



SC Securities (Pvt) Ltd | Subsidiary of Sampath Bank PLC

Plantations PLC



Browns Beach Hotel
Negombo

Melstacorp PLC



Melstacorp
RESPONSIBLE DIVERSITY



The Truly Sri Lankan telecommunication company



*Cash Cow dampens impact of
COVID*

PL
na Plantations Plc.



Melsta Regal
Finance Ltd



Melsta Logistics



Long-term Growth Potential



Investor's Guide



YE End 30th March	2017	2018	2019	2020	2021F	2022F
Revenue (LKRm)	108,999	109,957	155,931	154,475	126,788	133,507
Growth		0.88%	41.81%	-0.93%	-17.92%	5.30%
Gross Profit (LKRm)	15,337	14,385	34,851	33,214	20,765	23,775
Net Profit (LKRm)	6,800	6,250	8,875	4,425	3,580	5,270
NAV//Share (LKR)	58.42	64.94	68.84	71.86	74.30	77.84
PBV (x)	1.01x	0.89x	0.52x	0.33x	0.64x	0.61x
EPS (LKR)	7.74	5.64	4.96	3.22	3.07	4.52
PE (x)	7.65x	10.30x	7.26x	7.30x	15.50x	10.53x
Share Price	59.20	58.10	36.00	23.50	47.60	47.60

Source: MELS Financials, SC Securities

Blended valuation yields a 50.63% upside. Recommendation: **STRONG BUY**



- A blended valuation approach was implemented. We looked at local listed diversified companies and computed the average PER and PBV multiples and applied it to MEL'S FY21E profit figure and FY21E NAVPS.
- Our approach yielded us a target price of LKR 71.70 which gives a 50.63% upside. Therefore, we recommend a STRONG BUY over medium to long term investment horizon.

	21E values
Profit (LKR.Mn)	3,580
NAVPS (LKR)	74.30
PER multiple	22.30
PBV multiple	1.01
PE based valuation (LKR)	68.51
PBV based valuation (LKR)	74.89
Blended Valuation (LKR)	71.70
Upside	50.63%

Average PER and PBV – Diversified Companies

Diversified	Price	TTM EPS	NAVPS	PER	PBV
Hayleys	377.40	30.37	548.39	12.43	0.69
JKH	152.00	3.91	162.49	38.87	0.94
Richard Peiris	15.30	0.98	10.93	15.61	1.40
Average				22.30	1.01

Average PER and PBV – Beverage Companies

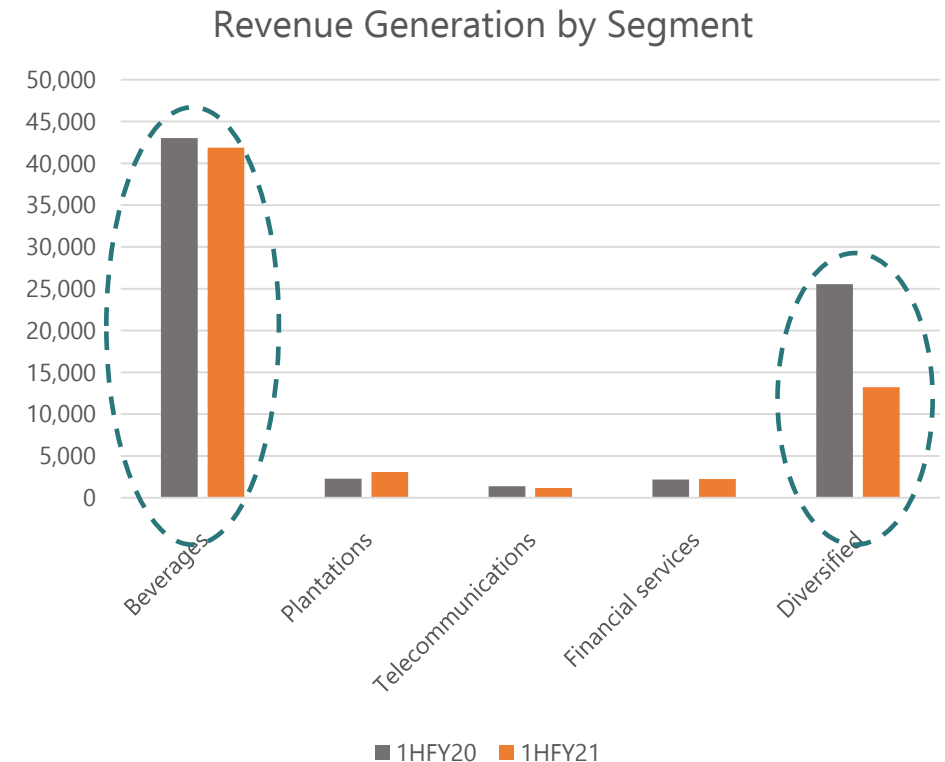
Beverages	Price	TTM EPS	NAVPS	PER	PBV
Lion brewery	550.10	27.33	195.79	20.13	2.81
Ceylon Brewery	752.00	15.87	387.44	47.39	1.94
Average				33.76	2.38

