

RICHARD PIERIS AND COMPANY PLC (RICH)

SRI LANKA | DIVERSIFIED SECTOR | EARNINGS UPDATE

April 2019

RICH's FY 18 revenue recorded a growth of 8% YoY to LKR 52.97Bn resulting in an EPS of LKR 1.32. We forecast an EPS of LKR 1.64 for FY 19E with a net revenue growth of 15% YoY to LKR 60.68Bn. In 9M FY19 Group operating profit margin increased to 10% (9M FY 18 – 7%) and GP margin was stable at 25%. In 9M FY19 Financial services sector revenue grew 27% YoY and Rubber sector revenue grew by 17% YoY. Operating profits of Other services and Financials services increased by 73% & 46% respectively for 9M FY19. Net profits for 9M FY19 dropped by 29% to LKR 1.88Bn.

We expect RICH to record 15% growth in group revenue for FY19E

We expect that the group revenue of RICH would record 15% growth in FY19E with 50% contribution (LKR 30.73Bn) from Retail sector with an estimated revenue growth of 17% in the said segment. As “Arpico Super Centers” are mostly located in Colombo district, it reflects room for further growth in developing areas. Further we expect financial services sector would continue its solid growth momentum and would record 18% YoY growth to mark LKR 3.94Bn as revenue for the FY19E. Rubber segment estimated to record 16% YoY growth in revenue (LKR 5.27Bn) supported by increasing trend in Rubber prices.

EBITDA margins would remain within 12-13% levels amid increased costs of Retail expansions

We expect RICH's EBITDA margins would continue to remain within 12-13% levels over FY19E-22E. We presume increasing Rubber prices together with increased EBITDA margin from other services would provide RICH an effective shelter against operating costs increases of “Arpico” showroom expansions to keep profit margins stable in the medium term.

Debt driven capital structure against stable Retail revenue stream

We believe RICH would continue to operate with 65% to 66% Debt-to-Equity level over FY19E-22E. RICH would keep Dividend payout at 40%-50% levels while directing Retained Earnings for growth CAPEX.

We establish a valuation range of LKR 12.00 – LKR 14.10 for RICH shares

Our base case DCF analysis assuming a post-tax WACC of 10.5% and a conservative terminal growth of 2% results LKR 12.00 per share intrinsic value. This reflects c.26% upside to the current market price. Our alternative base case PER evaluation assuming a discounted sector PE multiple of 8.59x, estimates LKR 14.10 per share.

BUY

CMP RS 9.20

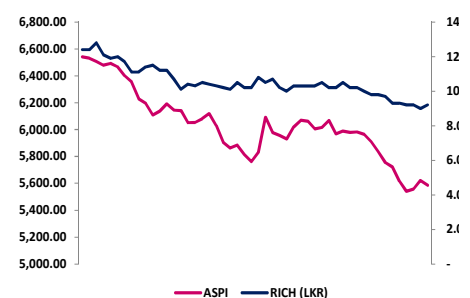
TARGET LKR 12.00– LKR 14.10

Group Data	
Stated Capital (LKR Mn)	1,972.83
Ordinary Shares (Mn)	2,035.04
Market Cap (LKR Mn)	18,518.85
Market Cap (USD Mn)	105.22
AVG Daily T/O (LKR '000)	1,783.05
Average Daily Volume ('000)	160.98
Beta Against ASPI	0.75
Beta Against S&P SL20	0.48
52 Week High/Low (LKR)	12.90/9.00
Last Traded Price (LKR)	9.20

Earnings and Multiples	(x)
Earnings per share (LKR)	1.32
Net Assets per share (LKR)	6.53
PER (RICH)	6.96
PER (Sector)	10.1
PBV (RICH)	1.40
PBV (Sector)	0.80

LKR Bn	FY19E	FY20E	FY21E
Group Revenue	60.68	66.60	73.14
EBIT	5.74	6.27	6.59
Net Profit	3.75	4.06	4.27
EPS	1.64	1.78	1.87
DPS	0.82	0.71	0.75
PAYOUT	50%	40%	40%

ASPI VS JKH.N0000 (52 weeks)

