



CARGILLS (CEYLON) PLC

UPGRADE TO BUY

POSITIVES IN PLACE!!!

Fair Value: FY20E - LKR 205.0 [+7%], FY21E - LKR 230.0 [+21%]

Total Return with DPS: FY20E -9% [AER 36%], FY21E -26% [AER 19%]

During 2QFY20, CARG posted earnings of LKR 485.0Mn, marginally up by 2%YoY compared to 2QFY19. Top line grew by 8%YoY indicating a recovery in the consumer sentiment post Easter Sunday attacks while margins improved significantly amidst improved efficiency. Despite EBIT improving by 36%YoY, bottom line increased by mere 2%YoY primarily due to the heavy rise in net finance cost by 93%YoY amidst the adoption of SLFRS 16. Following the Easter Sunday attacks, we downgraded CARG to a SELL, considering the tough market conditions coupled with weak consumer demand expected after the incident. With the gradual rise in business activity with the election season and heavily supported by the recent tax cuts, we expect an increase in disposable income potentially leading to a boost in consumer demand. We estimate our earnings target for FY20E at LKR 2.0Bn and FY21E at LKR 2.4Bn while fair value is estimated at LKR 205.0 for FY20E and LKR 230.0 for FY21E respectively. At the current price, CARG provides an annualised return of 19% for FY21E. **UPGRADE TO BUY**

LKR (Mn)	2QFY19	2QFY20	YoY	6MFY19	6MFY20	YoY
Earnings (LKR 'Mn)						
Revenue	23,265	25,123	+8%	47,730	51,038	+7%
Gross Profit	2,420	2,911	+20%	5,204	6,126	+18%
EBIT	1,083	1,469	+36%	2,565	3,190	+24%
PBT	755	776	+3%	1,924	1,775	-8%
Net Profit	476	485	+2%	1,232	1,128	-8%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	17,419	16,710	-4%	17,419	16,710	-4%
Borrowings	15,044	27,054	+80%	15,044	27,054	+80%
NAVPS	68.0	65.0		68.0	65.0	

Bottom line up by 2%YoY

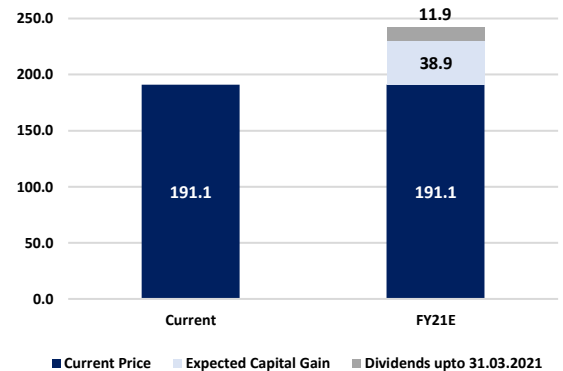
CARG's bottom line posted a marginal increase of 2%YoY while the growth during the quarter was mainly driven by the growth in the topline (8%YoY) amidst a recovery in consumer sentiment and improvement in GP and OP margins. However, increase in net finance cost by 93% during the quarter dragged down the bottom line by LKR 320.0Mn to LKR 485.0Mn. The growth in net finance cost is attributed to the adoption of SLFRS 16 and includes a charge for interest cost on Lease Liabilities as well.

GP and OP margins rise amidst improved efficiency

CARG's GP and OP margins improved significantly by 120bps to 11.59% and 5.80% respectively in 2QFY20 while the improvement in margins was mainly led by the FMCG sector (which recorded an OP margin of 17%) due to improved efficiency and focus on cost management. Margins were further supported by locally sourced raw materials for manufacturing facilities which mitigated some of the impact of the currency depreciation during the year. We expect CARG's LKR 3.0Bn investment into a new centralized logistics center (to be commissioned by 1HFY21E) may support to smoothen its supply chain, further enhancing margins in the future. Accordingly, we expect CARG's GP margins to improve to 11.90% in FY20E and beyond.

