

**CIC Holdings PLC [CIC.N: LKR 67.10, CIC.X: 49.70]**
**Economic recovery and additional support from JKH profits to reflect in CIC's bottom line.**

Recommendation: BUY

Target Price: CIC N: LKR 110.00 CIC X: 82.00

Sector: Material

CIC Holdings PLC-one of Sri Lanka's leading conglomerate recorded a moderate performance in 2Q'24 notwithstanding continued economic headwinds. Group's profits for 2Q'24 declined by 40%YoY to LKR 1.4Bn (to LKR 5.8Bn in 1H'23/24,-68% YoY decline) mainly due to the exceptional year that prevailed last year due to higher fertilizer and agri product and poultry product prices which contributed to exceptional margins. Crop solution segment – the largest contribution to the revenue- contributing 40%- grew by 24% YoY to LKR 6.9Bn for 2Q'24 , however margins declined from 17% to 14% QoQ due to stabilizing in prices of agro chemicals and fertilizer products. Healthcare segment- second largest contributor to revenue (22%) jumped by 35%YoY to LKR 4.0Bn with EBIT margins hovering around 10%. Livestock segment – the third largest contributor to revenue (22%) topline declined by 29%YoY to LKR 3.9Bn due to price pressures.

**Treatment of JKH as an associate, to have a considerable boost on CICs bottom-line.**

CIC Holdings will begin treating premier blue chip John Keells Holdings PLC (JKH) as one of its associate companies, with the controlling shareholders of CIC agreeing to grant proxy over their voting rights. CIC and its subsidiaries therefore own approximately 6.6% of the issued shares of JKH, which calculates to an effective shareholding by 6.1% by CIC, and due to its significant influence, permitted to treat KH as an associate company in terms of SL accounting standards from Dec'23. JKH in our view should maintain strong performance owing to (i) revival in the consumer demand which would benefit retail and leisure segments of JKH (ii) Gaming operations that would boost profits of JKH significantly from 2025E with the start of the Cinnamon Life integrated resort (iii) JKH transport segment seeing a boost specially with the commencement of the WCT that will help fuel transshipment operations (iv) gradual fall in interest cost that would cushion bottom line with improved inquiries for apartments . Therefore, we expect 6.1% of the total operational profits of the largest conglomerate to get reflected in CIC's accounts from Dec'23, where the contribution is estimated to be over LKR 1.0Bn in 2024/25.

**Growing activities in agriculture to help crop solution segment**

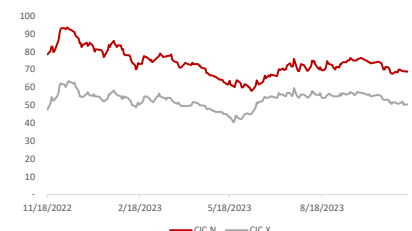
We take comfort in CIC's scope of business which is mainly skewed towards defensive business portfolio (fertilizer, healthcare and poultry). With growing activities in the agri segment and specialty fertilizer, moving its way to a full recovery, we expect a sharp pick up in the sector quantities which is driven by crop solutions, seeds, specialty fertilizer and blends. The massive fluctuations in demand and prices that prevailed due to restrictions of agri chemicals and fertilizer imports is now trying to find the ideal mix between price and volume in our view. Moreover out of the total subsidy outstanding of LKR 1.3Bn as of 30<sup>th</sup> Sep 2023, discussions are also ongoing with the National Fertilizer Secretariate to see the possibility of collecting the same.

**Key Statistics**

Market Cap (LKR Bn) - Voting	19.50
Market Cap (LKR Bn) - Non Voting	4.35
Market Cap (USD Mn) - Voting	58.51
Market Cap (USD Mn) - Non Voting	13.04
Issued Quantity (Mn) - Voting	291.60
Issued Quantity (Mn) - Non Voting	87.48
Current Trading Range - Voting	67.00 -68.80
Current Trading Range - Non Voting	49.60 -49.90
52 week High - Voting	93.60
52 week Low - Voting	58.00
52 week High - Non Voting	63.50
52 week Low - Non Voting	40.40
YTD High - Voting	86.10
YTD Low- Voting	58.00
YTD High - Non Voting	59.60
YTD Low- Non Voting	40.40
<b>Valuation</b>	
Market PE (x)	11.06
Market PBV (x)	0.99
Trailing PE (x) - CIC Voting	5.40
Trailing PE (x) -CIC Non Voting	4.00
PBV (x) - CIC Voting	0.90
PBV (x) - CIC Non Voting	0.70
Bloomberg Ticker	CIC SL
GICS Industry Group	Materials

**Main shareholders as at 30.06.2023**

	%
Paints & General Industries Limited	53.31
Employees Provident Fund	9.06
Chacra Capital Holdings (Private) Limited	4.49
Citibank Newyork S/A Norges Bank Account 2	3.42
Employees Trust Fund Board	1.45

**Share Price Performance**


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**Livestock solutions margins to stabilize**

Livestock solutions – a fully integrated system which operates feed, feed milling, poultry and vet care, though saw some margin pressure due to oversupply situation is now recovering with anticipated growth for feed and DOC business. We expect the margins of this segment to normalize with chicken prices coming down and consumption growing (per capital chicken consumption stands around 10Kg and 90-100 eggs) specially ahead of the tourist season and chicken still been the cheapest source of protein.