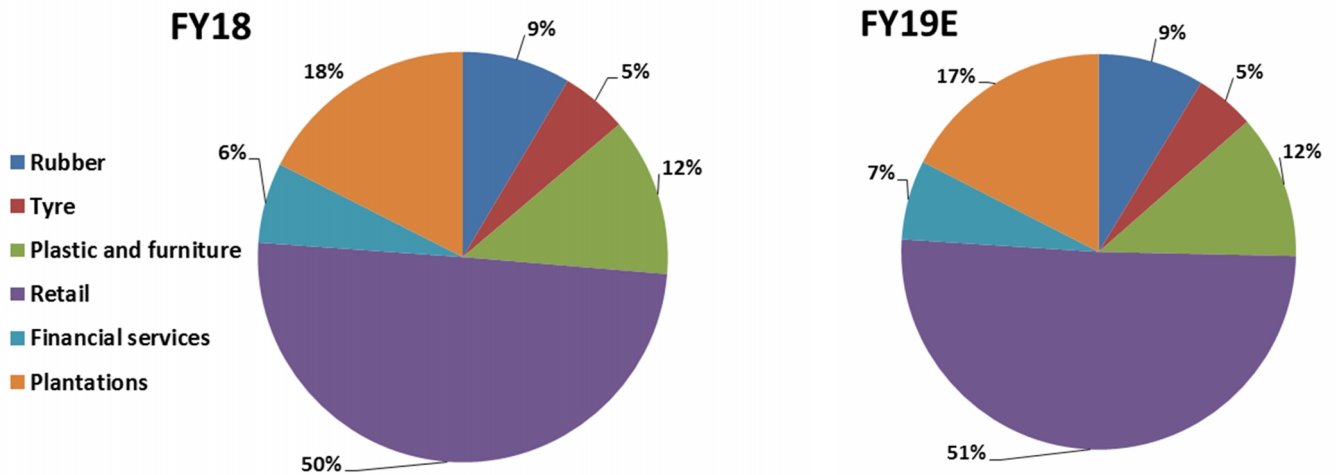


Analyst: **Nishani Ruwanpathirana**
nishani@ashaphillip.net

9M Performance

LKR '000	Gross Revenue			Operating profit/(Loss)		
	9M 2019	9M 2018	Change (+/-)	9M 2019	9M 2018	Change (+/-)
Rubber	4,040,889	3,453,031	17	897,441	621,792	44
Tyre	2,003,659	2,085,764	(4)	224,307	285,696	(21)
Plastic and furniture	4,675,485	4,810,292	(3)	311,227	409,699	(24)
Retail	21,030,301	19,927,969	6	1,465,910	1,381,250	6
Financial services	3,102,726	2,434,715	27	503,025	345,441	46
Other services	25,348	35,675	(29)	1,577,577	913,353	73
Plantations	6,136,918	6,853,123	(10)	648,727	1,257,992	(48)
Inter segment eliminations	-	-	-	(1,561,931)	(1,100,880)	42
Total	41,015,326	39,600,569	4	4,066,283	4,114,343	(1)

Segmental Net Revenue Composition



Valuation assumptions

Our DCF based valuations are based on the following assumptions:

- Terminal growth rate - 2%
- Risk free rate - 10%
- Beta – 0.7
- Market risk premium - 6%

Appendix I: Statement of Financial Performance

RE-STATED SCI/LKR Mn	FY19E	FY20E	FY21E	FY22E
Revenue	60,678	66,601	73,137	79,937
Cost of sales (Excluding D&A)	(44,580)	(48,753)	(53,635)	(58,568)
Gross profit	16,099	17,849	19,502	21,369
Other operating income	1,323	1,452	1,595	1,743
	17,422	19,301	21,097	23,112
Selling and distribution expenses	(3,366)	(3,766)	(4,177)	(4,494)
Administrative Expenses (Excluding D&A)	(6,932)	(7,597)	(8,348)	(9,117)
Other operating expenses	(65)	(69)	(77)	(84)
EBITDA	7,059	7,869	8,495	9,417
Depreciation & Amortization	(1,320)	(1,602)	(1,901)	(2,222)
EBIT	5,739	6,266	6,594	7,196
Finance costs	(1,187)	(1,285)	(1,387)	(1,499)
Finance income	413	405	445	487
Profit share of associate (AEN)	92	101	111	122
EBT	5,057	5,487	5,763	6,306
Income Tax	(1,303)	(1,414)	(1,485)	(1,625)
EAT	3,754	4,073	4,278	4,681
Earnings for the Group	3,343	3,628	3,810	4,169
Earnings for the NCI	410	445	467	511
Total	3,754	4,073	4,278	4,681
Recurring EPS	1.64	1.78	1.87	2.05

