THE MATERIAL SECTOR

The Scavengers of Recovery

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Softlogic Stockbrokers

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An Export Arbitrage, *Exploiting the times, making money*	***Thriving*** *off LKR depreciation*	***Project Financing,*** *The lowest interest rates in years*

The industry may also strike a potential jackpot via the port city project, which may boost demand for many construction materials

Companies in the Material sector include local manufacturers of materials, importers and exporters of materials. These businesses cater to the supply of both industrial products and construction materials.

Source: SSB Research

The Material Industry

Gearing up for a super cycle, stimulus driven growth

Industry

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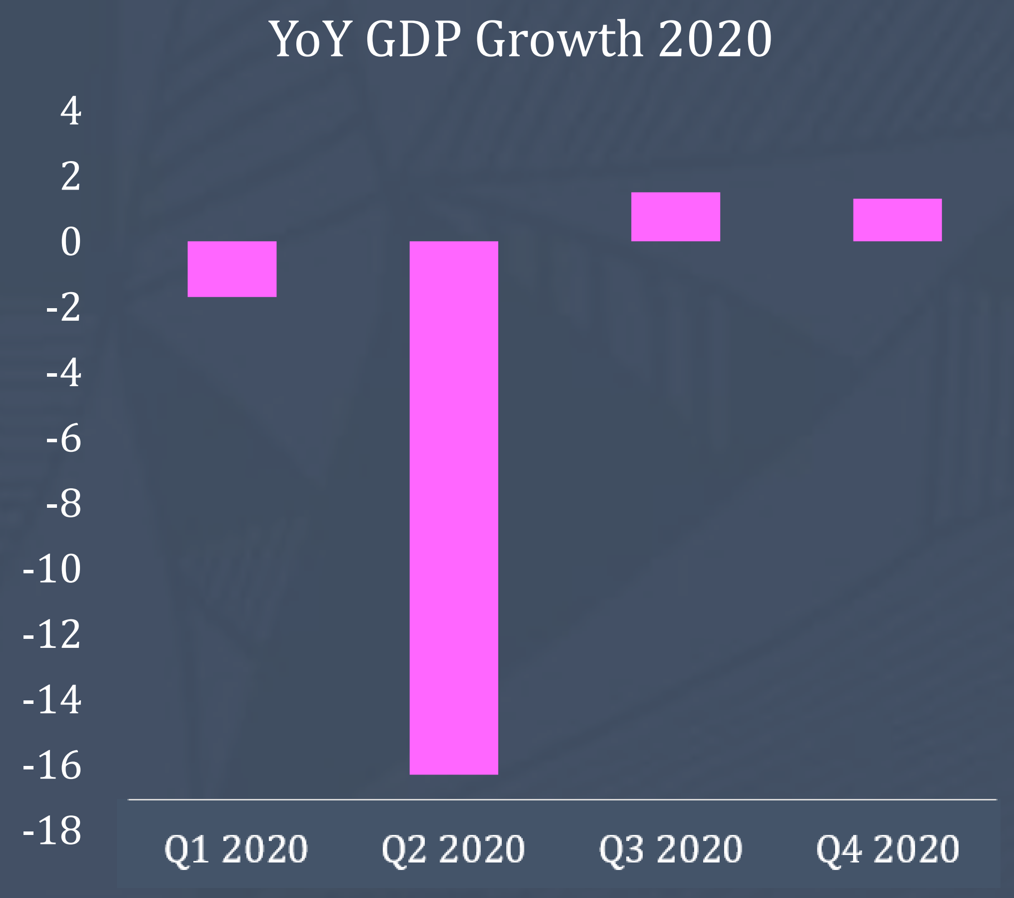
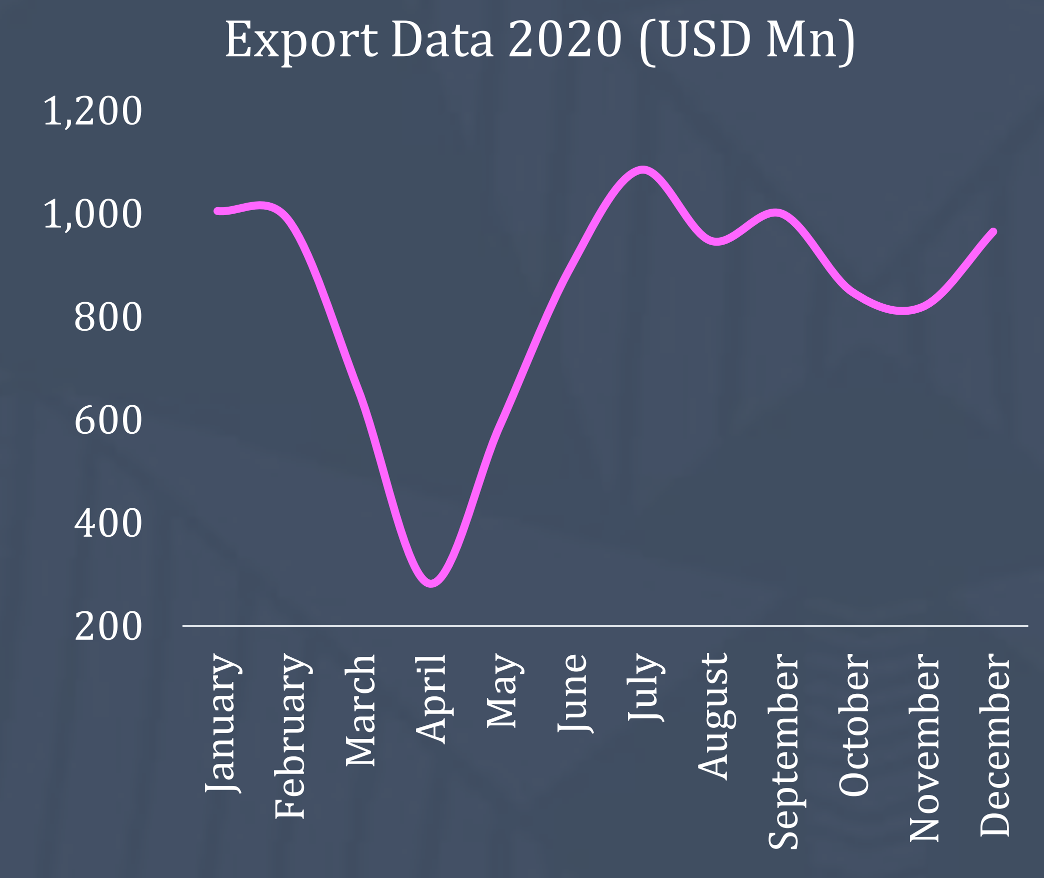
The Post-COVID Economic Revival; Having faced the wrath of the virus in mid 2020, the country has been on the path of a strong recovery

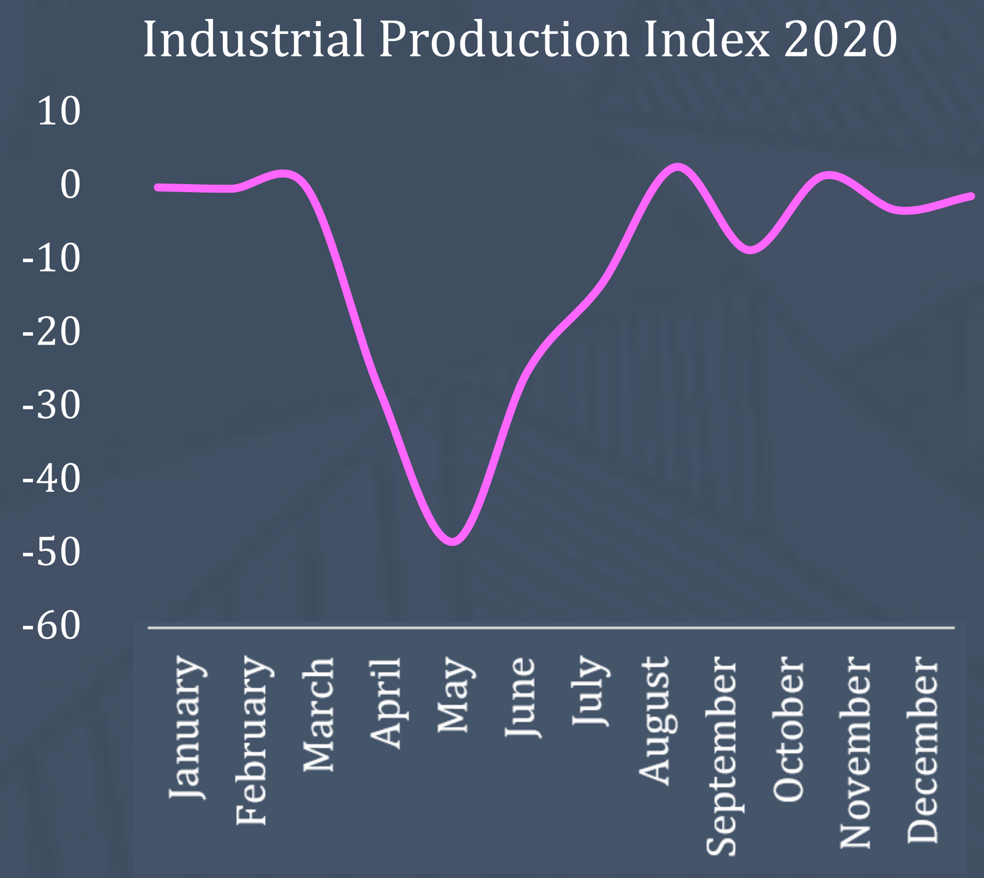
GDP Recovery



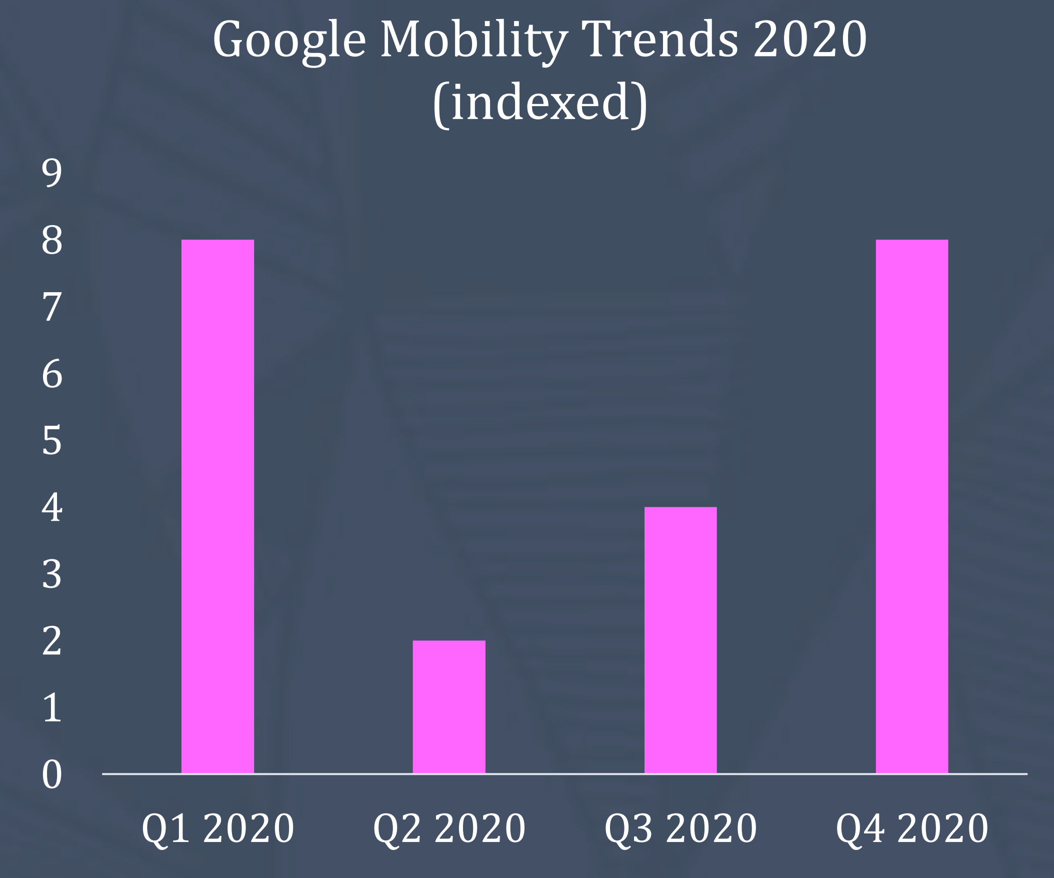
Export Recovery



Industrial Recovery



Mobility Recovery



Jan 2021 *First order of COVID vaccines*

Feb 2021 *First 500,000 doses arrive in Sri Lanka*

Mar 2021 *Orders for over 18 Mn vaccines*

Jun 2021 *Estimated 2 Mn / 10% to be vaccinated*

Dec 2021 *Estimated 5 Mn / 25% to be vaccinated*

Private and public investments will be the appropriate instrument for restarting the engine of the SL economy following the pandemic by building resilience while also creating jobs

Source: WHO, Newspaper Articles, CBSL, Google Trends, SSB Research

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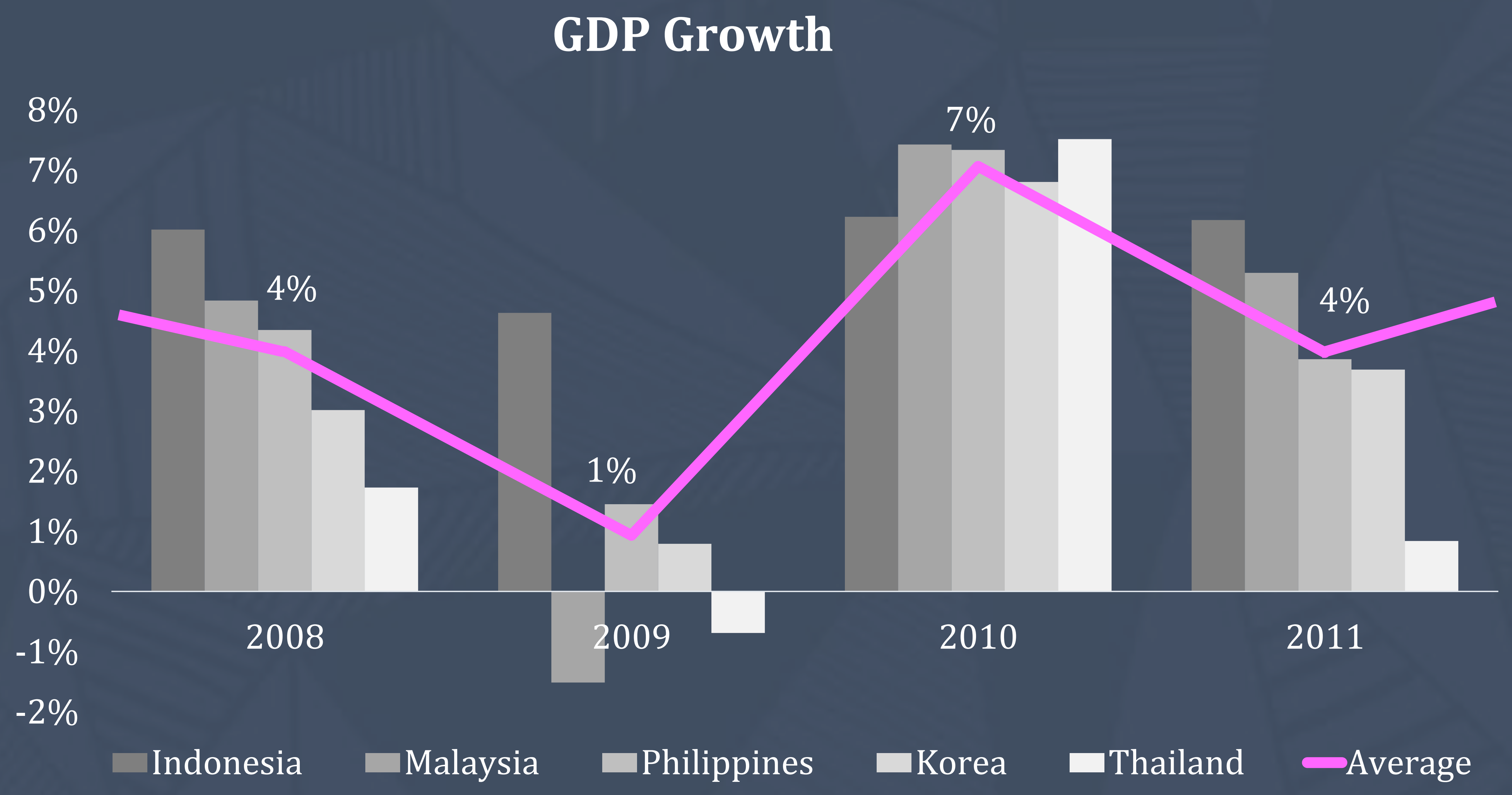
Exuberant government stimulus in peers after the 2009 financial crisis led to a strong 12-month recovery, a stance mirrored by SL in 2021

Types of stimuli offered to EM Asian peers at the point of the 2009 recession c.f. Sri Lanka in 2021

	Sri Lanka
Infrastructure Indonesia, Philippines, Korea	✓
Tax Breaks Indonesia, Philippines, Korea, Thailand	✓
Cash Transfers* Korea, Thailand	✓
Policy Incentives Indonesia, Philippines, Thailand, Malaysia	✓

Impacts of such stimuli over a 12-month period drove a strong GDP recovery, which may also be seen in SL



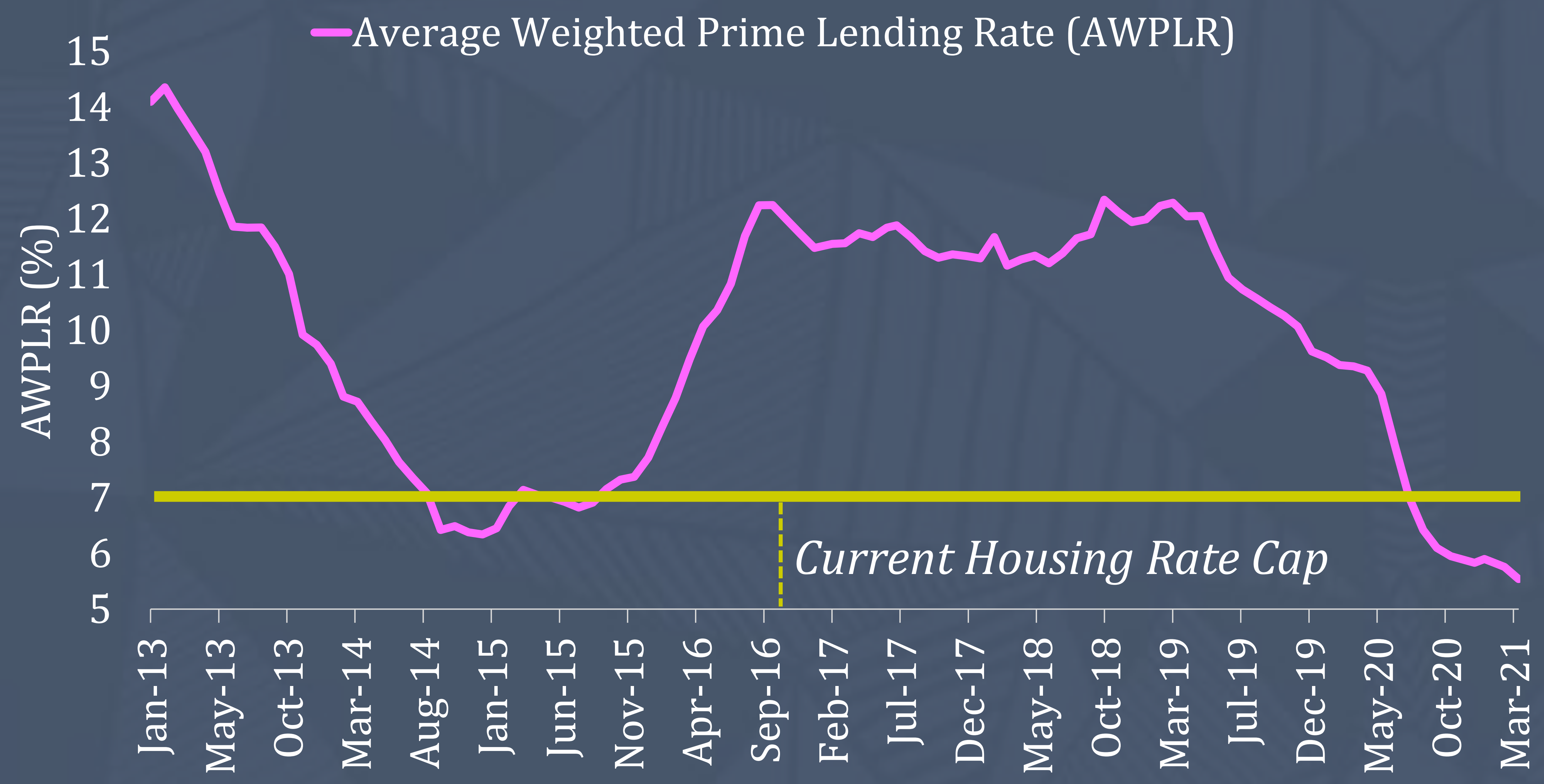
Stimulus sits well in politicized economies, as the direct economic benefit is enjoyed by the general public, leading to a growing popularity of those holding office, which further incentivizes such nations to extend strong stimuli.

**Note: Cash transfers include Stimulus checks such as the payments to senior citizens during the pandemic in SL*

Source: CBSL, SSB Research

Rate cuts would be the main driver of the recovery, backed by the housing loan rate cap which is expected to boost spending cycles

Whilst interest rates plummet to historic lows, the construction materials segment is a clear winner



Key benefactors from a rate cut include exporters and manufacturers planning debt funded expansions

Capacity Expansions
Local manufacturers may secure low-cost project financing

Reducing Finance Costs
A blanket short-term benefit for the industry

Consumer Spending Revival
As bank rates mirror inflation, consumption is inevitable

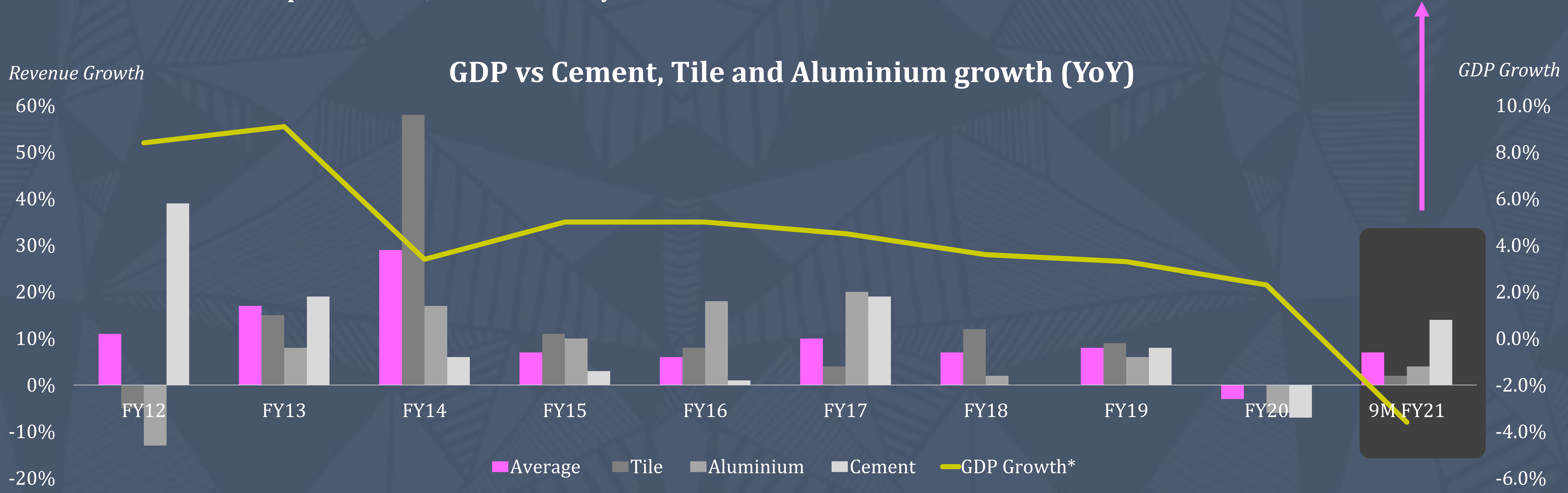
Balance Sheet Structuring
With bank rates at historical lows, firms restructure their balance sheets

Rate cuts would be the main driver of the recovery, backed by the housing loan rate cap which is expected to boost spending cycles and jolt the industry back onto the fast lane

Source: CBSL, SSB Research

Construction materials show an 85% correlation with GDP growth on a one-year lag, a trend that will be amplified by stimulus driven growth

With the construction and infrastructure segment being the key stimulant for economic revival, the 9MFY21 material industry growth broke the correlation to far outperform GDP, a trend that may continue in FY22E



Despite a strong correlation, the sector grew in 2020 owning to the strong stimulus and protectionist policies of the GoSL, a trend that would trickle down into 2021E backed by the economic recovery cycle

**Note: GDP (calendar year) is compared with the next financial year revenue as 9M performance is during the calendar year; (FY 21 c.f. 2020 GDP)*

Source: CBSL, CSE, SSB Research

The govt. circular on sourcing raw materials locally for state projects would ensure that growth remains within the walls of the country...

The circular specified the following materials to be sourced locally for state projects;

CEMENT
Tokyo Cement

ALLUMINIUM EXTRUSION
Alumex, Swisstek, Lanka Aluminium

BRICKS
Tokyo Cement (Cement Bricks)

DOORS
Alumex, Swisstek, Lanka Aluminium

CERAMIC AND GRANITE
Royal Ceramics, Lanka Wall Tiles, Lanka Tiles

FLOORING
Royal Ceramics, Lanka Wall Tiles, Lanka Tiles

PVC PIPES
Central Industries

SWITCHES
ACL Cables, Kelani Cables, Central Industries

ELECTRIC CABLES
ACL Cables, Sierra Cables

TRANSFORMERS
N/A

WOODEN FURNITURE
N/A

WATER PUMPS
N/A

REINFORCING STEEL
N/A

ROLLER GATES
N/A

ROOFING MATERIALS
N/A

BRASS WORKS
N/A

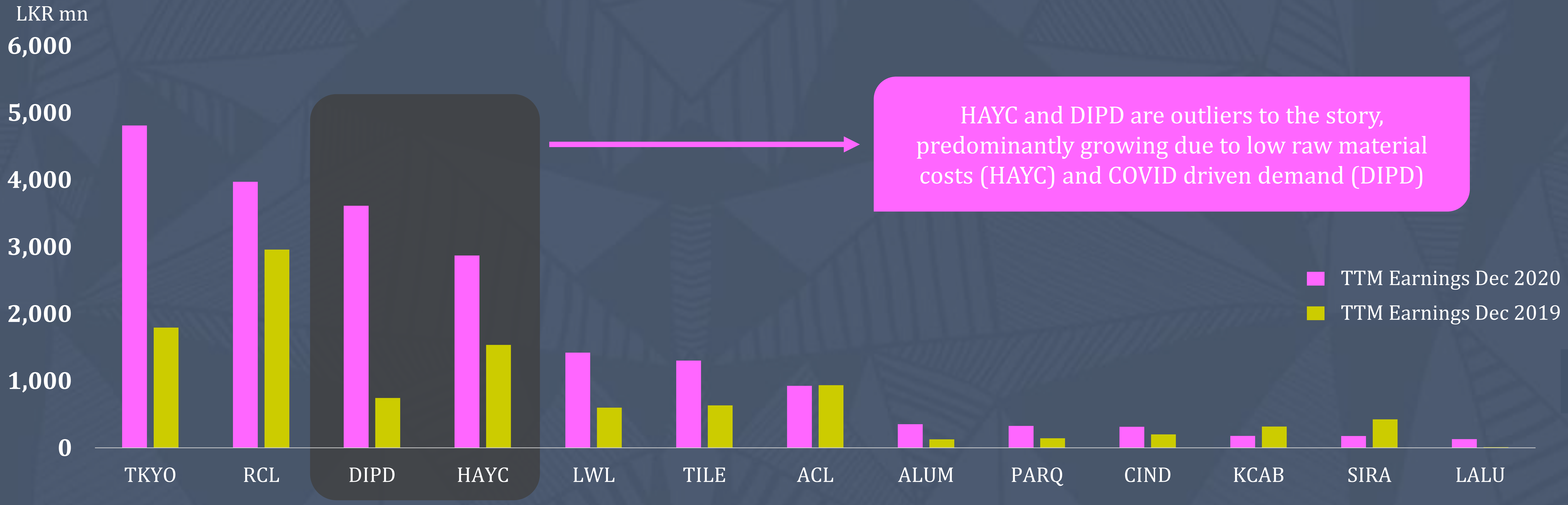
PAINT
N/A

CURCUIT BOARDS
N/A

Source: Public Finance Circular No. 3/2020, SSB Research

…leading to a boost in the material sector, backed by protectionism and import restrictions as maintaining the LKR becomes a top priority

A dream run for local manufacturers as the market dynamics shift towards a near monopolistic stance…



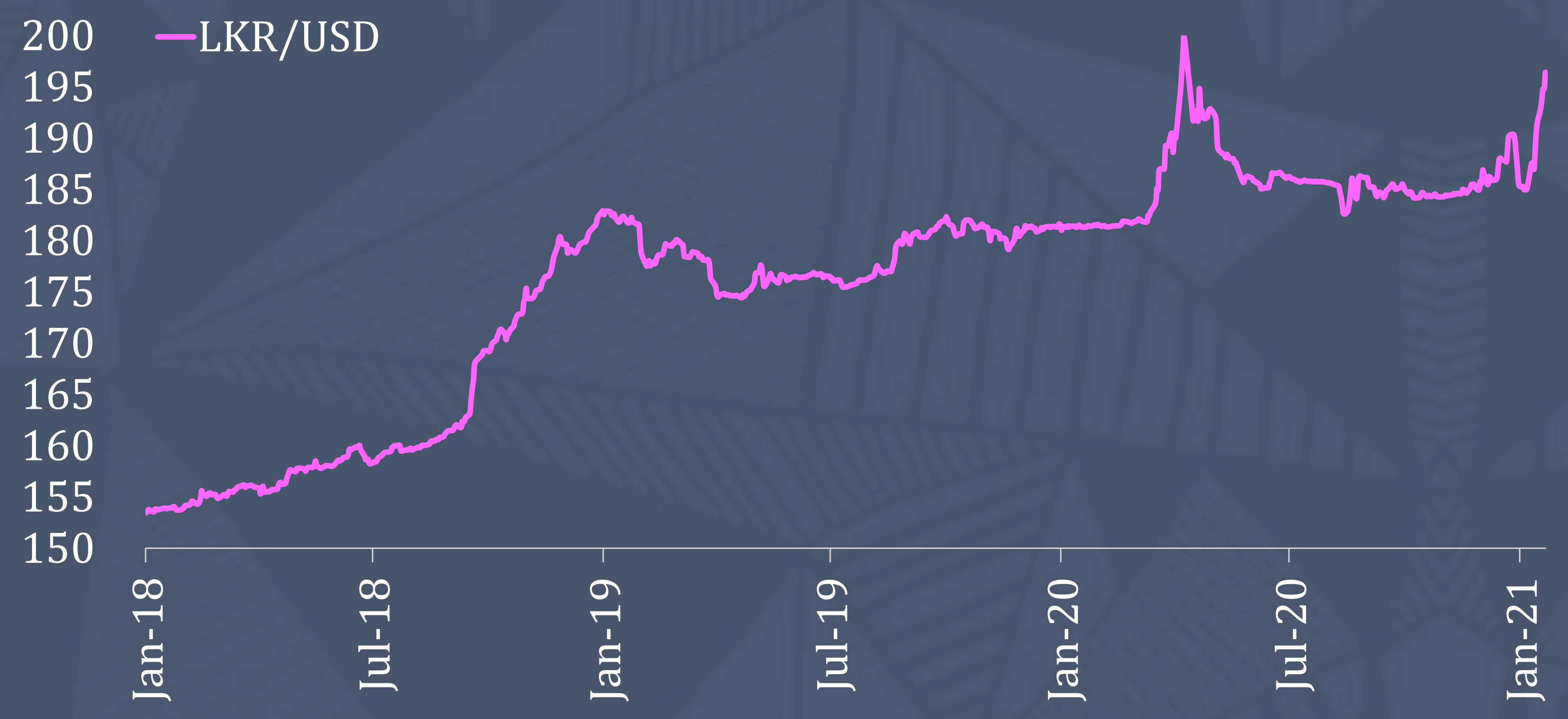
With protectionism on the rise locally since 2019, intensified LKR depreciation will exert pressure in maintaining protectionism, while local manufacturers cruise through this development

