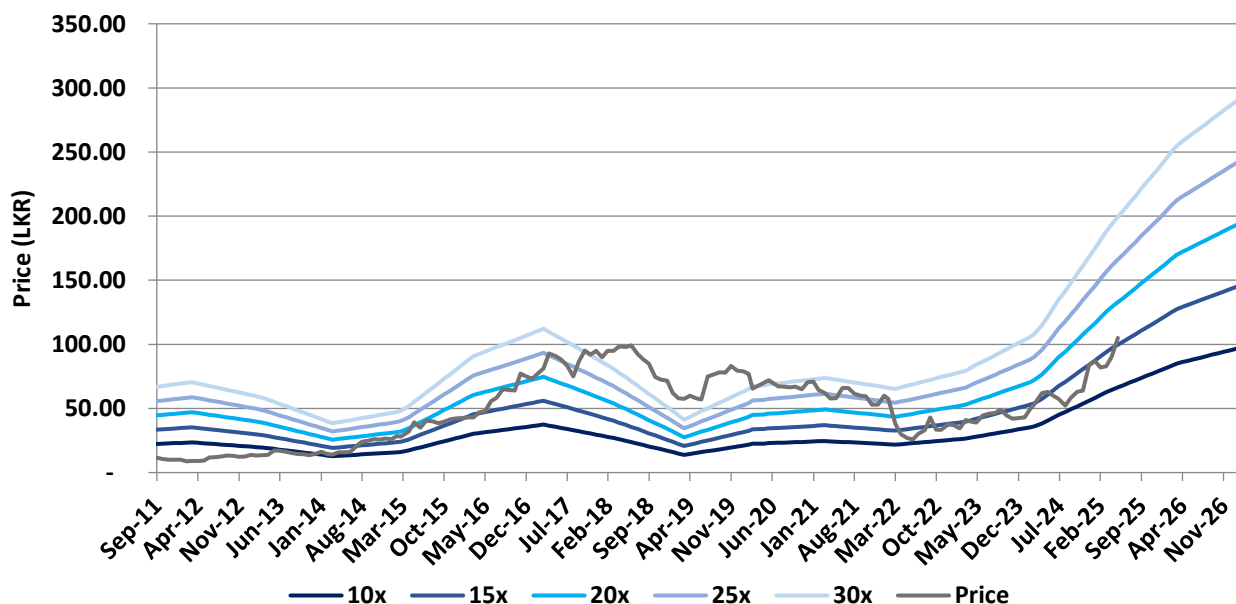
PER Valuation

PER based Valuation	FY26E	FY27E
Earnings (LKR 'Mn)	8,071	9,382
No. of Shares ('Mn)	950	950
EPS	8.5	9.9
Expected PER	16x	16x
Price at 16x Earnings	135.9	157.9

SOTP Valuation

Segment	Valuation Method	Valuation assumption					Value in LKR Mn	
		CoE FY26E	CoE FY27E	WACC FY26E	WACC FY27E	Terminal growth	Firm value FY26E	Firm value FY27E
Consumer Foods	DCF	17.7%	17.7%	12.4%	12.7%	3.0%	70,163.5	72,843.4
Retail	DCF	17.7%	17.7%	12.4%	12.7%	3.0%	51,290.4	54,826.1
Firm value							121,453.9	127,669.5
Add: Cash and cash equivalents							3,557.3	4,989.4
Less: Debt							-7,292.0	-7,593.9
Equity value							117,719.2	125,065.0
No. of shares							950.4	950.4
Value per share							123.9	131.6

PER Chart





Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)							
P/E 31st March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue	84,543	126,149	139,625	157,934	188,132	221,645	256,986
Cost of sales	-75,407	-113,400	-122,127	-135,193	-161,794	-190,836	-221,522
Gross profit	9,136	12,749	17,497	22,741	26,339	30,809	35,464
Other operating income	1,831	2,599	2,954	3,417	5,734	6,680	7,152
Selling and distribution expenses	-3,149	-3,993	-4,965	-6,280	-7,525	-8,866	-10,279
Administrative expenses	-2,837	-3,830	-4,880	-5,870	-7,149	-8,422	-9,765
Other operating expenses	-237	-1,340	-2,451	-2,695	-3,386	-3,990	-4,626
EBIT	4,744	6,185	8,155	11,314	14,011	16,211	17,946
Change in fair value of investment proper	17	21	22	23	0	0	0
Net Finance Income	-1,979	-3,967	-3,246	-2,335	-2,142	-2,415	-2,560
PBT	2,782	2,239	4,931	9,002	11,869	13,796	15,386
Taxation	-714	273	-1,504	-3,044	-3,798	-4,415	-4,924
Net Profit for the Period	2,068	2,513	3,427	5,958	8,071	9,382	10,463
Adjusted EPS	2.2	2.6	3.6	6.3	8.5	9.9	11.0

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)							
As at 31st March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Assets							
Non - current assets							
Property plant and equipment	25,580	27,250	27,746	29,967	33,163	35,890	39,535
Intangible Assets	2,822	3,601	4,485	4,597	4,827	5,069	5,322
Non-current financial assets	7,503	6,673	6,271	7,522	7,522	7,522	7,522
Other non-current asset	11,427	11,776	11,814	12,454	12,454	12,454	12,454
	47,332	49,300	50,315	54,541	57,967	60,935	64,833
Current assets							
Inventories	9,075	14,490	12,559	14,895	17,943	21,127	25,573
Receivables and prepayment	4,270	5,089	7,224	9,184	9,913	11,643	14,095
Other current asset	1,514	1,597	1,484	1,552	1,552	1,552	1,552
Cash and cash equivalents	1,345	1,253	2,161	1,714	2,188	3,620	2,858
	16,204	22,430	23,429	27,344	31,595	37,941	44,078
Total Assets	63,535	71,730	73,744	81,885	89,562	98,876	108,911
Equity and Liabilities							
Capital and reserves							
Ordinary shares	918	918	918	918	918	918	918
Retained Earnings	13,312	14,532	16,066	18,051	21,441	25,194	29,379
Other components of equity	3,877	3,627	3,466	4,995	4,995	4,995	4,995
	18,107	19,077	20,451	23,965	27,354	31,107	35,292
Non - current liabilities							
Interest-bearing loans and borrowings	8,308	6,850	3,164	3,150	3,308	3,420	3,591
Lease liabilities	9,928	9,963	10,690	11,384	11,384	11,384	11,384
Other non-current liabilities	2,756	2,787	4,026	5,126	5,126	5,126	5,126
	20,991	19,601	17,879	19,660	19,818	19,930	20,101
Current liabilities							
Trade and other payables	12,353	14,326	17,451	20,857	23,924	28,191	32,687
Short term borrowings	2,000	1,185	900	1,318	1,253	1,190	1,130
Interest-bearing loans and borrowings	2,179	2,170	4,503	2,506	2,732	2,984	3,133
Bank overdrafts	5,425	12,310	8,269	9,028	9,931	10,924	12,017
Other current liabilities	2,479	3,060	4,290	4,551	4,551	4,551	4,551
	24,437	33,052	35,414	38,260	42,390	47,839	53,518
Total Liabilities	45,428	52,653	53,293	57,920	62,208	67,769	73,619
Total Equity & Liabilities	63,535	71,730	73,744	81,885	89,562	98,876	108,911
Adjusted NAVPS	19.1	20.1	21.5	25.2	28.8	32.7	37.1



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