



# KEELLS FOOD PRODUCTS PLC [KFP.N0000]

**MAINTAIN BUY**

## READY TO GROW

**Fair Value: FY19E - LKR 180.0 [+33%]**

Total Return with DPS 39% [AER 50%]

*KFP earnings grew 37.2%YoY to LKR 67Mn with growth in the modern retail trade and HORECA business. With volume growth, margins and earnings being broadly in line with our expectations, we maintain FY19E earnings growth at +47% and thereby maintain TP at LKR 180.0. Maintain BUY*

LKR (mn)	4QFY17	4QFY18	YoY	FY17	FY18	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	717	772	+8%	3,049	3,119	+2%
Gross profit	199	229	+15%	901	906	+1%
EBIT	67	91	+36%	380	339	-11%
PBT	70	94	+35%	392	349	-11%
Net Profit	48	67	+37%	275	244	-12%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	1,670	1,747	+5%	1,670	1,747	+5%
Short term investment	138	108	-21%	138	108	-21%
NAVPS	65.5	68.5		65.5	68.5	

### Consumer pick up reflecting in KFP's growth

KFP recorded a 4QFY18 net profit of LKR66.5Mn with revenue up by 8% and EBIT margin at 11.8%. Revenue was mainly driven by modern retail trade and EBIT margin improved primarily due to lower raw material prices and effective cost control. We maintain our revenue and earnings target for FY19E of LKR 3.6Bn (20%YoY) and LKR 481Mn (47%YoY) respectively.

### Volumes up in 4Q driven by slow pickup in consumer demand

KFP revenue was up 8%YoY in 4QFY18, driven by double digit growth in overall volumes strongly linked to the modern retail trade (supermarket-based retail trade) and to a lesser extent from general retail trade. The new supermarkets being opened by the Keells chain coupled with the renewed promotion and re-branding campaigns are having a positive impact on KFP volumes.

### EBIT margins improve on the back of better volume growth

KFP saw 4.8%YoY improvement of COGS amidst lower raw material (Chicken and Pork) prices. While distribution expenses were up 18.1%YoY driven by increased promotional activities, the admin expenses declined by 10.3%YoY. EBIT margins for 4Q improved 245bps to 11.81% from 9.36% at 4QFY17 and FY18 EBIT was at 10.86%. We expect promotion activities to continue in a slower pace in FY19E amidst slower than expected improvement in consumer demand. Impact from lower raw material cost and controlled admin and distribution cost may hold EBIT margins to settle at 13-14% in FY19E and FY20E.

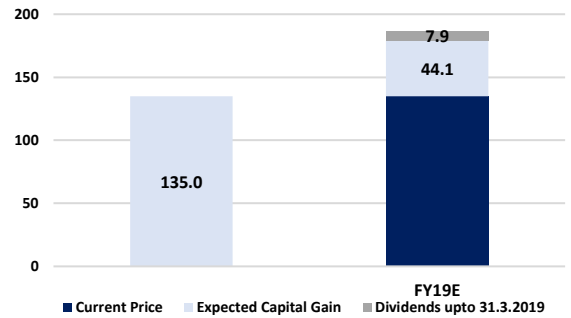
### KFP to leverage growth from new outlets and rebranding

We expect a jump in KFP volumes and margins supported by the new supermarket outlets. KFP's product range being convenience foods has experienced 10% annual organic volume growth and we expect the growth to continue. However, with the new outlets we expect an additional boost to retail sales and additional sales to the new in-house bakeries providing potential to increase overall volume growth to 15% in FY19E and 20% in FY20E. We have factored in 35 new "Keells Super" outlets each in FY19E and FY20E taking the total number of outlets from 80 to 150. CCS has already opened 16 outlets in FY18 out of which 9 were opened during the last 4QFY18. In addition, with retail sales (currently 1/3 of overall volumes) providing the biggest margins, we expect overall GP margins to improve to 30% in FY19E and 31% FY20E. KFP GP margins for FY17 stood at 29% while growing to 31% in 3QFY18.

