

CIC Holdings PLC [CIC.N: LKR 53.10, CIC.X: LKR 43.70]

Recent relaxation of agro chemical import ban addresses half of CIC's worries. Clear and a quick policy direction on fertilizer to benefit CIC further
 Recommendation: BUY Target Price: LKR 71.50/60.40 Sector: Material

Salient points from the discussion with management of CIC & NLE view

- The government seems to have realized the adverse repercussion like cost escalations, loss of export income and likely labour shortage specially coming from tea industry if ban on agro chemicals to continue and has thus decided to lift the ban imposed on importation of agro chemicals (pesticides, weedicides, fungicides etc.).
- After the relaxation of import of agro chemicals, the government's next big hurdle in our view would be to iron out concerns revolving around the ban of importation of chemical fertilizer. The sudden shift to organic fertilizer emerged into new worries like where to source the required fertilizer, the application, effectiveness, and fears of loss of productivity which has led to some discomfort in the agriculture sector representing 1/3rd of the work force in Sri Lanka.
- However, amidst all these worries, government also seem to have realized the long-term repercussions, like possible food shortage, rise in prices of essential items, loss of export income which could even lead to a loss of income in agricultural community, a key determinant of the economic growth.
- Government likely after realizing the gravity, now seem to be progressing towards a more rational move. For instance, government had bent some rules where it now allows importation of certain chemical fertilizer, in the event a respective line ministry believe that their sectors need chemical fertilizer. The government is willing to now give the green light upon request from the national fertilizer secretariat, on a case-by-case basis which in our view is a positive move.
- Although these worries naturally took a toll on the market leader in both plant protection and plant nutrition supplier -CIC- with prices falling by >25% from highs of LKR 71.50, we now believe the price fall is unwarranted given the recent progress the government has made in terms of policy direction.
- The relaxation of agro chemicals has already addressed 50% of the concerns of CIC, with crop solution- the biggest contributor to CIC's revenue (34% revenue and 44% of EBIT in FY21) which is driven by both fertilizer and agro chemicals equally.
- In order to make the next move on fertilizer, CIC is taking a wait and see approach before ramping up production as its only wise to wait for a clear policy direction by the Government with some transparency and consistency.
- We are positive on CIC's fertilizer arm based on both aspects; that is if government decides to continue with chemical fertilizer or shift to organic fertilizer. (i) In the event the government reverses the current ban on import fertilizer, CIC would be in a comfortable position to revert back to normal operations and cater the best portfolio of safer chemicals through its strong relationships with global giants and (ii) in the event government continue with organic fertilizer policy, CIC again would be in a better footing to reap benefits (a) due to CIC's large land bank (3,000 acres) that would help ramp up organic fertilizer production in a matter of two months and (b) due to its already existing expertise in organic fertilizer production helping CIC to drive up the production lines.

Key Statistics
CIC Holdings PLC

Market Cap (LKR Bn) - Voting	15.48
Market Cap (LKR Bn) - Non Voting	3.82
Market Cap (USD Mn) - Voting	76.25
Market Cap (USD Mn) - Non Voting	18.81
Issued Quantity (Mn) - Voting	291.60
Issued Quantity (Mn) - Non Voting	87.50
Current Trading Range - Voting	51.70-53.50
Current Trading Range - Non Voting	43.40-44.80
52 week High/Low - Voting	71.60/29.30
52 week High/Low - Non Voting	57.20/23.77
YTD High/Low - Voting	71.60/43.30
YTD High/Low - Non Voting	57.20/35.70

Valuation

Market PE (x)	12.2
Market PBV (x)	1.4
PE (x) - Voting	5.7
PE (x) - Non Voting	4.7
PBV (x) - Voting	1.9
PBV (x) - Non Voting	1.6
Bloomberg Ticker	CIC SL
GICS Industry Group	Materials

Note: Prices as at 29.10.2021 and adjusted for the share split of 1:4 which came into effect on 11.01.2021

Main shareholders as at 30.09.2021

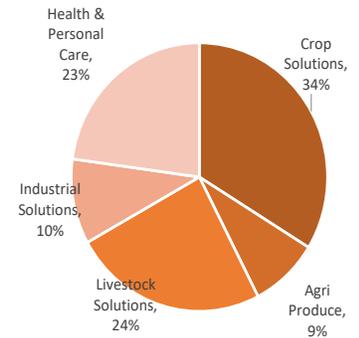
	%
Paints & General Industries Limited	53.31
Employees Provident Fund	9.06
Chacra Capital Holdings (Private) Limited	4.49
Seylan Bank PLC/ ARRC Capital (Private) Limited	2.92
Hotel International (Private) Limited	1.01