Retail and FMCG sector recovers recording a growth of 7% YoY and 13%YoY

Retail sector indicated a growth of 7%YoY in 2QFY20 as sales growth returned to positive levels amidst a recovery in transaction volumes amidst improved consumer sentiment during the period. Moreover, during 2QFY20 CARG opened its 400th outlet in Wattala while dominating the retail supermarkets sector with an estimated market share of 49%. CARG having a high presence outside Western province is expected to reap the benefit from the trend of rising household income in semi-urban and rural



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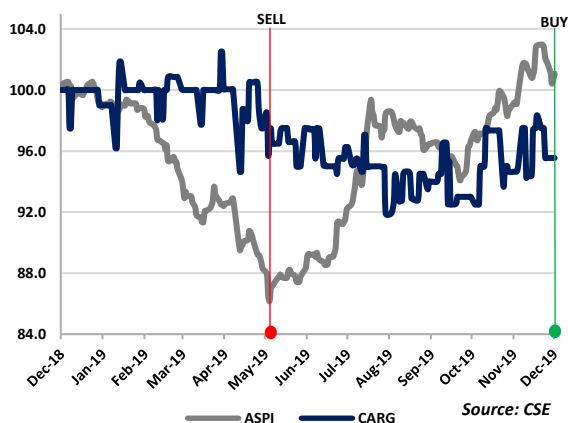
KEY DATA

CSE Ticker	CARG.N0000
Bloomberg Ticker	CARG SL
Share Price (LKR)	191.1
52w High (LKR)	205.0
52w Low (LKR)	183.8
Avg. Daily Volume (Shares)	9,590
Avg. Daily Turnover (LKR)	1,843,392
Issued Share Capital (Shares 'Mn)	257
Market Cap (LKR 'Mn)	49,155
Market Cap (USD 'Mn)	272

*1 USD = LKR 181

Price Performance (%)	1mth	3mths	12mths
CARG	1%	2%	-4%
ASPI	2%	5%	1%

Price Movement of CARG vs ASPI and Past Recommendations



Minimum Return for BUY:

Buy Below for FY21E [AER of 17% with DPS]: LKR 197.6
CARG categorized as 'Grade B' counter (Refer page 09 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:

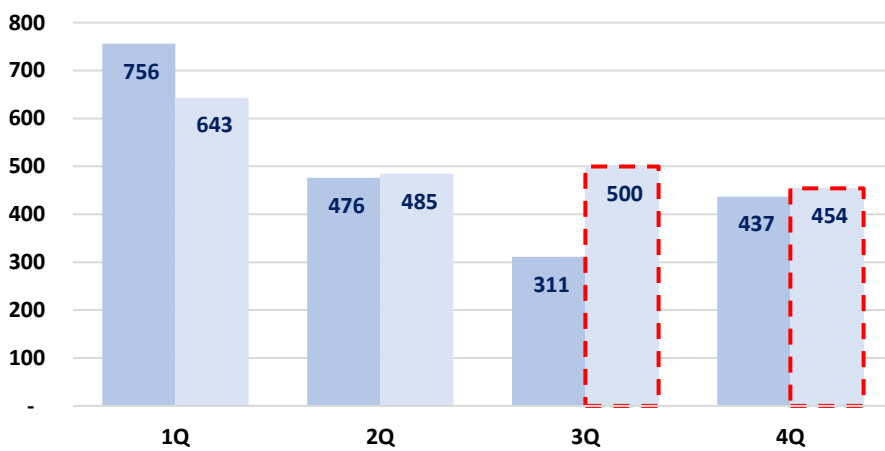
First Capital Group does not hold shares in CARG and will not trade in this share for 19 trading days following the issue of this document.

areas in the mid to long term. Thereby we expect its revenue from retail sector to grow at a CAGR of 9% from FY20E-FY22E. FMCG topline grew by 13%YoY with the increased demand amidst improved consumer sentiment. We expect increased disposable income with the recently implemented tax cuts to benefit CARG’s retail and FMCG sectors in FY20E and going forward.

TP estimated at LKR 230.0 for FY21E-UPGRADE TO BUY

Considering the recent drop in the share price and future earnings potential with the recovery in the economy and consumer sentiment we have derived an earnings target of LKR 2.0Bn and LKR 2.4Bn for FY20E and FY21E respectively and a target price of LKR 205.0 for FY20E and LKR 230.0 for FY21E while providing an annualized return of 36% and 19% respectively. **UPGRADE TO BUY**