Source: CSE, Company Data, SSB Research

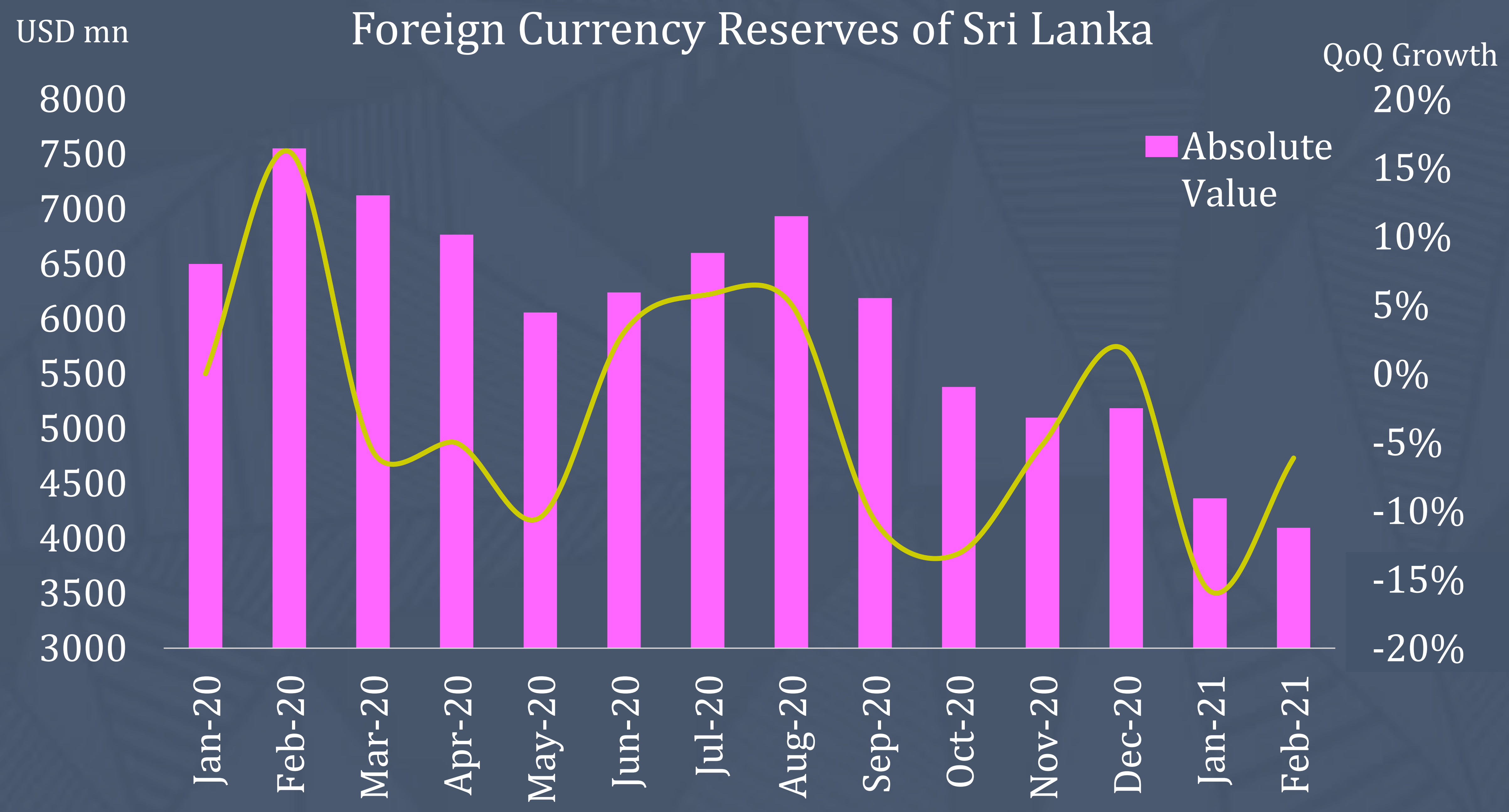
However, if the LKR depreciates further, it will still benefit exporters and local manufacturers who compete with cheaper imports

The LKR continued to depreciate against the USD and key import destinations, dipping further in 2021

LKR/MYR	LKR/INR	LKR/SGD	LKR/RMB
-15%	-12%	-13%	-15%



Whilst high debt repayments and a low reserve base makes it difficult for the GoSL to hold currency



Strong LKR depreciation vs import destinations of competing products would mean an additional price hike would be passed on to the customer, making locally manufactured products more competitive

Source: CBSL, SSB Research

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With over 11,000+ new urban housing projects in at multiple stages of completion, multiple segments would stand to benefit the next 3 years

Cement = LKR 3.8bn ***Aluminium = LKR 1.9bn*** ***Cables = LKR 1.1bn*** ***Tiles = LKR 2.2bn***

The Foundation Stage

~3,500 Units
Planned by 2023

~400 LKR per Sqft.
of total cost per Sqft

The Superstructure

~3,300 Units
Planned by 2022

~400 LKR per Sqft.
of total cost per Sqft

The Final Touches

~4,250 Units
Planned by 2021

~250 LKR per Sqft.
of total cost per Sqft

~100 LKR per Sqft.
of total cost per Sqft

~200 LKR per Sqft.
of total cost per Sqft

~175 LKR per Sqft.
of total cost per Sqft

Source: UDA, Industry Sources, SSB Research

New legislature for Port City and REITS would provide investors with new investment structures, driving the material sector in the long run

With REITS being approved in the CSE, it is likely that 2021 may witness the first listing

Legal Structure
Approved, gazetted and publicized

Internal Factors
Firms may wait for a first mover to test the waters

External Factors
Borrowing rates conducive for a sound debt-equity mix

Processing Times
Whilst countries are slow to start, 2nd level growth is rapid

The 'Port City' project would boost cables, aluminium and the cement industry in the medium-long run

4.4 Sq Km
Total Land Area

0.7 Sq Km
Buildable land owned by the GoSL

4.4 Sq Km
The electrification via a new grid would be set up by the CEB, driving demand for local cable producers

0.7 Sq Km
State and other local construction projects would benefit local cement and tile manufacturers

1.8 Sq Km
Total buildable area would benefit the local aluminium extrusion segment which has the capacity to supply

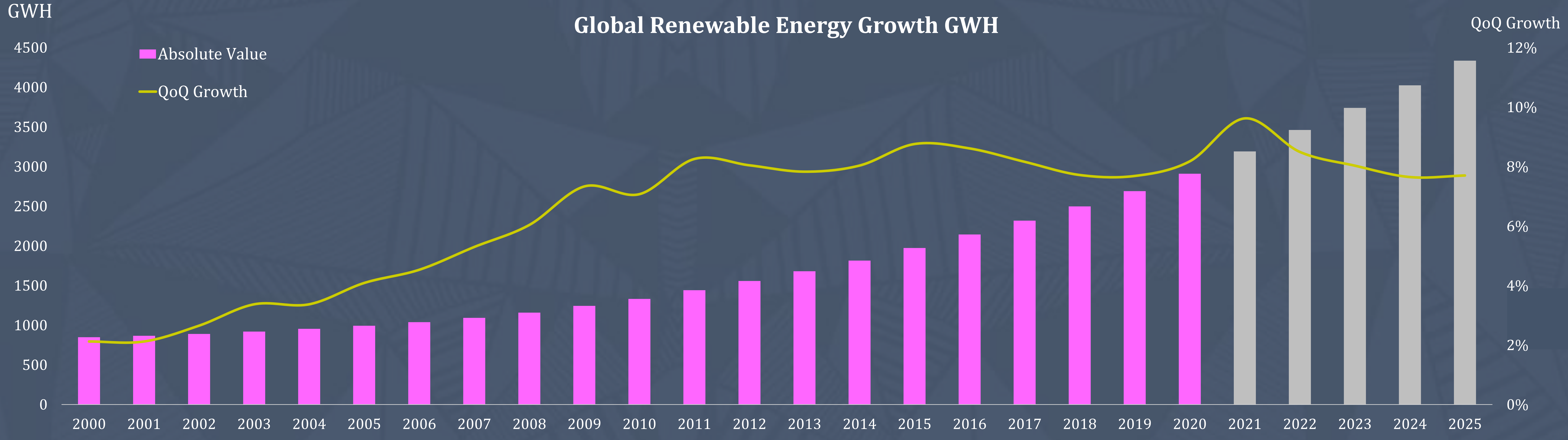
4.4 Sq Km
Setting up the pipe network would be via the water board, that would help local pipe manufacturers

The port city project and the REITs infrastructure could result in a phenomenal growth drive for the construction material sector. However, we regard this as an additional boost and have not factored this in our valuations

Source: CBSL, Bloomberg data, SSB Research

The sustainable drive may be the trump card of the sector, as the world makes a shift to renewable energy sources…

The global shift to renewable energy sources would lead to the creation of demand in supporting sectors and construction materials that are required for the setting up of such facilities which have been growing 8-10% YoY



Therefore, a transformation towards clean renewable energy sources would lead to a twofold benefit to the material segment, via fresh capacity additions and switching costs.

Source: International Energy Agency, SSB Research

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...which would lead to a strong growth in industries that thrive with the expansion of the renewable energy segment

The material requirements for the construction and implementation of rooftop solar plants

Aluminum

Frames used to mount the solar panels

Cables

AC and DC cables in connecting to the grid

The trickle-down effect of modern renewable energy solutions would benefit producers to green industries

Activated Carbon

The EV market is expected to boom fueled by strong innovations and competition, driving demand for super-capacitor carbons as well as the general battery and capacitor requirement in electronic devices.

Did you know...

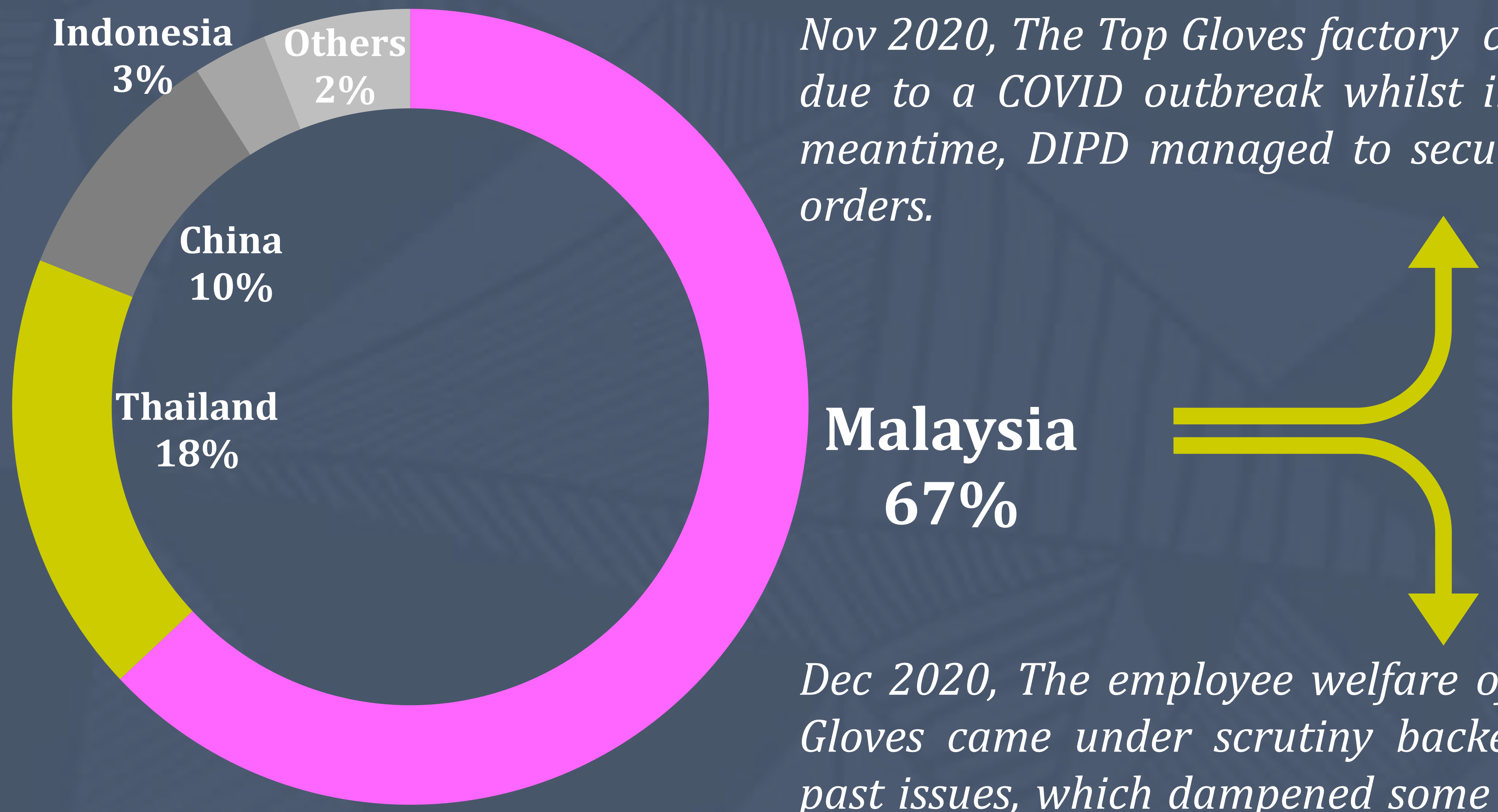
The world's richest man Elon Musk, offered a USD 100 mn prize in 2021 to a person who could bring a sustainable innovation in air purification.

The Sri Lankan Solar power generation capacity is projected to triple in size by 2030, growing organically at a 11.4% CAGR over the next 10 years, whilst the recent budget calls for rooftop solar alone to grow by 500MW by 2023.

Source: Industry Sources, SSB Research

As COVID affected global supply chains and major players reduced their exposure to individual geographies, Sri Lanka was an option for supply chain diversification

The global hand gloves market has Malaysia leading the pack, therefore importers may look to diversify



Nov 2020, The Top Gloves factory closed due to a COVID outbreak whilst in the meantime, DIPD managed to secure its orders.

Dec 2020, The employee welfare of Top Gloves came under scrutiny backed by past issues, which dampened some of its ESG aspects.

However, diversification may be risky given labor issues in peer markets and standards that western firms require

USA sanctioned China's Xinjiang province in 2020 for human rights violations

Typical "Cheap Labor" countries such as Vietnam comes with the risk of a higher child labor rate (9%)

It was recently highlighted that there were multiple forced labor issues in Taiwan's fabric mills

In this context, countries like Sri Lanka who have maintained a good track record in other export industries, stands to benefit

We believe that importers will look at alternate options to diversify its exposure to Malaysia and with 5% of the global market share, being strategically diversified in Thailand and Sri Lanka, DIPD is positioned to capitalize on this shift

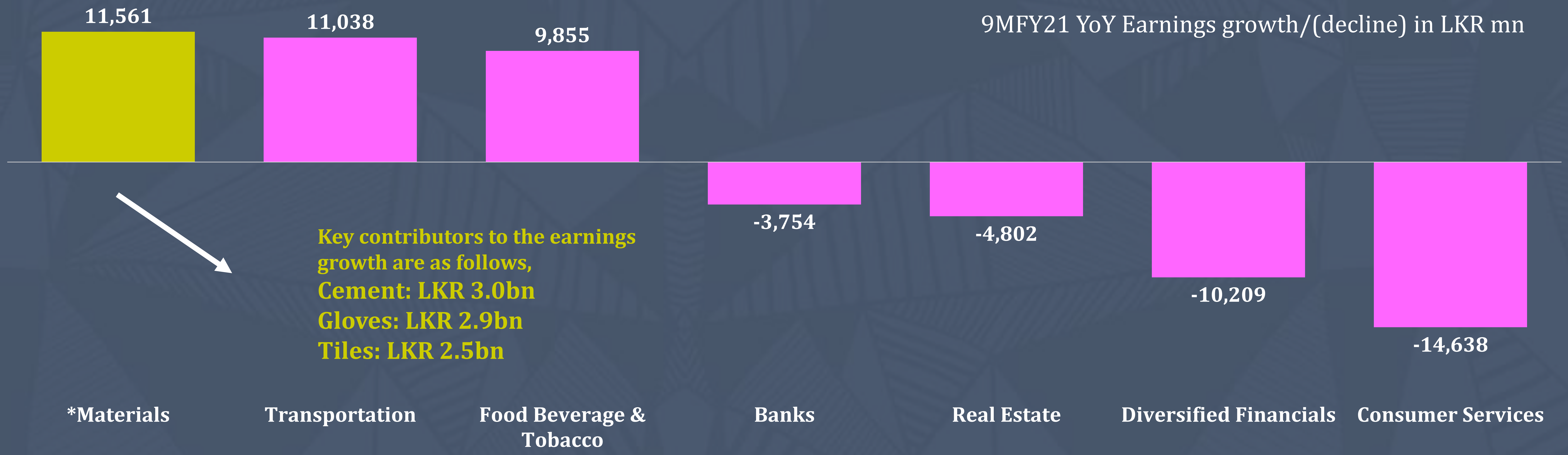
Source: , MRGMA, JP Morgan Reports, SSB Research

The Material Industry

A resurrected segment, rising-up amidst the pandemic

Best earnings growth: Materials sector earnings increased by LKR 11.6bn in 9MFY21 driven by protectionist policies of the GoSL

The material sector witnessed the highest bottom-line growth in absolute terms during the pandemic-stricken period, growing by c. LKR 11.6bn in just nine months.



The material sector witnessed the highest bottom-line growth in absolute terms during the pandemic-stricken period, growing by c. LKR 12bn in effectively 6 months due to the 3 months of complete lockdown.

**Materials sector includes tiles, pipe and cables sector performance. For better representation, the sectors which don't have earnings variance above/below LKR 2bn excluded here*

Source: CSE, Company data, SSB Research

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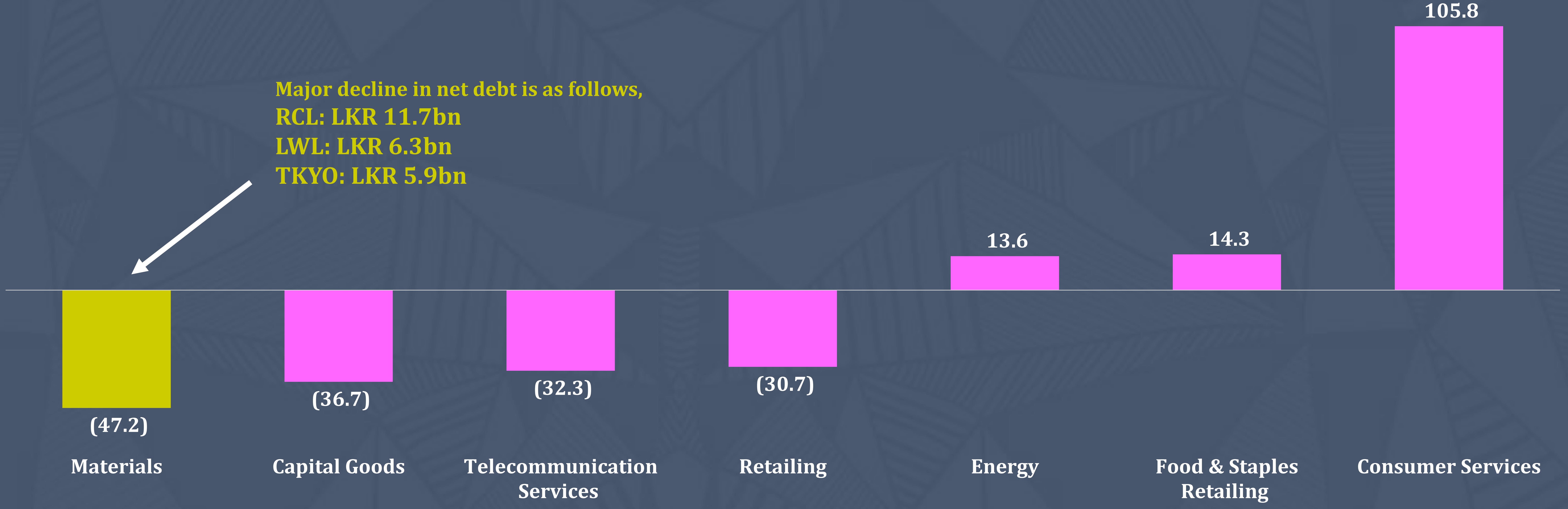
The exponential growth in operating cash flow enabled the material sector to reduce its net debt component by LKR 47bn in 9MFY21

(Decline)/Increase in net debt position in LKR bn as of 9MFY21 cf. 9MFY20



The reduction in net debt was mainly due to the protectionist mechanisms implemented by the Government of Sri Lanka to protect the LKR against depreciation. The import controls allowed local players to sell off long standing inventories.

Food & Beverages, Consumer durables, Utilities, Healthcare and Transportation excluded due to less than LKR 5bn movement in net debt

Source: Bloomberg, Company data, SSB Research

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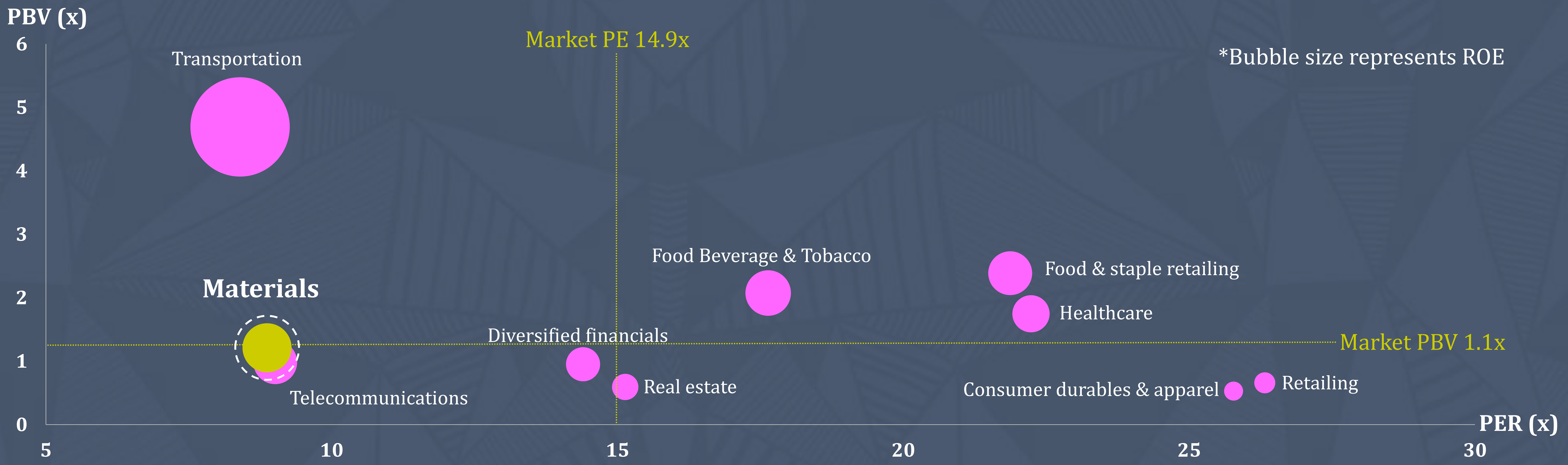
Valuation discount presents opportunity: The material sector is trading at nearly a c.40% discount to the market PE of 14.9x

Our positive outlook on the material sector is based on how the industry transformed itself during the lockdown period, selling their stockpiled inventories and significantly improving CFROI.



We believe that the market is undervaluing the sector's growth opportunity which is expected to stem from stimulus, the shift towards sustainable energy infrastructure and the prevailing lower interest environment.

**Household & personal care products, insurance, banks, construction, professional services, capital goods and utilities are excluded from the above chart for better representation*

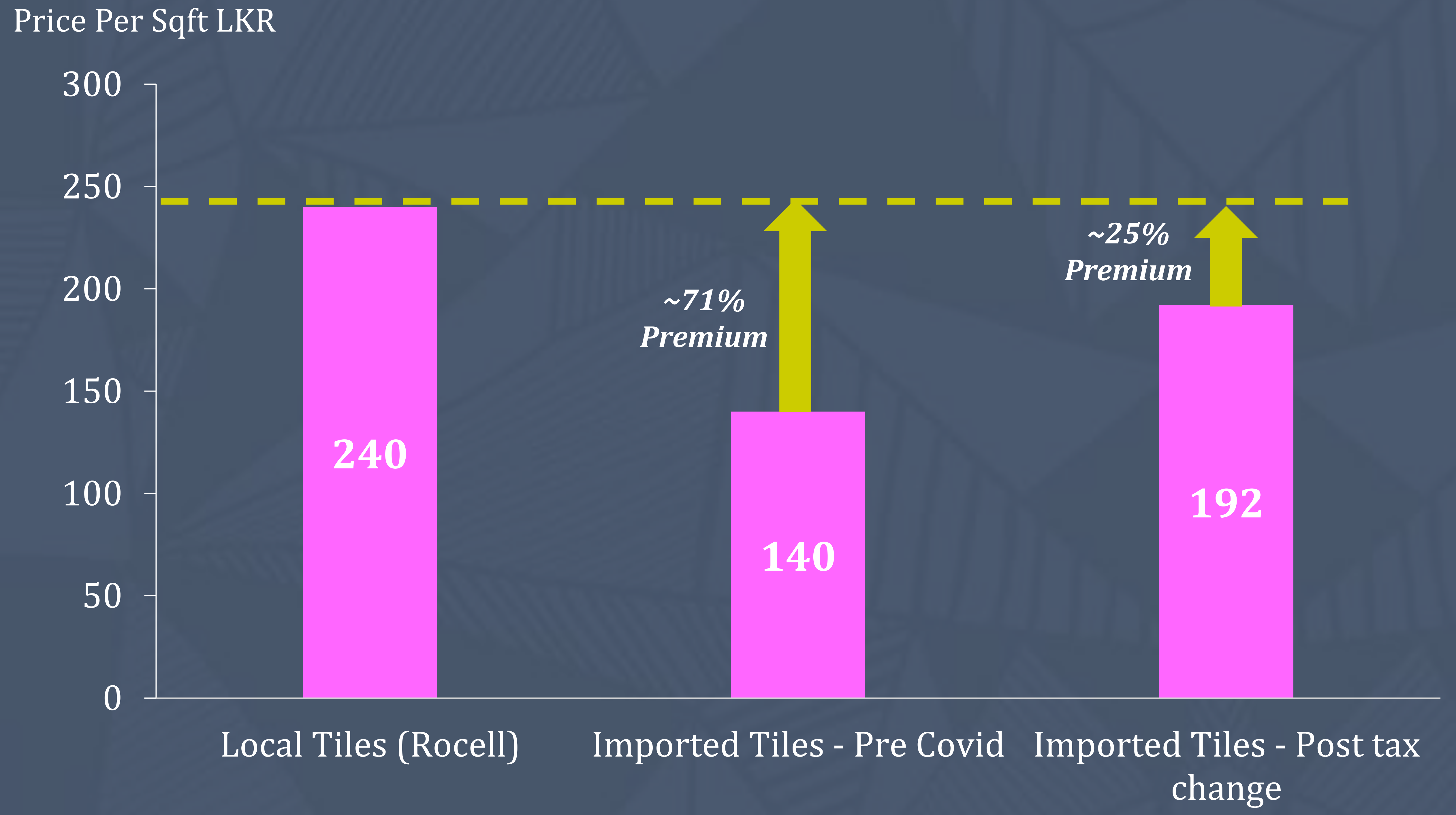
Source: Bloomberg, CSE, SSB Research

The Tile Industry

A protectionist driven monopoly market...

A TAX ARBITRAGE: The (180-day) LC period may wipe out small importers, helping local producers despite the c.25% price premium

The CESS revision of LKR 490/sqm narrowed the pricing gap between imports and locally produced tiles



CESS per different tile sizes

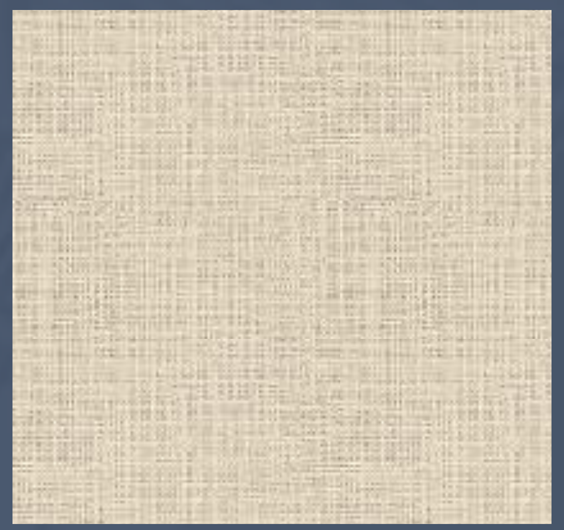
Wall Tiles

300mm x 450mm (1'x1.5') – LKR 66.2
300mm x 300mm (1'x1') – LKR 44.1

Bathroom Floor Tiles

300mm x 300mm (1'x1') – LKR 44.1

Industrial/Factory Floor Tiles



400mm x 400mm (16'x16') – LKR 78.4
300mm x 300mm (1'x1') – LKR 44.1

Residential/Commercial Floor Tiles

600mm x 600mm (2'x2') – LKR 176.4

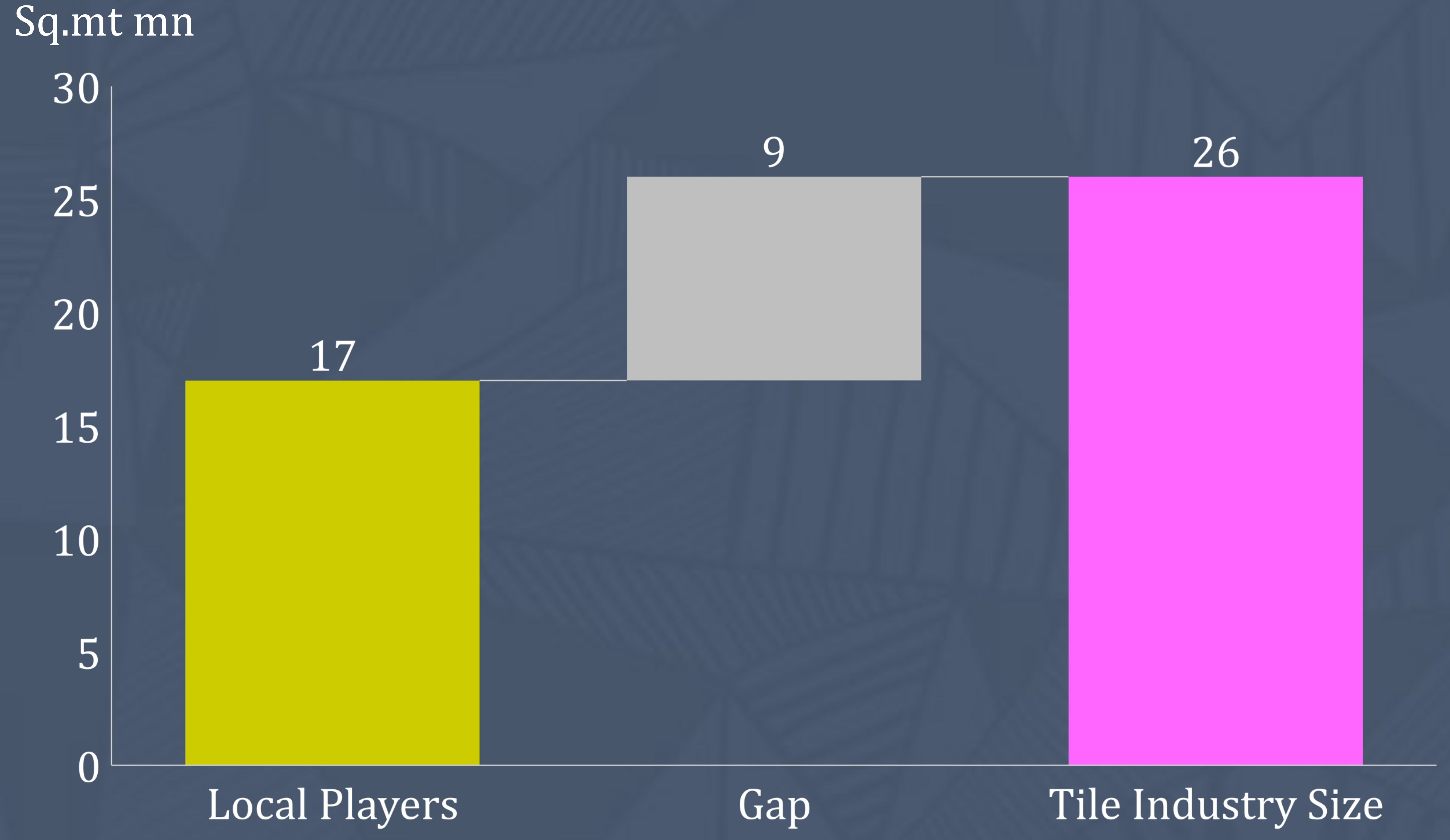
Quality and durability is a reason for the premium pricing of local tiles, giving them an edge over imports, whilst the recent tax revisions on Tile import CESS further narrows the pricing gap, making it a level playing field

Note: Import prices based on industry sources. Total tax amount to ~LKR 73.7/sqft when factoring in a CESS of LKR 490/sqm, whilst the total cost for importers c. LKR 116.0 (using ~USD4.0 per sqm)

Source: Department of Import & Export Control, industry sources, SSB Research

Local tile manufacturers may import amidst relaxed import restrictions to further enhance profitability due to the pricing difference

Local producers can only accommodate ~65% of total avg industry demand, making imports an essential part of the industry



Local producers would continue to dominate the market taking control of imports to receive higher margins

Given the ability to import much cheaper tiles from India and China, the local tile manufacturers are likely step up and commence importation.

Further, the local players could also opt to gain higher profitability margins amidst lower costs and higher retail prices compared to importers

Sufficient domestic demand for all: An additional demand of ~9 mn sqmt, the importers could cater the vacuum whilst collaborating with local players.