### We maintain BUY on KFP on the back consumer pickup

Earnings are broadly in line with our expectations as we maintain earnings growth at 47% for FY19E and thereby we maintain TP at LKR 180.0 considering the lower liquidity discount of 10%.

**MAINTAIN BUY**



### FIRST CAPITAL RESEARCH

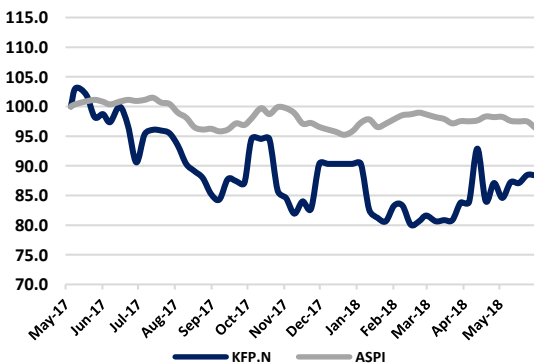
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### KEY DATA

CSE Ticker	KFP.N0000
Bloomberg Ticker	KFP SL
Share Price (LKR)	135.0
52w High (LKR)	155.0
52w Low (LKR)	122.4
Avg. Daily Volume (Shares)	8,291
Avg. Daily Turnover (LKR)	1,056,854
Issued Share Capital (Shares 'Mn)	25.5
Market Cap (LKR 'Mn)	3,443
Market Cap (USD 'Mn)	22

\*1 USD = LKR 158

Price Performance (%)	1 mth	3 mths	12mths
KFP	1%	8%	-10%
ASPI	-2%	-2%	-4%



### Minimum Return for BUY:

**Buy Below [AER of 17% with DPS]: LKR 165.0**  
 KFP categorized as 'Grade B' counter (Refer page 08 for Recommendation criteria of Grade A, B & C Stocks)

### Disclosure on Shareholding:

First Capital Group do not hold shares in KFP and will not trade in this share for three trading days following the issue of this document.

**Estimate Revision**

In LKR Mn	FY19E - O	FY19E - R	% Change	FY20E - O	FY20E - R	% Change
<b>Earnings Estimate</b>						
Revenue	3,699	3,618	-2%	4,438	4,342	-2%
Gross profit	1,126	1,089	-3%	1,426	1,382	-3%
EBIT	498	485	-3%	672	657	-2%
Profit before tax	509	496	-2%	683	668	-2%
Net Profit	366	357	-2%	492	481	-2%
EPS	14.4	14.0		19.3	18.9	
Growth YoY	40%	47%		34%	35%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	1,777	1,800	+1%	1,851	1,873	+1%
Short term investment	300	200	-33%	350	240	-31%
<b>Adjusted NAVPS</b>	<b>69.7</b>	<b>70.6</b>		<b>72.6</b>	<b>73.4</b>	
<b>ROE (%)</b>	<b>20.6%</b>	<b>19.8%</b>		<b>26.6%</b>	<b>25.7%</b>	
<b>PER (x)</b>	<b>9.7</b>	<b>9.9</b>		<b>7.2</b>	<b>7.4</b>	
<b>PBV (x)</b>	<b>2.1</b>	<b>2.0</b>		<b>2.0</b>	<b>1.9</b>	

**Valuation Table**

P/E 31 March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Estimates (LKR 'Mn)</b>							
Gross profit	747	886	901	906	1,089	1,382	1,698
Operating profit	337	438	392	349	496	668	838
<b>Net Profit</b>	<b>267</b>	<b>339</b>	<b>275</b>	<b>244</b>	<b>357</b>	<b>481</b>	<b>604</b>
Adjusted EPS (LKR)	10.5	13.3	10.8	9.6	14.0	18.9	23.7
YoY Growth (%)	4848%	27%	-19%	-12%	47%	35%	26%
<b>Valuations</b>							
PER (x)	13.3x	10.5x	12.9x	14.6x	9.9x	7.4x	5.9x
PBV (x)	2.3x	2.1x	2.0x	2.1x	2.0x	1.9x	1.9x
DY (%)		7.9%	12.1%	5.5%	8.6%	11.5%	14.5%