Appendix II: Statement of Financial Position

SFP/LKR Mn	FY19E	FY20E	FY21E	FY22E
Assets				
Non-current assets				
Property, plant and equipment	20,557	22,365	24,248	26,140
Leasehold properties	521	521	521	521
Investment properties	167	167	167	167
Intangible assets	1,124	1,115	1,107	1,099
Biological assets	1,039	1,101	1,156	1,214
Investments in subsidiaries				
Investment in associates	107	101	95	88
Other non-current financial assets	1,683	1,683	1,683	1,683
Deferred tax assets	76	76	76	76
	25,273	27,129	29,053	30,987
Current assets				
Inventories	6,827	7,510	8,181	9,005
Trade and other receivables	4,345	4,839	5,332	5,904
Bearer biological assets	26	26	26	26
Loans and advances	14,461	16,196	18,140	20,135
Tax receivables	185	185	185	185
Amounts due from subsidiaries				
Other current financial assets	867	860	1,024	1,098
Cash and short-term deposits	7,616	7,857	8,381	9,186
	34,328	37,474	41,269	45,540
Total assets	59,601	64,603	70,323	76,527
Equity and liabilities				
Equity				
Stated capital	1,973	1,973	1,973	1,973
Revenue reserves	14,372	16,549	18,835	21,337
Statutory reserve fund/ investment reserve fund	46	46	46	46
Other components of equity	105	105	105	105
Equity attributable to equity holders of the parent	16,496	18,673	20,959	23,460
Non-controlling interests	3,051	3,319	3,599	3,906
Total equity	19,547	21,991	24,558	27,366

SFP/LKR Mn	FY19E	FY20E	FY21E	FY22E
Non-current liabilities				
Interest-bearing loans and borrowings	10,480	11,754	13,102	14,654
Net liability to the lessor	584	584	584	584
Insurance provision	815	815	815	815
Provisions	117	117	117	117
Government grants	534	534	534	534
Deferred tax liabilities	493	493	493	493
Employee benefit liabilities	2,426	2,426	2,426	2,426
	15,448	16,723	18,071	19,623
Current liabilities				
Trade and other payables	10,472	11,193	12,413	13,599
Public deposits	4,338	4,555	4,783	5,022
Current portion of interest-bearing loans and borrowings	2,620	2,939	3,276	3,664
Current portion of net liability to the lessor	12	12	12	12
Amounts due to subsidiaries				
Income tax payable	320	347	366	398
Short term borrowings	6,844	6,844	6,844	6,844
	24,606	25,889	27,694	29,538
Total liabilities	40,054	42,612	45,765	49,161
Total equity and liabilities	59,601	64,603	70,323	76,527
NAVPS	8.11	9.18	10.30	11.53

Appendix III: Ratios

FY	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Market						
EPS LKR	1.56	1.55	1.64	1.78	1.87	2.05
DPS LKR	0.50	0.62	0.82	0.71	0.75	0.82
Net assets value per share LKR	6.35	7.28	8.11	9.18	10.30	11.53
Price Earnings (x)	5.33	7.48	7.06	6.51	6.20	5.66
Price-to-book value (x)	1.31	1.59	1.43	1.26	1.13	1.01
Payout	32%	40%	50%	40%	40%	40%
EV/EBITDA (x)	3.7	4.3	4.1	3.9	3.7	3.5
Profitability						
ROE	25%	21%	20%	20%	18%	18%
ROA	8%	8%	7%	7%	7%	7%
GP margin	27%	27%	27%	27%	27%	27%
EBITDA margin	13%	12%	12%	12%	12%	12%
EBIT Margin	11%	10%	9%	9%	9%	9%
Net profit margin	7%	7%	6%	6%	6%	6%
Liquidity						
Current (x)	1.26	1.38	1.40	1.45	1.49	1.54
Quick assets (x)	1.01	1.11	1.12	1.16	1.19	1.24