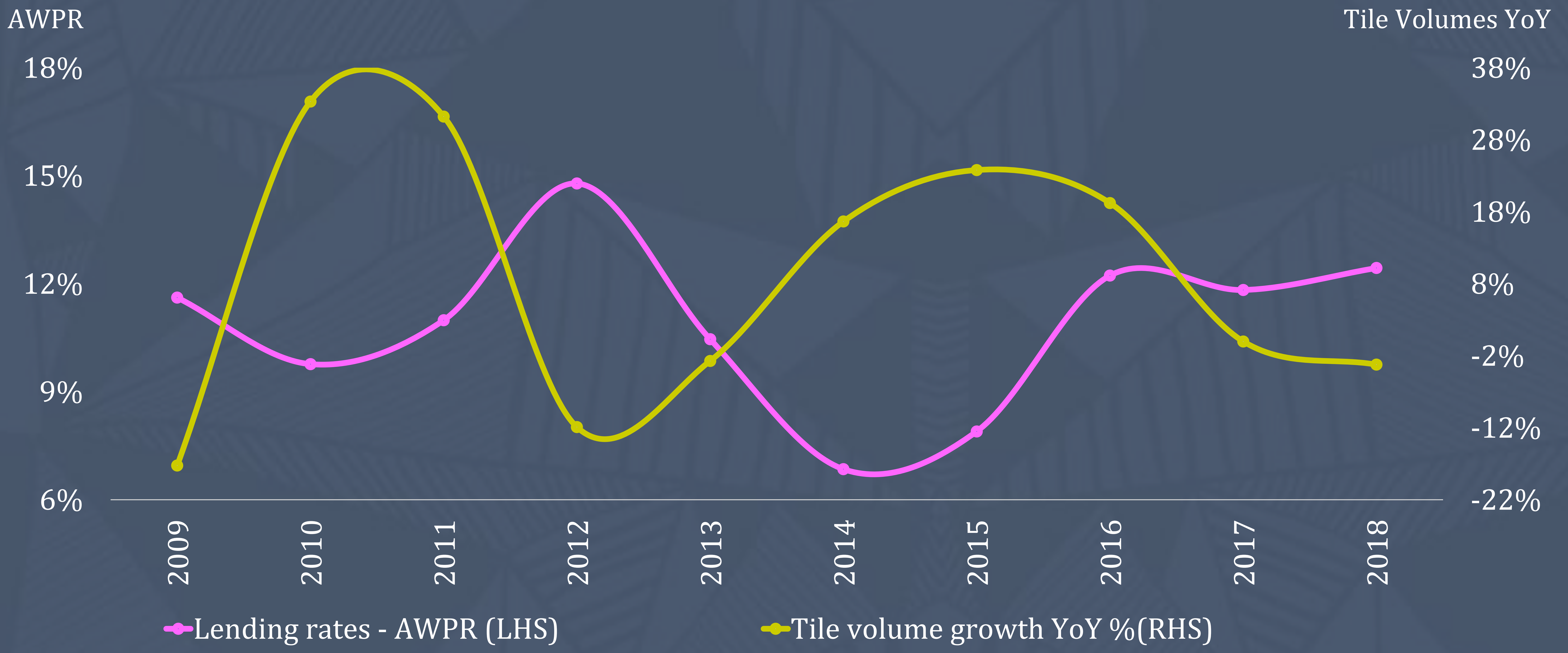
In the event of significant LKR depreciation, importers may turn back to local players to reduce currency risks.

Local producers are a major importer of tiles and they face a unique advantage of being able to price imported tiles at a 25% premium with their own products, which provides a higher margin compared to regular importers

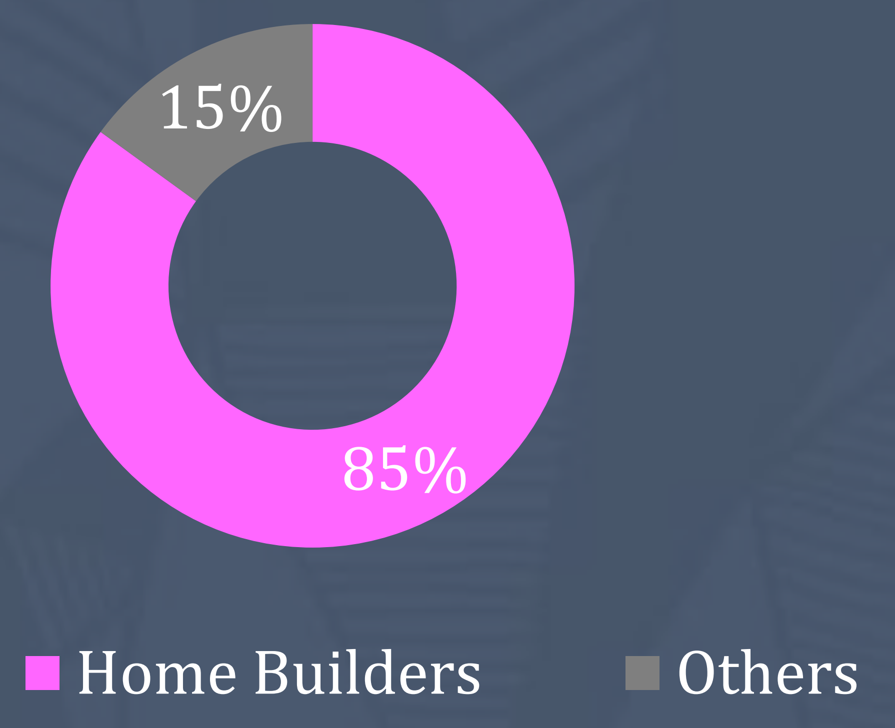
Source: Industry sources, SSB Research

The inverse co-relation between AWPR and tile volumes bodes well as low lending rates are expected to boost higher housing expenditure

The direct boost on consumer spending via reduced lending rates to bode well for a rebound in tile volumes



Home builders contributed to ~85% of tile volumes



The rise in housing approvals which slowed down in 2020 amidst pandemic induced sentiment, is expected to witness a sharp recovery in the coming years which may directly benefit home builders' market growth.

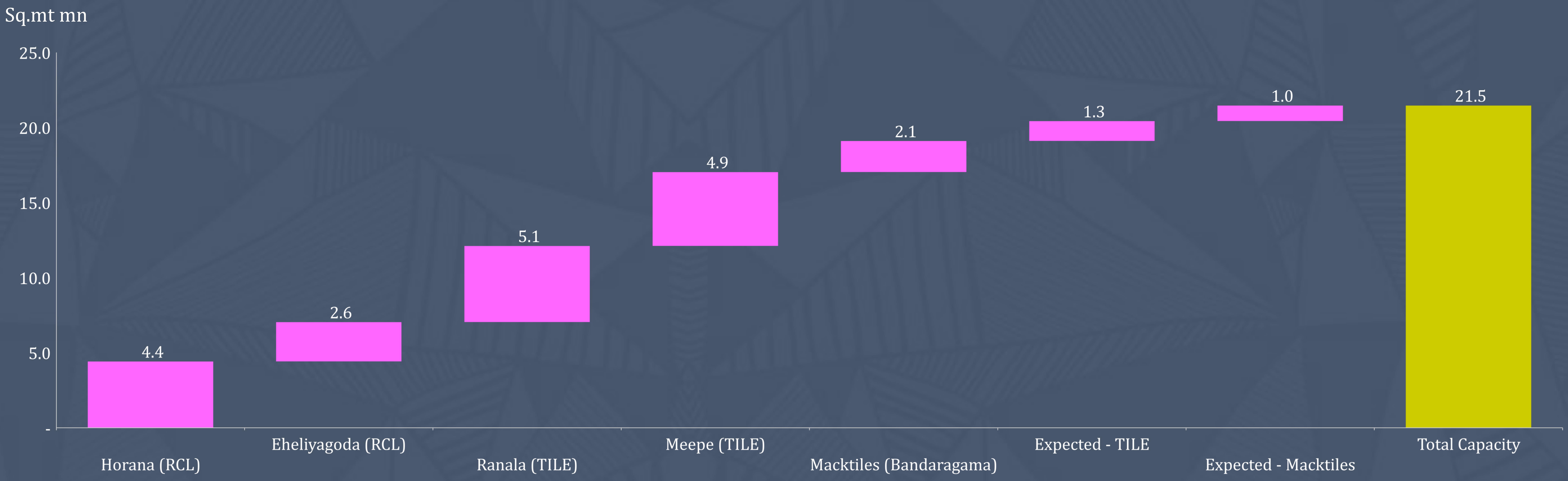
Lending rate cuts directly propel tile volumes on a 1-year lag. Therefore, the tile volume spike seen in 2010/11 and 2014/15 amidst lower interest rates backed by a growing home builders' market could be mirrored in 2021/22E.

Note: the graph is adjusted for a lag of 1 year

Source: CBSL, Industry sources, SSB Research

POTENTIAL EXPANSION PLANS: Capacity expansions proposed by local players to cater the vacuum if protectionism continues

The potential capacity enhancement plans could further aid to narrow the supply gap in the medium term



- TILE in Jun'2019 completed an LKR 2.2bn capacity expansion
- TILE also commenced a mosaic tile plant with an investment of LKR 200mn in Jun'2020 (annual capacity of 0.5 mn sq.mt)
- Mack tiles has also expected to add ~50% capacity by mid-2021 given the rising demand in the domestic market

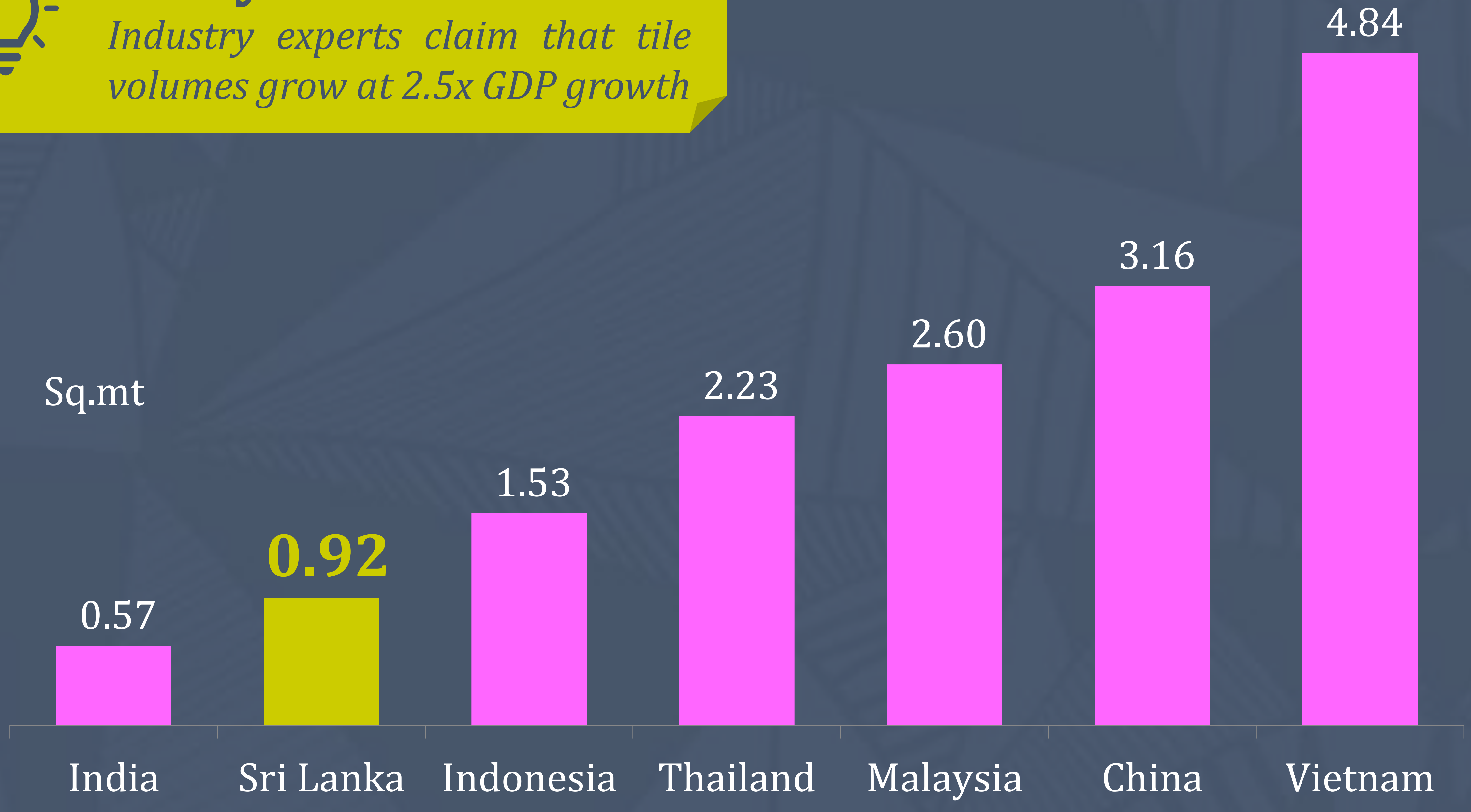
Note: Although the total maximum capacity is 19.1 sq.mt mn (100% utilization) , the industry produces c. 17 sq.mt mn on avg.

Source: industry sources, Company data, SSB Research

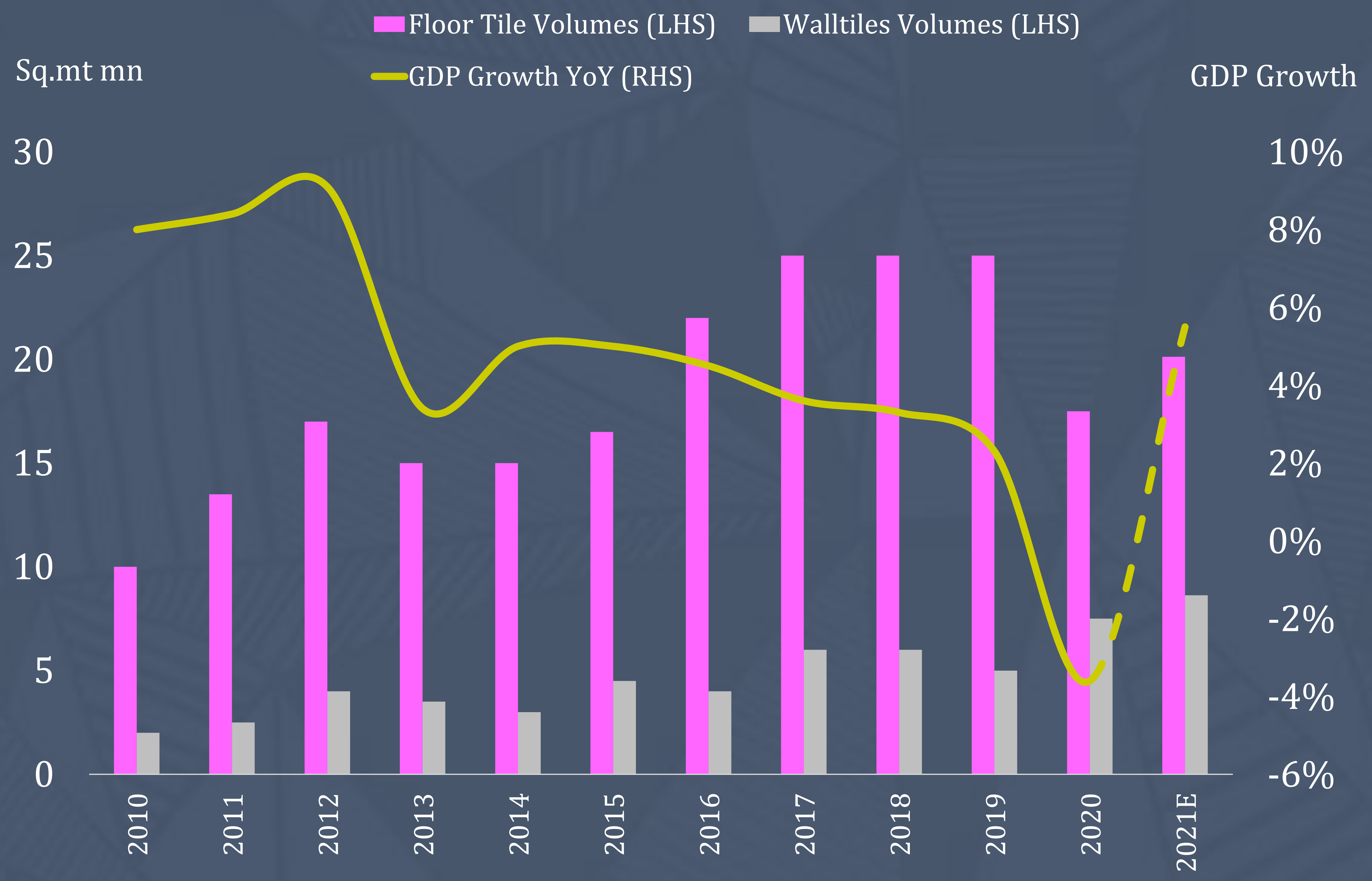
A low per-capita tile consumption in SL gives room for expansion in the medium term, whilst a recovery cycle may boost short term demand

Sri Lanka's per capita tile consumption is at a ~59% discount to the regional tile consumption average

Did you know...
Industry experts claim that tile volumes grow at 2.5x GDP growth



Despite low growth during the lockdown period, the construction boom will drive the next growth phase



The tile industry saw a ~11% CAGR from 2014–19 vs. a GDP CAGR of ~4%. Thriving domestic demand amidst import restrictions, stimulus and a growing quality focused export market may call for an industry-wide capacity addition

Source: Statista, Company reports, industry sources, SSB Research

The tile requirement for housing & commercial projects would unleash the true color of a booming tile demand as the economy shifts gears

The tile requirement over the coming years would be driven by private condominiums and UDA projects

The Urban Development Authority

State sanctioned housing projects

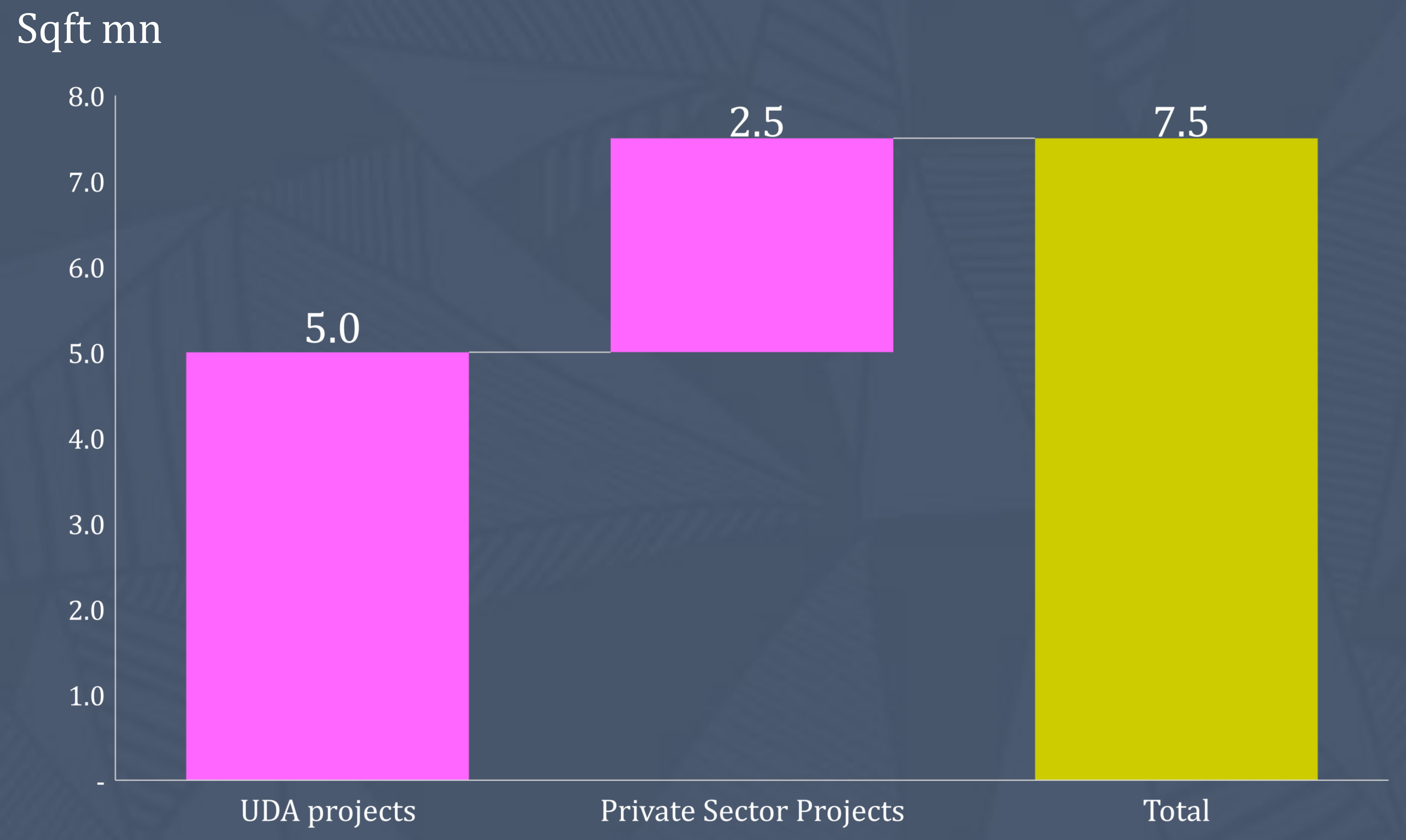
~5,010 nos **5.0 mn Sqft** **LKR 1,196mn**

The Private Sector

Hotels, apartment projects and housing schemes

~6,084 nos **2.5 mn Sqft** **LKR 601mn**

The thriving demand for infrastructure development in Colombo is a clear driver of tile volume growth



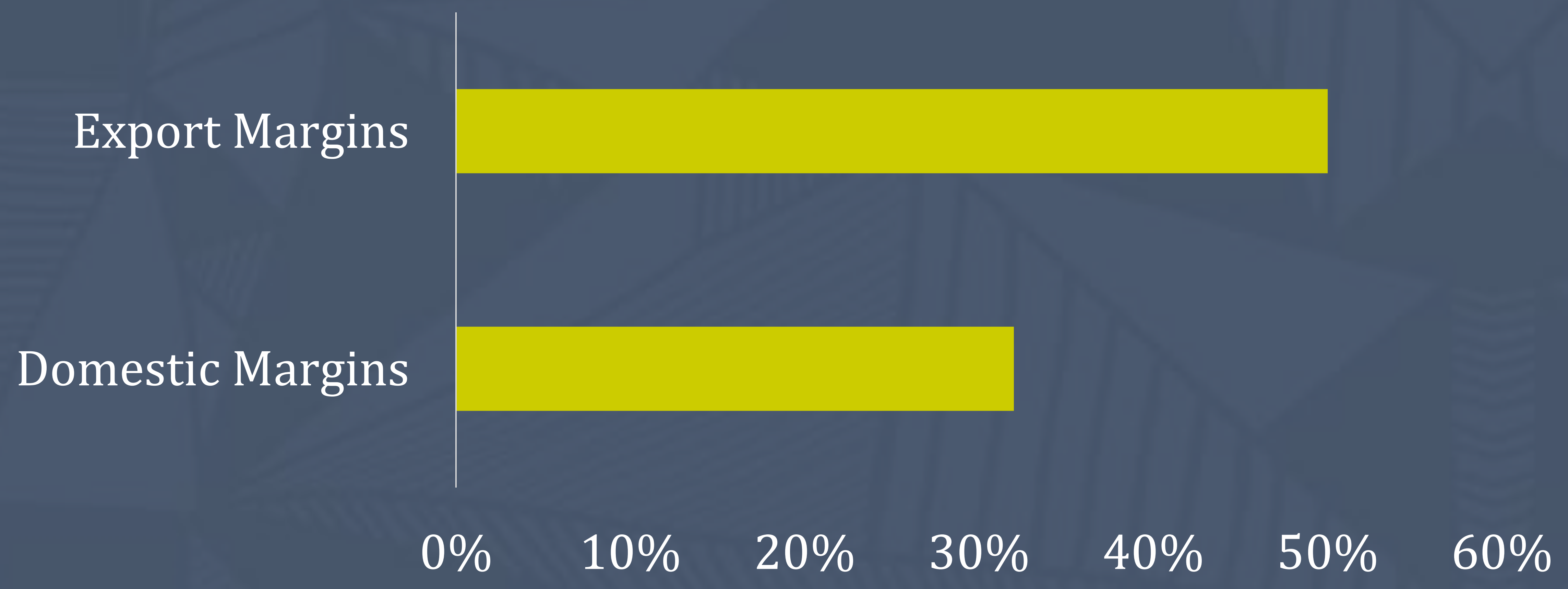
The number of up coming condominium and commercial projects would warrant a significant growth in the industry over 2021 – 2023E, given that most state projects would be fully tiled middle income housing schemes

Note: UDA projects assumed to be fully tiled, private sector assumed to use ~50% of this, with an avg unit size of ~995 sqft

Source: UDA, Industry sources, SSB Research

INNOVATION THE WAY FORWARD: Local tile producers have focused on R&D for value added products to boost the high margin exports

The GP margins of exported tiles are ~1.5x higher than domestic tiles given its premium quality



The Main export markets for tiles

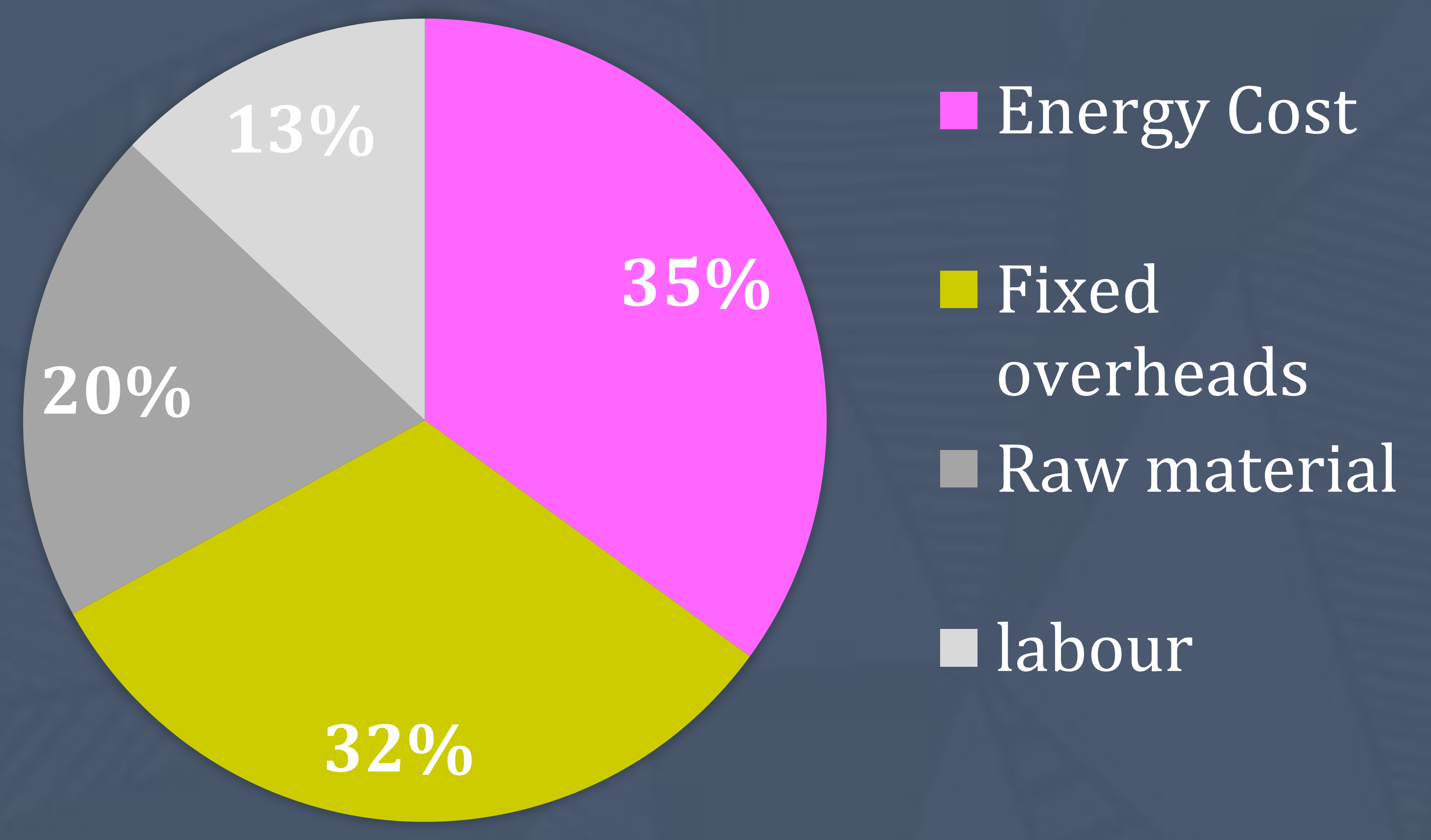
- Sri Lanka exported ~USD 5mn worth of tiles in 2019 which was a dip of -18% YoY.
- Local tile manufacturers have now focused on producing value added tiles such as glaze porcelain and mosaic tiles whilst making investments of around LKR 200mn – 1bn which are priced ~25-30% higher than domestic tiles amidst the advantage of the weakening currency.
- The global mosaic tile market stood at USD 1.6bn in 2017 and is expected to grow at a +8% CAGR through 2025E assuring higher demand for mosaic tile exports.

Source: Company reports, Industry sources, SSB Research

GEARS IN HAND: Access to local raw materials allows SL tile producers to negate currency pressure and freight costs giving an edge over other industries dependent on imported raw materials

Raw Material	**Feldspar**	**Kaolin**	**Sand**	**Ball Clay**
Location	Balangoda/ Ovala	Meetiyagoda	Suduwella	Dediyawela
Avg domestic price (LKR/MT)	**LKR 3,600 – 4,000**	**LKR 2,950 – 3,200**	**LKR 9,400 – 10,000**	**LKR 20,000 – 22,000**
Avg Import Cost (LKR/MT)	**LKR 10,947 – 14,946**	**LKR 15,935**	**LKR 17,900 - LKR 23,900**	**LKR 29,600 - 39,600**

Cost breakdown in the normal tile manufacturing process

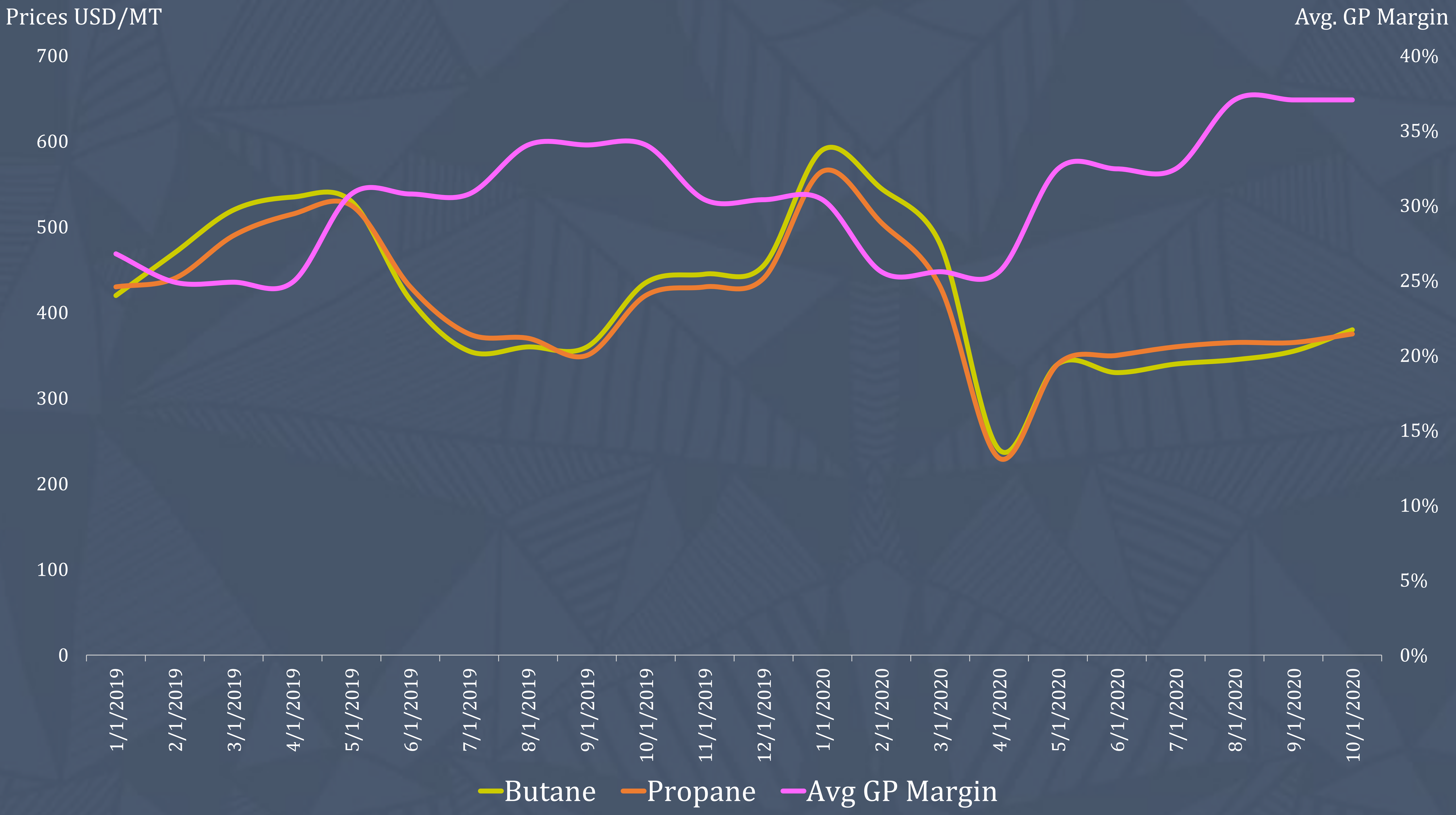


Raw materials which accounts for ~20% of total costs in tile manufacturing, creates a significant cost saving when sourced locally against the much higher prices of imports as no additional freight charges and LKR depreciation factored in.

Source: Company reports, Industry sources, SSB Research

SAFEGUARDING MARGINS: Cost saving measures such as TPM and reduced cycle time may partially negate the fuel price impact

LPG costs accounts for ~35% of the total cost which directly impacts margins



- The volatile global LPG prices amidst an influx of cheaper tiles from countries like China and India makes it challenging to sustain the GP margins of local tile sector players.

