



Recommendation : BUY

Target Price: LKR 49.38

Sector: Capital Goods

RCL profits to jump by 16% in FY 22E

YE 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue (LKR mn)	29,090	31,499	31,412	44,972	51,191	60,741
YoY growth (%)	10%	8%	0%	43%	14%	19%
Net Profit (LKR mn)	2,880	2,632	2,586	6,135	7,104	8,878
YoY growth (%)	-15%	-9%	-2%	137%	16%	25%
Reported EPS (LKR)	26.0	23.8	23.3	5.5	6.4	8.0
EPS on current number of shares (LKR)	2.6	2.4	2.3	5.5	6.4	8.0
DPS (LKR)	0.7	0.4	0.0	2.6	3.0	3.8
BVPS (LKR)	18.3	20.8	22.7	27.4	30.8	35.1
Ratios (%)						
Dividend Payout (%)	26.9%	16.8%	0.0%	46.9%	46.9%	46.9%
Dividend Yield (%)	1.8%	1.0%	0.0%	6.7%	7.8%	9.7%
ROE (%)	14.2%	11.4%	10.3%	20.2%	20.8%	22.8%
PE (x)	14.8	16.2	16.5	7.0	6.0	4.8
PBV (x)	2.1	1.9	1.7	1.4	1.3	1.1

Note: BVPS & DPS are adjusted to the current number of shares

Key Statistics

Market Cap (LKR Bn)	42.7
Market Cap (USD Mn)	213.8
Issued Quantity (Mn)	1,107.9
Current Trading Range	38.50-38.90
52 week High/Low	7.44/42.12
YTD High/Low	18.21/42.12
Valuation	
Market PE (x)	10.5
Market PBV (x)	1.0
PE (x)	7.0
PBV (x)	1.4
Bloomberg Ticker	RCL SL
GICS Industry Group	Capital Goods

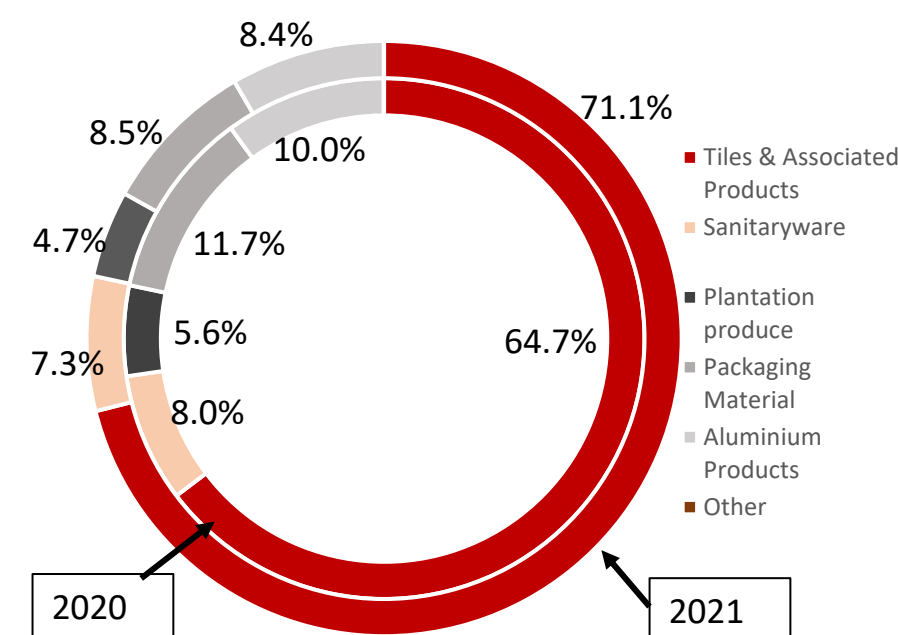
Note: Prices as at 30.07.2021 and adjusted for the share split of 1:10 which came into effect on 23.04.21

Main Shareholders as at 31.03.2021

Vallibel One PLC	55.96%
Employees Provident Fund	13.79%
Seylan Bank PLC/Hotel Int. (Pvt) Ltd	1.08%
Employees Trust Fund Board	0.54%
Mercantile Investments & Finance PLC	0.50%



Revenue contribution from tiles segment increased from 64% to 71% in FY21



RCL trades at a heavy discount to peers

Listed peers	Market Cap. (LKR Mn)	No. Shares (Mn)	PER (x)
Alumex PLC	8,620	599	10.3
Tokyo Cement Company (Lanka) PLC	17,455	267	4.8
Lanka Aluminium Industries PLC	1,822	68	7.0
Kelani Cables PLC	3,232	21	9.0
Sierra Cables PLC	3,924	537	12.4
Central Industries PLC	2,375	21	5.9
ACL Cables PLC	10,302	240	8.6
Swisstek (Ceylon) PLC	4,161	137	7.0
Lanka Tiles PLC	15,013	265	6.1
Lanka Walltiles PLC	18,864	273	6.6
Royal Ceramics Lanka PLC	42,765	1108	7.0
Average sector PE			7.7

- Royal Ceramics Lanka PLC, the leading tile manufacturer in Sri Lanka ventures in business ranging from tiles, aluminium, packaging, finance and plantations. RCL manufactures tiles under 'Rocell' and 'Lanka Tiles' brands together with the company's subsidiaries, Lanka Walltiles PLC (owns 55%) and Lanka Tiles PLC (owns 40%).
- RCL recorded a phenomenal year in FY21, recording one of the highest profits of LKR 6.1Bn, mainly due to the ban imposed on the importation on tiles and sanitaryware. RCL's market share grew from 43% to 66% in floor tile market and from 25% to 89% in wall tile market in FY21 due to the ban while all plants were operating in near full capacity to cater to the vacuum created by import tile market.
- We forecast a profit growth of 16% in FY22E driven by pick up in construction sector aided by low interest rates, continued import ban and capacity expansions in RCL's pipeline.
- We expect a pickup in construction sector to benefit RCL in near term given the 13%YoY rise in loans disbursed to construction sector in 4Q'20 with borrowers benefitting from all time low interest rate of 7% p.a. on housing loans.
- We also do not foresee any relaxation of imports anytime soon and even at an event of relaxation importers would be discouraged by weaker LKR, high freight rates and unfavorable credit terms.
- Given this scenario RCL is also on an expanding spree with 20% and 10% expansions planned for FY22 for bathware and tile respectively. RCL also plans to expand the capacity by another 20% by FY23E to cater to the price sensitive segment in the tile market which was catered mainly by importers. This would allow RCL to increase its market share even further and manage to continue its growth momentum till FY23E.
- A new venture is also in the cards with RCL's plans to venture into manufacturing of biscuits and chocolates which will operate as a 100% owned subsidiary. Given the lack of information we have not considered the impact to our forecast.
- We have arrived at our valuation based on a relative valuation method pinning the value to construction material sector average PE. RCL stands at one year forward PE of 6.0x which is at a discount of 22% to the average sector PE (7.7x) and 43% discount to the market PE (10.5x). Hence, we estimated a value of LKR 49.38, a upside of 28% and along with a dividend yield of 7.8% RCL should generate a total return of >35%. Thus, we recommend BUY.

Source : Company annual reports, CBSL, CSE, Bloomberg

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