



Upcoming construction boom, low rates and import restrictions to drive TILE's earnings further

Recommendation : BUY

Target Price: LKR 65.69

Sector: Capital Goods

TILE profits to jump by 23% in FY 22E

YE 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue (LKR Mn)	6,126	7,009	6,695	12,626	14,342	15,825
YoY growth (%)	18%	14%	-4%	89%	14%	10%
Net Profit (LKR Mn)	1,004	528	582	2,451	3,020	3,472
YoY growth (%)	-19%	-47%	10%	321%	23%	15%
Reported EPS (LKR)	18.9	10.0	11.0	9.2	11.4	13.1
EPS on current no. of shares(LKR)	3.8	2.0	2.2	9.2	11.4	13.1
DPS (LKR)	10.0	3.2	0.0	5.4	6.8	7.9
BVPS (LKR)	26.1	27.5	29.7	37.4	42.0	47.2
Ratios (%)						
Dividend Payout(%)	53%	32%	0%	59%	60%	60%
Dividend Yield (%)	3.6%	1.1%	0.0%	9.7%	12.2%	14.0%
ROE (%)	15%	7%	7%	25%	27%	28%
PE (x)	14.8	28.1	25.5	6.1	4.9	4.3
PBV (x)	2.1	2.0	1.9	1.5	1.3	1.2

Key Statistics

Market Cap (LKR Bn)	14.8
Market Cap (USD Mn)	74.0
Issued Quantity (Mn)	265.3
Current Trading Range	56.00-56.60
52 week High/Low	13.80/63.10
YTD High/Low	31.86/63.10

Valuation

Market PE (x)	10.5
Market PBV (x)	1.0
PE (x)	6.1
PBV (x)	1.5
Bloomberg Ticker	TILE SL
GICS Industry Group	Capital Goods

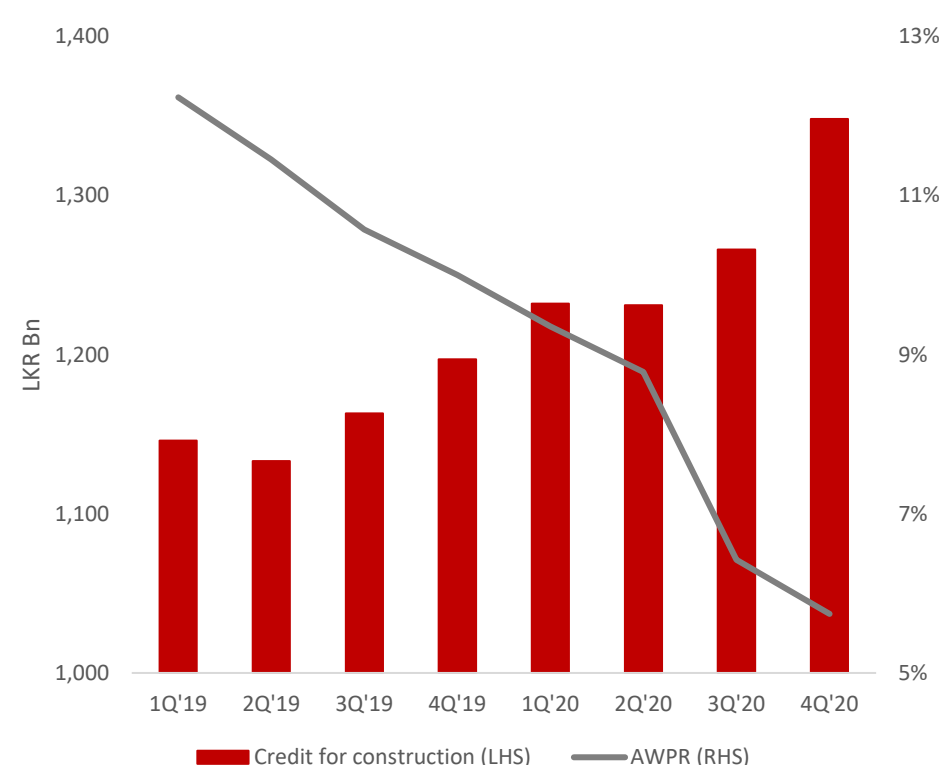
Note: Prices as at 28.07.2021 and adjusted for the share split of 1:5 which came into effect on 01.04.21