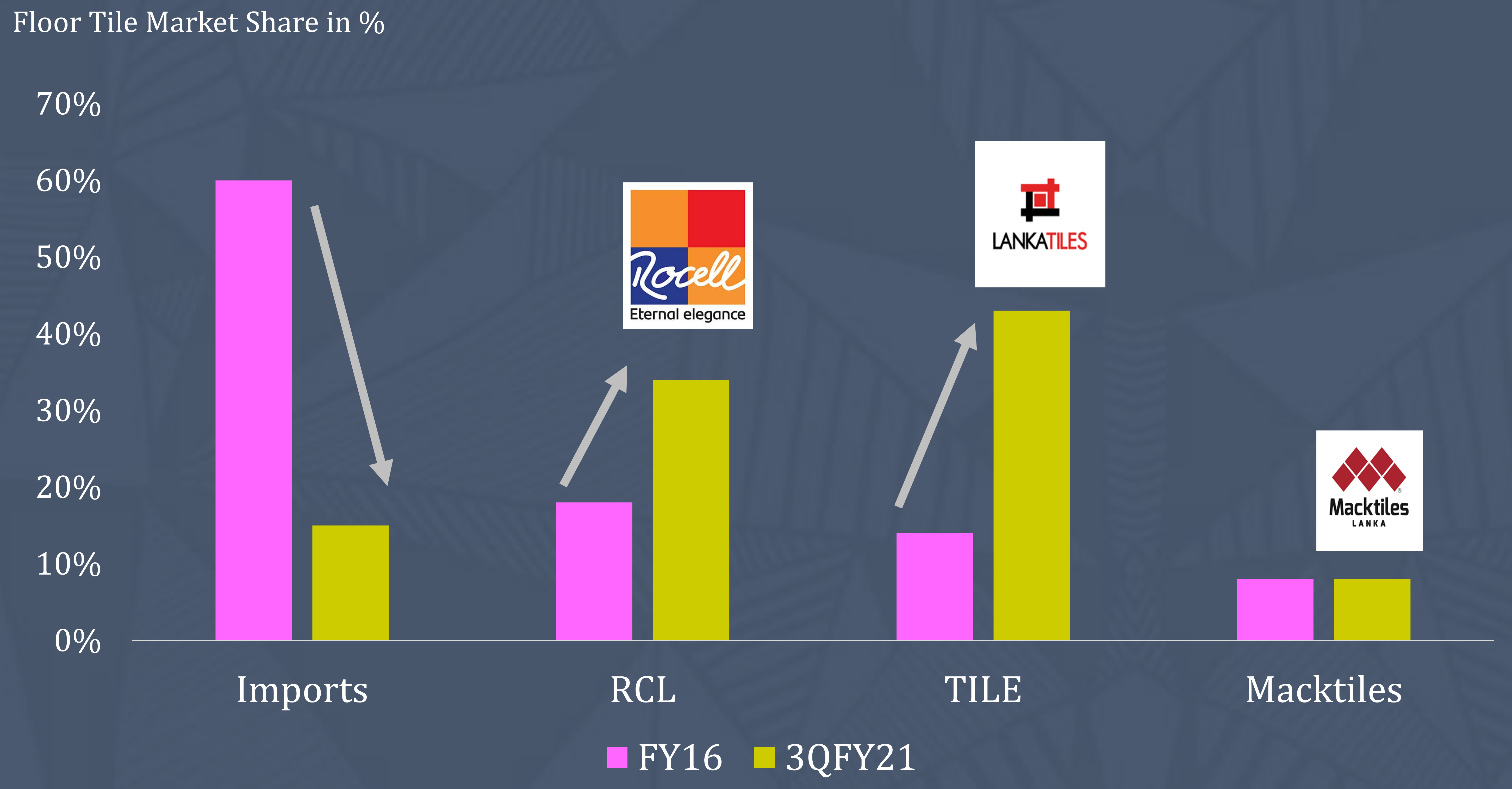
- Thus, implementation of Total Process Management (TPM) and reduction of cycle time remains vitally important to retain profitability margins.

**Note: Adjusting the GP margins for a lag of 2 months*

Source: BBG, Company reports, SSB Research

AN ADDED BONUS: The import restrictions on tiles played a vital role to bolster earnings growth in RCL, TILE and LWL over 9M FY21

Change in market dynamics amidst changes in regulations enhanced the total combined market share of local producers to ~85% in 3Q'21 vs. 40% in FY16



- RCL, TILE and LWL were clear beneficiaries of the import restrictions since May'20 to record a higher organized market share and historic high 9M FY21 profits.
- Measures taken to expand exports by RCL and TILE (accounts for ~10% of annual revenue) to bode well amidst weakening LKR.
- Local tiles more competitive in the market given upward revision in import CESS to LKR 490/sq.mt (cf. LKR 183/sq.mt).

The imposition of import restrictions on tiles from May 2020 by GoSL in order to defend the pressure on currency was a blessing in disguise for local players to capitalize on market share

Source: industry sources, SSB Research

The Cement Industry

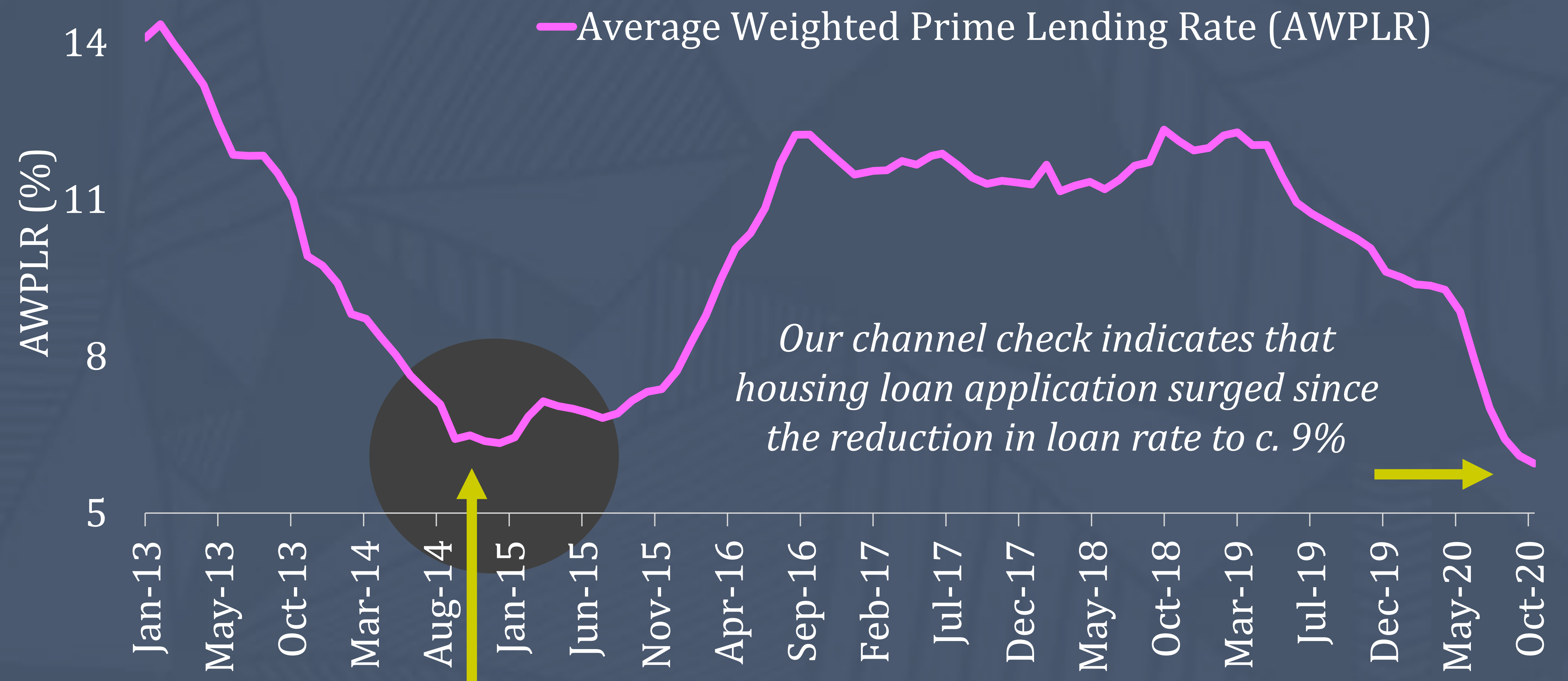
The darling of stimulus, ready for the ball…

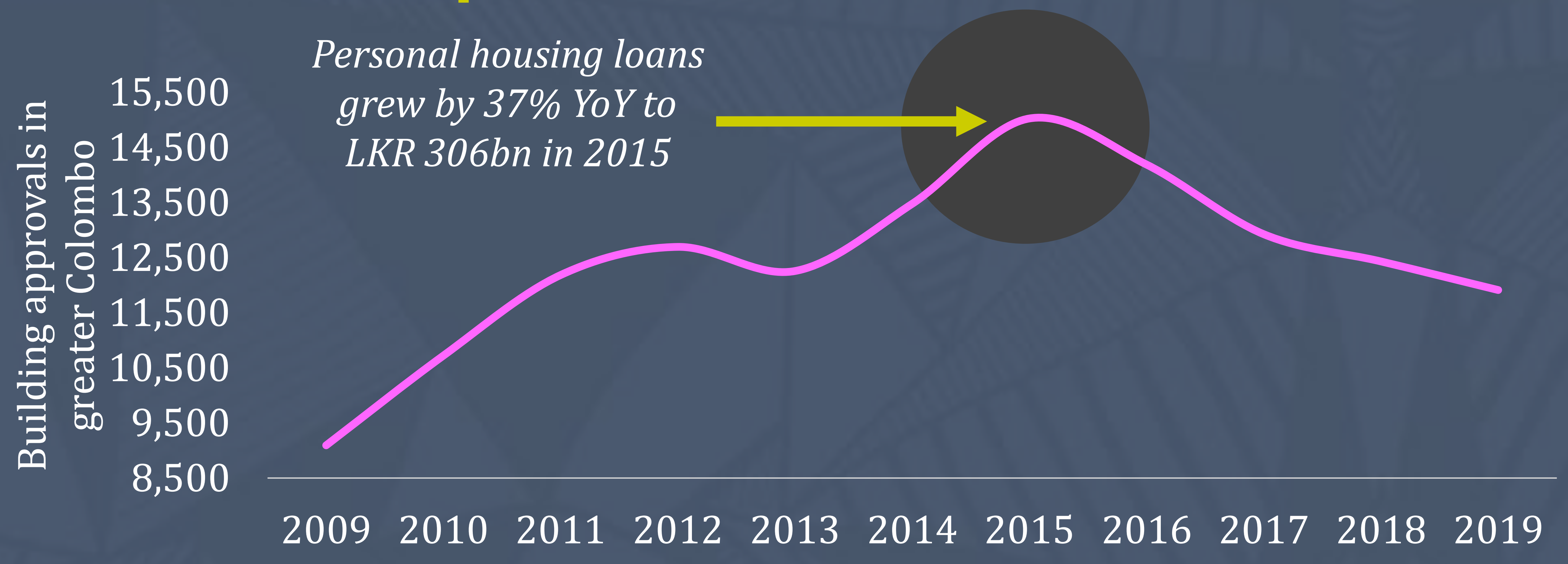
Softlogic Stockbrokers

The Cement industry is poised to record an exponential growth; Supply pressure to ease with import restrictions

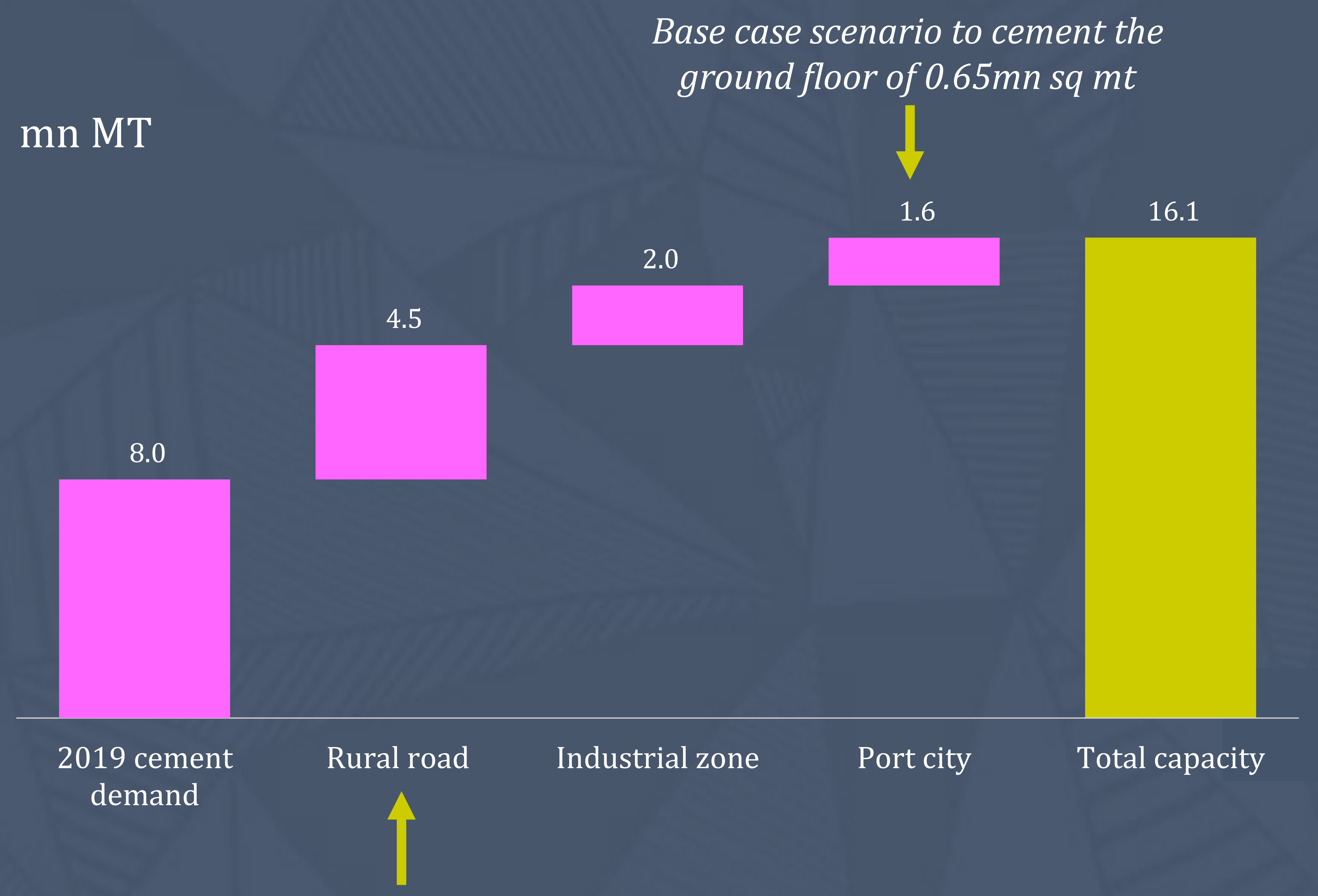
Interest rates at historical lows coupled with infrastructure driven stimulus may double the demand for cement by 2023E

AWPLR continued its downward trend hitting historical lows, setting the stage for an explosive growth in housing loans





The infrastructure driven cement demand excluding potential housing expansion is expected to surpass 20mn metric tons

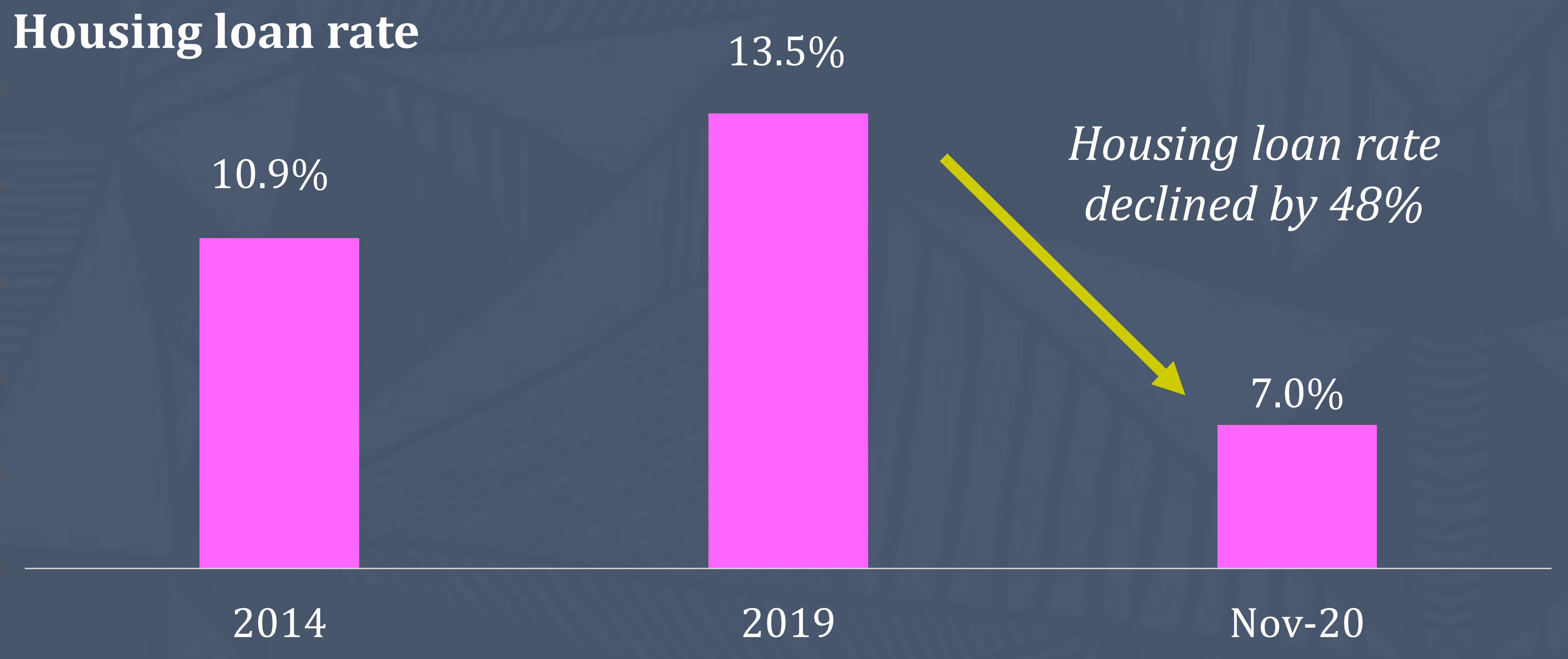


*Assumed 30% of the 100,000km rural road development will be cemented. As this project is likely to be awarded to small scale contractors **TKYO** will benefit from this due to their higher exposure to cement bags.*

Source: CBSL, statistics.gov.lk, SSB Research

Housing loans at SDFR + 150bps (7%p.a) is expected to propel the residential construction boom

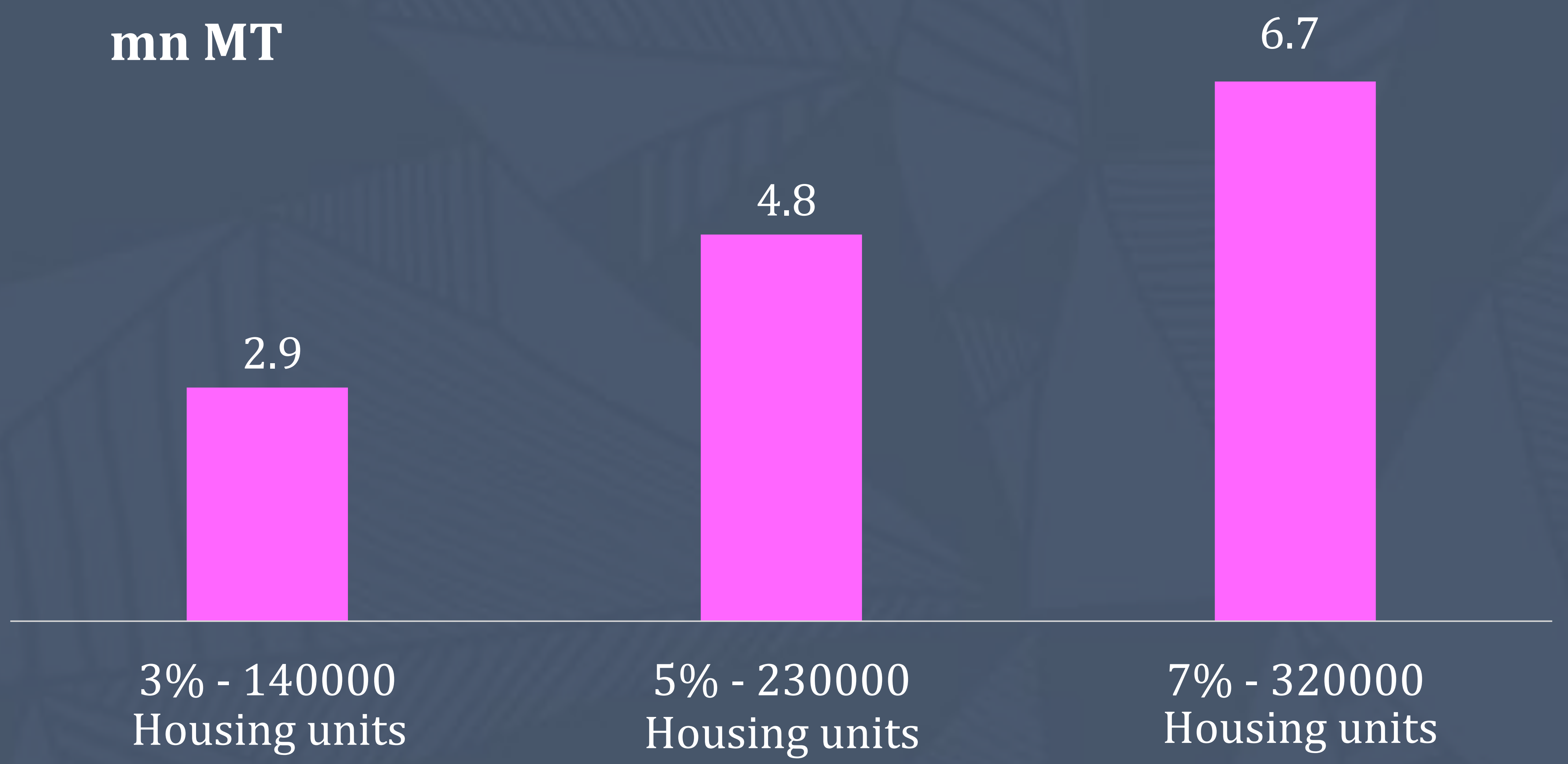
While the rate cut in 2015 saw housing loans growing by over +37% YoY, rates being halved in 2020 to historic lows may see an exponential growth in housing loans



The CBSL has introduced a cap on mortgage-backed housing loans obtained by salaried employees. As a result, housing loan rate will be 7% at least for the first five years of the loan period and the remaining loan rate will be based on the AWPLR + 1%.

Since the housing loan rate is very attractive, we expect housing loan growth to exceed the levels of 2015. A significant earnings booster for the cement industry.

Scenario: Cement demand if 3%, 5% and 7.5% of the total workforce of 4.6mn decides to build a house



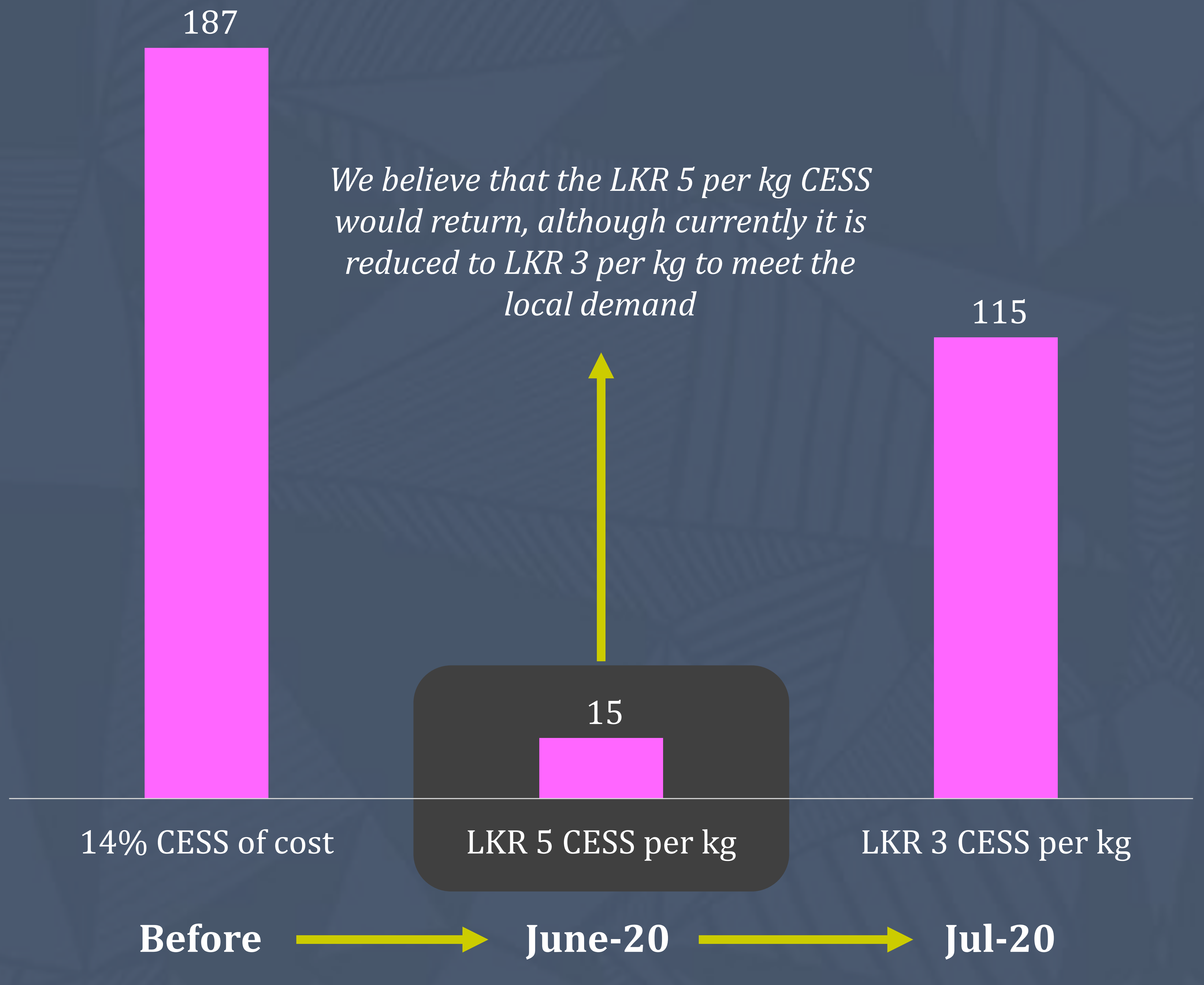
Did you know...

Tokyo cement's retail vs bulk ratio stands at 80:20 as of FY21E

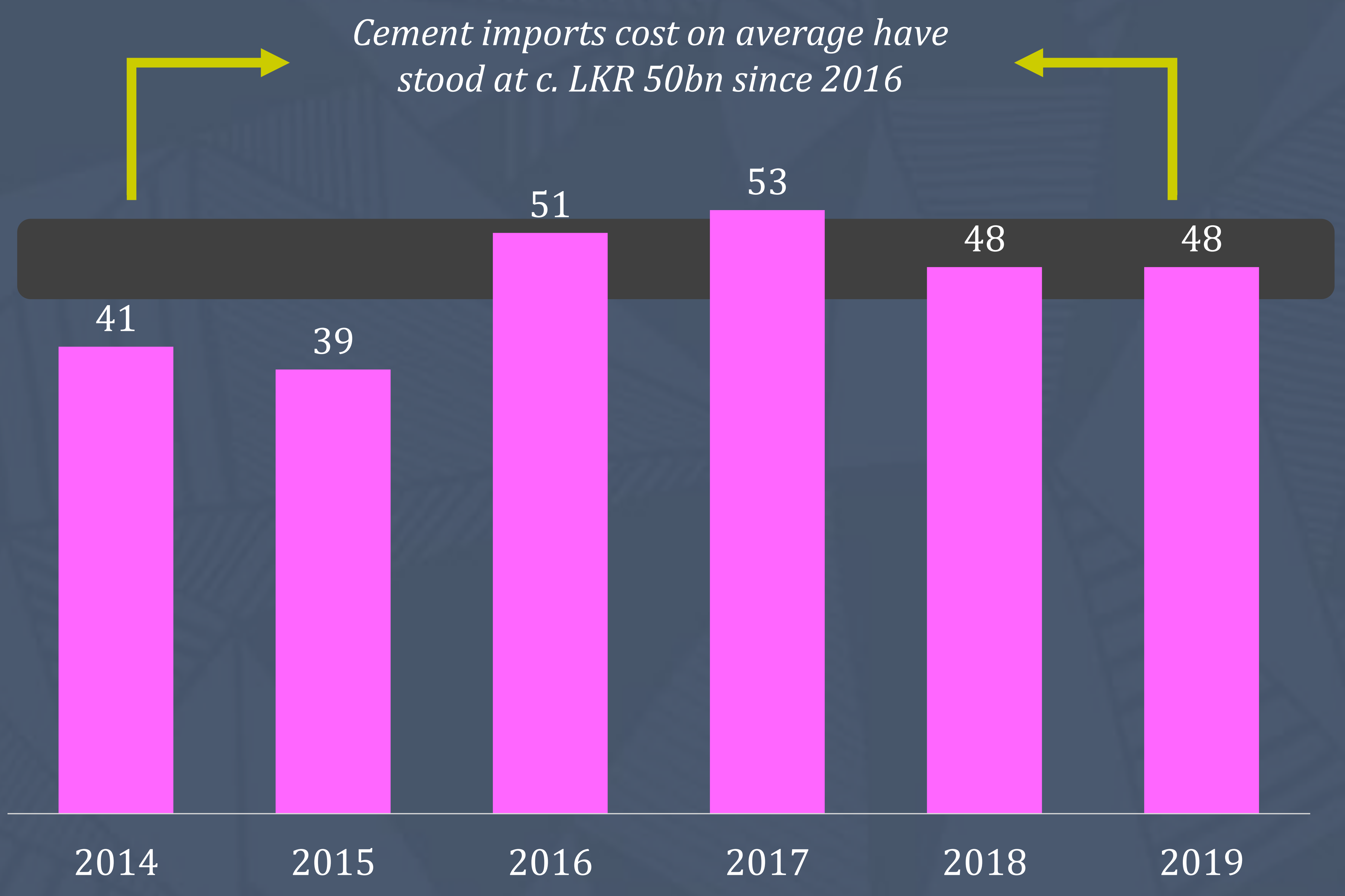
Source: CBSL, statistics.gov.lk, SSB Research

The reduction in CESS was due to the cement shortage, however a reversal is expected as local production ramps up

Gross profit of an imported cement bag (50kg) shrunk to LKR 15 per bag with the imposition of LKR 5 CESS per kg in June 2020



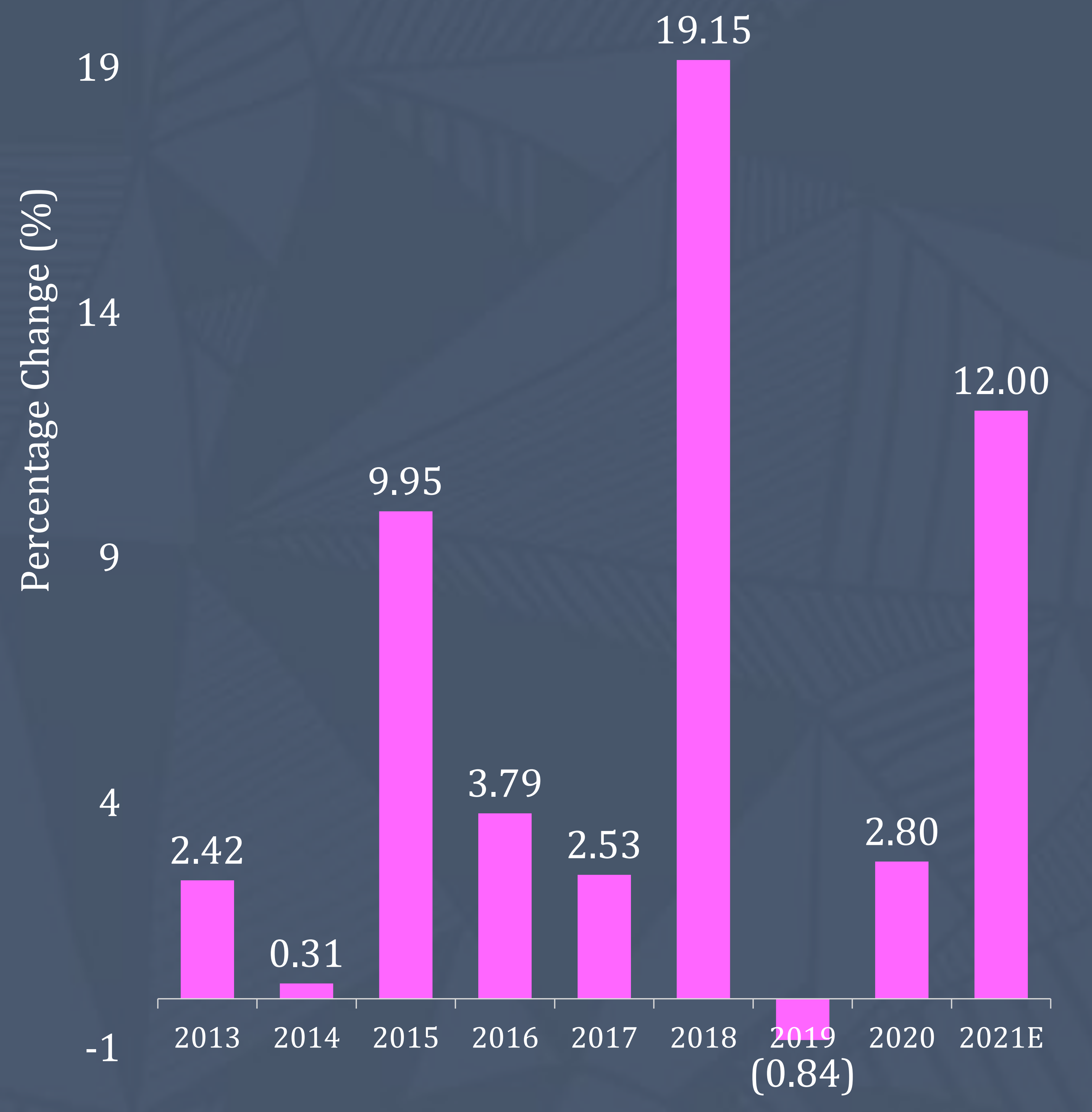
Once local production ramps up, CESS may return to LKR 5 to reduce pressure on LKR while encouraging domestic production, which is the ultimate motive of the government