Quarterly Earnings Forecast for FY20E



Estimate Revision

In LKR Mn	FY20E - O	FY20E - R	% Change	FY21E - O	FY21E - R	% Change
Earnings Estimate						
Revenue	N/A	102,839	-	N/A	112,666	-
Gross Profit	N/A	12,238	-	N/A	13,407	-
EBIT	N/A	5,877	-	N/A	6,238	-
Net Profit	N/A	2,082	-	N/A	2,425	-
Adjusted EPS	N/A	8.1	-	N/A	9.4	-
Growth YoY	N/A	5%	-	N/A	16%	-
Balance Sheet Estimate						
Shareholders' Equity	N/A	18,046	-	N/A	18,773	-
Borrowings	N/A	24,794	-	N/A	25,107	-
Adjusted NAVPS	N/A	70.2	-	N/A	73.0	-
Ratio Estimate						
ROE (%)	N/A	11.7%	-	N/A	13.2%	-
PER (x)	N/A	23.6	-	N/A	20.3	-
PBV (x)	N/A	2.7	-	N/A	2.6	-

Valuation Table

P/E 31st March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Estimates (LKR 'Mn)							
Revenue	71,017	84,191	91,293	94,663	102,839	112,666	125,287
Gross Profit	7,979	10,049	10,574	10,449	12,238	13,407	14,909
Operating Profit	3,463	5,091	6,263	4,682	5,877	6,238	6,994
Net Profit	1,624	2,140	3,201	1,980	2,082	2,425	2,848
Adjusted EPS (LKR)	6.3	8.4	12.5	7.7	8.1	9.4	11.1
YoY Growth (%)	182%	32%	50%	-38%	5%	16%	17%
Recurring YoY Growth (%) ¹	182%	32%	2%	-9%	5%	16%	17%
Valuations							
PER (x)	30.1x	22.9x	15.3x	24.7x	23.6x	20.3x	0.0x
PBV (x)	3.5x	3.5x	3.0x	2.8x	2.7x	2.6x	0.0x
DY (%)	1.8%	2.9%	3.1%	3.1%	3.0%	3.5%	4.1%

*Note-Earnings of FY18E includes a non-recurring profit of LKR 1.0Bn made from the disposal of a property by its subsidiary.

Valuation Summary

Expected CARG price for FY21E	Return
PER Valuation based target price	235.7
DCF Valuation based target price	251.6
Average Target Price	243.7
Liquidity Discount (5%)	12.2
Target Price after discount	231.5
Target Price after Rounding off	230.0
Target Price	230.0
Current Price	191.1
Capital Gain (LKR)	38.9
Dividends upto 31.03.2021 (LKR)	10.4
Capital Gain %	21%
Dividend Yield %	5%
Total Return %	26%
Annualized Return %	19%