FY	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Solvency						
Debt-to-Equity	67%	65%	67%	67%	67%	67%
Debt-to-assets	21%	21%	22%	23%	23%	24%
Equity multiplier (x)	3.21	3.08	3.05	2.94	2.86	2.80
Interest cover(x)	5.54	4.87	4.84	4.88	4.76	4.80
Dividend cover (x)	3.50	2.81	2.25	2.81	2.81	2.81
Efficiency						
Total asset turnover (x)	0.98	0.97	1.02	1.03	1.04	1.04
Debtors' turnover (x)	8.69	10.39	14.79	14.50	14.38	14.23
Debtors' collection period (days)	42.01	35.13	24.69	25.17	25.38	25.65
Creditors' turnover (x)	4.46	4.57	4.60	4.50	4.54	4.50
Creditors' payment period (days)	81.84	79.89	79.42	81.10	80.32	81.05

Appendix IV: Twenty largest shareholders as at 31st December 2018:

No.	Shareholder Name	No of Shares	%
1	Skyworld Overseas Holdings Limited	516,388,590	25.37
2	Camille Consulting Corp.	327,704,846	16.10
3	HSBC International Nominees Ltd-SSBT- Deutsche Ban	224,853,787	11.05
4	Sezeka Limited	193,945,899	9.53
5	Employees Provident Fund	169,899,520	8.35
6	Rockport Limited	108,660,116	5.34
7	Dr. Sena Yaddehige	104,375,732	5.13
8	Dhanasiri Recreation Pvt Ltd	33,655,437	1.65
9	J.B. Cocoshell (Pvt) Ltd	32,901,164	1.62
10	Mr. D.W.R.Rutnam	25,759,500	1.27
11	The Executor of the Estate of Late Mrs L.B. S. Pieris	22,782,045	1.12
12	Investment Resource Company (Private) Limited	20,000,000	0.98
13	Northern Trust Company S/A Hosking Global Fund	12,439,564	0.61
14	Kalday (Pvt) Ltd.	12,126,030	0.60
15	Seylan Bank PLC/Channa Nalin Rajahmoney	11,991,550	0.59
16	Bank of Ceylon No. 1 Account	6,889,225	0.34
17	Dr C.M. Fernando	6,660,570	0.33
18	National Savings Bank	6,463,907	0.32
19	The Incorporated Trustees of the Church of Ceylon	4,868,795	0.24
20	Mrs. D.M. Sinnetamby Devayani Maheshwari	4,086,877	0.20
	Total	1,846,453,154	90.74



Contact Information

Head Office

Sales

Thakshila Hulangamuwa	thakshi@ashaphillip.net	+94 11 2429108
Upul Priyantha	upul@ashaphillip.net	+94 11 2429106
Shanmugam Sudhagar	sudha@ashaphillip.net	+94 11 2429107
Vasantha Wicramasinghe	vasantha@ashaphillip.net	+94 11 2429114

Research

Visahan Arumainayaham	visahan@ashaphillip.net	+94112429139
Nishani Ruwanpathirana	nishani@ashaphillip.net	+94 112429137

Regional Offices

Colombo (H/O)

60, 5th Lane,
Colombo 03.
Tel - 94 112429100
Fax - 94 112429199
www.ashaphillip.net

Matara

#24-1/3A,
E.H. Cooray Tower, 2nd Floor,
Anagarika Dharmapala Mw,
Matara.
Tel: 041 2235191-5

Kandy

88, Ceybank House,
Dalada Vidiya,
Kandy.
Tel. 081 2204750

Kiribathgoda

#94, Udeshi City Shopping Complex,
2nd Floor, #2/12, Makola Road,
Kiribathgoda.
Tel. 011 2908511

Negombo

#72 A 2/1,
Old Chilaw Road,
Negombo.
Tel. 031 2227474

Gampaha

#116,
Sanasa Ideal Complex,
Buddhaloka Mawatha,
Gampaha.
Tel. 033 2234888

Important Information

This document has been prepared and issued by Asha Phillip Securities Ltd, on the basis of publicly available information, internally developed data and other sources, believed to be reliable. Whilst all responsible care has been taken to ensure that the facts stated are accurate and the opinions given are fair and reasonable neither Asha Phillip Securities Ltd, nor any Director Officer or employee, shall in any way be responsible for any decisions made on its contents. Asha Phillip Securities Ltd may act as a Broker in the investments which are the subject of this document or related investments and may have acted upon or used the information contained in this document, or the research or analysis on which it is based, before its publication. Asha Phillip Securities Ltd., Its Directors, Officers or Employees may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document.