Source: CBSL, SSB Research

The fear of LKR depreciation and the government policy to ramp up domestic production, keeping importers at bay

LKR to depreciate ~12% YoY in 2021E on the back of modern monetary theory and revival in private sector credit; GoSL may restrict cement imports to defend the currency

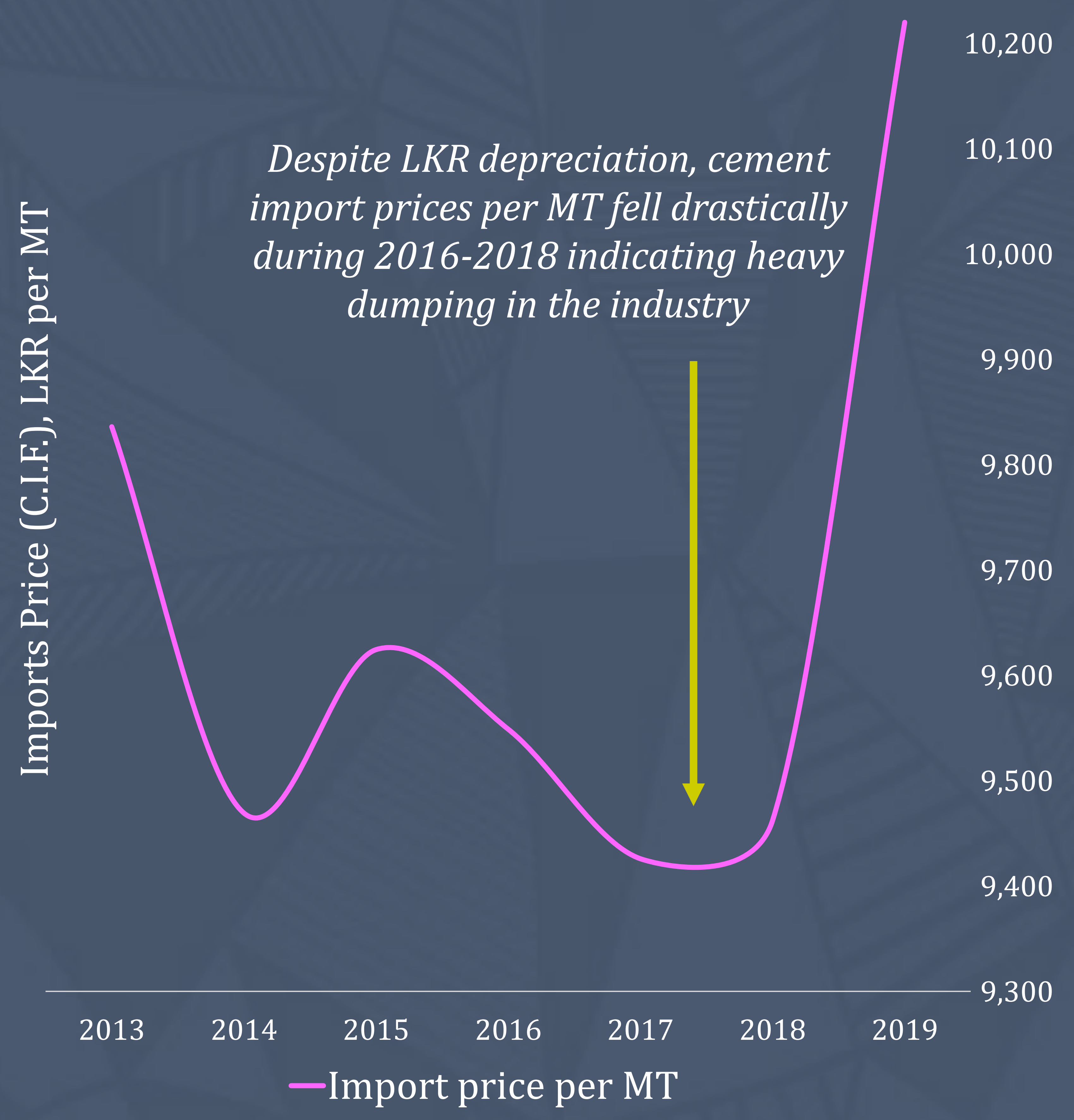


A circular was issued requiring firms to **source raw materials exclusively from local players for government projects**

With the clear intention of the GoSL to revamp domestic production, the GoSL has expressed the likelihood of imposing **restrictions on imports when sufficient domestic capacity is up and running**

Pressure on LKR in 2021E will favor domestic producers as the GoSL may **discourage imports** to defend further currency depreciation

Anti dumping laws were enacted on 10th October 2020 to protect domestic production



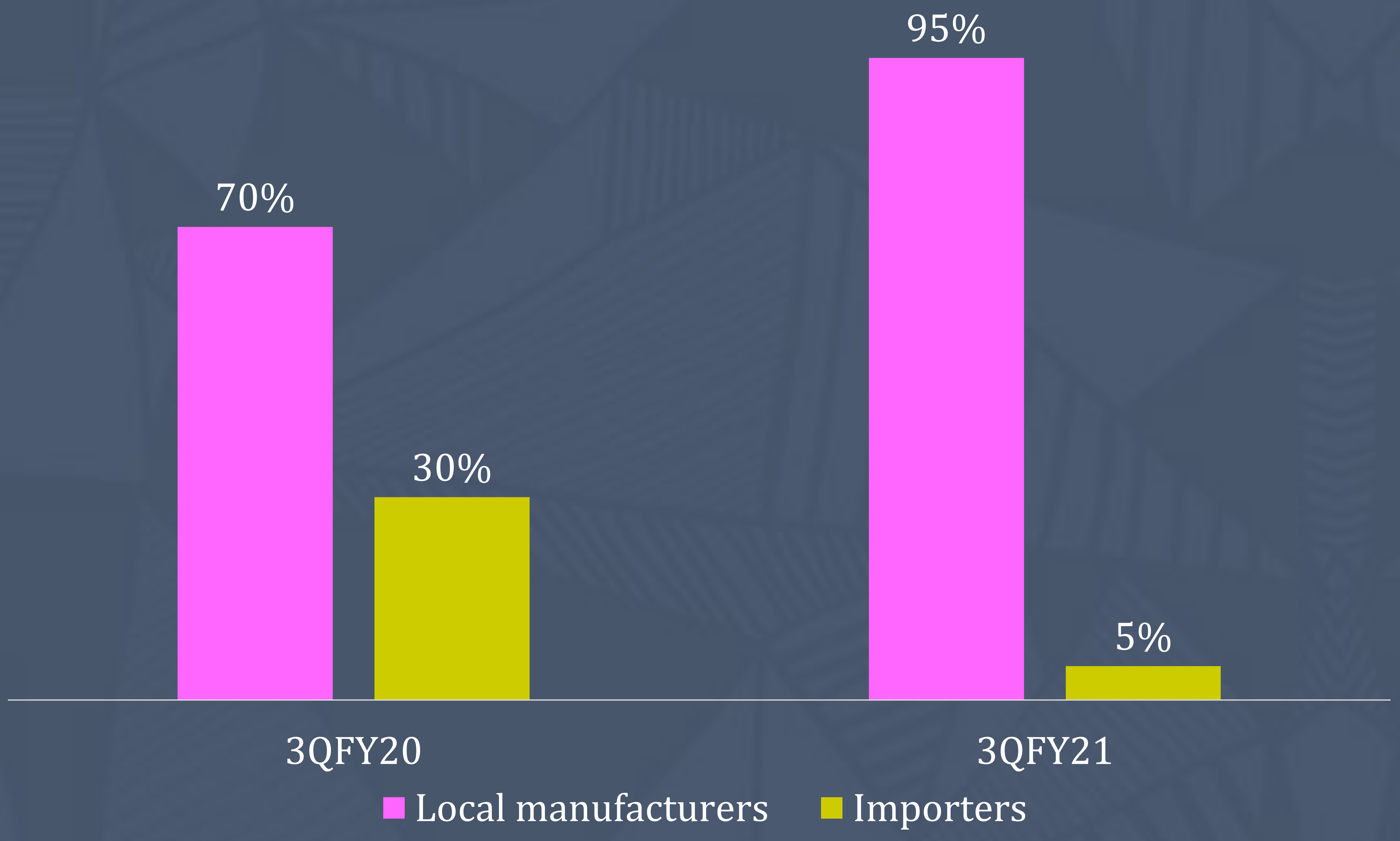
Source: CBSL, Ministry of Trade, SSB Research

Softlogic Stockbrokers

Local producers locked in exclusive distributorships during the import shortage in 2-3QFY21, closing avenues for importers to re-enter SL

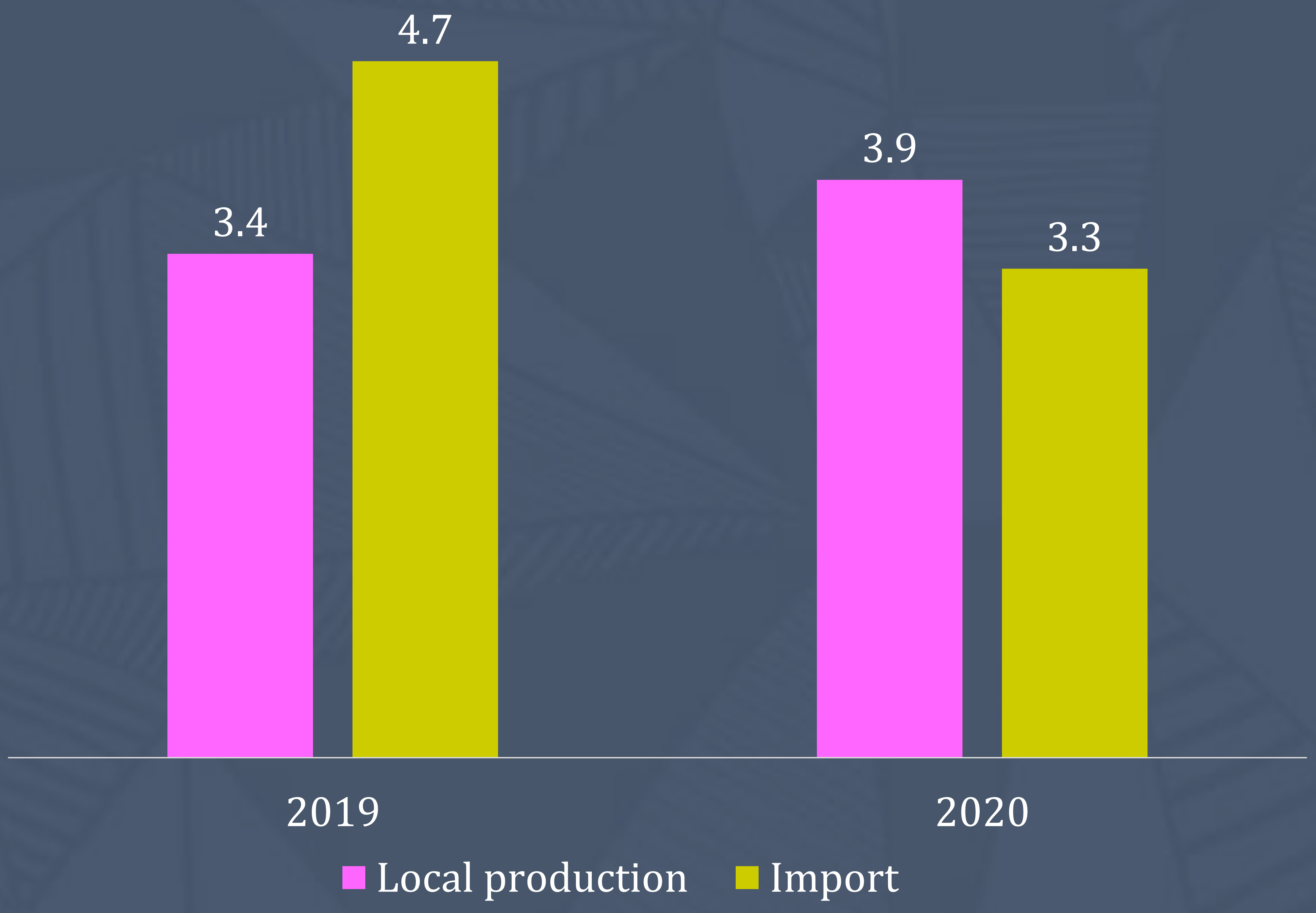
Cement bag manufacturers sold 95% of their bags to local cement producers in 3QFY21 showcasing an industry shift

Cement bag production mix change in %



Cement production locally saw an 16% YoY growth, whilst imports declined by 30% YoY in 2020

mn MT



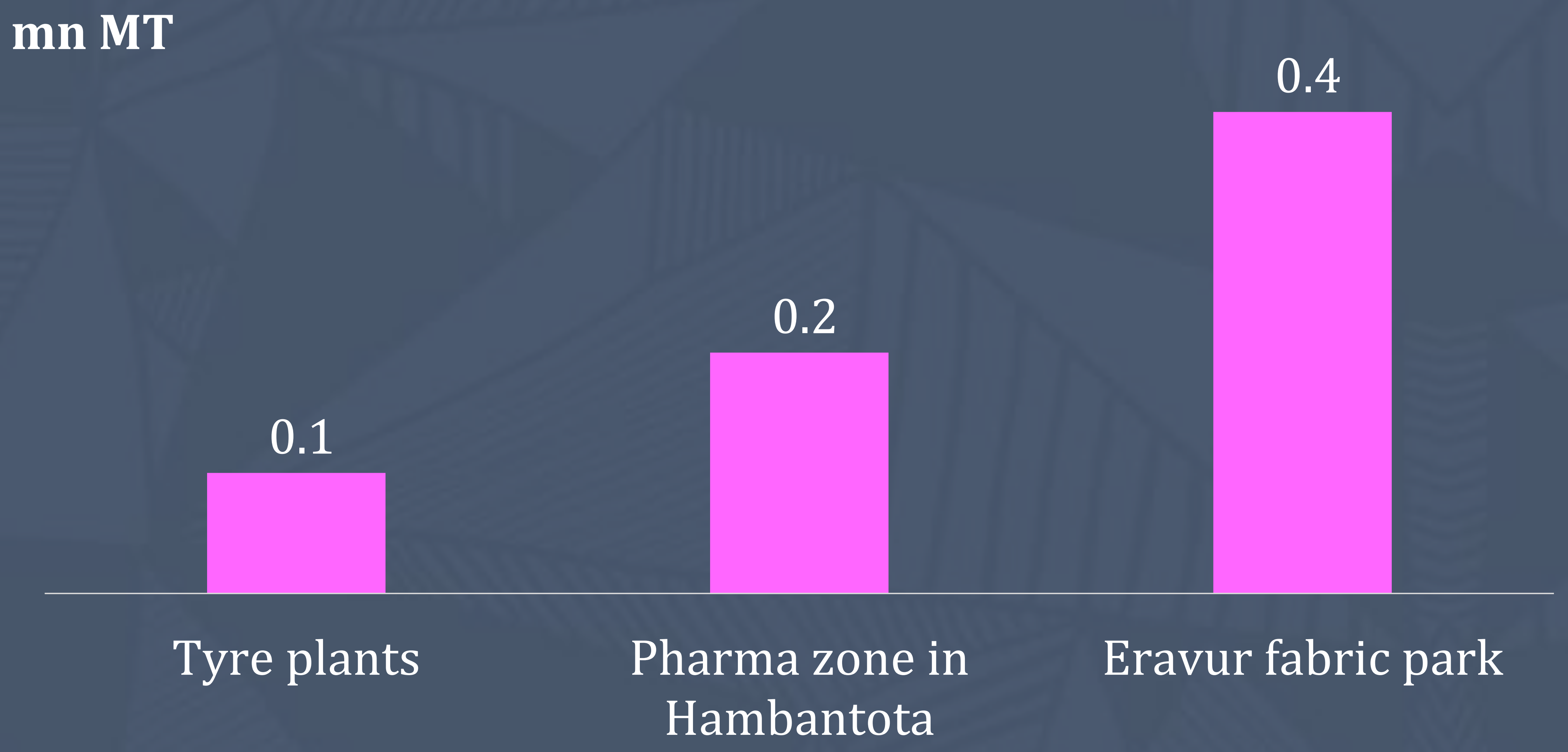
Our channel checks indicate that during this period TKYO and INSEE have signed exclusive partnerships with dealers and distributors creating barriers for importers to re-enter the retail market

Source: Industry sources, CBSL, SSB Research

Softlogic Stockbrokers

VAT exemption for BOI projects may offset the edge in direct imports of raw materials; Demand may be diverted to local cement industry

Cement demand projected from key upcoming BOI projects is expected to be over 0.7 mn MT



**Our calculations are based on the land extent quoted in the project. Cement requirements can significantly vary based on the extent of the buildings.*

Revisions in the VAT structure coupled by the local sourcing of materials could be a game changer

The VAT Structure

The 2021 budget proposed that if any commodity has been exempted from VAT at its importation point, domestic producers will also get the VAT exemption for the same.

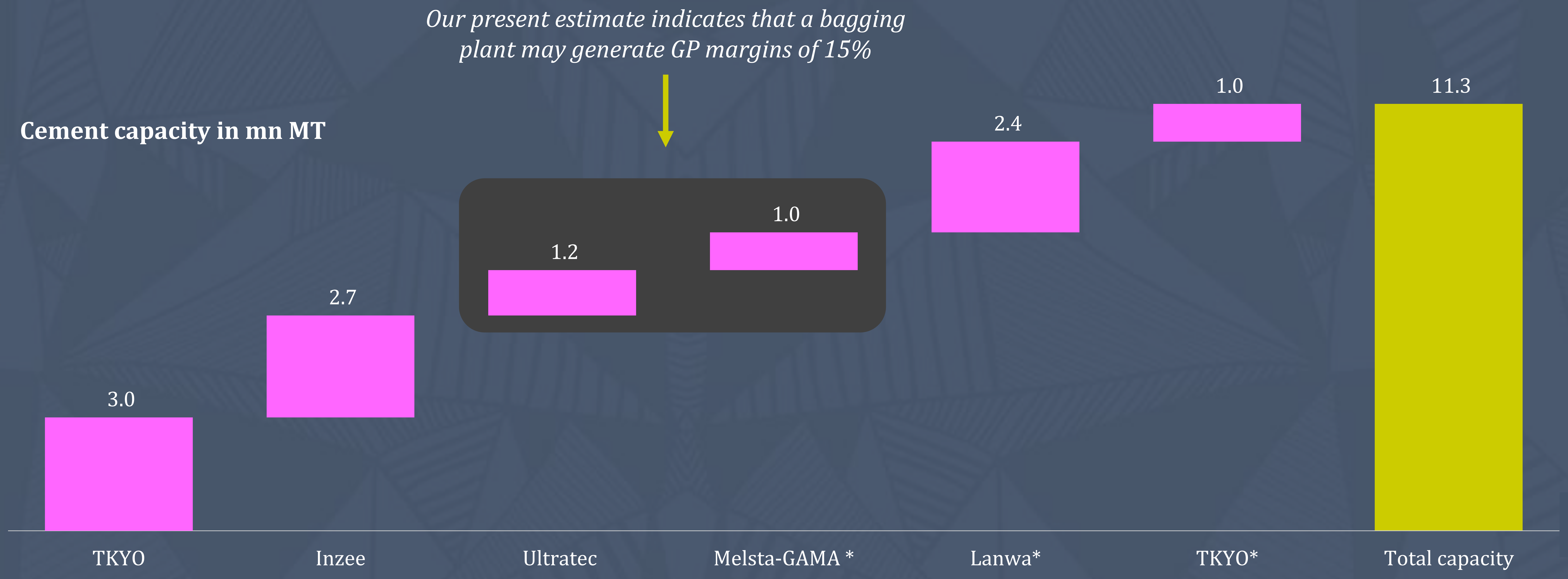
The Local Sourcing

This falls in line with the GoSL's vision to source construction materials locally via its gazette, as this provides the practical framework for local producers to remain competitive.

This new structure would enable local cement producers to remain competitive and we believe that this development will enable local players to access lucrative BOI projects which wasn't accessible previously due to the VAT component.

Source: Daily mirror, SSB Research

A GROWTH SECTOR: The cement industry capacity currently stands at just under 7mn metric tons, with 4.4mn to be added in the near future



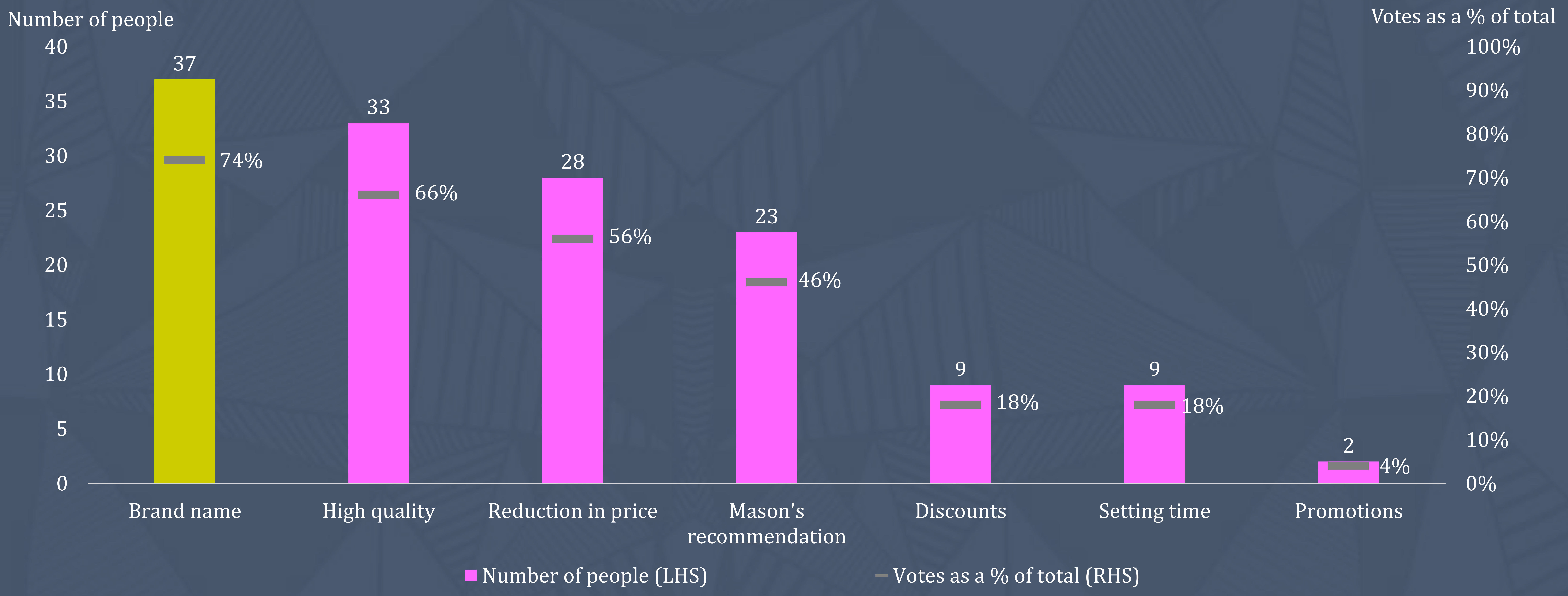
***Expected new plant, however we note that MELS-GAMA will be a bagging plant cf. LANWA & TKYO grinding facilities**

Source: Industry sources, SSB Research

Softlogic Stockbrokers

New entrants to struggle in the retail market, whilst established players like TKYO lead the growth

THE HOUSE ALWAYS WINS: Being in the cement market since 1982, Tokyo's renowned brand name will keep competition away



A research conducted on Indian Cement industry has proven that brand name is the main consideration when making a buying decision, where 74% of the respondents have selected brand as a main factor influencing purchasing decisions

Source: Wonder cement, SSB Research

Softlogic Stockbrokers

COMPETITION DOWN: Difficulty to reach optimum capacity in new plants and higher distribution costs will keep TOKYO safe from parasitic price penetration

Region	North	South	East	West
Companies	TOKYO (TO)	INSEE (IN) Lanwa (LN)	TOKYO	TOKYO, Ultratech*, INSEE, Melsta Gama*
Capacity (MT)	TO:N/A	IN: 1.4mn LN: N/A	TO: 3.0mn	TO: 0.8mn IN: 1.3mn
Additions (MT)	TO:N/A	IN: N/A LN: 2.4mn	TO: 1.0mn	TO: N/A IN: N/A

**Bagging factory*

We believe Lanwa's plant will underperform the industry growth in 2021-22, given its inability to operate new machinery at full capacity at the start, not allowing them to achieve optimal production efficiencies.

Time taken to establish a distribution network (brand exclusive), new plants requiring time to scale up gradually and its exposure to the South where INSEE is strong, will keep Lanwa occupied and away from the North East regions.

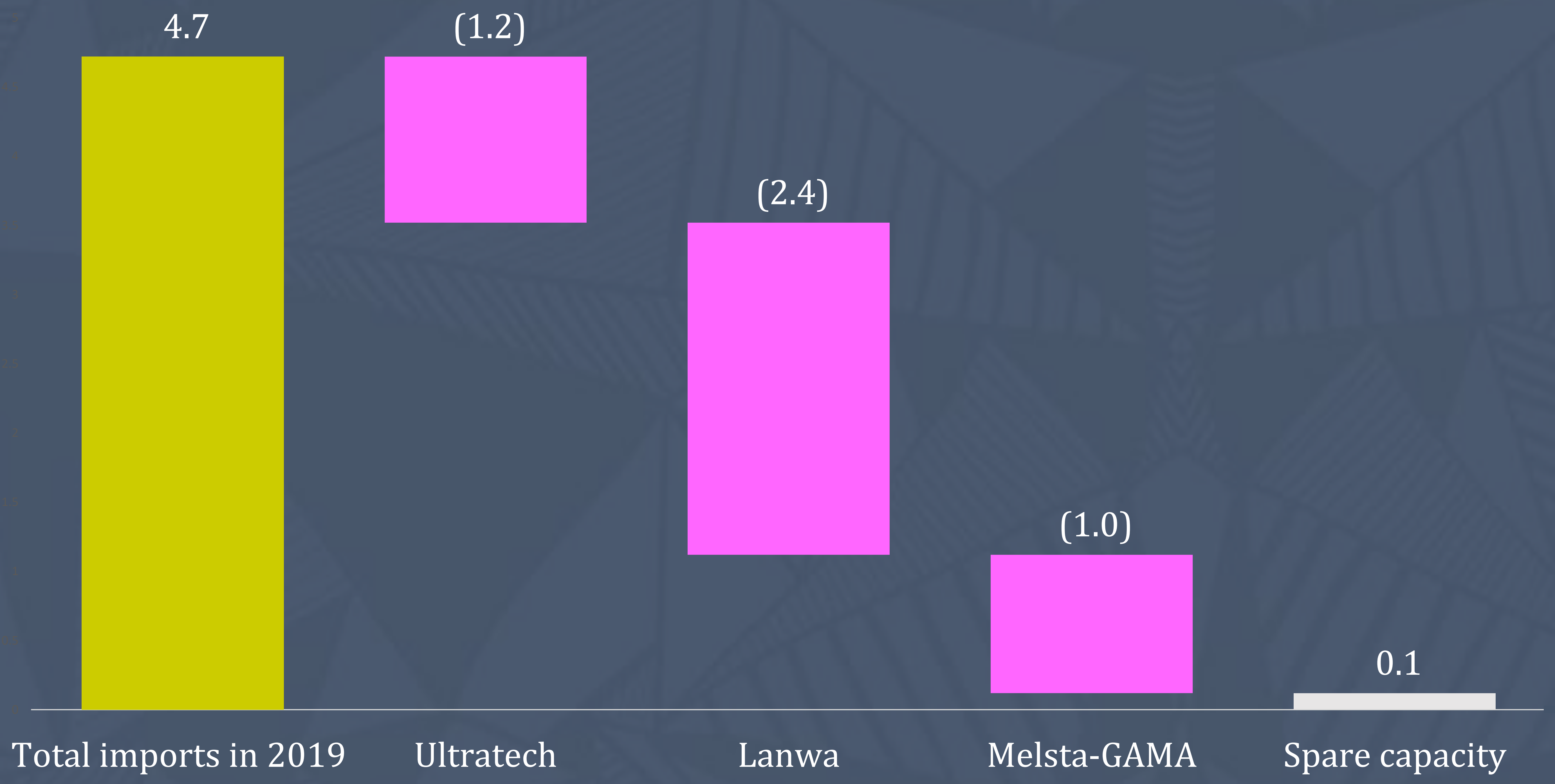
Operating costs are expected to remain elevated and are expected to be higher than industry peers for new entrants. There may be limited scope for significant undercutting of price due to higher OPEX.

Source: Industry sources, SSB Research

ENOUGH FOR EVERYONE: While importers may close shop, local new entrants may capture the bulk market. However, the inability to price it lower will keep the retail market away from competition

Even if the market doesn't grow in 2022E, new players like Lanwa and Melsta-GAMA could comfortably fit into the import segment as minor players will exit the market

mn MT



- Lanwa to mainly compete in the bulk market due to distribution restrictions
- Lanwa's retail market to be concentrated in the southern region due to the factory being in Hambantota
- Melsta being an importing and bagging plant will struggle in the retail market, forcing them to focus on bulk cement. High cost of distribution will exert pressure on margins

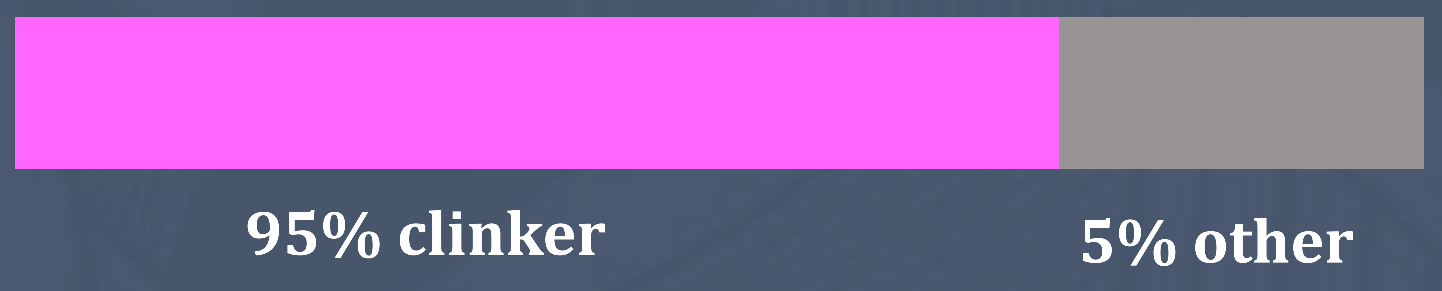
Source: CBSL, industry sources, SSB Research

Softlogic Stockbrokers

Triple play; A Shift to hydraulic cement reducing the clinker factor will 1) expand margins, 2) reduce FX exposure and 3) will free up capacity

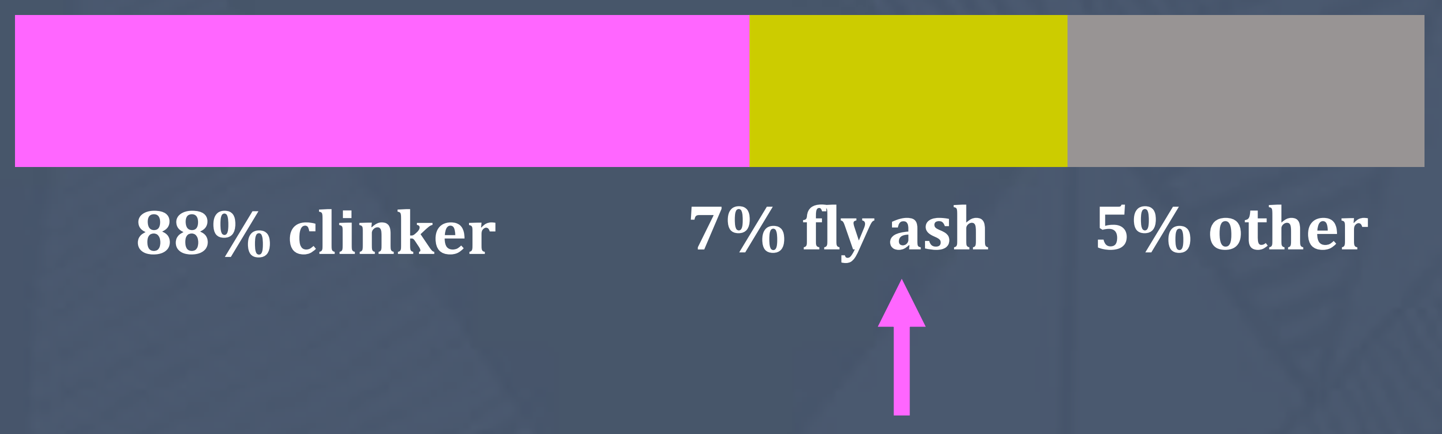
TKYO is shifting its focus towards reducing the clinker component, which can go down to 70% cf. Ordinary Portland Cement (OPC) with a 95% clinker composition. The locally sourced fly ash will be the substitute for the reduced clinker component, which can be sourced at half the price of clinker.