Source: MEL'S Financials, SC Securities

1H results reflect on how badly COVID has affected MELS...



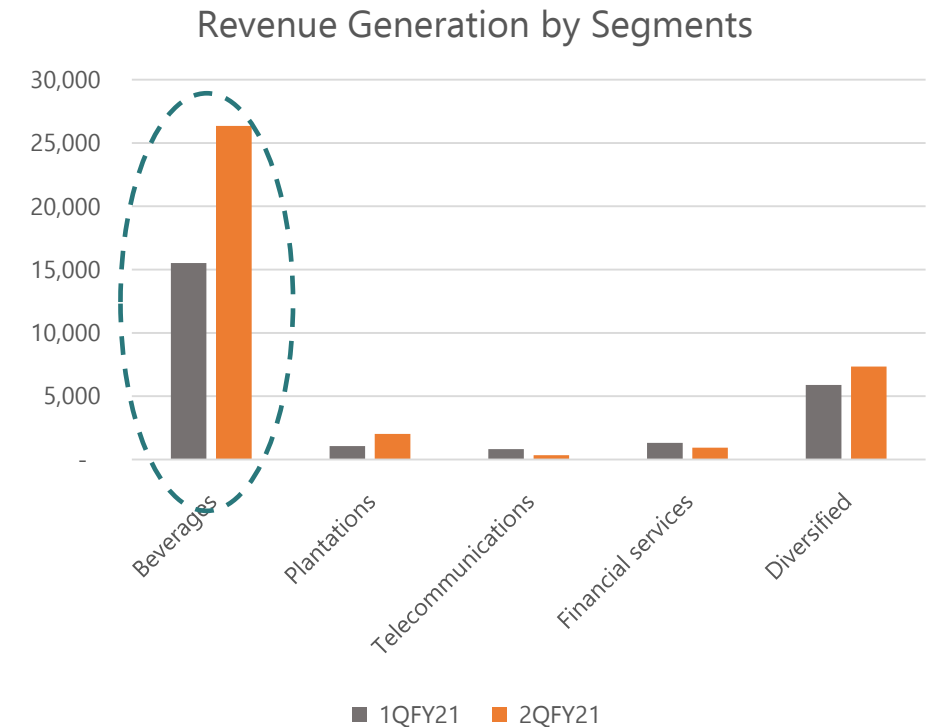
- 1HFY21 Revenue contracted 17.24% YoY to LKR 62 billion whilst the Company experienced a Net Profit loss of LKR 1.1 billion over the six-month period.
- The top line contraction is attributed to a significant revenue generation reduction in MELS' two primary verticals: Beverage (down 2.7% YoY) and Diversified (down 48.2% YoY).
- The lower revenue generation in these segments comes as a result of COVID lockdowns affecting demand for alcohol consumption and a complete halt in the Tourism sector.