Main Shareholders as at 31.03.2021

Lanka Walltiles PLC	68.21%
Employees Provident Fund	9.36%
Royal Ceramics Lanka PLC	2.61%
Mr.A.A.Page	0.81%
Mr.K.R.Kamon	0.66%



Credit to construction picked by low rates



TILE trades at a heavy discount to peers

Listed peers	Market Cap. (LKR Mn)	No. Shares (Mn)	PER (x)
Alumex PLC	8,680	599	10.3
Tokyo Cement Company (Lanka) PLC	17,375	267	4.8
Lanka Aluminium Industries PLC	1,816	68	7.0
Kelani Cables PLC	3,243	21	9.0
Sierra Cables PLC	3,816	537	12.0
Central Industries PLC	2,375	21	5.9
ACL Cables PLC	10,422	240	8.7
Swisstek (Ceylon) PLC	4,174	137	7.0
Royal Ceramics Lanka PLC	42,654	1108	7.0
Lanka Walltiles PLC	18,782	273	6.5
Lanka Tiles PLC	14,854	265.3	6.0
Average sector PE			7.7

- Lanka Tiles PLC, a subsidiary of Royal Ceramics Lanka PLC, commands a significant market share of 37% in the floor tile market and 71% in the wall tile market in Sri Lanka through its manufacturing and selling of ceramic and porcelain tiles.
- TILE managed to record the highest profit in the history of LKR 2.4Bn for FY21 specially on the back of restrictions imposed on importation of tiles. This enabled local manufacturers like TILE to grab the market share of import tiles that accounted to 50%, which enabled them to increase the capacity utilization and maximize yields.
- We forecast a similar trend for FY22E too with profit jump of 23%YoY to LKR 3.0Bn, helped by pick up in construction sector that would bounce back to normalcy with the accelerated vaccine rollout, low interest rates and absence of import tiles.
- Pick up in construction sector is already visible when looking at the credit disbursed to construction sector. Despite a pandemic struck year, loans disbursed by commercial banks to private sector, construction segment grew by 13%YoY in 2020 helped mainly by sharp decline in rates (AWPR dropped by 400bps since pre pandemic time to 5.65%). Sri Lankan economy certainly has further room to pick up after the recent lockdown, where home builders' market is yet to see benefits from concessionary ceiling rates offered for housing which is now at all time low of 7%.
- We believe the local industries like tile manufacturers to be protected further as easing of import restrictions would be limited given the current SL's deteriorating reserves and depreciating LKR. However even at an event of any relaxation, we believe TILE could comfortably safeguard its market share by importing tiles from India (TILE has a subsidiary in India - Lanka Tiles (Pvt) Ltd- which is involved in contract manufacturing) like it did before and through its island wide coverage having over 600 customer touchpoints.
- Given the above, we are bullish on TILE and expect it to continue with its growth momentum, rising its bottom line by 23%YOY to LKR 3Bn by FY22E.
- We have arrived at our valuation based on a relative valuation method, taking an average earnings multiple of counters in construction materials sector. TILE stands at one year forward PE of 4.9x at current market prices, a significant discount to the average sector PE of 7.7x, which is unwarranted in our opinion. Hence, after a discount of 25% on the construction sector PE (7.7x), TILE would still trade at 5.7x which translates to a value of LKR 65.59, a 17% upside to the current market price. Along with the dividend yield of 12%, TILE should derive a total return of >29%. We thus recommend TILE BUY.

Source : Company annual reports, CBSL, CSE, Bloomberg