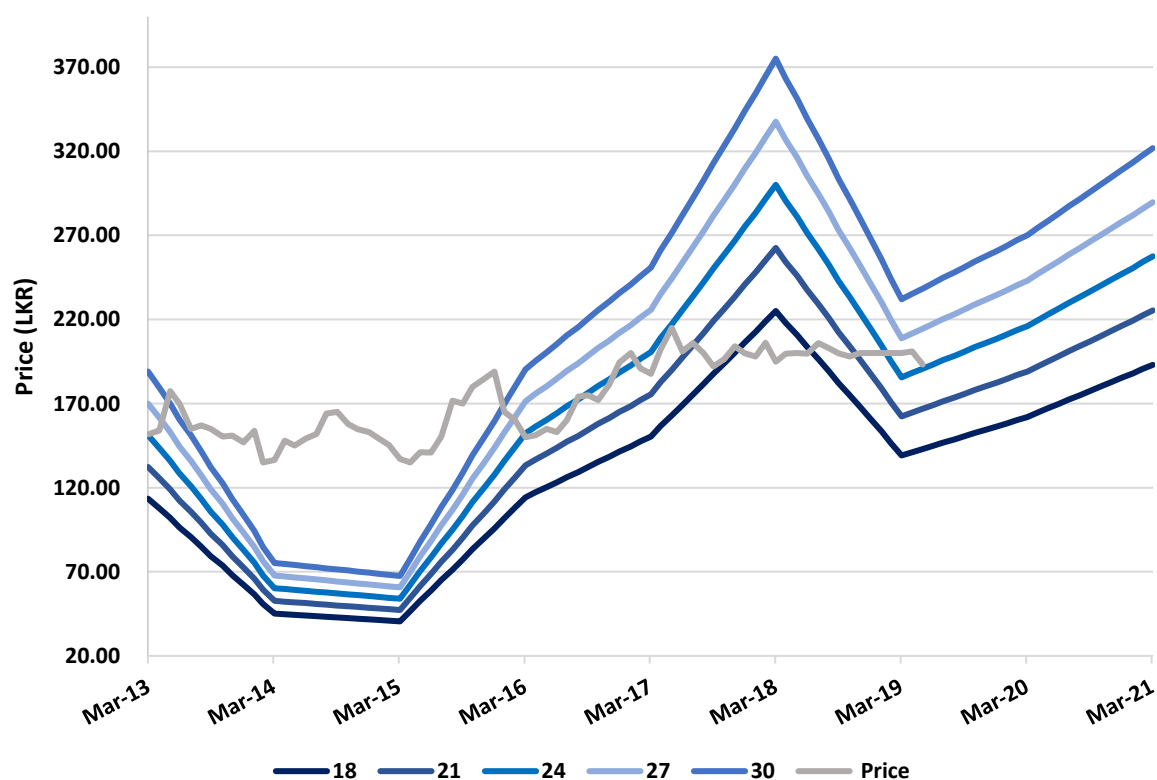
Discounted Cash flow Valuation

DCF Based Valuation	
Enterprise Value	86,618
Debt(-)	25,107
Cash (+)	3,214
Total Value of Equity	64,724
No of Shares (Mn)	257
Target Price	251.6

WACC	
Ke	12.0%
Kd	8.0%
D/E Assumption	30/70
Terminal Growth	3.0%
WACC	10.8%

COE	
Rf	8.4%
Rm	16.4%
Growth %	3.0%
β	0.45
$Ke=Rf+\beta(Rm-Rf)$	12.0%

PER Valuation



Source: CSE, Company Annual Reports, First Capital Research Estimates

PER based Valuation	
FY21E Earnings (LKR 'Mn)	2,425
No. of Shares (Mn)	257
FY21E EPS	9.4
Expected PER	25x
Price at 25x FY21E Earnings	236

Appendix I: Statement of Income & Expenses

Income Statement (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY21E
P/E 31st March							
Revenue	71,017	84,191	91,293	94,663	102,839	112,666	125,287
Cost of sales	-63,038	-74,142	-80,719	-84,214	-90,601	-99,258	-110,378
Gross Profit	7,979	10,049	10,574	10,449	12,238	13,407	14,909
Other income	1,535	1,689	3,037	2,180	2,057	2,253	2,506
Distribution expenses	-2,305	-2,332	-2,825	-2,952	-3,085	-3,380	-3,759
Administrative expenses	-3,347	-3,860	-4,020	-4,467	-4,802	-5,509	-6,126
Other Expenses	-397	-455	-504	-528	-530	-533	-536
Operating profit (EBIT)	3,463	5,091	6,263	4,682	5,877	6,238	6,994
Equity accounted investees	-26	22	212	54	59	65	72
Changes in fair value of investment property	53	166	77	91	99	108	118
Net finance cost	-604	-1,125	-1,307	-1,425	-2,458	-2,245	-2,290
Profit before income tax	2,886	4,154	5,245	3,403	3,578	4,167	4,894
Income tax expense	-1,195	-1,870	-1,914	-1,369	-1,439	-1,676	-1,969
Profit for the year from continuing operations	1,691	2,284	3,331	2,034	2,138	2,490	2,925
Profit from discontinued operations	0	0	0	0	0	0	0
Profit for the year	1,691	2,284	3,331	2,034	2,138	2,490	2,925
Equity shareholders of the parent	1,624	2,140	3,201	1,980	2,082	2,425	2,848
Non-controlling interest	67	144	130	54	56	66	77
Adjusted EPS	6.3	8.4	12.5	7.7	8.1	9.4	11.1