Source: MELS Financials

... however, 2Q pickup has shown company's resilience and potential way out

- Second quarter performance has mitigated some of damage done by the dismal first quarter. With the lockdown period ending in June, the strain that was on the Company's Beverage and Diversified segments eased.
- Top line grew 50.3% QoQ on the back of increased sales in Beverages (up 69.7% QoQ) and Diversified (up 24.8% QoQ) segments.
- The rise can be attributed to the fact the alcohol demand is price inelastic coupled with the fact that as lockdowns eased, more hotels opened up and occupancy was driven by an influx of domestic traffic.



Source: MELS Financials



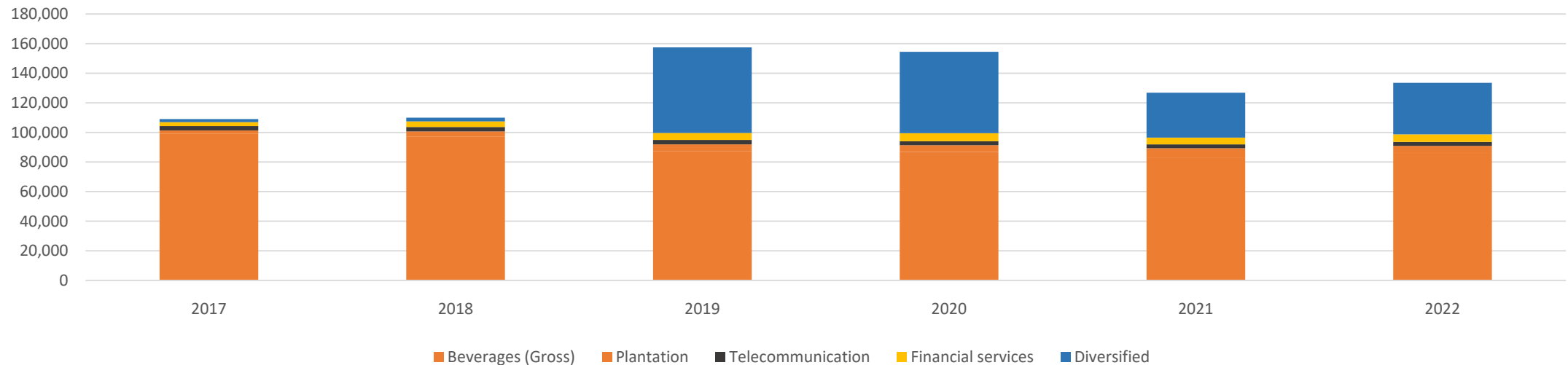
Outlook: Main vertical will remain the saving grace



Beverage: The main driver moving forward



Total Revenue (Segmental Breakdown) in millions



Source: MELS Financials

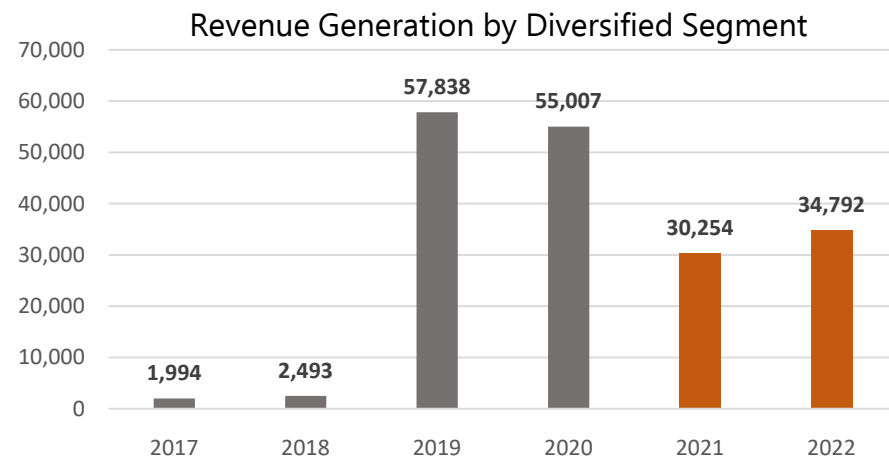
- The first quarter proved to be a challenging owing to island-wide lockdowns.
- However, second quarter pick-up shows that the demand for demerit goods such as alcohol are price inelastic.
- This coupled together with the fact that tax rates for alcohol manufacturing companies have remained constant, we expect this segment to continue to drive MELS forward as it has done in the past.