**Healthcare segment to remain resilient.**

CIC the third largest healthcare entity in Sri Lanka is poised to see a steady growth with cluster performance driven by pharmaceutical agencies, manufacturing and herbal care (CIC is within the top 5 players of agency business with market leadership in key therapeutic classes such as diabetes, dialysis treatment, Betahistine, orthopedic implants). Opening of new experimental center “swastha link naturals” which comprises the entire link portfolio is expected to have continuous boost from the mostly widely distributed product Samahan. Link Naturals in growing its export revenue, amidst the backdrop of the country's rapidly depleting foreign reserves and group is expecting to increase its bandwidth in the Indian subcontinent and the wider Asian region while working in parallel to strengthen global outreach.

**Relative Valuation method indicate BUY:**

We estimate CIC's profits to plunge by 39% YoY to LKR 4.7Bn in 2023/24 as this would be a year where the margins will start stabilizing, as its now coming after an exceptional year last year, that witnessed massive price increases which led to exceptional margins. We take comfort in CIC's segments which are mainly skewed towards defensive segments (healthcare, crop solutions, livestock), that in our view should see an immediate uptick on the back of improved economic activities. Additional boost meantime should come especially with 6.1% of Sri Lanka's largest conglomerate- JKH- profits started to get reflected as an associate income from Dec'23 in CIC's books. Full circle of profits of JKH should thus get recorded from 2024/25 onwards, where we estimate over LKR 1.0Bn contribution to CIC's books. We thus see profits of CIC to bounce back to LKR 7.6 Bn levels from 2024/25E reflecting an EPS of LKR 20.50, a massive 60%YoY jump.

CIC's market multiples tumbled in the recent past specially on the back of macroeconomic headwinds, where its now trading at 5.5x when compared to average PE's of 12x 14x over the last eight years. Markets in our view should turnaround with recent improvements in macro conditions giving that much needed investor confidence. Therefore based on a relative valuation method and on a conservative basis we estimate CIC to trade at least by 5.5x by 2024/25E, hence arrive at a target price of LKR 110.00 for CICN, and estimate the CIC NV to trade at LKR 82.00 with a 65% upside. We thus maintain our recommendation BUY.

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YE 31 March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue ( LKR Mn)</b>	<b>30,535</b>	<b>37,233</b>	<b>41,760</b>	<b>68,275</b>	<b>75,245</b>	<b>87,126</b>
<i>YoY growth (%)</i>	0.5%	21.9%	12.2%	63.5%	10.2%	15.8%
<b>Revenue Contribution</b>						
<i>Crop Solutions</i>	28%	34%	24%	34%	36%	37%
<i>Agri Produce</i>	9%	9%	9%	6%	3%	103%
<i>Livestock Solutions</i>	23%	24%	30%	27%	23%	22%
<i>Industrial Solutions</i>	13%	10%	13%	13%	12%	11%
<i>Health &amp; Personal Care</i>	27%	23%	24%	19%	22%	24%
<b>Operating Profit ( LKR Mn)</b>	<b>3,187</b>	<b>5,394</b>	<b>7,029</b>	<b>16,843</b>	<b>10,988</b>	<b>14,891</b>
<b>Equity Holders Profit (LKR Mn)</b>	<b>833</b>	<b>3,132</b>	<b>3,685</b>	<b>7,801</b>	<b>4,753</b>	<b>7,620</b>
<i>YoY growth (%)</i>	72.3%	276.2%	17.6%	111.7%	-39.1%	60.3%
EPS (LKR) on current share volume	2.2	8.3	9.7	20.6	12.5	20.1
DPS (LKR)	2.0	2.3	2.0	2.5	2.0	2.5
BVPS (LKR) on current share volume	25.3	34.9	43.6	60.7	71.4	89.3
<b>Ratios (%)</b>						
EBIT margin	10.4%	14.5%	16.8%	24.7%	14.6%	17.1%
NP margin	2.7%	8.4%	8.8%	11.4%	6.3%	8.7%
Dividend Payout	22.8%	27.2%	20.6%	12.1%	16.0%	12.5%
<b>Voting</b>						
PE (x)	30.6	8.1	6.9	3.3	5.4	3.3
PBV (x)	2.7	1.9	1.5	1.1	0.9	0.8
Dividend Yield (%)	3.0%	3.4%	3.0%	3.7%	3.0%	3.7%
<b>Non-Voting</b>						
PE (x)	22.6	6.0	5.1	2.4	4.0	2.5
PBV (x)	2.0	1.4	1.1	0.8	0.7	0.6
Dividend Yield (%)	4.0%	4.5%	4.0%	5.0%	4.0%	5.1%

Source: Company Annual Reports &amp; NLE Research

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