Source : Company Annual Reports, First Capital Research Estimates

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY21E
As at 31st March							
Non-Current Assets							
Property, plant and equipment	20,266	21,876	25,077	27,877	28,588	29,083	29,610
Investment property	3,544	4,777	1,727	1,819	1,918	2,027	2,145
Intangible assets	1,077	1,326	1,312	1,413	1,309	1,210	1,121
Investments in subsidiaries	0	0	0	0	0	0	0
Investment in associates	2,306	5,143	5,367	5,297	5,367	5,367	5,367
Other long term investments	0	21	20	15	15	15	15
Prepayment on leasehold land and building	25	172	167	212	212	212	212
Deferred tax assets	63	57	8	11	11	11	11
	27,280	33,371	33,677	36,643	45,938	47,294	48,786
Current Assets							
Inventories	7,195	8,337	9,663	9,762	9,397	10,295	11,448
Trade and other Receivables	3,572	4,688	5,635	6,842	5,270	5,834	6,482
Amounts due from related companies	1,016	748	844	913	913	913	913
Other financial assets	1,004	589	973	910	910	910	910
Cash and cash equivalents	2,144	1,571	2,000	3,059	3,583	3,214	2,996
	14,931	15,932	19,116	21,486	20,072	21,166	22,750
Total Assets	42,211	49,303	52,792	58,129	66,010	68,460	71,536
Equity and Liabilities							
Stated Capital	131	131	6,531	6,531	6,531	6,531	6,531
Other Equity	-2,252	-2,761	-3,089	-3,456	-3,456	-3,456	-3,456
Reserves	8,378	8,372	5,044	5,137	5,137	5,137	5,137
Retained Earnings	7,865	8,215	7,843	9,210	9,835	10,562	11,417
Equity attributable to equity holders	14,121	13,957	16,328	17,421	18,046	18,773	19,628
Non-controlling interest	384	415	492	522	578	644	721
Total Equity	14,505	14,372	16,820	17,943	18,624	19,417	20,348
Non-current Liabilities							
Borrowings	198	3	2	0	8,518	9,370	10,307
Deferred tax liability	778	1,040	1,353	1,387	1,387	1,387	1,387
Deferred income	85	73	62	50	50	50	50
Employee benefits	638	780	943	1,073	1,073	1,073	1,073
Put liability	2,252	2,761	3,089	3,456	3,456	3,456	3,456
	3,950	4,657	5,448	5,967	14,484	15,336	16,273
Current Liabilities							
Trade and other payables	10,937	12,262	13,221	14,810	14,054	15,397	17,122
Current tax liability	1,473	2,132	2,594	2,502	2,502	2,502	2,502
Amounts due to related companies	4	0	3	6	6	6	6
Dividends payable	33	69	68	65	65	65	65
Borrowings	11,309	15,811	14,638	16,837	16,276	15,737	15,221
	23,756	30,275	30,524	34,219	32,902	33,706	34,915
Total Liabilities	27,706	34,932	35,972	40,186	47,386	49,043	51,188
Total Equity and Liabilities	42,211	49,303	52,792	58,129	66,010	68,460	71,536
Adjusted NAVPS	55.16	54.52	63.78	68.05	70.16	72.98	76.31

Source : Company Annual Reports, First Capital Research Estimates

Appendix III: Statement of Cash flow

Cash Flow Statement	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
As at 31st March							
Profit/Loss before tax	2,886	4,154	5,245	3,403	3,578	4,167	4,894
Depreciation	1,682	1,800	2,169	2,431	2,772	2,970	3,185
Operating profit before working capital changes	5,286	7,146	7,940	7,514	8,742	9,373	10,341
(Increase)/ decrease in inventories	-957	-1,157	-1,361	-244	365	-898	-1,153
(Increase)/ decrease in Receivable	-482	-1,197	-958	-1,124	1,573	-565	-648
(Increase) / decrease in related company receivables	-59	268	-90	-62	0	0	0
Increase/ (decrease) Trade and Other Payables	2,852	1,086	959	1,589	-756	1,343	1,725
Increase / (decrease) in related company payables	4	-3	3	3	0	0	0
Cash generated from operations	6,643	6,142	6,492	7,676	9,924	9,253	10,264
Interest paid	-798	-1,402	-1,577	-1,705	-2,681	-2,472	-2,522
Tax paid	-487	-930	-1,147	-1,427	-1,439	-1,676	-1,969
Gratuity paid	-24	-56	-74	-75	0	0	0
Interest received	0	0	0	0	0	0	0
Net Cash from/ (used in) operating activities	5,334	3,755	3,694	4,470	5,803	5,104	5,774
Cash Flow from Investing Activities							
Addition to property, plant and equipment	-2,201	-4,507	-4,638	-5,233	-3,483	-3,465	-3,712
Addition to investment property	0	0	-17	-1	0	0	0
Addition to intangible assets	-78	-186	-93	-197	0	0	0
Finance income received	193	277	270	280	223	227	232
Receipt of grant	0	0	0	0	0	0	0
Addition to Investment in Associate	-1,276	-2,533	0	0	0	0	0
Dividend received	1	1	1	1	0	0	0
Proceeds from disposal of PPE	31	70	25	46	0	0	0
(Addition)/disposal to other financial assets	-89	389	-385	64	0	0	0
Addition to prepaid leases	0	-153	0	-54	0	0	0
Disposal / (acquisition) of CI/NCI in subsidiaries	0	-143	0	0	0	0	0
Proceed from sale of investment property	0	0	4,155	0	0	0	0
Net cash from/(used in) investing activities	-3,418	-6,777	-681	-5,095	-3,260	-3,238	-3,481
Cash Flow from Financing Activities							
Dividends paid	-601	-1,839	-1,410	-514	-1,457	-1,697	-1,994
Net proceeds from/(repayment of) short term borrowings	440	4,517	-712	2,149	-562	-538	-517
Net proceeds from/(repayment of) long term borrowings	-533	-198	-1	-1	0	0	0
Net Cash from/(used in) Financing Activities	-695	2,479	-2,123	1,634	-2,020	-2,236	-2,510
Increase/ decrease in cash and cash equivalents	1,222	-543	890	1,008	524	-369	-217
Movement in Cash and Cash Equivalents							
At the beginning of the year	-2,338	-1,117	-1,659	-769	239	763	394
Increase/ decrease in cash and cash equivalents	1,222	-543	890	1,008	524	-369	-217
Cash and cash equivalents at the end of the Year	-1,117	-1,659	-769	239	763	394	177