Other segments: Plantations expected a boost. However, Diversified remains murky



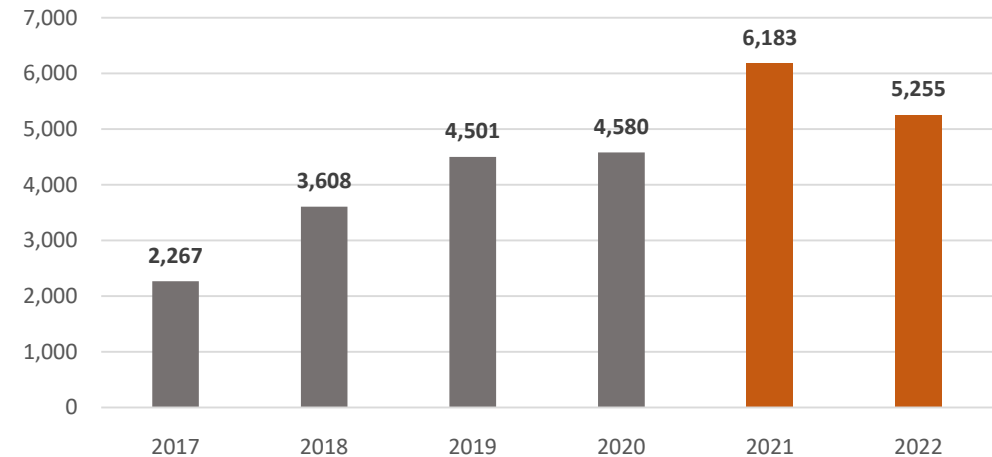
- Plantation

- Forbes & Walker Tea Brokers* forecast tea demand to rise and be driven by increased demand from China and India.
 - Demand for Black Tea has spiked from China while demand for 'High Quality Teas' remain consistently high.
 - Tea has relatively lower exposure to variations in the economic cycle than other commodities. The amalgamation of these factors lends us the belief that MELS' Plantation segment will grow. (Salary revision)



Source: MELS Financials, SC Securities

Revenue Generation by Plantation Segment



Source: MELS Financials, SC Securities

- Diversified

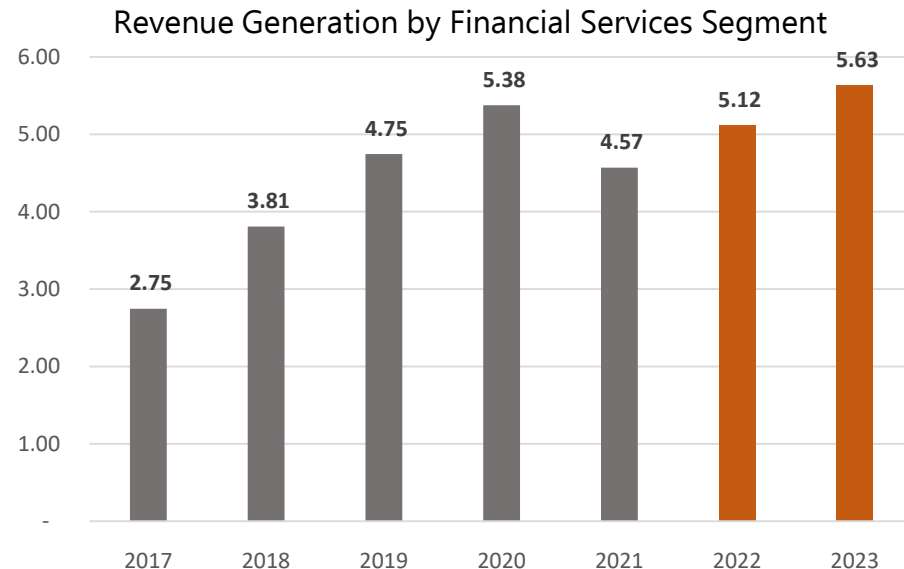
- This segment still has a lot of volatility ahead in the short run.
 - Until borders fully open and travel normalises in a global context, this segment will suffer.
 - In terms of outlook, in the long run, we can expect the segment to be profitable. However, the speed at which it does normalise is predicated upon the quickness in which tourism can bounce back.

