



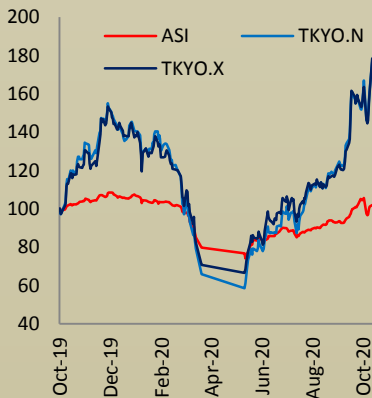
Member of the Colombo Stock Exchange

October 2020

Trading Snapshot

Sector	Materials
CSE Code	TKYO.N0000
Bloomberg Ticker	TKYO SL
Shares in Issue (Mn)	
TKYO.N	267.30
TKYO.X	133.65
52Wk High/ Low (LKR)	
TKYO.N	67.60/19.20
TKYO.X	58.00/16.00
Market Cap (LKR.Mn)	22,734
Market Cap (USD.Mn)	124
LKR:USD	184.41
Market Price (LKR)	
TKYO.N	59.40
TKYO.X	50.50

Relative Stock Performance



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TOKYO CEMENT COMPNAY (LANKA) PLC

6M Earnings Update

Earnings Review: Strong BUY

	Current Price (LKR)	Initial Buy Call 04 th June 2020 (LKR)	Capital Gain To Date	Target Price (LKR)	Capital Gain Expected
TKYO.N	59.40	27.00	120.0%	86.80	46.1%
TKYO.X	50.50	23.20	117.7%	73.80	46.1%

Case for Investment

Government support: Ministry of Finance issued a procurement guideline on 09th October 2020 emphasizing cement requirement to be sourced exclusively from domestic manufacturers for local construction contracts.

The nation's largest cement distribution network: 3000+ island wide dealers with their own vehicles and 160 bulk carriers to service the bulk cement market.

Savings in overall freights cost: Using a vessel to transport cement from Trincomalee to Colombo has brought about sizable savings in freights costs.

Operating at full capacity and strong uptick in volumes: Grinding plant is operating at full capacity to cater the rapid volume growth in bagged cement.

Reduced forex exposure: Switching to blended Hydraulic Cement using in-house made Fly Ash has reduced the clinker imports; and forex exposure.

Tokyo Power: 23MW single largest contributor of biomass power in Sri Lanka and 100% self-sufficient renewable energy which will reduce the energy cost.