OPC standard product component



= **2.8mn MT capacity**

A shift towards hydraulic cement reduced the clinker component



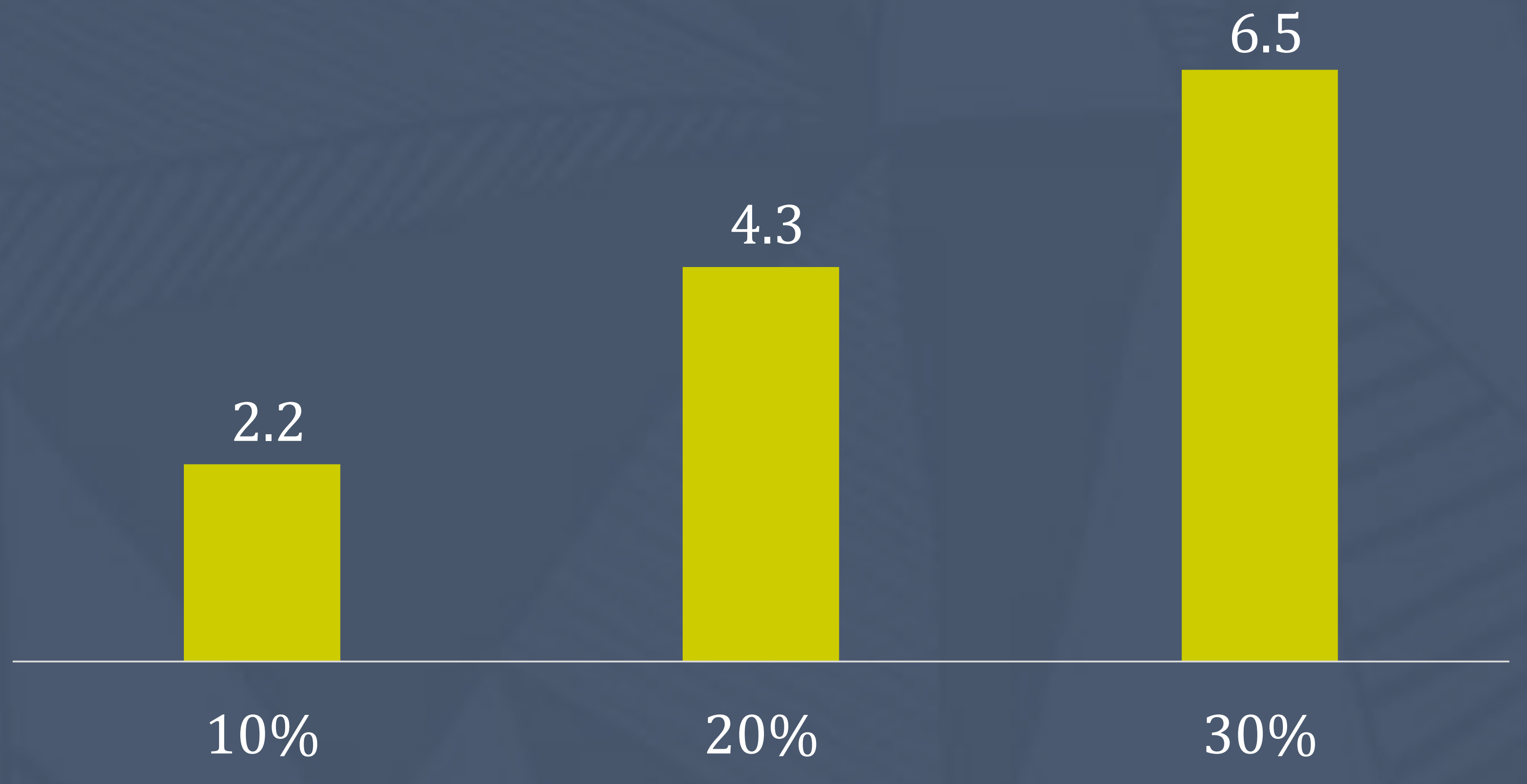
= **3mn MT capacity**

The reduction in the clinker component increased TKYO's capacity by c. 7% in FY20

Locally sourced fly ash is c. 50% cheaper than clinker as of 2QFY21

Scenario: Earnings improvement based on clinker component reduction

Contribution to EPS in LKR

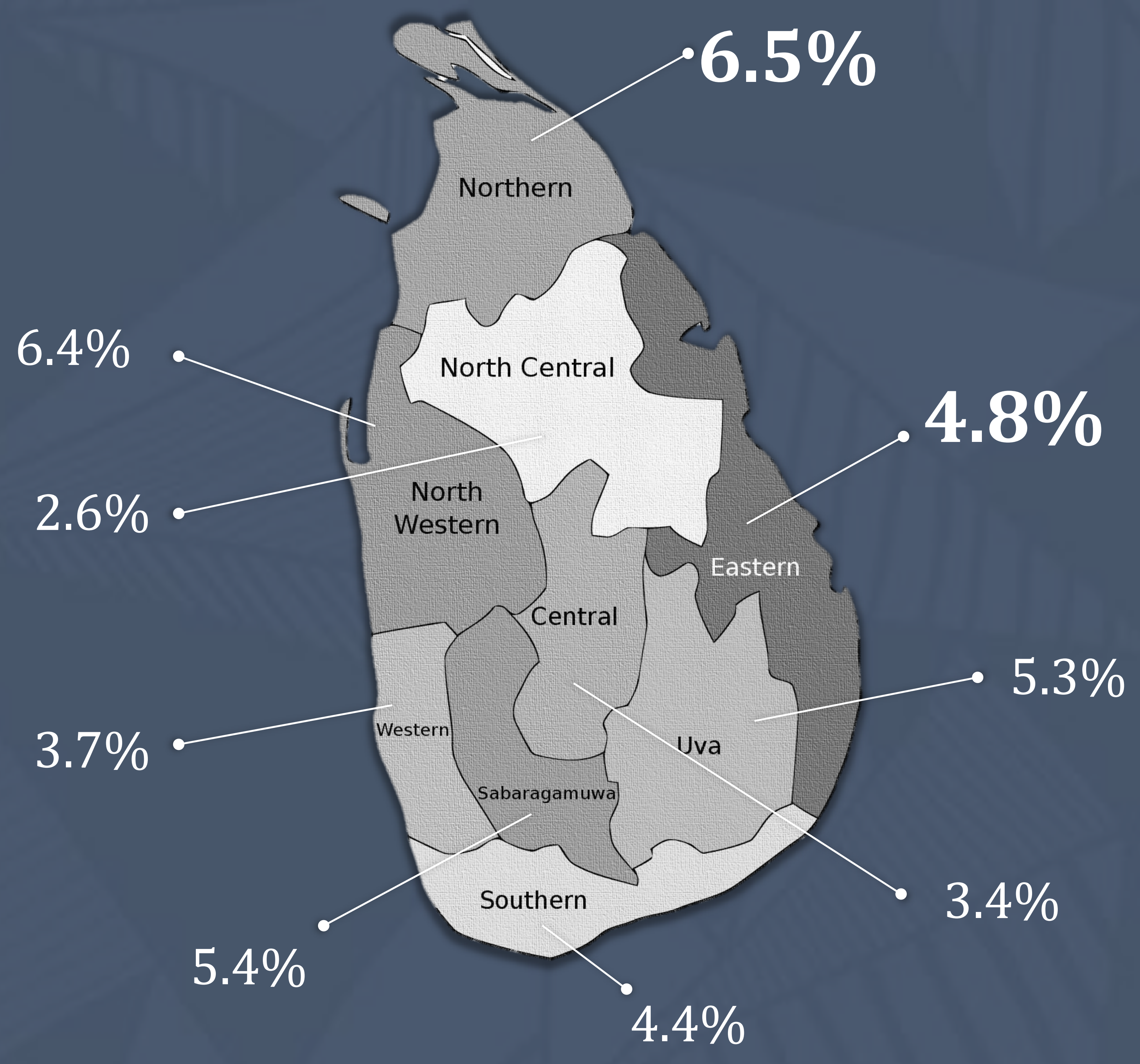


Source: Company data, SSB Research

Softlogic Stockbrokers

CASHING IN: North and East may drive instant retail demand; wider presence in that region to allow TKYO to capitalize on the short-term

Northern and Eastern regions lag in terms of housing, having 27% more non-permanent housing structures compared to other regions in Sri Lanka. The breakup of non-permanent housing is as follows;



*Percentage of non-permanent housing taken considering walls made of Bricks, Cabok, Cement Blocks or Pressed Soil Blocks as permanent structures

The lack of permanent housing in the region has been worsened by the constant natural disasters, that have destroyed an estimated 30,000 houses in the past 3 years

2017 The Disaster Management Centre (DMC) in Sri Lanka reports that at least 1 person has died and almost 80,000 affected by heavy rain, landslides and floods after a storm swept…

Severe weather in Sri Lanka from late December has affected over 125,000 people. At least 2 people died and 5 were injured according to Sri Lanka's Disaster Management Agency. The… **2018**

2019 The ongoing flood situation in Sri Lanka has worsened, with over 167,000 people now affected across 21 districts in the country. Heavy rain in Sri Lanka brought by the North-East…

Cyclone Burevi made landfall in the north-eastern coast of Sri Lanka in Trincomalee district on 02 December 2020. Sri Lanka's Department of Meteorology warned of heavy rainfall, wind gusts **2020**

*The estimate of 30,000 houses includes completely and partially damaged houses due to multiple forms of natural disasters

Source: Department of Census and Statistics National Disaster Relief Services Center, SSB Research

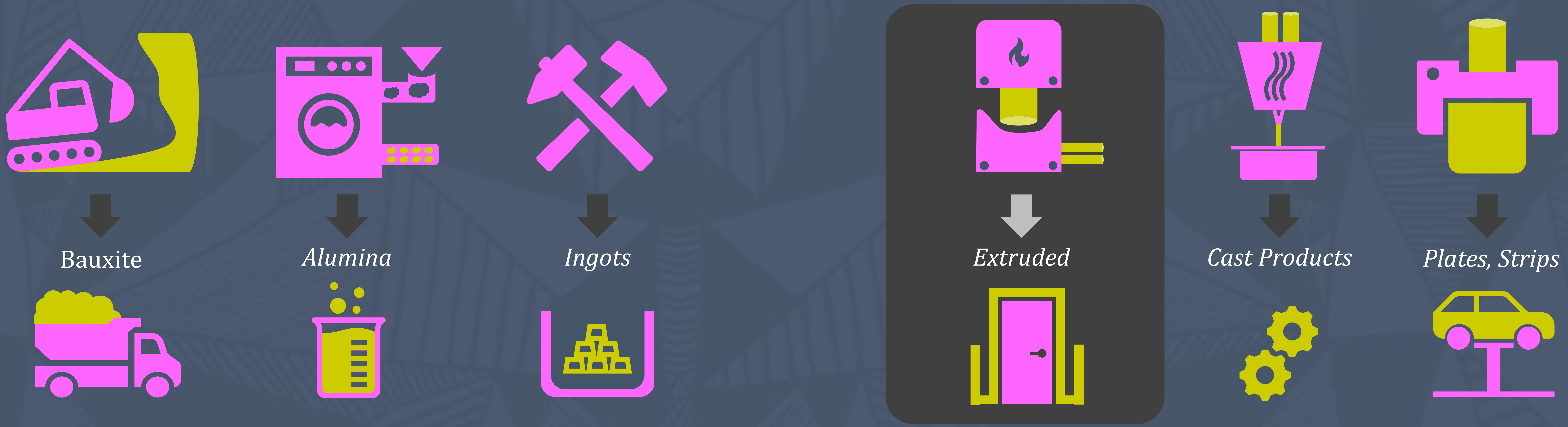
The Aluminium Industry

The Trifecta: Retail Construction, Energy and Infrastructure

The lack of sophistication and economies of scale to cater large customers will leave small players with no competitive edge for growth…

Upstream – Low margin, bulk supply structure

Downstream – High Margin, value added products



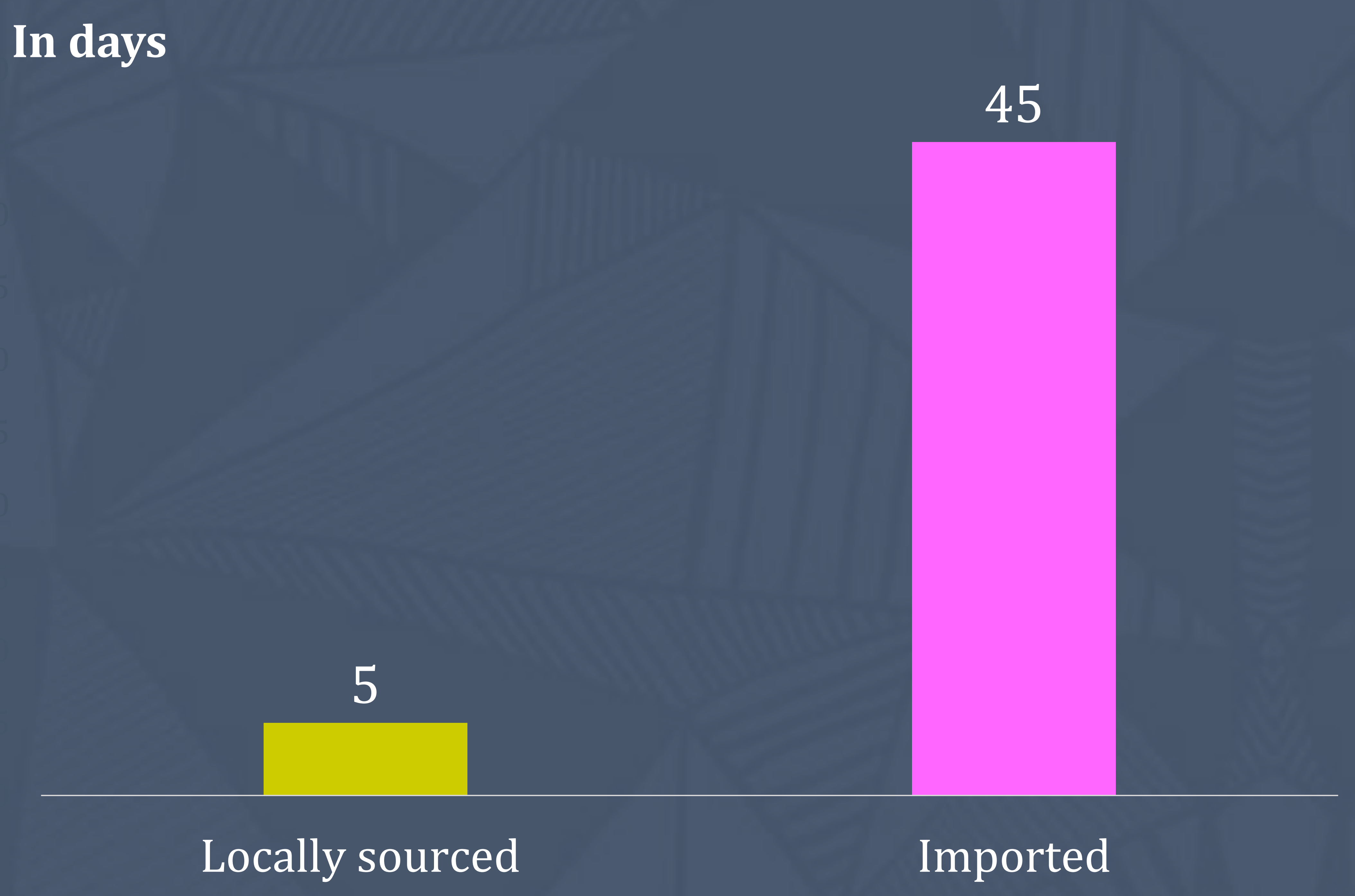
Aluminium ingots are heated and pressurized (extruded) to create the shape of the desired product. This is then surface treated and fabricated according to the requirement.

Industry experts indicate that supplier reliability and technological competence is key to select an extrusion supplier. This keeps small players away as they lack the sophistication and economies of scale to cater larger projects.

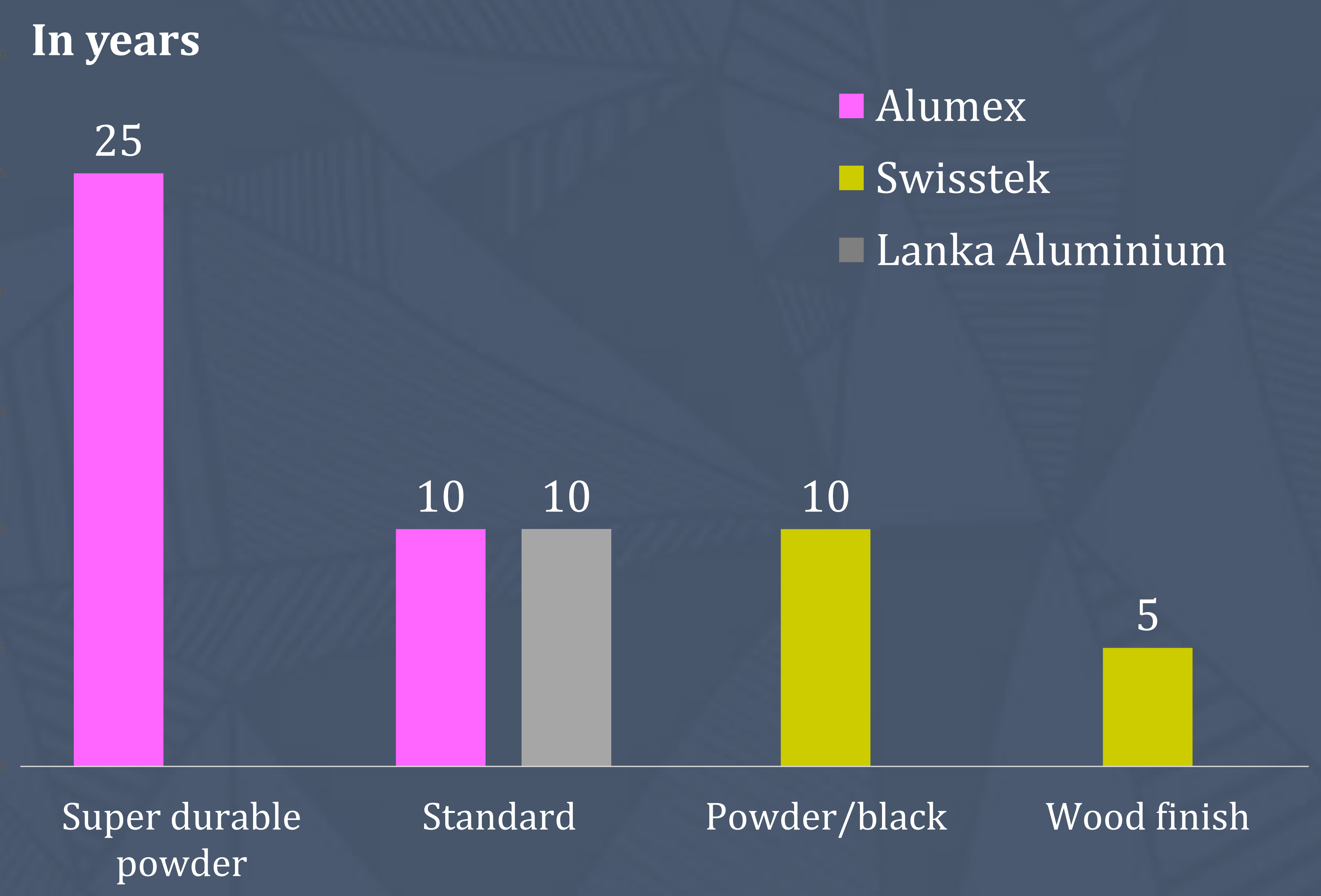
Source: industry sources, Company data, SSB Research

...while the ability of local players to cater project specific requirements with a shorter lead time will keep importers at bay

Lead time of locally sourced and imported aluminum profiles for a small-scale project



Warranty periods by local Aluminium companies



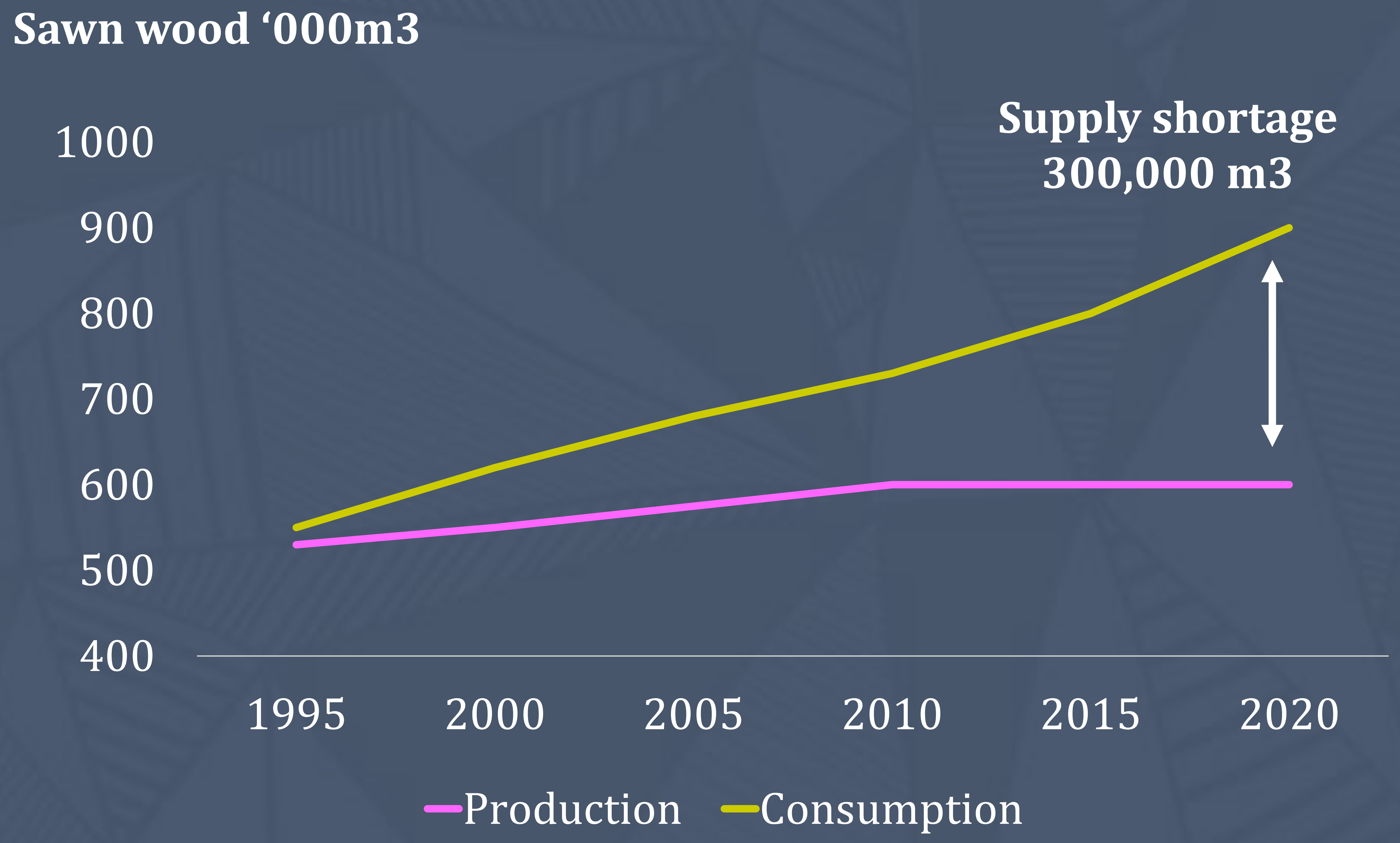
Higher warranty period and a shorter lead time provide a competitive edge for local players cf. importers. Construction managers indicate that for retail projects they prefer local sourcing due to shorter lead times and high level of accuracy.

Source: Company data, industry sources, SSB Research

A SIGNIFICANT DISCOUNT: A shift to Aluminium doors and windows which are 55% cheaper than timber, will drive housing sector volumes

Doors and windows made from Timber are over 2.2x more expensive than Aluminium structures

With concerns on deforestation, the supply gap may widen further leading to a potential timber price hike in the short run

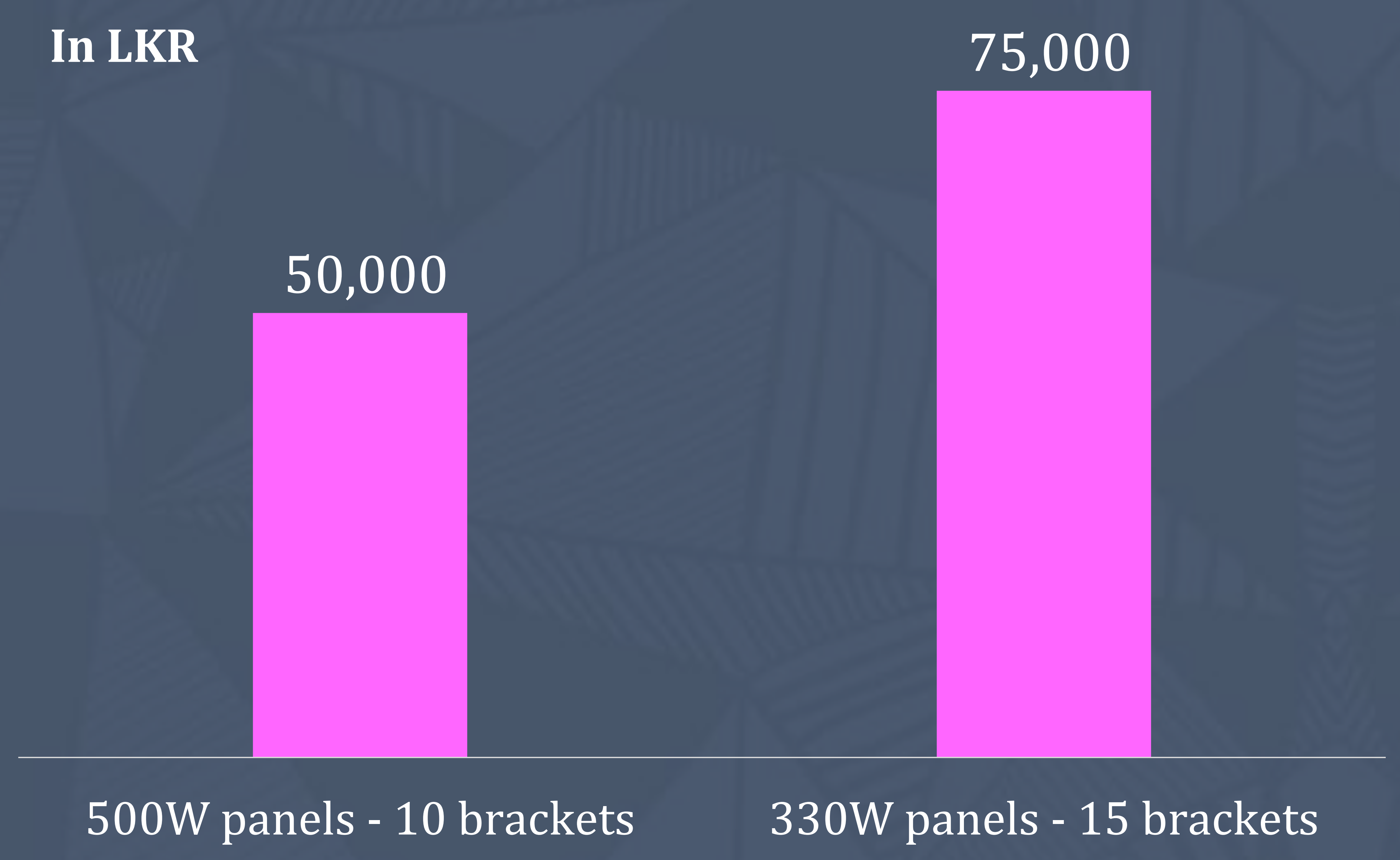


Timber is becoming more expensive for the housing market and therefore a shift towards aluminium doors and windows would lead to a sizable volume growth for the aluminium industry

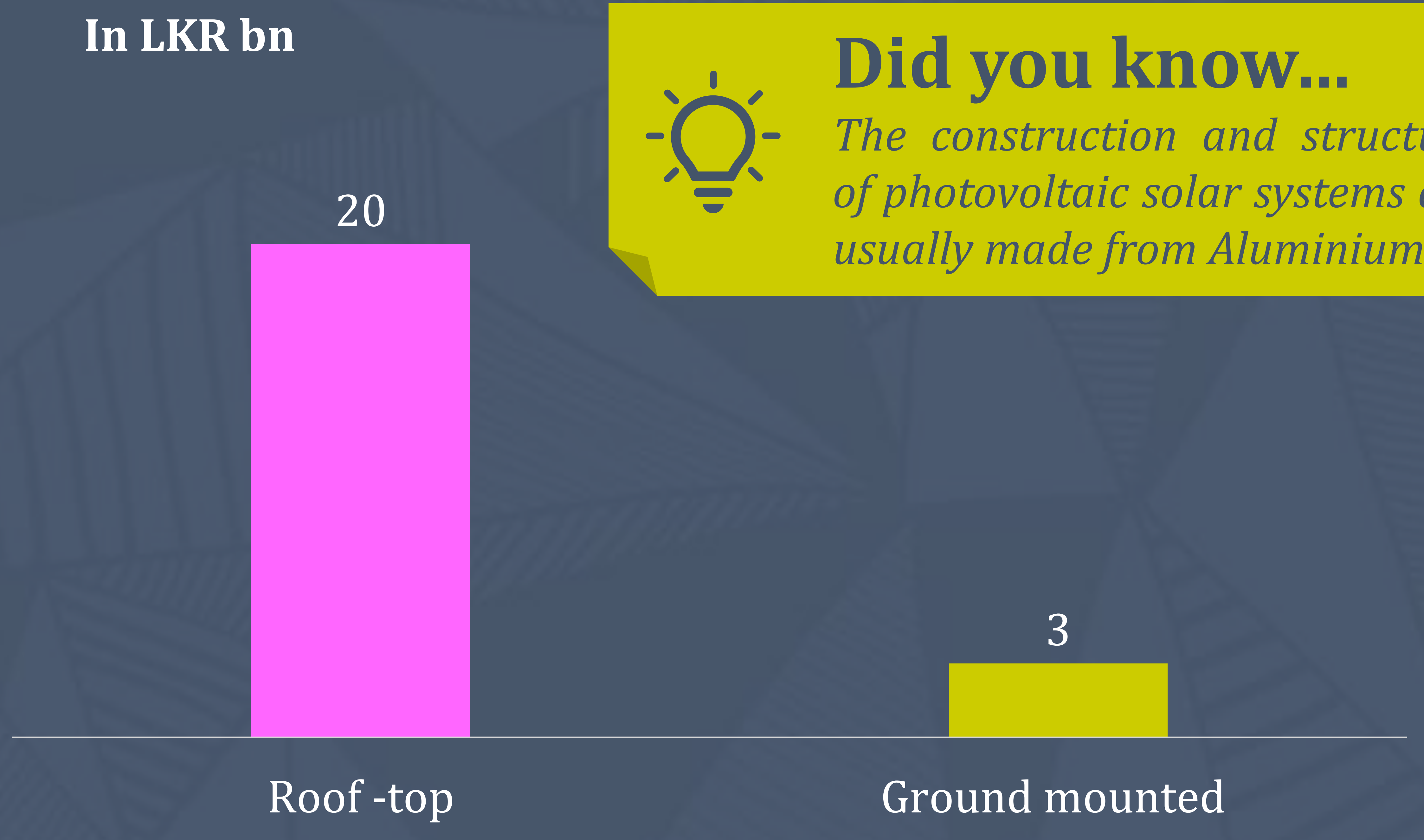
Source: Industry sources, Ministry of Wild and Forest conservation (MFE), *Company data, SSB Research*

A NEW TREND: Capacity expansions via the Government's solar energy drive would bring an LKR 23bn demand based on projections

Aluminium brackets cost estimate for a basic 5KW solar panel used in household solar generation



Aluminium brackets market opportunity for solar based on the ADB loan coupled by the 2021 budget and CEB projections



Did you know...

The construction and structure of photovoltaic solar systems are usually made from Aluminium.