Share Price Performance


CIC Holdings PLC [CIC.N: LKR 53.10, CIC.X: LKR 43.70]

Recent relaxation of agro chemical import ban addresses half of CIC's worries. Clear and a quick policy direction on fertilizer to benefit CIC further
 Recommendation: BUY Target Price: LKR 71.50/60.40 Sector: Material

- Moreover, we are also positive of a more clearer policy direction specially on non-paddy area (like tea and other related crops) soon, where CIC is strong in, given its strong foreign currency earning potential, which is too risky to compromise at this stage .
- Therefore, given that agro chemicals concern is now behind CIC, the only concern on fertilizer would also be addressed soon in our view, to avoid further adverse repercussions.
- Moreover, CIC's other segments too have very strong potential in our view. CIC's livestock segment which accounts to 28% of revenue and 20% of EBIT, will be driven by high volumes despite price hikes, with chicken remaining as the cheapest source of protein with minimal religious restrictions. Moreover, government also has allowed the market forces to determine the prices of chicken, given the high cost involved in feeder prices, allowing the sector profitability to continue.
- The healthcare segment which accounts to 23% of revenue and 22% of EBIT meanwhile would benefit further with minimal impact from current economic and health issues. On top of its trading business on pharmaceuticals and medical devices, CIC is also looking at ramping up the ayurvedic & allopathic medicine manufacturing and launch a personal care business to boost its export income, which would also play as a natural hedge to currency weakness. Moreover, with increase in some of the prices of the price-controlled molecules, CIC would be in a better footing to enhance its margins from this segment.
- CIC's industrial segment – which accounts to 12% of revenue and 11% of EBIT which is represented by paints, packaging food ingredients and chemical supply too are in a relatively less risky business. The volume pick up in binders with gradual pick up in construction segment will positively impact the counter while increased consumption could improve the bottom line of the manufacturer and supplier of specialty plastic packaging.
- In terms of bottom-line performance, although there could be a temporary setback, we are of the view that government would take a much clearer and transparent policy direction very soon especially given the impact it would otherwise have on foreign currency earnings.
- We estimate CIC's profits to stand at LKR 3.1Bn for FY22E, on the back of relaxed policy on agro chemical imports and clear policy direction by the government on fertilizer backed by immense prospects in other segments. Beyond FY23E we estimate CIC's profits to grow by a notable 21%YoY specially after having a clearer policy in place, where CIC would benefit either way (if its reversal of chemical fertilizer ban it would be a mere a plug and play , if it's a shift to organic fertilizer , CIC would start production in its existing infrastructure in a matter of two months)

Crop solution was the biggest contributor to profits in FY21


Source: Company reports

CIC Holdings PLC [CIC.N: LKR 53.10, CIC.X: LKR 43.70]

Recent relaxation of agro chemical import ban addresses half of CIC's worries. Clear and a quick policy direction on fertilizer to benefit CIC further
 Recommendation: BUY Target Price: LKR 71.50/60.40 Sector: Material

- **Valuation:** When looking at the price performance its evident that CIC's prices have responded to the sudden ban on imported fertilizer and agro chemicals. CIC's prices have dropped by ~26% from its highs of LKR 71.50 levels and has underperformed amongst diversified sector and compared to the market (market has seen YTD returns of ~50% while CIC has performed by just 17% YTD)
- We have thus valued CIC on a relative earnings' multiple basis, taking an average earnings multiple of diversified counters as a yardstick. CIC trades at forward PE of just 6.4x on FY22E earnings, a significant discount to the average diversified sector PE of 13.3x, which we believe is unwarranted on the back of positive policy direction by the government on agro chemicals and likely direction on fertilizer soon. Therefore, even after applying a discount of 30%-35% on the average diversified sector PE (13.3x), the counter should still trade at 8.6x PE which should translate to a value of LKR 71.50, a 35% upside to the current market price. With the dividend yield of 4.2%, the counter should derive a total return of ~40% while CIC non-voting should trade at LKR 60.40, deriving a total return of 43%. We thus recommend CIC BUY.