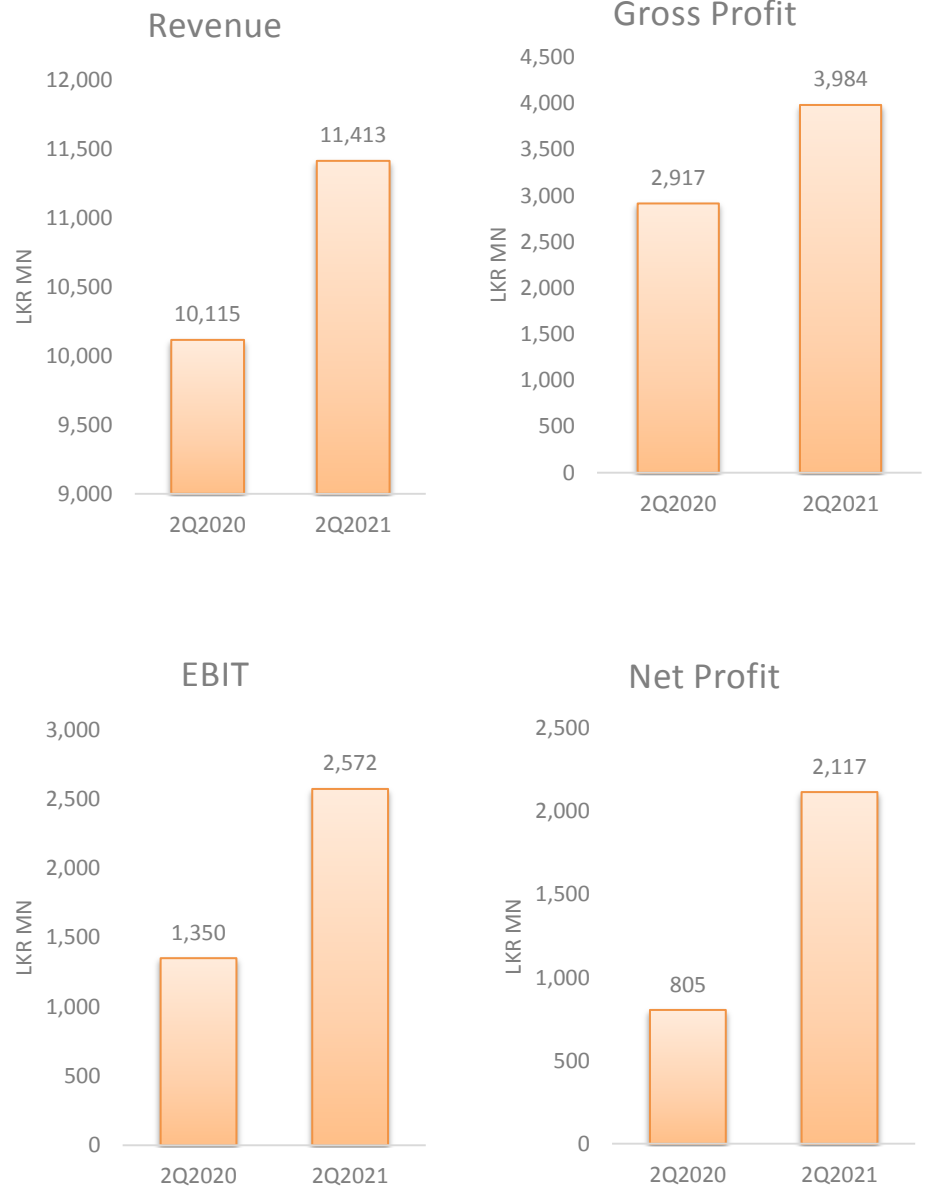
Lower Income Tax from 2020: Income Tax rate reduced from 28% to 18%w.e.f. 01st April 2020.

Vertical Integration: Vertical integration of cement to concrete allows greatest control over mix design for mega projects.

Investor Guide

YE 31st March	2018	2019	2020	2021 (F)	2022 (F)
Net Profit (LKR.Mn)	2,343	-492	2,302	4,787	5,324
+/- Growth	-31%	-121%	567%	108%	11%
EPS (LKR)	5.84	(1.23)	5.74	11.94	13.28
PE (x) - TKYO.N	9.24	(16.85)	3.92	4.98	4.47
PE (x) - TKYO.X	7.87	(14.25)	3.48	4.23	3.80
NAV (LKR)	38.48	37.22	42.85	52.40	63.02
PBV (x) - TKYO.N	1.40	0.56	0.53	1.13	0.94
PBV (x) - TKYO.X	1.20	0.47	0.47	0.96	0.80
Dividend/Share (LKR)	1.25	0.30	-	2.39	2.66
Div. Yield (%) TKYO.N	2.3%	1.4%	0.0%	4.0%	4.5%
Div. Yield (%) - TKYO.X	2.7%	1.7%	0.0%	4.7%	5.3%
ROE (%)	15.8%	-3.2%	14.3%	25.1%	23%
MPS TKYO.N- (LKR)	54.00	20.70	22.50	59.40	59.40
MPS TKYO.X - (LKR)	46.00	17.50	20.00	50.50	50.50

Source: TKYO Financials, SC Securities Research



TKYO reported better than expected results for the second quarter of 2021 witnessing strong net profit growth of 163% YoY to reach LKR 2.1 bn. Growth was underpinned by sharp increase in top line, high capacity utilization, lower distribution cost, lower clinker price and a stable exchange rate.