**Valuation Summary**

<b>Expected KFP price for FY19E</b>	
PER Valuation based target price	196.1
DCF Valuation based target price	201.9
<b>Average Target Price</b>	<b>199.0</b>
Liquidity Discount (10%)	-19.9
Target Price after Discount	179.1
<b>Target Price after Rounding off</b>	<b>180.0</b>

<b>Return</b>	
<b>Target Price</b>	<b>180.0</b>
<b>Current Price</b>	<b>135.0</b>
<b>Capital Gain (LKR)</b>	<b>45.0</b>
<b>Dividends upto 31.03.2019 (LKR)</b>	<b>7.9</b>
<b>Capital Gain %</b>	<b>33%</b>
<b>Dividend Yield %</b>	<b>6%</b>
<b>Total Return %</b>	<b>39%</b>
<b>Annualized Return %</b>	<b>50%</b>

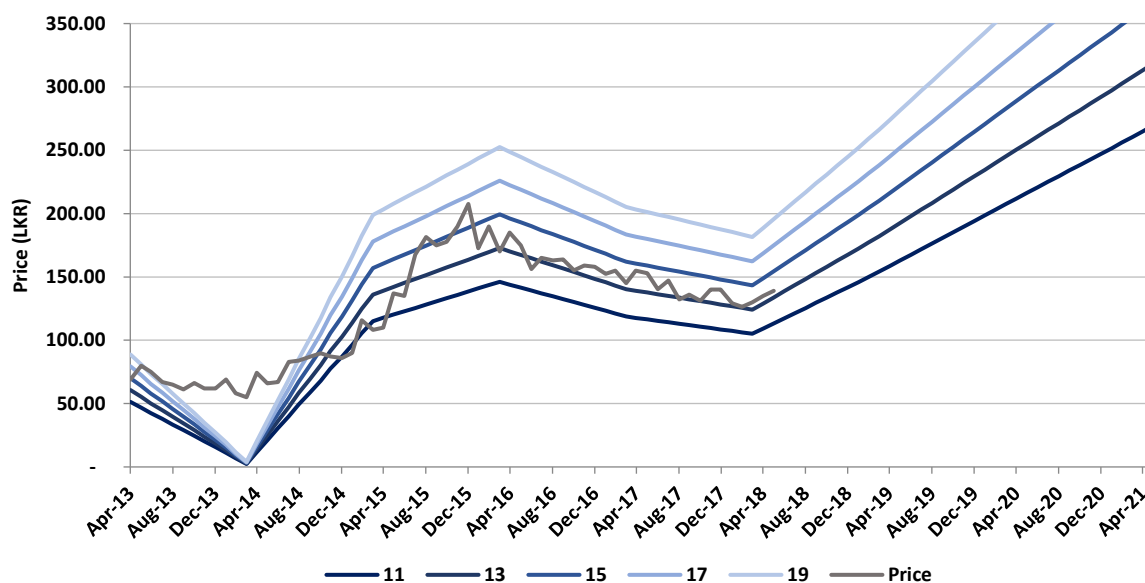
## Discounted Cash flow Valuation

DCF based Valuation	
Enterprise Value	5,025
Debt (-)	(35)
Cash (+)	88
Total Value of Equity	5,078
No. of Shares (Mn)	26
Target Price	201.9

WACC	
Ke	18.0%
Kd	9.5%
D/E Assumption	40/60
Terminal Growth (%)	3.0%
WACC	14.6%

COE	
Rf	9.1%
Rm	16.7%
Growth %	3.0%
$\beta$	1.26
Adjusted $\beta$	1.18
$Ke=Rf+\beta(Rm-Rf)$	18.0%

## PER Valuation



Source: First Capital Research Estimates

PER based Valuation	
FY19E Earnings (LKR 'Mn)	357
No. of Shares ('Mn)	26
FY19E EPS	14.0
Expected PER	14.0x
Price at 14x FY19E Earnings	196.1