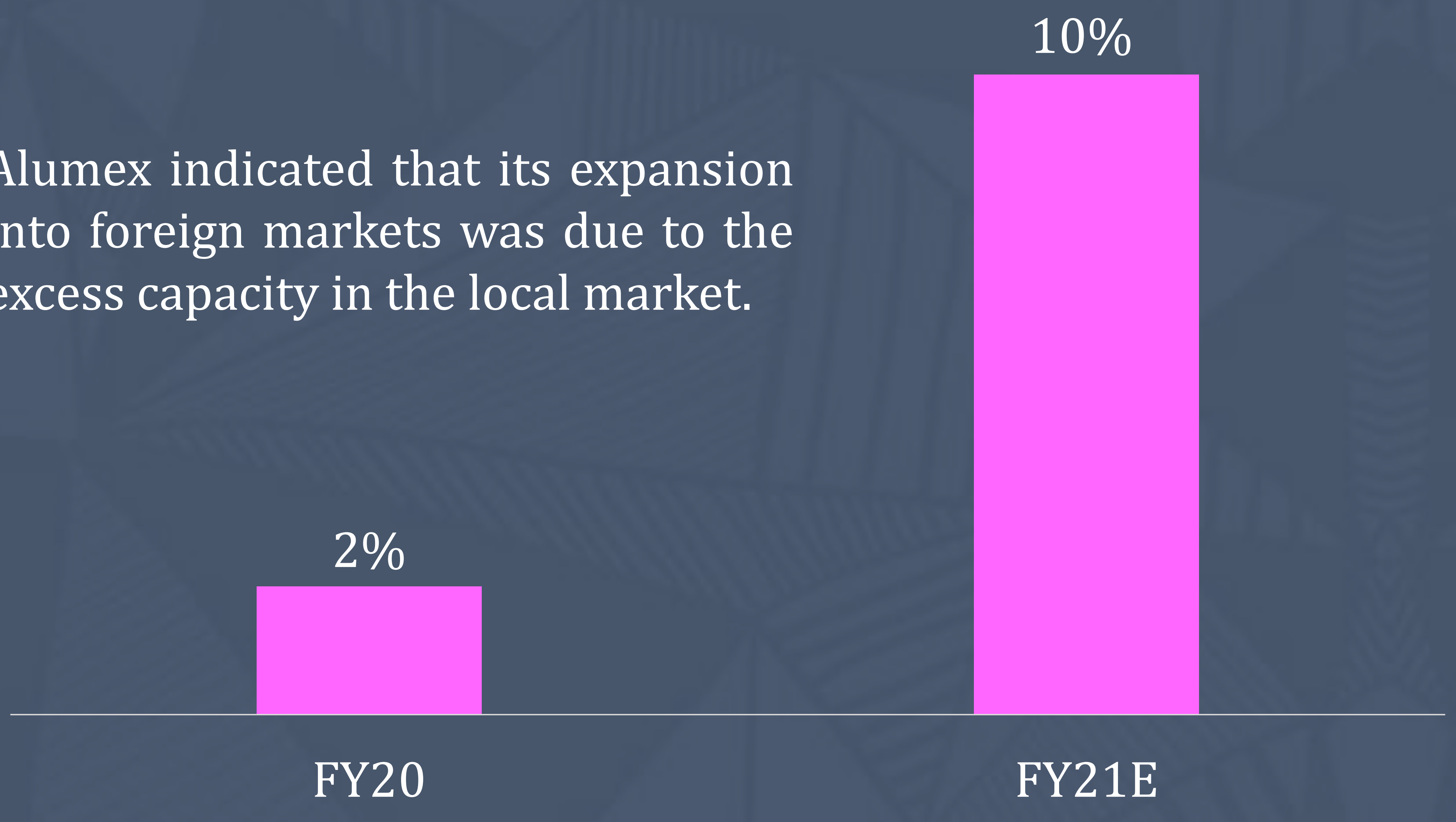
Roof top solar growth will be driven by Asian Development Bank's 4% loan rate for roof top solar. The project specifies a 1kw-40kw option; hence we take an average addition of 20kw for each house. Our research indicates that while most of the roof top solar system uses aluminium mounting bracket, steel mounting brackets are commonly used for ground mounted solar.

Source: industry sources, company data, SSB Research

GO BEYOND BORDERS: The focus for players has been to grow into the export market, whilst launching value added product ranges

Alumex indicated that its exports grew by 500% to reach 10% at current production cf. 2% in FY20

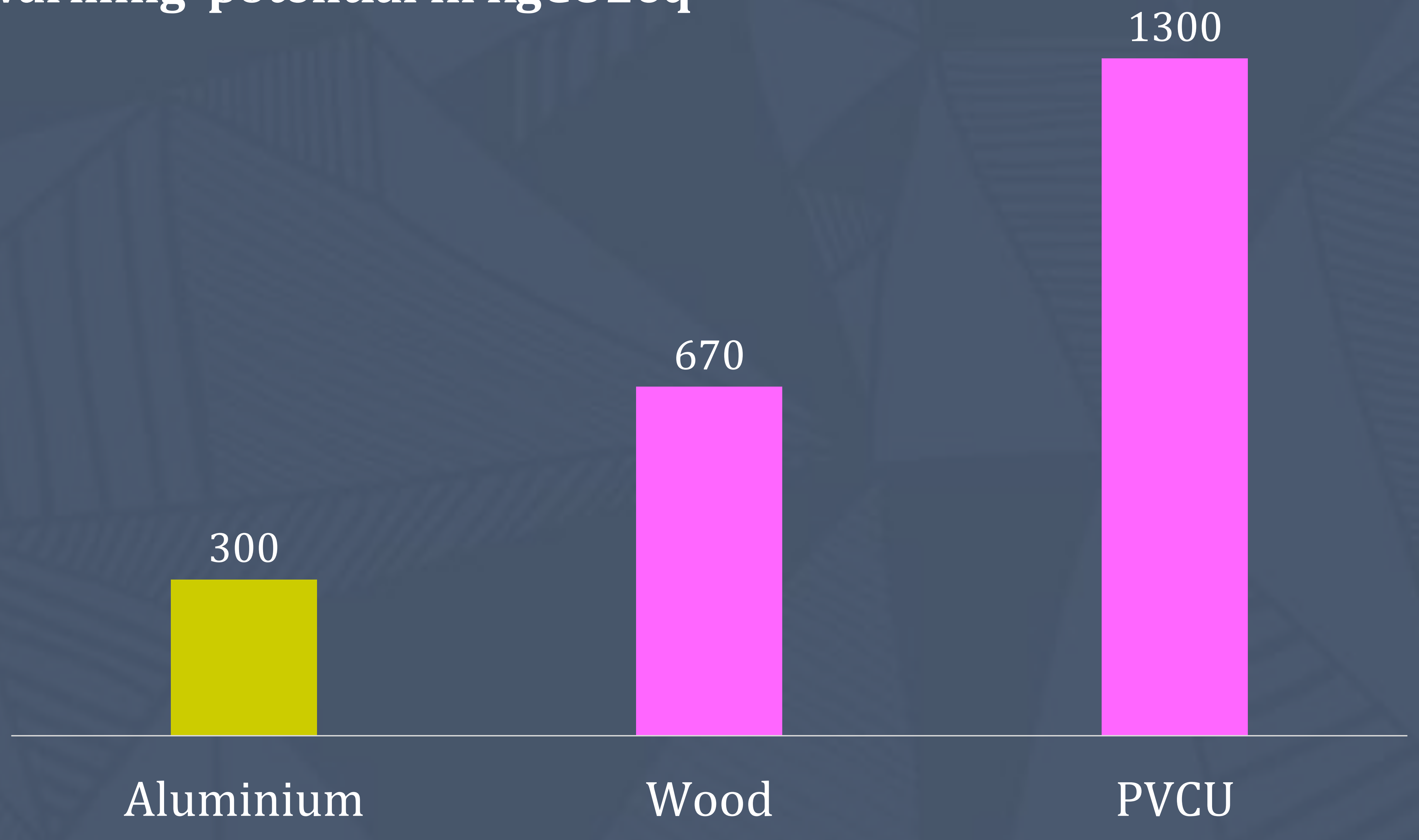
% of export at current production levels



Alumex indicated that its expansion into foreign markets was due to the excess capacity in the local market.

With the expected rise in the global warming, developed countries prefer sustainable solutions; Aluminium windows/ doors are a better sustainable solution cf. timber

Global warming potential in $kgCO_2eq$

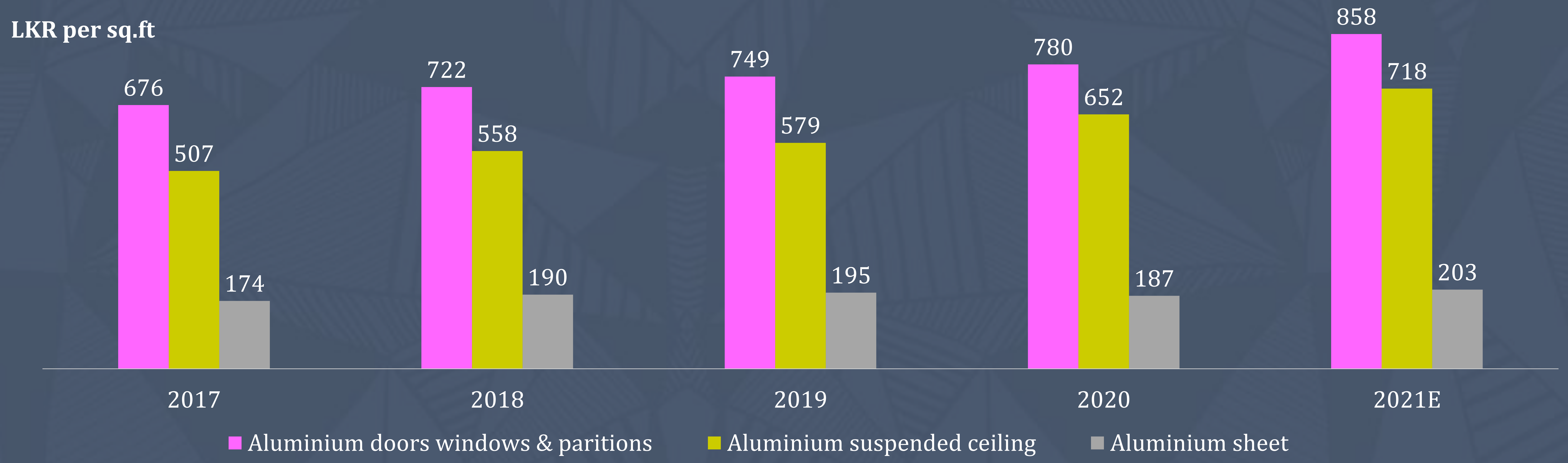


Durability, longevity, strength and price are key factors that a project manager will consider when choosing materials, and aluminum ticks all the right boxes as opposed to timber

Source: Aluminium insider, company data, SSB Research

A MARGIN PLAY: The shift towards more value-added products will support margins of local aluminium extrusion producers

Price comparison of aluminum windows, ceilings and sheets shows that door and window partitions command the highest price point in the industry

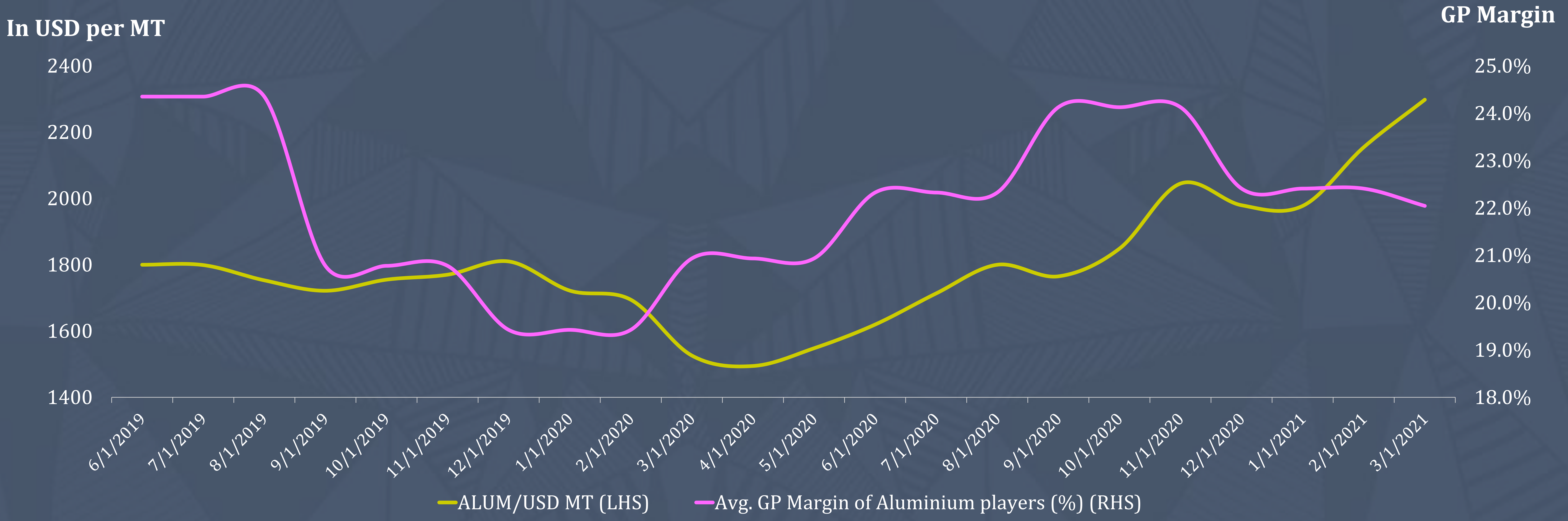


Aluminum sheets are at the lower end of the value chain. Moving into Aluminium windows, ceilings and other kitchen related items will generate higher margins

Source: CIDA, company data, SSB Research

Higher Aluminium prices could exert pressure on margins, but larger players may pass on any cost spikes in raw materials via price revisions

The Aluminium price compared with the gross margin of listed Aluminium companies



A rise in Aluminium prices may hurt the margin of Aluminium extrusion companies in the short run. However, our check with the management indicates that any significant cost spikes will be passed on via the revision of selling prices.

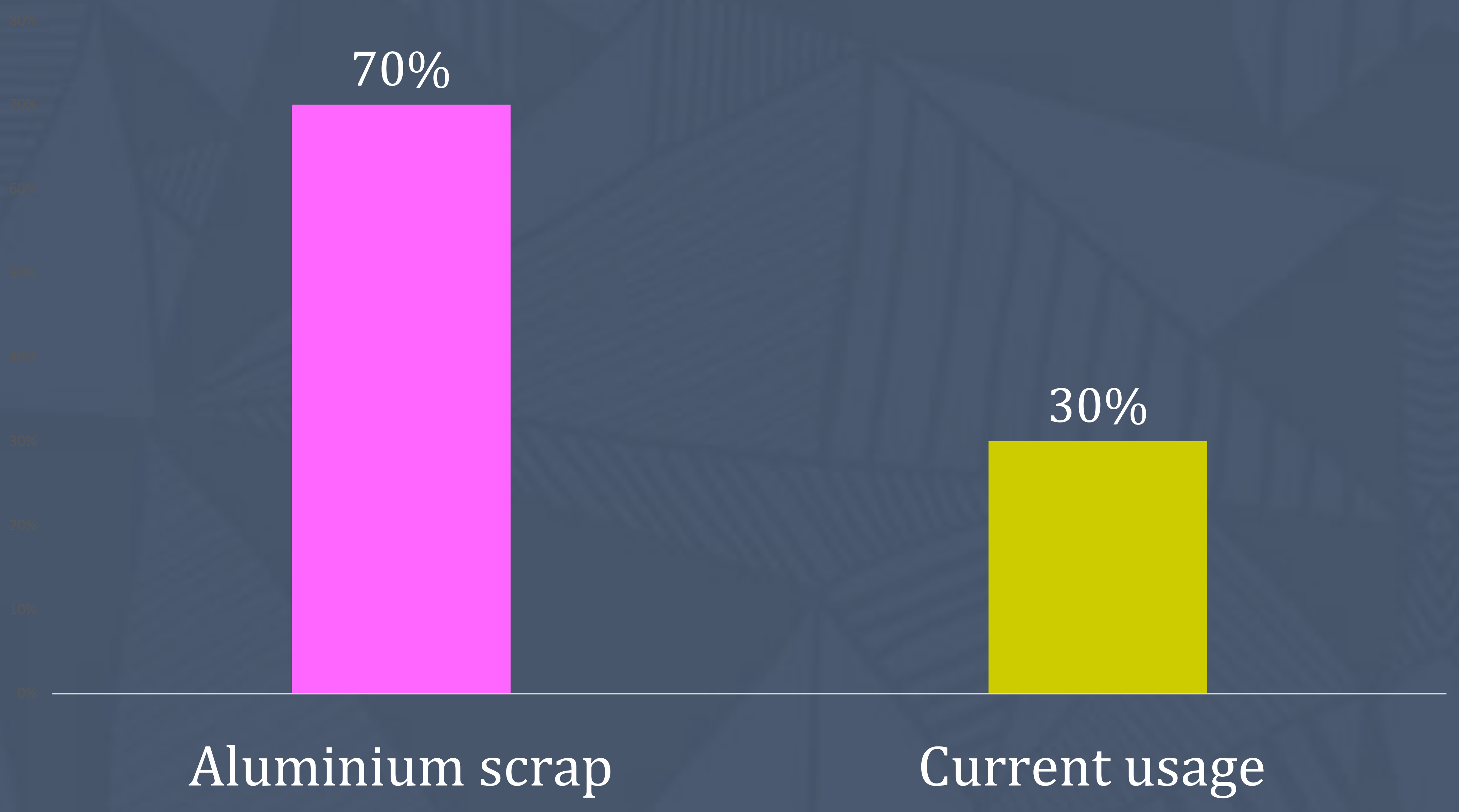
Source: Bloomberg, industry sources, SSB Research

Softlogic Stockbrokers

POTENTIAL COST SAVINGS: The option to use locally recycled scraps may partially cushion the impact of rising LME and LKR depreciation

Less than half of the available scrap Aluminium is currently being re-used for Aluminium extrusion…

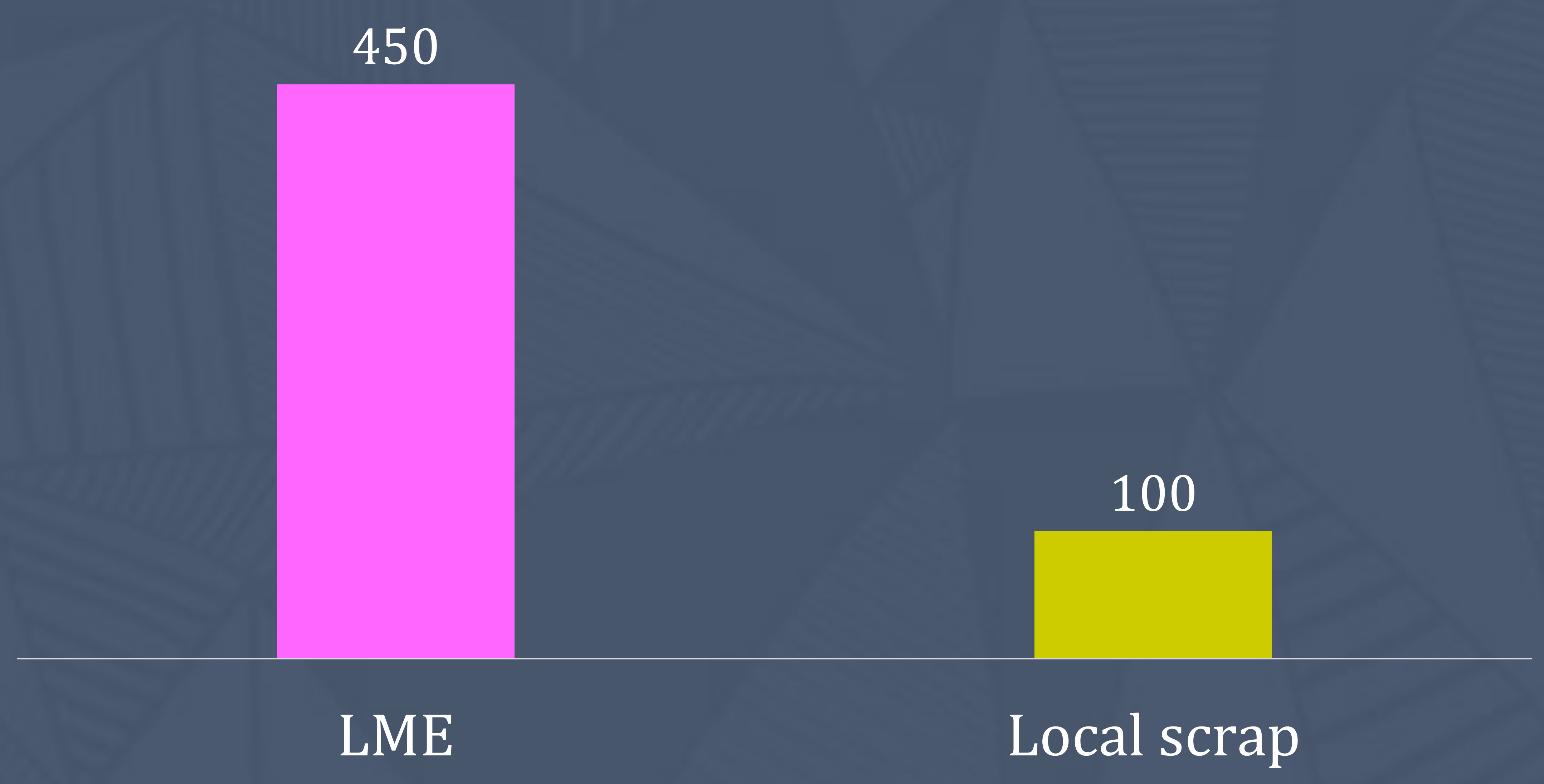
Local Aluminium scrap availability and its usage in %



Although 70% of scrap is available, only 30% can be recycled given the current technology

…Despite the London Metal Exchange (LME) prices being 4.5x more expensive than the local scrap price

Aluminium price in LKR/Kg

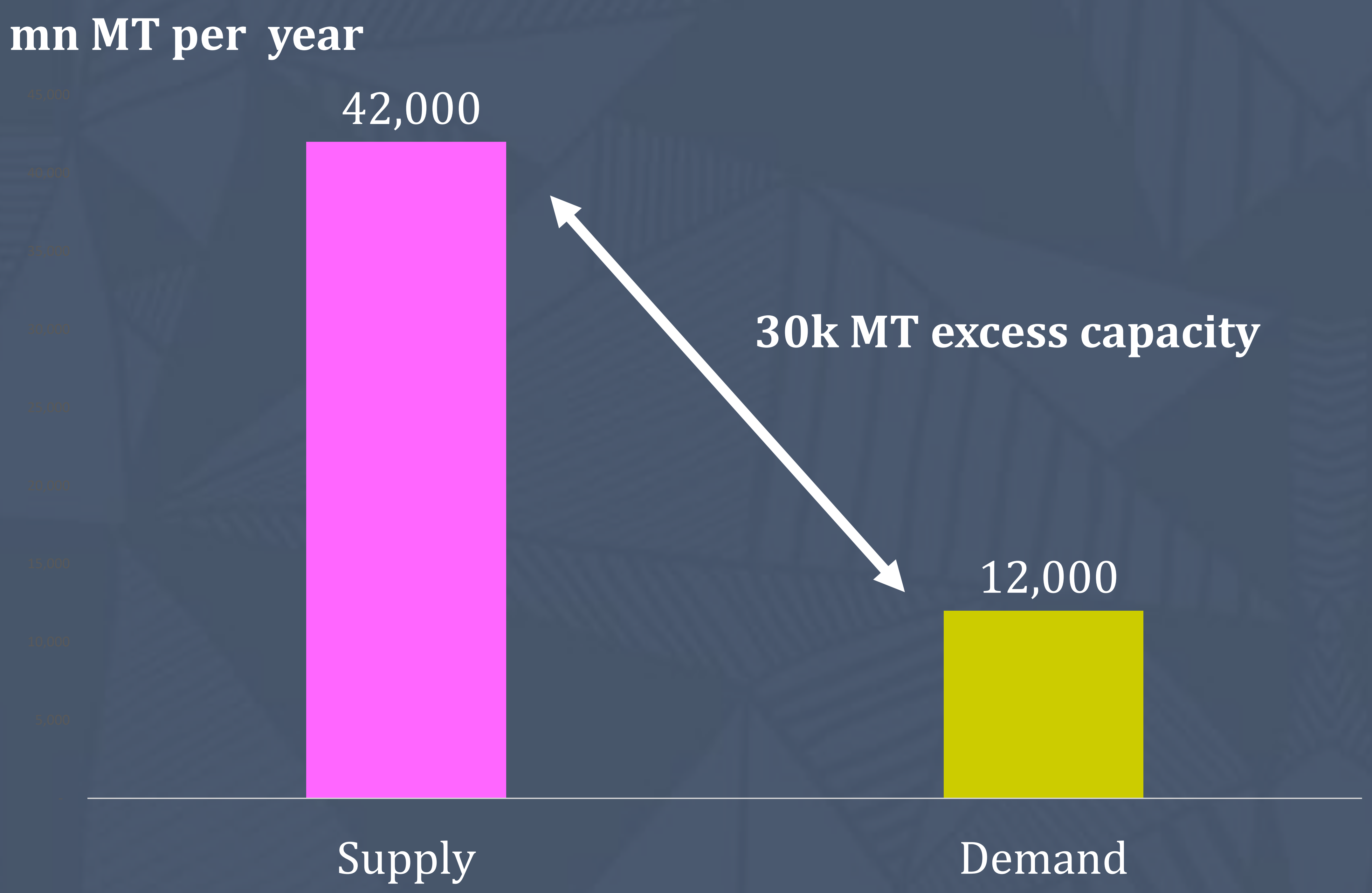


local Aluminium scrap is being sourced at LKR 100 per Kg. cf. LME price at LKR 450 per Kg

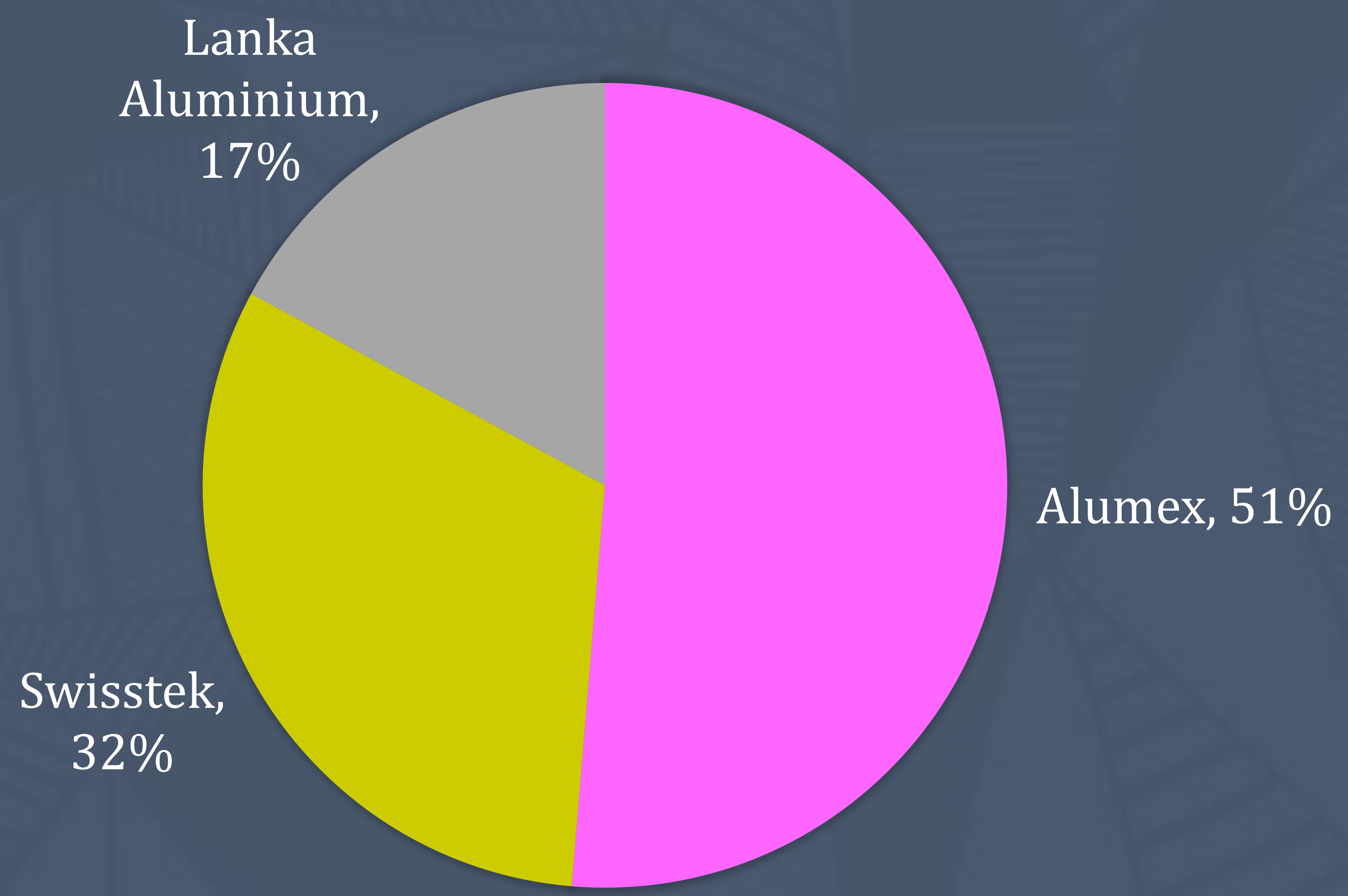
Source: Company data , industry sources, SSB Research

NO EXPANSION COST: Aluminium is a highly over supplied Market dominated by 3 major players, therefore higher demand is a bonus

Lower demand for aluminum kept local firms running at lower utilization rates of 35%-40%



As an oligopoly market that is dominated by 3 major players, new entrants may struggle to survive



With the ability to more than triple its current capacity, the industry is ideally positioned to capitalize on demand spikes with no incremental capex required, resulting in the excess production directly boosting bottom-line

Source: industry sources, company data, SSB Research

The Cable Industry

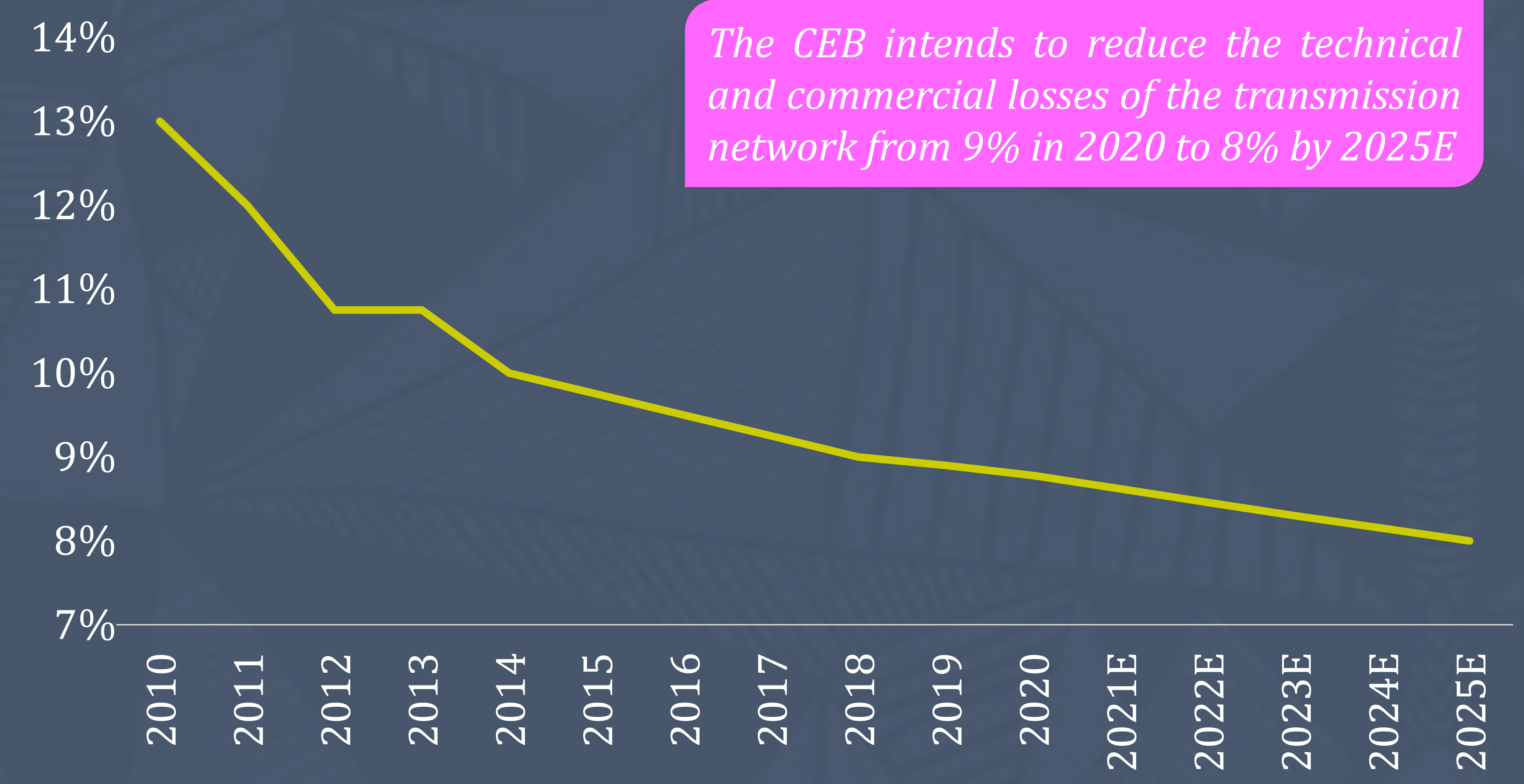
A CEB driven growth, backed by the renewable drive

Cables

An LKR 37bn investment on grid modernization due to power losses in transmission, may create an opening of LKR 8bn for the cable industry

Net electricity loss by the CEB due to the lack of suitable infrastructure

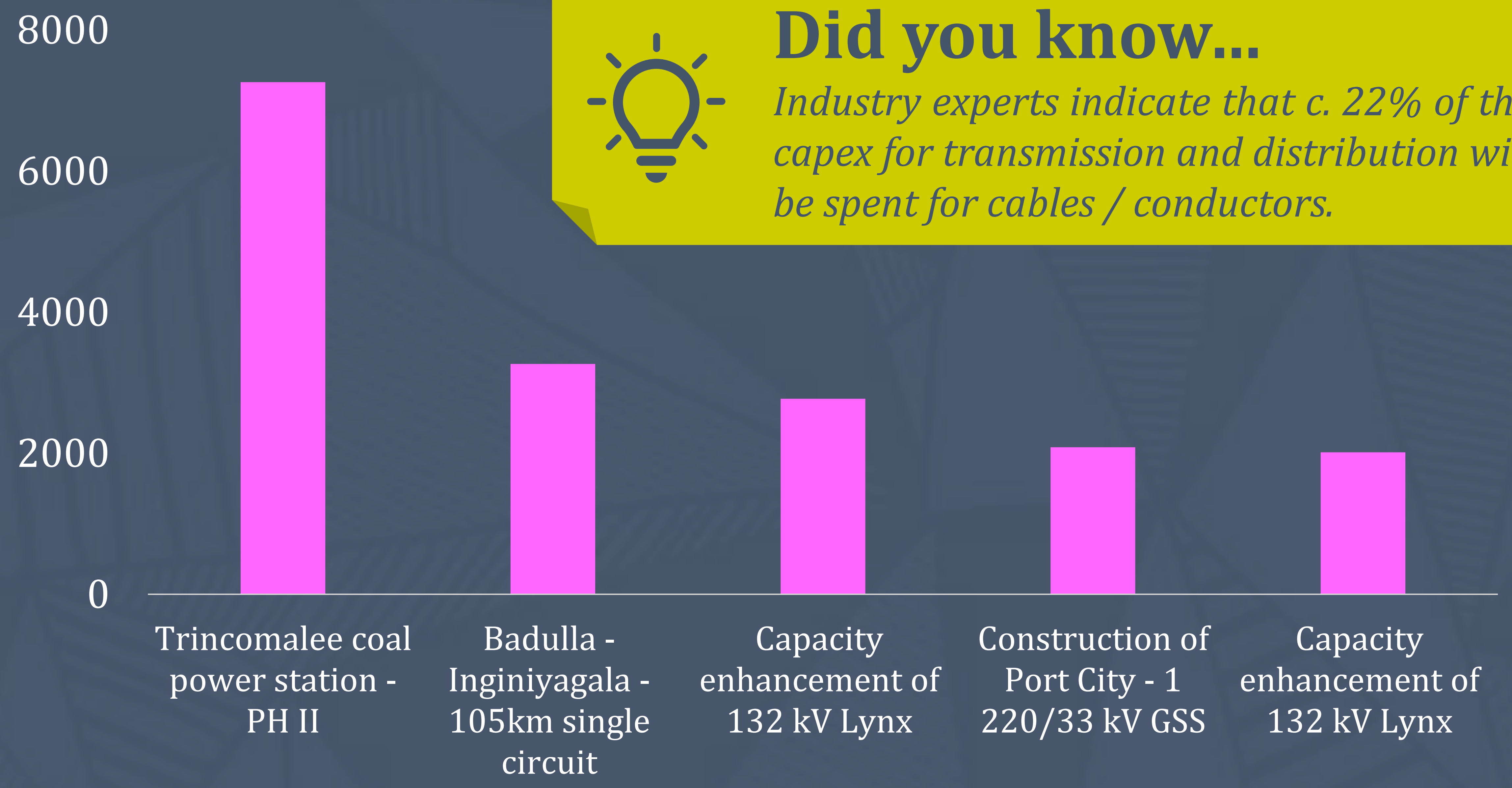
Electricity net loss in %



The CEB intends to reduce the technical and commercial losses of the transmission network from 9% in 2020 to 8% by 2025E

The CEB's projected capex on transmission and distribution over the next 3 years

LKR mn



Did you know...

