

CIC Holdings PLC [CIC.N: LKR 54.20, CIC.X: LKR 43.30]

Gvt relaxes import restrictions on agro chemicals and chemical fertilizer. CIC's market share to grow with possible removal of fertilizer subsidies

Recommendation: BUY

Target Price: LKR 75.70/62.00

Sector: Material

Like projected by NLE, GOSL revoked the gazette notification issued on 26th April banning importation of chemical fertilizers, and allowed private sector to import chemical fertilizers, weedicides and pesticides from today, thus benefiting the market leader in both the Plant Protection and Plant Nutrition - CIC. The government insisted on following the same policy of 'green agriculture' and also established that subsidies would only be provided for the farmers who use organic fertilizer.

This sudden ban on subsidies could temporarily disturb the farming community in our view, leaving them to choose between chemical fertilizer which is not entitled to subsidies or organic fertilizer which is entitled to some support from government. Industry sources believe that least 60%-70% of the farming community may opt for chemical fertilizers due to (i) lack of organic fertilizer in the market (ii) poor education on application and (iii) likely loss of yields.

Given that Government has pledged to continue the green agriculture policy, the chemical fertilizer imports that was executed by State owned Fertilizer Companies for subsidy purpose will now likely be diverted to private companies. Once the import mechanism is laid out (previously companies were given an import quota), an additional ~1Mn MT of fertilizer which was under subsidized program be released to private sector fertilizer importers in our view. The non-paddy subsidized fertilizer requirement itself is more than 500,000 MT while subsidized fertilizer used for paddy is over 300,000MT adding to LKR 37Bn government subsidy in 2020. We strongly believe CIC would have a better footing to capture a larger part of this market share, been the market leader in fertilizer business and the largest seed paddy cultivator in the country having an extensive knowhow on blending, capacity, factory layout and its extensive distribution network. Moreover, given that the prices of these fertilizers will be determined by free market sources, CIC may also not run in to any margin squeeze.

CIC 's agro chemical revenue (accounts to 15% of total revenue in FY 20/21) meanwhile may not see any interruptions for FY21/22 as the company already has enough stocks for this season and the relaxation of weedicides and pesticides will only help continue the momentum. We however believe it could take least 1-2months to decide on the chemical fertilizer requirement after the recent progress, thus any pick-up in chemical fertilizer to get reflected by 4QFY21/22 in CIC's books (CIC currently has no chemical fertilizer in their stocks). We are however bullish on CIC's chemical fertilizer growth (accounts to 14% of Group's topline in FY20/21) beyond FY 22/23E with CIC been able to capture major part of subsidized fertilizer market. If subsidies of paddy are also removed, then it could only be an added benefit for CIC given its capacity to capture the market share after been the largest seed paddy cultivator in the country.

When looking at the rest of the segments, CIC's livestock segment which accounts to 28% of revenue and 20% of EBIT, will be driven by high volumes and better margins with removal of price ceiling and chicken still remaining as the cheapest source of protein with minimal religious restrictions. 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 and its plans to ramp up the ayurvedic & allopathic medicine manufacturing to enhance the export revenue.

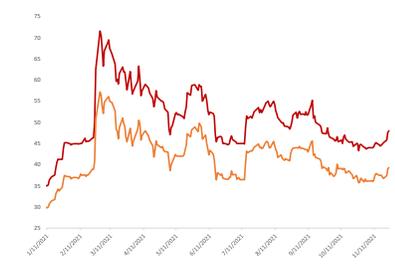
Key Statistics
CIC Holdings PLC

Market Cap (LKR Bn) - Voting	15.8
Market Cap (LKR Bn) - Non Voting	3.78
Market Cap (USD Mn) - Voting	77.83
Market Cap (USD Mn) - Non Voting	18.62
Issued Quantity (Mn) - Voting	291.60
Issued Quantity (Mn) - Non Voting	87.50
Current Trading Range - Voting	53.50-56.00
Current Trading Range - Non Voting	43.00-45.50
52 week High/Low - Voting	71.60/35.20
52 week High/Low - Non Voting	57.20/30.00
YTD High/Low - Voting	71.60/43.30
YTD High/Low - Non Voting	57.20/35.70
Valuation	
Market PE (x)	13.2
Market PBV (x)	1.5
PE (x) - Voting	5.8
PE (x) - Non Voting	4.7
PBV (x) - Voting	1.9
PBV (x) - Non Voting	1.5
Bloomberg Ticker	CIC SL
GICS Industry Group	Materials

Note: Prices as at 24.11.2021 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


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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.

Relative Valuation method indicate BUY: We estimate CIC's profits to stand at LKR 3.3Bn for FY22E, on the back of relaxed policy on agro chemicals and chemical fertilizer imports and see a notable 21%YoY jump in profits for FY22/23E with higher market share captured on subsidized fertilizer. When looking at the price performance its evident that CIC's prices have responded to the sudden ban on imported fertilizer and agro chemicals imposed in April. CIC's prices have dropped by ~24% 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 >60% while CIC has performed by just 19% 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 6.2x 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 fertilizer. Therefore, even after applying a discount of 30%-35% on the average diversified sector PE (13.3x), the counter should still trade at a implied PR of 8.6x which should translate to a value of LKR 75.70, a 40% upside to the current market price. With the dividend yield of 4.4%, the counter should derive a total return of ~45% while CIC non-voting should trade at LKR 62.00, deriving a total return of 43%. We thus maintain our recommendation BUY.

Earnings Forecast

YE 31 March	FY19	FY20	FY21	FY22E	FY23E
Revenue (LKR Mn)	30,702	30,535	37,233	39,703	49,144
YoY growth (%)	4.2%	0.5%	21.9%	6.6%	23.8%
Revenue Contribution					
<i>Crop Solutions</i>	31%	28%	34%	27%	30%
<i>Agri Produce</i>	11%	9%	9%	9%	9%
<i>Livestock Solutions</i>	19%	23%	24%	28%	27%
<i>Industrial Solutions</i>	12%	13%	10%	11%	10%
<i>Health & Personal Care</i>	26%	27%	23%	25%	24%
Operating Profit (LKR Mn)	2,315	3,187	5,394	5,883	7,011
Equity Holders Profit (LKR Mn)	483	833	3,132	3,327	4,011
YoY growth (%)	319.5%	72.3%	276.2%	6.2%	20.8%
Reported EPS	5.1	8.8	8.3	8.8	10.6
EPS (LKR) on current share volume	1.3	2.2	8.3	8.8	10.6
DPS (LKR)	1.0	2.0	2.3	2.4	2.9
BVPS (LKR) on current share volume	24.3	25.3	34.9	41.5	49.1
Dividend Payout	20%	23%	27%	27%	27%
ROE (%)	5%	9%	27%	23%	23%
Voting					
PE (x)	42.5	24.7	6.6	6.2	5.1
PBV (x)	2.2	2.1	1.6	1.3	1.1
Dividend Yield (%)	1.8%	3.7%	4.2%	4.4%	5.3%
Non-Voting					
PE (x)	34.0	19.7	5.2	4.9	4.1
PBV (x)	1.8	1.7	1.2	1.0	0.9
Dividend Yield (%)	2.3%	4.6%	5.2%	5.5%	6.6%

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