**Appendix I: Statement of Income and Expenses**

<b>Profit &amp; Loss Statement (LKR mn)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
<b>P/E 31st Mar</b>							
<b>Revenue</b>	2,618	3,030	3,049	3,119	3,618	4,342	5,123
Cost of Sales	-1,871	-2,144	-2,148	-2,213	-2,529	-2,960	-3,425
<b>Gross Profit</b>	<b>747</b>	<b>886</b>	<b>901</b>	<b>906</b>	<b>1,089</b>	<b>1,382</b>	<b>1,698</b>
Other Income	6	4	3	6	0	0	0
Selling and distribution	-231	-259	-277	-320	-315	-378	-461
Admin expenses	-118	-128	-153	-159	-181	-217	-256
Other expences	-65	-77	-93	-94	-109	-130	-154
<b>Total Operating Expenses</b>	<b>-409</b>	<b>-459</b>	<b>-520</b>	<b>-567</b>	<b>-604</b>	<b>-725</b>	<b>-871</b>
<b>EBIT</b>	<b>338</b>	<b>427</b>	<b>380</b>	<b>339</b>	<b>485</b>	<b>657</b>	<b>827</b>
Finance Cost / Income	-7	7	11	11	11	11	11
<b>Profit Before Taxation</b>	<b>337</b>	<b>438</b>	<b>392</b>	<b>349</b>	<b>496</b>	<b>668</b>	<b>838</b>
Income Tax	-70	-99	-116	-106	-139	-187	-235
<b>Profit for the Year</b>	<b>267</b>	<b>339</b>	<b>275</b>	<b>244</b>	<b>357</b>	<b>481</b>	<b>604</b>
<b>EPS</b>	<b>10.5</b>	<b>13.3</b>	<b>10.8</b>	<b>9.6</b>	<b>14.0</b>	<b>18.9</b>	<b>23.7</b>

*Source : Company Annual Reports and First Capital Research Estimates*

**Appendix II: Statement of Financial Position**

Balance Sheet (LKR mn) as at 31st Mar	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Non-Current Assets</b>							
Property, Plant & Equipment	1,153	1,161	1,184	1,184	1,118	1,046	972
Intangible Assets	246	245	244	243	243	243	243
Investment In Subsidiary	0	0	0	0	0	0	0
Other Fin.Assets	25	23	44	40	40	40	40
	<b>1,429</b>	<b>1,434</b>	<b>1,482</b>	<b>1,477</b>	<b>1,411</b>	<b>1,339</b>	<b>1,266</b>
<b>Current Assets</b>							
Inventories	224	234	295	309	329	385	445
Trade and other Receivables	268	308	333	330	380	456	538
Amounts due from related parties	88	94	114	117	117	117	117
Short term investment	263	286	138	108	200	240	200
Other Current Assets	28	39	16	11	11	11	11
Cash	17	18	29	81	88	96	224
<b>Total Assets</b>	<b>2,319</b>	<b>2,412</b>	<b>2,408</b>	<b>2,432</b>	<b>2,532</b>	<b>2,641</b>	<b>2,798</b>
<b>EQUITY &amp; LIABILITIES</b>							
<b>Equity</b>							
Stated Capital	1,295	1,295	1,295	1,295	1,295	1,295	1,295
Reserves	231	280	129	221	274	346	437
Other components of equity	173	197	247	232	232	232	232
<b>Total Equity</b>	<b>1,699</b>	<b>1,771</b>	<b>1,670</b>	<b>1,747</b>	<b>1,800</b>	<b>1,873</b>	<b>1,963</b>
<b>Non-Current Liabilities</b>							
Interest Bearing Borrowings	134	84	34	0	0	0	0
Retirement Benefit Obligation	60	69	78	243	243	243	243
Deferred tax liabilities	92	165	195	83	83	83	83
	<b>286</b>	<b>318</b>	<b>307</b>	<b>326</b>	<b>326</b>	<b>326</b>	<b>326</b>
<b>Current Liabilities</b>							
Trade & Other Payables	235	216	243	245	291	327	394
Amounts due to related parties	6	6	6	10	10	10	10
Incometax Liability	0	22	65	42	42	42	42
Other current liabilities	14	20	28	27	27	27	27
Bank overdrafts	29	10	39	1	1	1	1
	<b>334</b>	<b>323</b>	<b>432</b>	<b>359</b>	<b>406</b>	<b>442</b>	<b>509</b>
<b>Total Liabilities</b>	<b>620</b>	<b>641</b>	<b>738</b>	<b>685</b>	<b>732</b>	<b>768</b>	<b>835</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,319</b>	<b>2,412</b>	<b>2,408</b>	<b>2,432</b>	<b>2,532</b>	<b>2,640</b>	<b>2,798</b>
<b>NAVPS</b>	<b>66.6</b>	<b>69.5</b>	<b>65.5</b>	<b>68.5</b>	<b>70.6</b>	<b>73.4</b>	<b>77.0</b>