Positive outlook for Telco and Financial Services segments, but impact will be menial



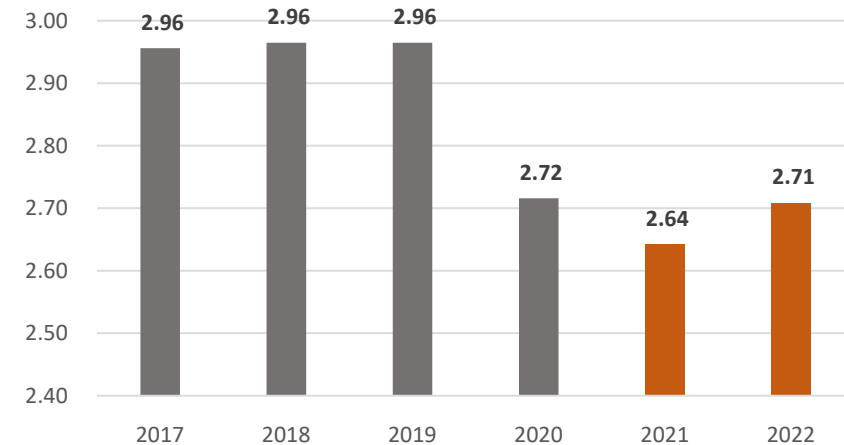
- Telecommunications

- The government's "Gamata Sanniwedanaya" proposal under the new budget will look to expand the availability of mobile and 4G broadband services will have a positive impact.
- However, the impact will be minimal because this is a very small segment.



Source: MELS Financials, SC Securities

Revenue Generation by Telecommunications Segment



Source: MELS Financials, SC Securities

- Financial Services

- MELS is the 6th largest shareholder of Commercial bank of Ceylon (4.62%). The Central bank of Sri Lanka has decided to extend the debt moratorium period further till April 2021. We expect a significant uptick in NPL's which will have an adverse impact on MEL's future dividend income from shareholdings such as Commercial Bank.
- However, this coupled with their main arm in the space, Continental insurance will have a small impact as they are small segments.