TKYO's top line experienced a 13% YoY sharp increase with the higher demand for bag cement, and recovery in construction sector following the end of the lockdown period. Gross profit margins improved to 35% on the back of uptick in volumes and lower raw material cost.

Operating profit increased by 91% YoY to reach LKR 2.6 bn in 2QFY21 backed by 37% YOY decline in administrative expenses and the growth in top line. Additionally operating profit margins widened by c.900 bps YoY to 23%.

PBT improved by 154% YoY during 2QFY21 driven by reduction in operating cost and 35% YoY decline in finance expenses on the back of lower interest rate. While the net profit margins jumped to 19% in 2QFY21 compared to 8% in 2QFY20.

The TOKYO's Response to the Impact of Covid-19 Pandemic

Business operations executed: TKYO executed its all on-site production, distribution and administrative operations under the given guidelines by the government. Further TKYO has made special provision of PPE assets for employees.

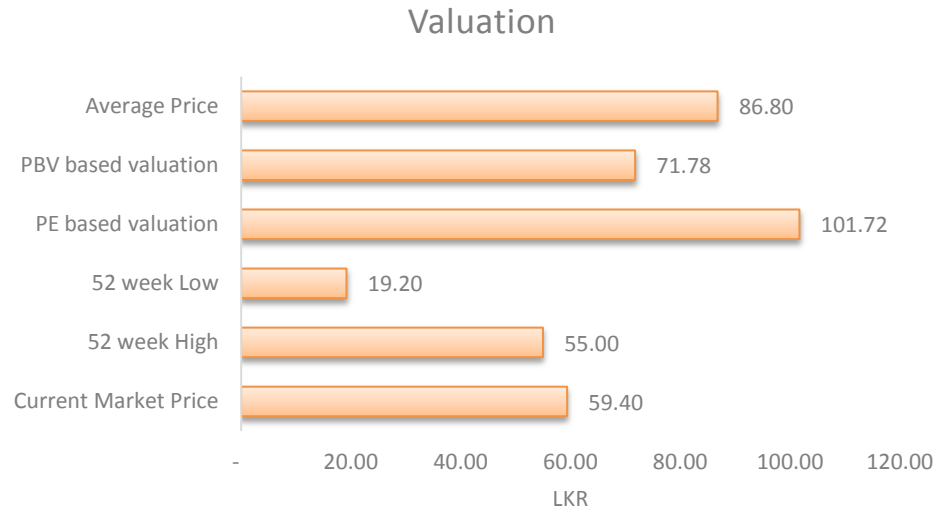
Cost Management Strategies: TKYO has assessed the impact on performance and cash flows and made cost management strategies such as temporary percentage cuts in remunerations for most senior executives, postpone non-essential capital expenditure, implemented a recruitment freeze, reduce certain overhead expenditure and have negotiated deferment of some supplier settlements.

Reduce the Cost and Forex Exposure: TKYO has increased the production of Blended Hydraulic Cement using in-house made Fly Ash where it will gradually reduce the clinker imports, thereby reduce the forex exposure.

Ensure Liquidity and Financial Flexibility: TKYO is working with the banks to access the relief measures recommend by the Central Bank of Sri Lanka.

Future Outlook

- We have estimated a net profit of LKR 4.8 Bn in FY2021 with a profit growth of 108% YoY. The growth is mainly supported by growth in topline, cost management strategies and the decline in corporate income tax rate.
- Top line is projected to increase by 8% YoY to LKR 39Bn in FY2021 due to strong uptick in bagged cement and the government support on local cement players.
- Cost of sales in FY2021 is set to decline mainly due to the use of in house made Fly ash which will eventually reduce the clinker imports; and implementation of other cost management strategies
- TKYO initiated to transport finished goods from Trincomalee to Colombo via coastal shipping which is far cost effective than transporting via roads. This could help TKYO to reduce its distribution expenses by 20% YoY in FY2021.
- In order to address depressed demand conditions, TKYO adopted a strategy of direct marketing and one to one relationship building to enhance the competitive advantage.
- The innovative and value added products of TKYO will capture the new markets and it would positively contributed towards top line growth mainly in FY2022.
- Reduction in corporate income tax rate from 28% to 18% effective from 1st April 2020 will increase the distributable profits of the company.
- We expect the company to maintain a 20% dividend payout ratio which works out to a dividend of LKR 2.39 per share in FY2021.