Source : Company Annual Reports and First Capital Research Estimates

**Appendix III: Statement of Cash flow**

Cash flow Statements (LKR mn) as at 31st Mar	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Profit before tax</b>	<b>337</b>	<b>438</b>	<b>392</b>	<b>349</b>	<b>496</b>	<b>668</b>	<b>838</b>
Adjustments for:							
Depreciation	86	89	98	104	121	125	129
Interest Income (Net)	7	-7	-11	-11	-11	-11	-11
Change in Fair Value of Inv. Property	0	0	0	-11	0	0	0
Other (Current Assets /Liabilities)	6	7	12	14	0	0	0
	<b>446</b>	<b>538</b>	<b>504</b>	<b>473</b>	<b>607</b>	<b>782</b>	<b>956</b>
Changes in working capital:							
Stock	-26	-10	-60	-14	-20	-56	-60
Debtors	-37	-39	-26	4	-50	-76	-82
Other	0	-7	-30	14	0	0	0
Creditors	21	-20	27	2	46	36	67
<b>Cash generated from operations</b>	<b>404</b>	<b>463</b>	<b>415</b>	<b>478</b>	<b>583</b>	<b>686</b>	<b>881</b>
Interest received	10	18	21	14	11	11	11
Tax Paid/or refund	3	-3	-27	-134	-139	-187	-235
<b>Net cash generated from operating activities</b>	<b>-15</b>	<b>-8</b>	<b>-22</b>	<b>-135</b>	<b>-128</b>	<b>-176</b>	<b>-224</b>
Fixed Assets	-61	-80	-82	-77	-52	-54	-55
<b>Net cash generated from investing activities</b>	<b>-61</b>	<b>-80</b>	<b>-82</b>	<b>-77</b>	<b>-52</b>	<b>-54</b>	<b>-55</b>
Dividends	-128	-281	-427	-153	-304	-409	-513
<b>Net cash generated from financing activities</b>	<b>-178</b>	<b>-331</b>	<b>-477</b>	<b>-203</b>	<b>-304</b>	<b>-409</b>	<b>-513</b>
<b>Net increase in cash and cash equivalents</b>	<b>151</b>	<b>45</b>	<b>-166</b>	<b>62</b>	<b>99</b>	<b>48</b>	<b>88</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>107</b>	<b>252</b>	<b>293</b>	<b>127</b>	<b>187</b>	<b>287</b>	<b>335</b>
<b>Cash and cash equivalents at end of year</b>	<b>258</b>	<b>297</b>	<b>127</b>	<b>187</b>	<b>287</b>	<b>335</b>	<b>423</b>