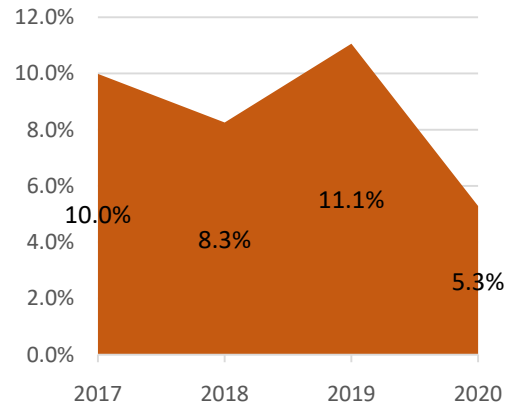
Appendix



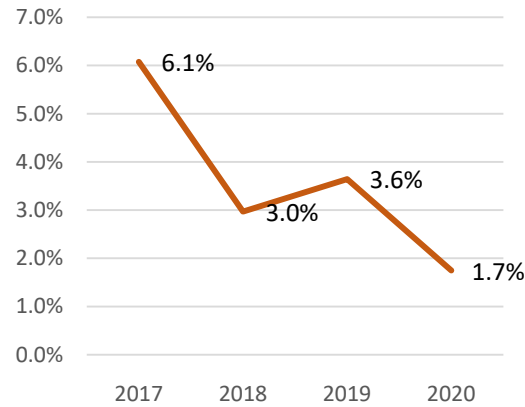
Financial Performance Dashboard



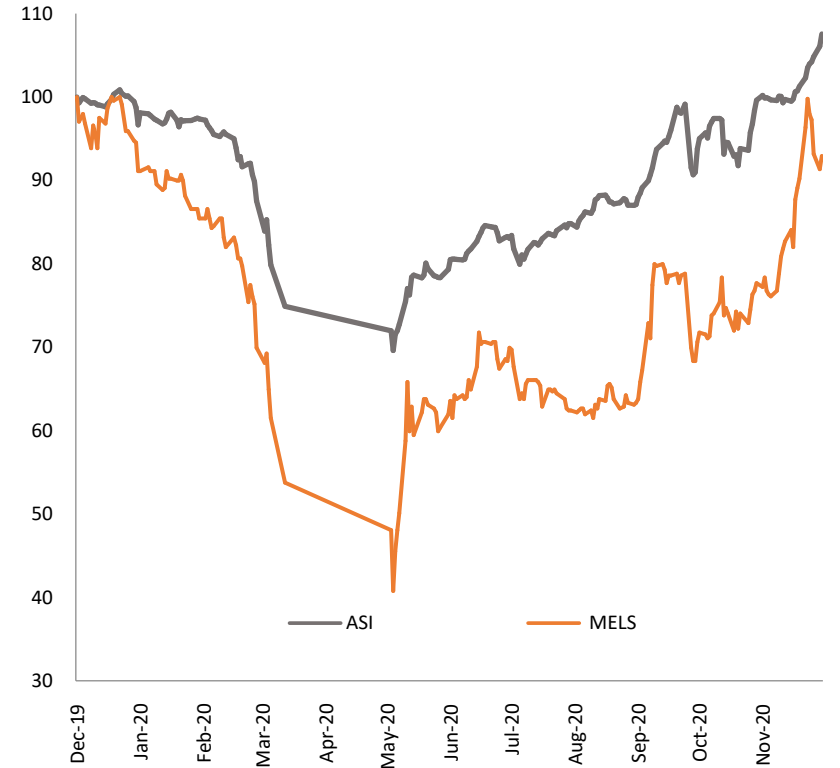
ROE



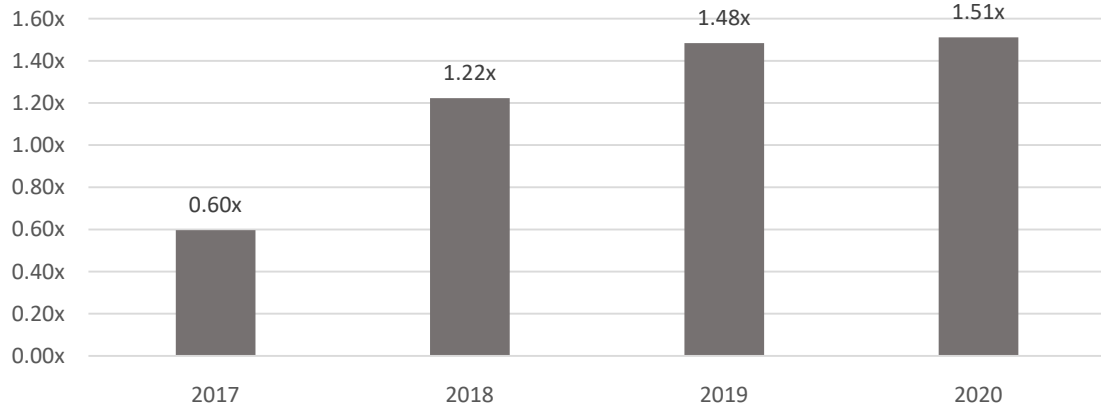
ROA



Relative Stock Performance



Debt-to-Equity



MELS' value prospect is also its diversified holdings in other reputed listed companies



- The added benefit of investing in MELS is that it has its hand's in a diverse pool of other reputed listed companies which further enhances the company's intrinsic value aspect.