TKYO Voting share is currently trading at 4QT PE of 6.32x while non-voting share is trading at 4QT PE of 5.46x and PBV of 1.19x and 1.03x respectively. Which is well below the material sector PE of 8.52x and PBV of 1.37x.

Based on blended valuation approach, which takes an equal weightage between forecasted earnings with sector PE and forecasted book value with sector PBV methodologies, **we have derived 12 months target price of LKR 86.80, yielding 46.1% upside potential to the current market price.**

Summarized Financial Information

Income Statement

Year Ended 31st March (LKR Mn)	2018	2019	2020	2021 (F)	2022 (F)
Turnover	35,633	38,496	35,758	38,619	43,639
Cost of Sales	(27,161)	(30,608)	(25,492)	(26,261)	(30,111)
Gross Operating Profit	8,472	7,888	10,266	12,358	13,528
Other Income	263	27	37	28	31
Total Operating income	8,735	7,915	10,302	12,385	13,559
Distribution Expenses	(3,623)	(3,939)	(4,106)	(3,283)	(3,709)
Administrative Expenses	(1,631)	(1,782)	(1,686)	(1,518)	(1,594)
Other Expenses	-	(380)	-	-	-
Profits from Operations	3,481	1,813	4,510	7,585	8,256
Finance Income	58	5	5	34	34
Finance Expenses	(967)	(1,819)	(1,888)	(1,761)	(1,775)
Profit before Taxation	2,572	(1)	2,627	5,858	6,515
Income Tax Expenses	(243)	(475)	(304)	(1,054)	(1,173)
Profit for the Period	2,329	(476)	2,324	4,804	5,342
Attributable to Equity of the Parent	2,343	(492)	2,302	4,787	5,324
Non Controlling Interest	15	17	(0)	17	19

Source: TKYO Financial Statements, SC Securities Research

Top 20 Shareholders – 30th September 2020

Name of the Shareholder	No. of Shares	%
St. Anthony's Consolidated (Pvt) Ltd	73,507,172	27.50%
South Asian Investment (Pvt) Ltd	53,820,756	20.10%
Ube Singapore Holdings Pte. Ltd	26,730,000	10.00%
Marina Bay Holding And Investment Pte.Ltd.	16,528,316	6.20%
Capital City Holdings (Private) Limited	8,019,367	3.00%
J.B. Cocoshell (Pvt) Ltd	7,274,677	2.70%
Northern Trust Company S/A Apollo Asia Fund Limite	3,245,603	1.20%
Ceylon Guardian Investment Trust Plc A/C # 02	2,567,694	1.00%
State Street Luxembourg C/O Ssbt-Goodhart Partners	2,400,000	0.90%
Seylan Bank Plc/S.R. Fernando	1,652,382	0.60%
Ceylon Investment Plc A/C # 02	1,467,374	0.50%
Peoples Leasing & Finance Plc/Hi Line Trading (Pv	1,431,327	0.50%
Mr. R. Maheswaran	1,096,940	0.40%
Miss M.P. Radhakrishnan	1,096,939	0.40%
Miss A. Radhakrishnan	1,096,939	0.40%
Dr. T. Senthilverl	1,066,943	0.40%
Sezeka Limited	1,034,379	0.40%
Mr. N. Radella	1,005,000	0.40%
Mr. K.R. Kamon	915,288	0.30%
Hatton National Bank Plc- Astrue Alpha Fund	859,547	0.30%

Source: TKYO quarterly financial statements; 30th June 2020

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Strong Buy: FV more than 20% above Current Trading Price
Buy: FV between 10% and 20% above Current Trading Price
Hold: FV between -10% and 10% around Current Trading Price
Sell: FV more than 10% below Current Trading Price

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