Source : Company Annual Reports and First Capital Research Estimates

## Appendix IV: Top 20 Shareholders

Top 20 shareholders - (% held)	4QFY18	3QFY18	QoQ	4QFY17	YoY
John Keells Holdings PLC	79.9%	74.9%	4.9%	74.9%	4.9%
John Keells PLC	10.1%	10.1%	-	10.1%	-
People's Leasing and Finance PLC/ Mr. Chamil A Damion Kohobanwicl	1.5%	1.5%	-	1.5%	0.0%
People's Leasing and Finance PLC/ Mr. L.P. Hapangama	0.9%	0.9%	-	0.9%	-
Mr. A.H Udeshi	0.6%	0.6%	-	0.6%	-
People's Leasing and Finance PLC/ Mr.L.H.L.M.P Haradasa	0.6%	0.6%	-	0.6%	0.0%
Mr. J.B. Hirdaramani	0.4%	0.4%	-	0.4%	-
Mr. D.J.M. Blackler	0.4%	0.4%	-	0.4%	-
T R L Holdings (Pvt) Ltd	0.3%	0.1%	0.2%	0.0%	0.3%
Mr.P.H.D Waidyathilaka	0.2%	0.2%	-	0.2%	-
Tasz Holdings (Pvt)Ltd	0.2%	0.0%	0.2%	0.0%	0.2%
Mr.J.G.de Mel	0.2%	0.2%	-	0.2%	-
Mr.R.Vasudevan	0.2%	0.2%	-	0.2%	0.0%
Ms.N.Harnam	0.2%	0.2%	0.0%	0.0%	0.2%
HSBC International Nominee Ltd-SSBT Deutsche Bank	0.2%	0.2%	-	0.0%	0.2%
People's Leasing and Finance PLC/ L.H.L Noris de Silva and Son (Pvt) L	0.1%	0.1%	-	0.1%	-
Mrs.G.J.E.S De Fonseka	0.1%	0.1%	-	0.1%	-
Mrs M.T Moosajee	0.1%	0.0%	0.1%	0.0%	0.1%
People's Leasing and Finance PLC/ Dr & Mrs. H.S.D Soysa	0.1%	0.1%	-	0.0%	0.1%
Mr.D.H.N Kandamudali	0.1%	0.1%	-	0.1%	0.0%

## Appendix V: Recommendation criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	14.11%	10.11%	10.11%
Grade B	Rest of the Companies	17.11%	12.11%	12.11%
Grade C	Companies less than LKR 1Bn Market Cap	20.11%	15.11%	15.11%

**Weighted Average 1 year T-bill rate during Dec 2017: 9.11%**



## Research Disclosure

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## GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

## CORPORATE DEBT SALES

Sewwandi Kathriarachchi	+94 77 3461 734	Kemith De Zoysa	+94 77 2390 691
Nethalie De Mel	+94 11 2639 854		

## EQUITY SALES

<b>CEO</b>	Jaliya Wijeratne	+94 70 2910 042	<b>Negombo</b>	
			Priyanka Anuruddha	+94 70 2910 035
<b>Colombo</b>			Priyantha Wijesiri	+94 70 2910 036
Damian Le Grand	+94 70 2910 032			
Nishantha Mudalige	+94 70 2910 041			
Isuru Jayawardana	+94 70 2910 034			
Ifadh Marikar	+94 77 9625 679			
Thushara Pathiraja	+94 70 2910 037			
Anushka Buddhika	+94 70 2910 030			
Gamini Hettiarachchi	+94 70 2910 039			

## UNIT TRUST SALES

Imali Abeygunawardena	+94 77 1764 799
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## BRANCHES

<b>Kandy</b>	<b>Kurunegala</b>	<b>Matara</b>	<b>Negombo</b>
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy	CSE - Kurunegala Branch, 1st Floor, Union Assurance Building, No 06, Rajapihilla Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagarika Dharmapala Mawatha, Matara 81000.	No: 163B, Colombo Road, Negombo 11500 Negombo 11500.
<b>Manager: Salinda Samarakoon</b>	<b>Manager: Menaka Wavegedara</b>	<b>Manager: Rohana Jayakody</b>	<b>Manager: Buddhika Edirisinghe</b>
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 2233 299

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