Subsidiaries and Associates - Listed

Quoted Investments	No. of Shares	Effective Holding	Price (LKR)	Market Value (LKR.Mn)
Balangoda Plantations PLC	13,853,663	58.6%	14.40	199
Browns Beach Hotel PLC	54,273,234	41.9%	13.90	754
Distilleries Co. of Sri Lanka PLC	4,253,009,164	92.5%	21.10	89,738
Aitken Spence PLC	204,314,171	50.3%	61.40	12,544
Madulsima Plantations PLC	94,767,483	55.9%	9.60	909

Other investments - Listed

	No. of Shares	Value (LKR Mn)
Diversified investments		
John Keells Holdings PLC	128,917,111	21,606
Banking Finance & Insurance		
Commercial Bank of Ceylon PLC	44,444,324	4,222
DFCC Bank PLC	22,383,614	2,057
Hatton National Bank PLC	12,307,446	2,119
Beverage, food & tobacco		
Lanka Milk Foods (CWE) PLC	6,715,784	672
Manufacturing		
Pelwatte Sugar Industries PLC	33,140,501	-

Financials (Interim Performance)



	1HFY21	1HFY20	2QFY21	1QFY21	YoY	QoQ
Revenue	61,585,214	74,412,393	36,981,280	24,603,934	-17.2%	50.3%
Excise duty	(27,147,479)	(27,534,658)	(16,614,386)	(10,533,093)	-1.4%	57.7%
Cost of sales and net benefits paid	(24,659,445)	(32,520,159)	(14,111,295)	(10,548,150)	-24.2%	33.8%
Gross Profit	9,778,289	14,357,576	6,255,598	3,522,691	-31.9%	77.6%
Other Operating Income	613,882	671,100	352,467	261,415	-8.5%	34.8%
Selling and distribution expenses	(341,222)	(1,002,311)	(101,120)	(240,102)	-66.0%	-57.9%
Administrative Expenses	(5,801,734)	(7,716,684)	(2,510,406)	(3,291,328)	-24.8%	-23.7%
Other Operating Expenses	(176,275)	(75,042)	(65,505)	(110,770)	134.9%	-40.9%
Profit from Operations	4,072,939	6,234,638	3,931,033	141,906	-34.7%	2670.2%
Finance Income	712,258	1,660,807	255,512	456,746	-57.1%	-44.1%
Finance Cost	(2,934,434)	(2,889,403)	(1,059,536)	(1,874,898)	1.6%	-43.5%
Net Finance Income/(cost)	(2,222,176)	(1,228,596)	(804,024)	(1,418,152)	80.9%	-43.3%
Share of Profit of Equity-Accounted Investees (Net of Tax)	253,157	241,838	123,310	129,847	4.7%	-5.0%
Profit before Tax for the period	2,103,921	5,247,881	3,250,321	(1,146,400)	-59.9%	-383.5%
Income Tax	(3,239,773)	(3,470,958)	(2,266,398)	(973,375)	-6.7%	132.8%
Profit for the period	(1,135,853)	1,776,923	983,921	(2,119,774)	-163.9%	-146.4%

Source: MELs Financials, SC Securities

Financials: Condensed Income Statement



	2017	2018	2019	2020	2021F	2022F
Gross revenue	108,999	109,957	155,931	154,475	126,788	133,507
Excise duty	(68,806)	(65,227)	(57,268)	(56,632)	(54,040)	(55,662)
Cost of sales and net benefits paid	(24,857)	(30,345)	(63,812)	(64,629)	(51,983)	(54,070)
Gross profit	15,337	14,385	34,851	33,214	20,765	23,775
Other operating income	1,186	3,034	2,015	1,713	1,406	1,481
SG&A Expenses	(6,402)	(6,720)	(20,217)	(20,108)	(13,609)	(14,552)
Other operating expenses	(368)	(2,191)	(9)	(1,130)	(507)	(668)
Results from operating activities	9,752	8,508	16,640	13,689	8,055	10,036
Net finance income/(Costs)	(389)	(632)	(1,230)	(2,811)	(3,463)	(3,117)
Share of profit of equity-accounted investees (net of tax)	1,327	2,267	395	476	380	401
Profit before income tax expense	10,690	10,142	15,805	11,354	4,972	7,320
Income tax	(3,891)	(3,892)	(6,931)	(6,929)	(1,392)	(2,050)
Profit for the year	6,800	6,250	8,875	4,425	3,580	5,270

Source: MELS Financials, SC Securities

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