Source : Company Annual Reports, First Capital Research Estimates

Appendix IV: Top 20 Shareholders

Top 20 voting shareholders - (% held)	2QFY20	1QFY20	QoQ	2QFY19	YoY
C T Holdings PLC	69.9%	69.9%	-	70.2%	-0.3%
Mr. V. R. Page	6.8%	6.8%	-	6.8%	0.1%
Employees' Provident Fund	3.3%	3.3%	-	3.3%	0.0%
Ms. M. M. Page	2.3%	2.0%	0.2%	2.0%	0.2%
Odeon Holdings (Ceylon) (Private) Limited	2.1%	2.1%	-	2.2%	0.0%
CITI Bank New York S/A Norges A/C No. 2	2.0%	2.0%	-	1.4%	0.7%
Ceylon Guardian Investment Trust PLC - A/C No.1	1.7%	1.7%	-	1.9%	-0.2%
BNYMSANV RE-LF Ruffer Investment Funds : LF Ruffer Pacific And Emei	1.5%	1.5%	-	1.6%	0.0%
Seb Ab - Tundra Frontier Opportunities Fund	1.0%	1.0%	-	1.0%	0.0%
BNYMSANV RE-Butterfield Trust (Bermuda) Limited	0.6%	0.6%	-	0.6%	0.0%
Mellon Bank N.A. - Florida Retirement System	0.6%	0.6%	-	0.6%	-
Bank of Ceylon - A/C No. 1	0.6%	0.6%	-	0.6%	-
GF Capital Global Limited	0.4%	0.4%	-	0.4%	0.0%
The Associated Newspapers of Ceylon Limited	0.4%	0.4%	-	0.4%	-
Deutsche Bank AG as Trustee for JB Vantage Value Equity Fund	0.3%	0.4%	-0.0%	0.4%	-0.1%
Ceylon Investment PLC A/C No.2	0.3%	0.3%	-	0.3%	-
Sir Chittampalam A Gardiner Trust	0.3%	0.3%	-	0.3%	-
Mr. A. A Page	0.2%	0.0%	0.2%	0.1%	0.1%
Ceylon Guardian Investment Trust PLC - A/C No.2	0.2%	0.2%	-	0.2%	-
Mr. J. C. Page	0.2%	0.2%	-	0.2%	-

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%

Weighted Average 1-year T-bill rate during Oct 2019: 8.38%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	13.38%	9.38%	9.38%
Grade B	Rest of the Companies	16.38%	11.38%	11.38%
Grade C	Companies less than LKR 1Bn Market Cap	19.38%	14.38%	14.38%



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CORPORATE DEBT SALES

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EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
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Colombo			Priyantha Wijesiri	+94 70 2910 036
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Isuru Jayawardana		+94 70 2910 034		
Ifadh Marikar		+94 77 9625 679		
Thushara Pathiraja		+94 70 2910 037		
Anushka Buddhika		+94 70 2910 030		

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Deepal Pathmaperuma	+94 77 9159 878
Imali Abeygunawardena	+94 77 1764 799		

BRANCHES

Kandy	Kurunegala	Matara	Negombo
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagarika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
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