Average PE of diversified counters stands at 13.3x. CIC trades at one of the lowest despite generating the highest ROE

Counter	Share price (LKR)	Mkt Cap (LKR Bn)	TTM 4Q PE (x)	PBV (x)	ROE (%)	TTM DY (%)
CIC Holdings PLC	53.1	15.5	5.7	1.9	33.0	6.1
John Keells Holdings PLC	149.0	196.6	27	0.9	3.2	1
Hemas Holdings PLC	73	43.5	15.2	1.4	9	6
Richard Peiris and Company PLC	18.1	36.8	9.1	2.0	21.8	6.1
Renuka Holdings PLC	15.8	2.5	16.2	0.4	2.2	0.6
Hayleys PLC	105	78.7	9.3	1.6	17.1	1.0
Vallibel One PLC	68.3	77.8	11	1.2	11.3	5.1
Melstacorp PLC	57.6	67.1	15.7	0.8	5.4	4.8
Sunshine Holdings PLC	27	12.1	10.5	1.1	10.9	5.6
Aitken Spence PLC	83.3	33.8	-	0.6	-	1.2
Softlogic Holdings PLC	12.5	14.9	-	2.8	-	-
Average		52.7	13.3	1.3	12.7	3.8

Source: CSE & Company reports

CIC Holdings PLC [CIC.N: LKR 53.10, CIC.X: LKR 43.70]

Recent relaxation of agro chemical import ban addresses half of CIC's worries. Clear and a quick policy direction on fertilizer to benefit CIC further
 Recommendation: BUY Target Price: LKR 71.50/60.40 Sector: Material

Summary Financial Performance

YE 31 March	FY19	FY20	FY21	FY22E	FY23E
Revenue (LKR Mn)	30,702	30,535	37,233	38,905	47,952
YoY growth (%)	4.2%	0.5%	21.9%	4.5%	23.3%
Revenue Contribution					
Crop Solutions	31%	28%	34%	25%	28%
Agri Produce	11%	9%	9%	9%	9%
Livestock Solutions	19%	23%	24%	29%	28%
Industrial Solutions	12%	13%	10%	11%	10%
Health & Personal Care	26%	27%	23%	25%	25%
Operating Profit (LKR Mn)	2,315	3,187	5,394	5,597	6,702
Equity Holders Profit (LKR Mn)	483	833	3,132	3,143	3,819
YoY growth (%)	319.5%	72.3%	276.2%	0.4%	21.5%
Reported EPS	5.1	8.8	8.3	8.3	10.1
EPS (LKR) on current share volume	1.3	2.2	8.3	8.3	10.1
DPS (LKR)	1.0	2.0	2.3	2.2	2.7
BVPS (LKR) on current share volume	24.3	25.3	34.9	41.2	48.7
Ratios (%)					
EBIT margin	8%	10%	14%	14%	14%
NP margin	2%	3%	8%	8%	8%
Dividend Payout	20%	23%	27%	27%	27%
ROE (%)	5%	9%	27%	22%	22%
Voting					
PE (x)	41.7	24.2	6.4	6.4	5.3
PBV (x)	2.2	2.1	1.5	1.3	1.1
Dividend Yield (%)	1.9%	3.8%	4.2%	4.2%	5.1%
Non-Voting					
PE (x)	34.3	19.9	5.3	5.3	4.3
PBV (x)	1.8	1.7	1.3	1.1	0.9
Dividend Yield (%)	2.3%	4.6%	5.1%	5.1%	6.2%

Source: Company annual reports & NLE Research

Disclaimer

The report has been prepared by Nations Lanka Equities (Pvt) Ltd.. The information and opinions contained herein has been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified, no representation or warranty, express or implied is made as to its accuracy, completeness or correctness, reliability or suitability. All such information and opinions are subject to change without notice and are not responsible for the communication of the same. This document is for information purposes only, descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. In no event will Nations Lanka Equities (Pvt) Ltd. be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising out of, or in connection with the use of this report and any reliance you place on such information is therefore strictly at your own risk.

Nations Lanka Equities (Pvt) Ltd. may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their customers. Not all customers will receive the material at the same time. Nations Lanka Equities (Pvt) Ltd., their respective directors, officers, representatives, employees, related persons and/or Nations Lanka Equities (Pvt) Ltd., may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principal or agent.

The information contained in this report is for general information purposes only. This report and its content is copyright of Nations Lanka Equities (Pvt) Ltd. and all rights reserved. This report- in whole or in part- may not, except with the written permission of Nations Lanka Equities (Pvt) Ltd. be reproduced or distributed or commercially exploited in any material form by any means whether graphic, electronic, mechanical or any means.