Industry experts indicate that c. 22% of the capex for transmission and distribution will be spent for cables / conductors.

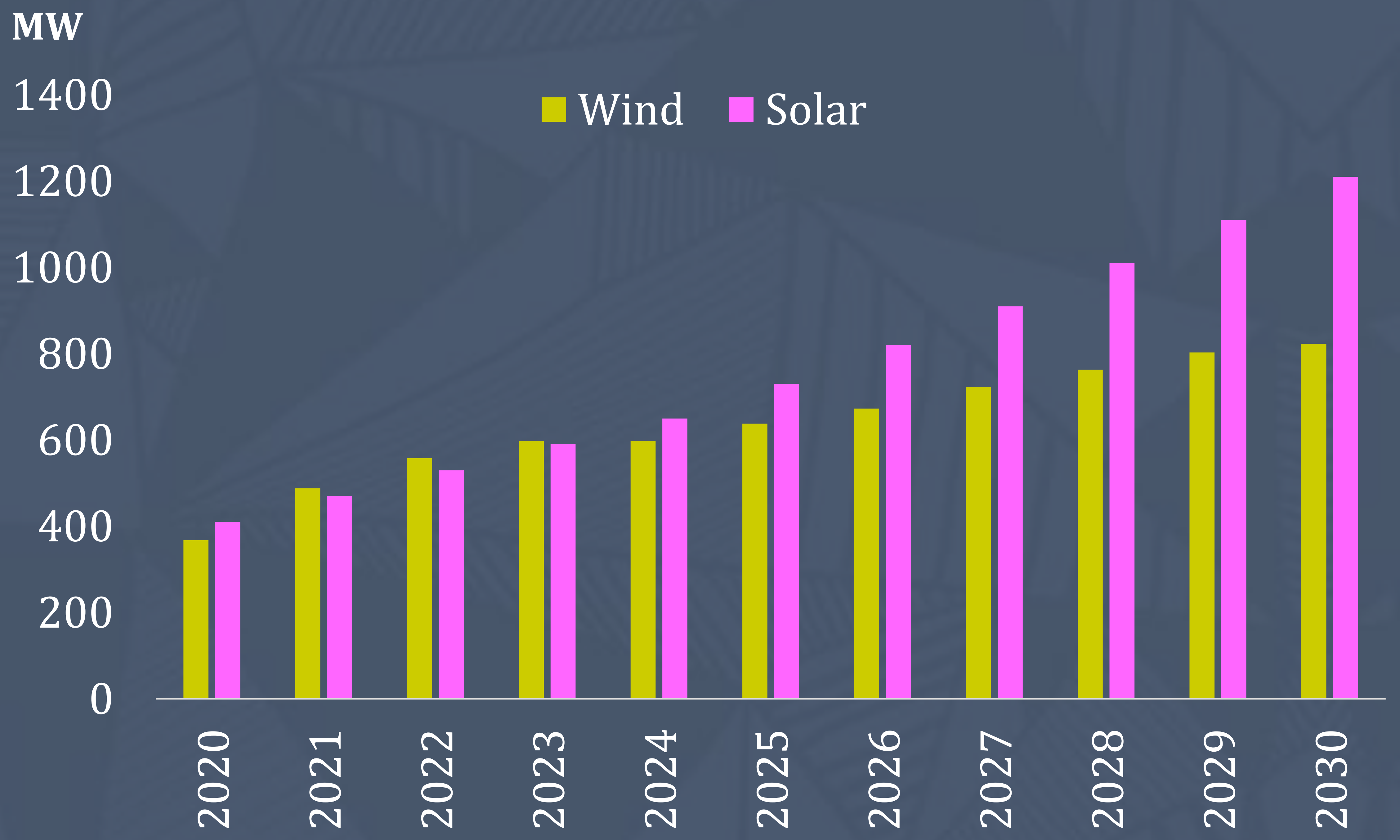
Listed above are the top 6 projects which has a project life cycle between 2020-23

The CEB is projected to spend LKR 37bn to improve the transmission loss by 2023. Therefore, 22% of the project cost (c. LKR 8bn) will be directed towards cables and conductors which would directly benefit the industry

Source: CEB long term generation expansion plan, industry sources, SSB Research

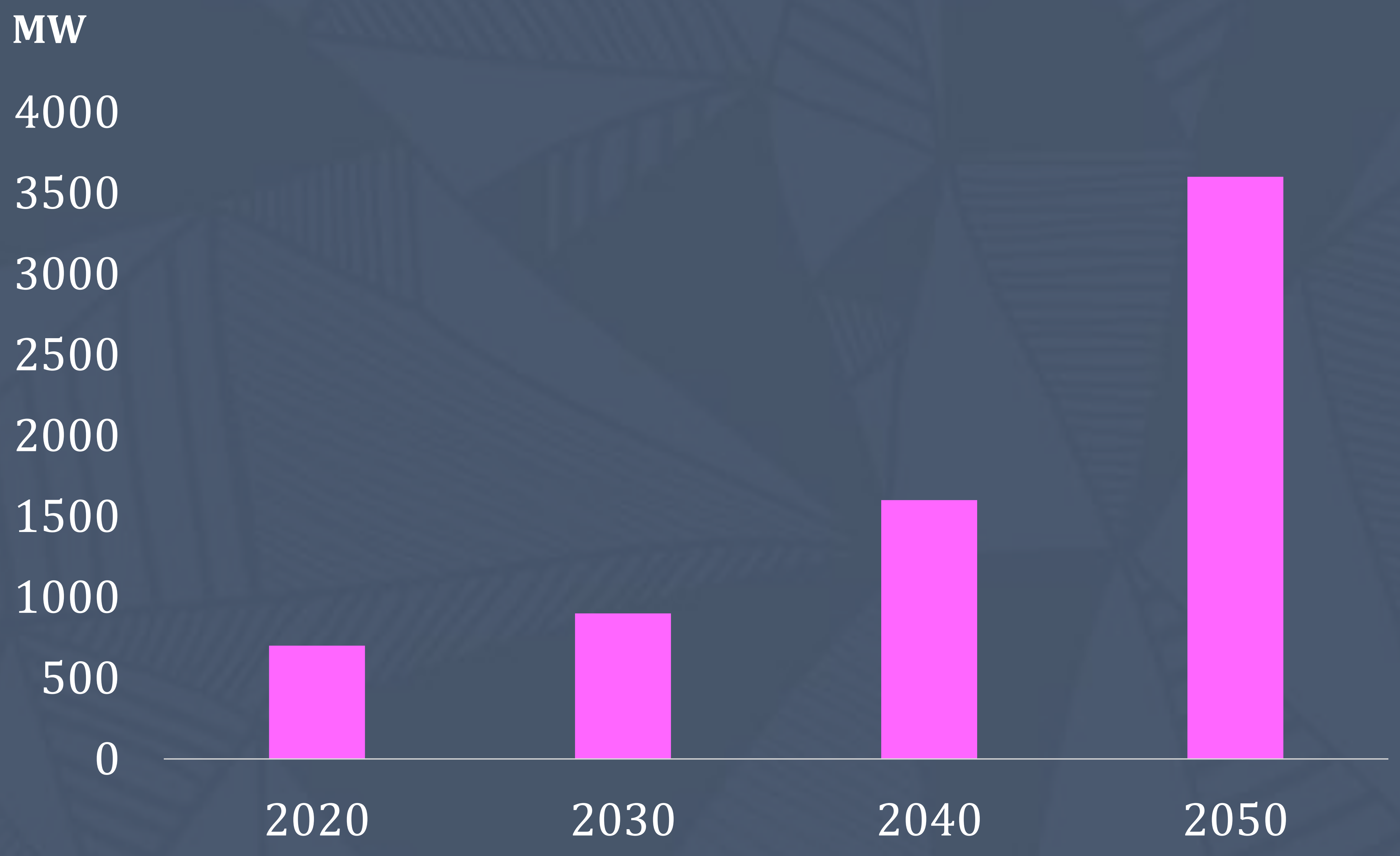
An increased share of renewable energy will call for robust balancing capacity to meet the energy requirement at the peak demand…

Solar and Wind plant additions expected by CEB on a base case scenario prior to budget proposals on rooftop solar



With majority of the hydro projects being used, the CEB has the need to accelerate the installation of solar and wind plants to diversify power generation and reduce its reliance on hydro.

The peak demand deficit is expected to expand with the shift to renewable energy, therefore grid improvements are required

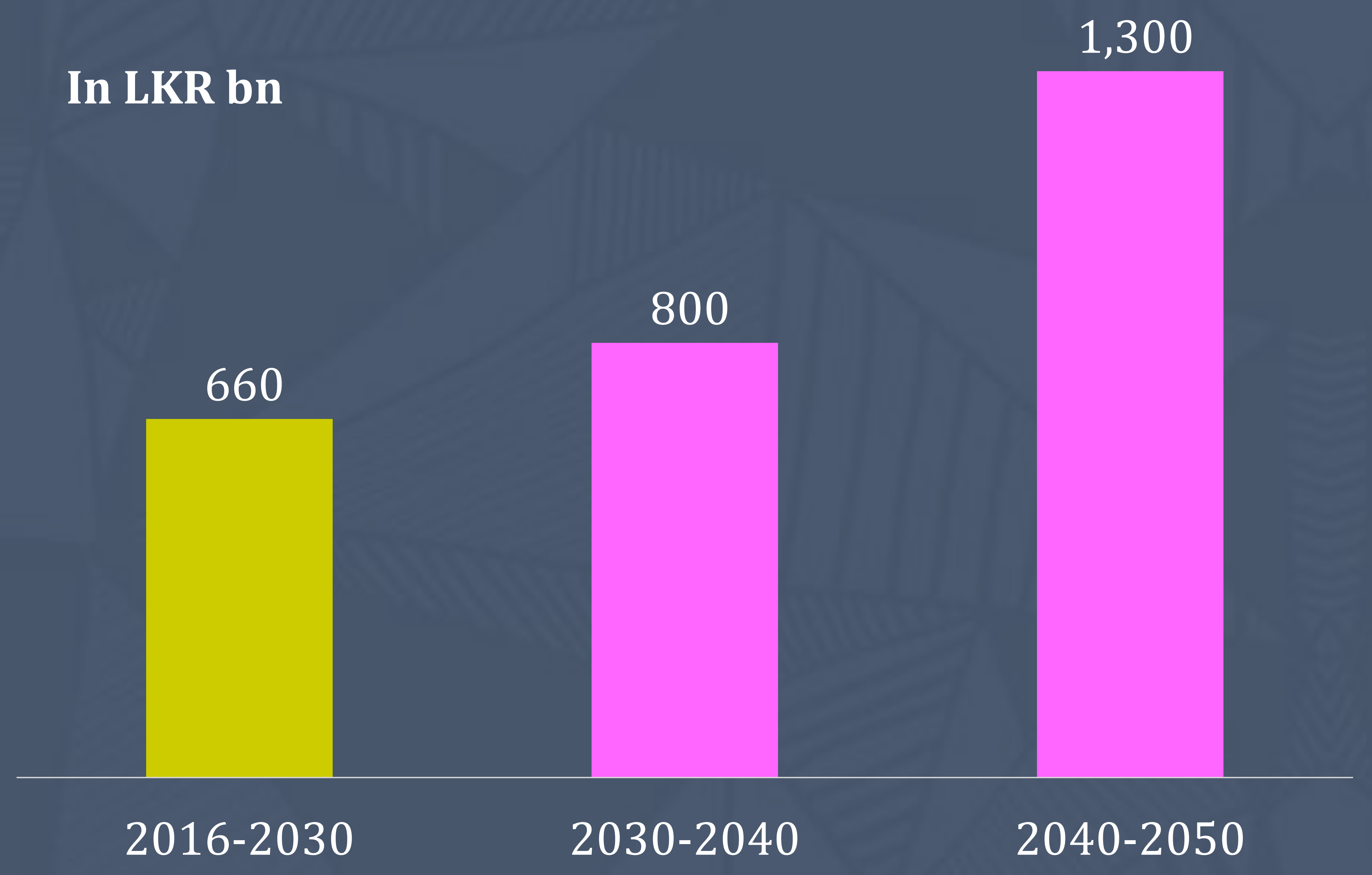


Peak demand deficit will increase due to the non-availability of solar during evenings. This will force the CEB to modernize the grid and expand their capex on transmission and distribution.

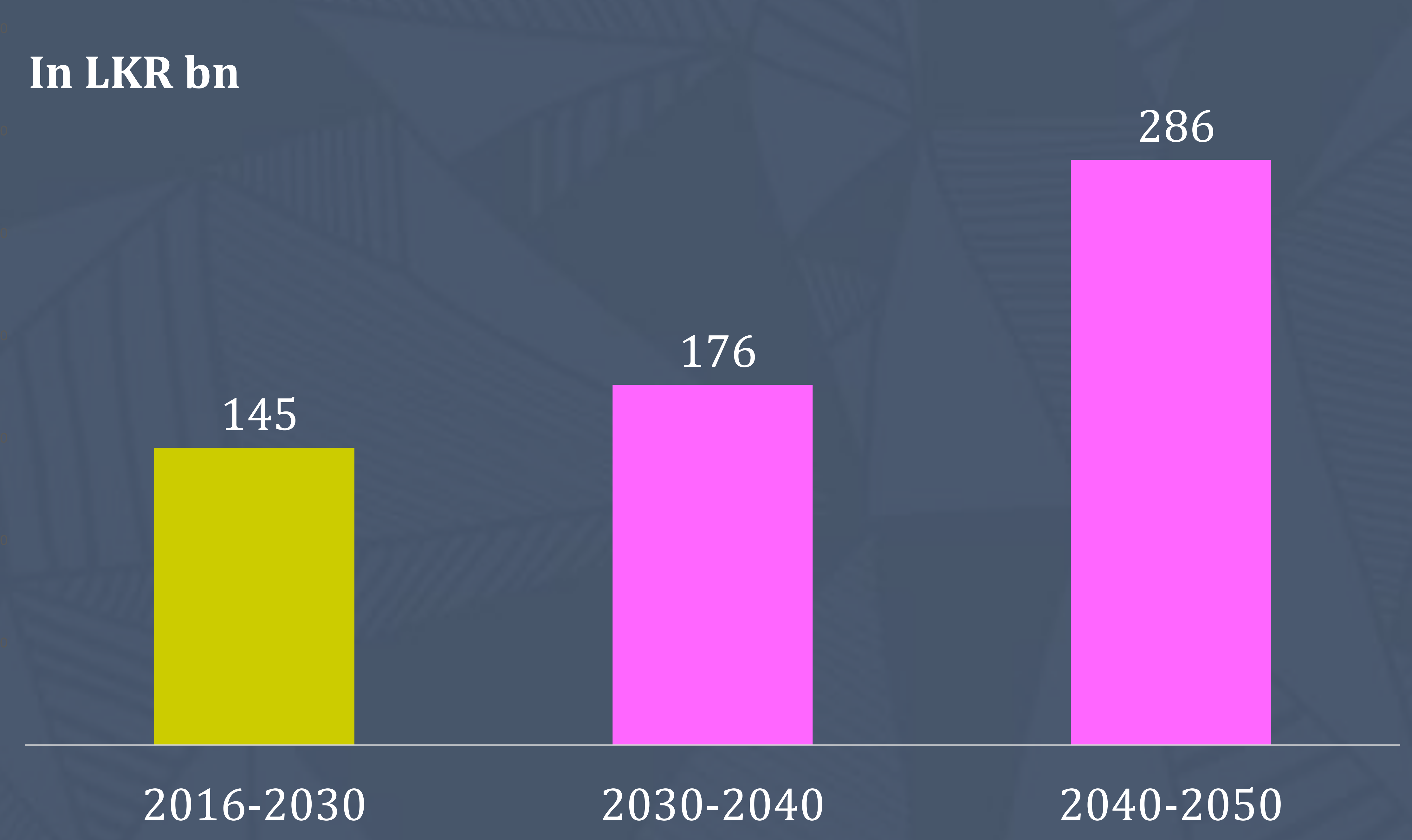
Source: UNDP, industry sources, SSB Research

...resulting in the need to upgrade the transmission, infrastructure, and distribution system of CEB

Investments in transmission infrastructure by the GoSL is expected to be 0.5 trillion in the next 10 years



The potential Cables and conductor market based on the new infrastructure required for renewable energy



In Sri Lanka, the average incremental cost estimated for transmission infrastructure development is LKR 190,000/kW. Therefore, the drive towards renewable energy such as solar and wind will generate sufficient income for cable players

Source: UNDP, industry sources, SSB Research

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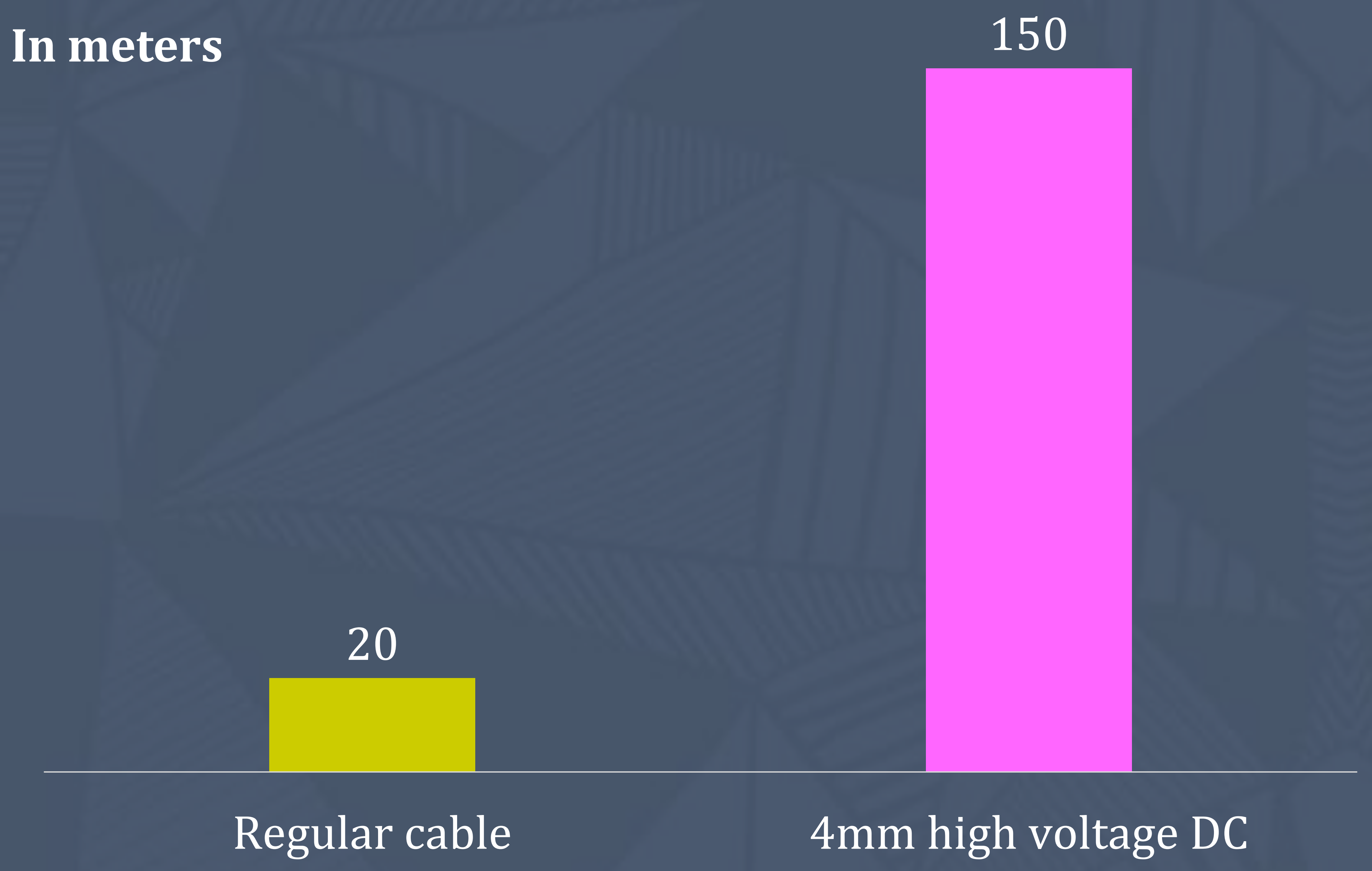
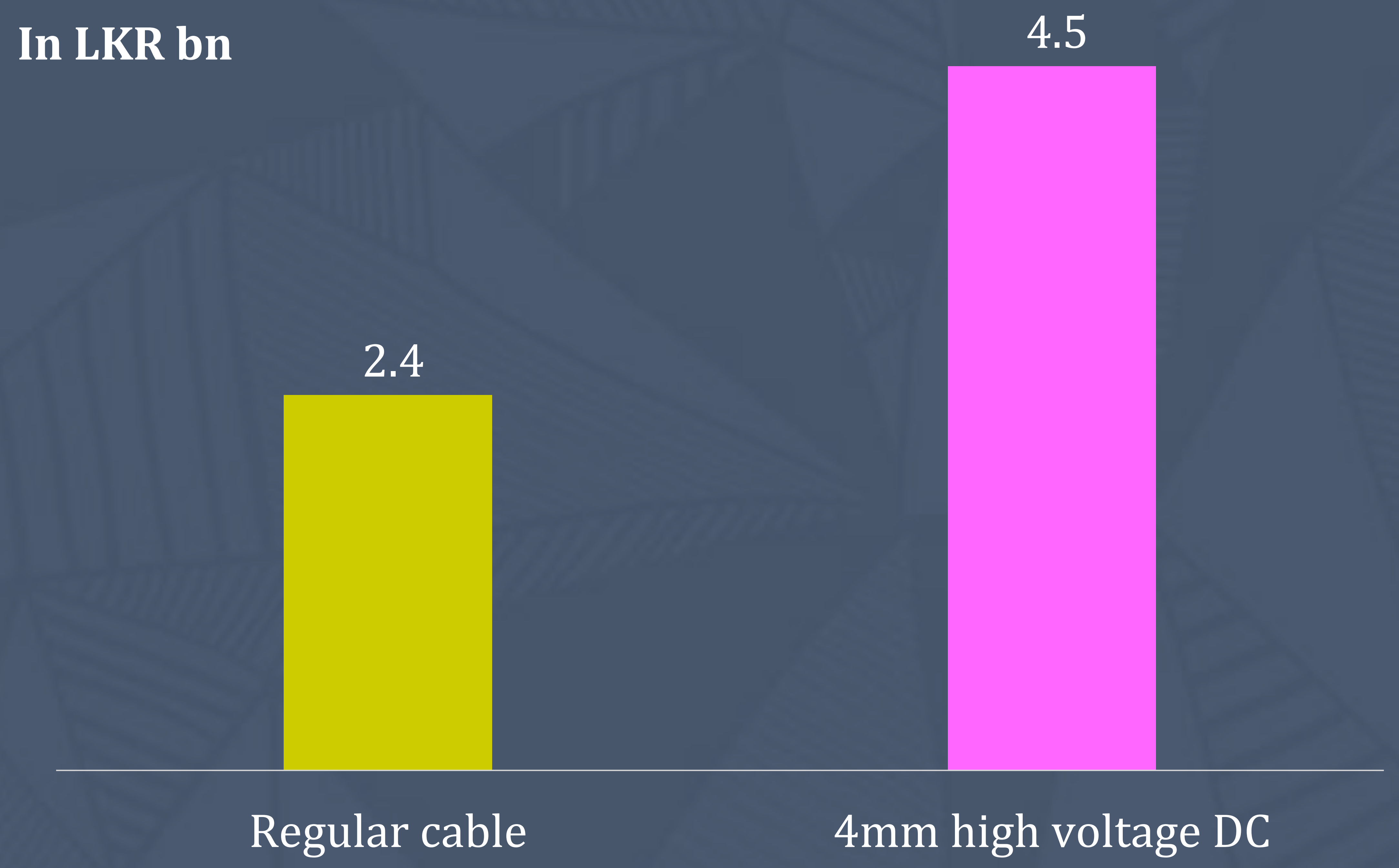
The rooftop-solar installation on houses and businesses to create a market opportunity of LKR 6.9bn for high voltage and regular cables

There are 2 types of cables required for roof-top solar systems, a regular AC and a high voltage DC cable



Estimated cost for high voltage DC c.f. regular cables for installing solar panels on 100,000 houses and business premises

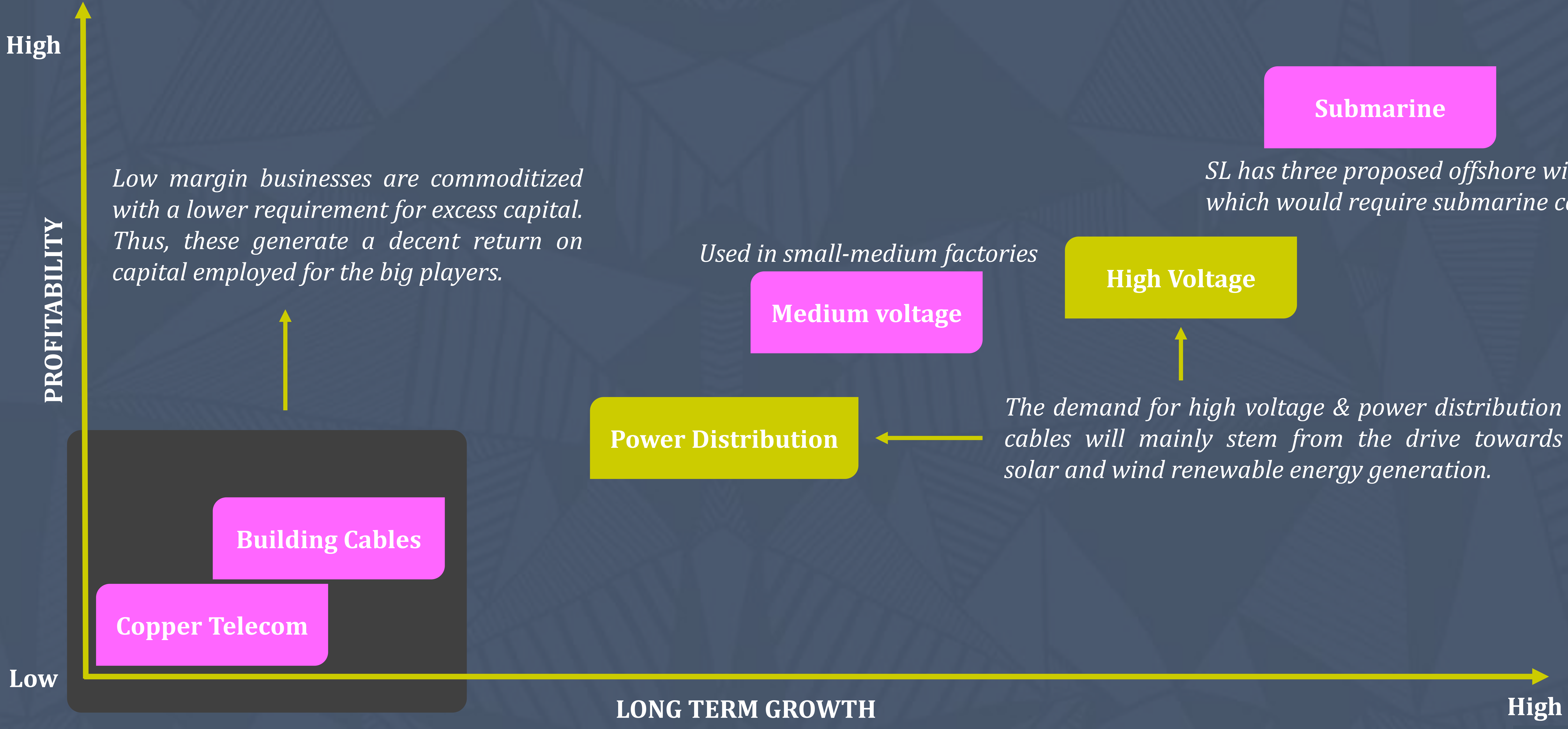


Installing roof top solar to cater to the estimated 100,000 households and businesses, should generate a LKR 6.9bn market opportunity for local cable manufacturers

Source: industry sources, SSB Research

Our analysis indicate that more installation of wind and solar plants should generate higher margins for cable players

Profitability analysis of different type of cables based on its growth prospects

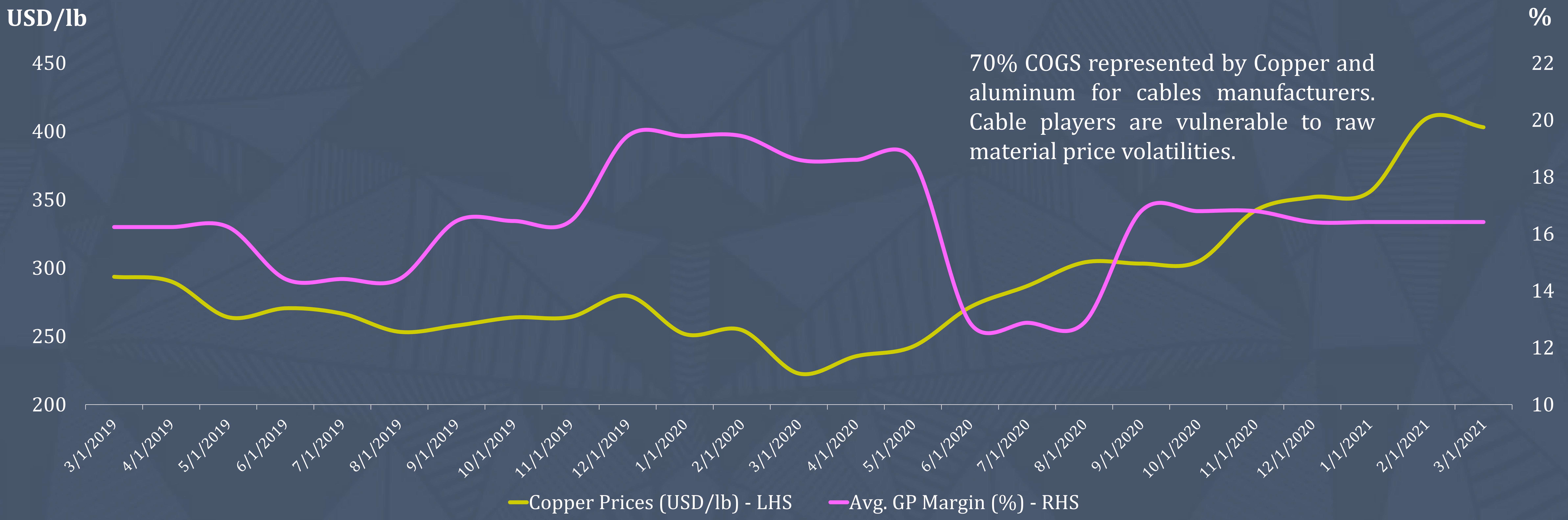


Source: industry sources, company data, SSB Research

Softlogic Stockbrokers

A potential risk: Higher commodity prices and adverse FX movements can affect margins, as Copper prices show a c.90% correlation to GP

The Copper prices compared with the gross margin of listed cable companies



Correlation between Aluminium prices and gross margin is 0.14 cf. copper and gross margin correlation of -0.9, therefore Aluminium is excluded from the above chart

Although established players have pricing power for most of its products, any sudden jump in key input prices for wires (Aluminium and Copper) is likely to lead to a near term margin compression.

Source: Bloomberg, SSB Research

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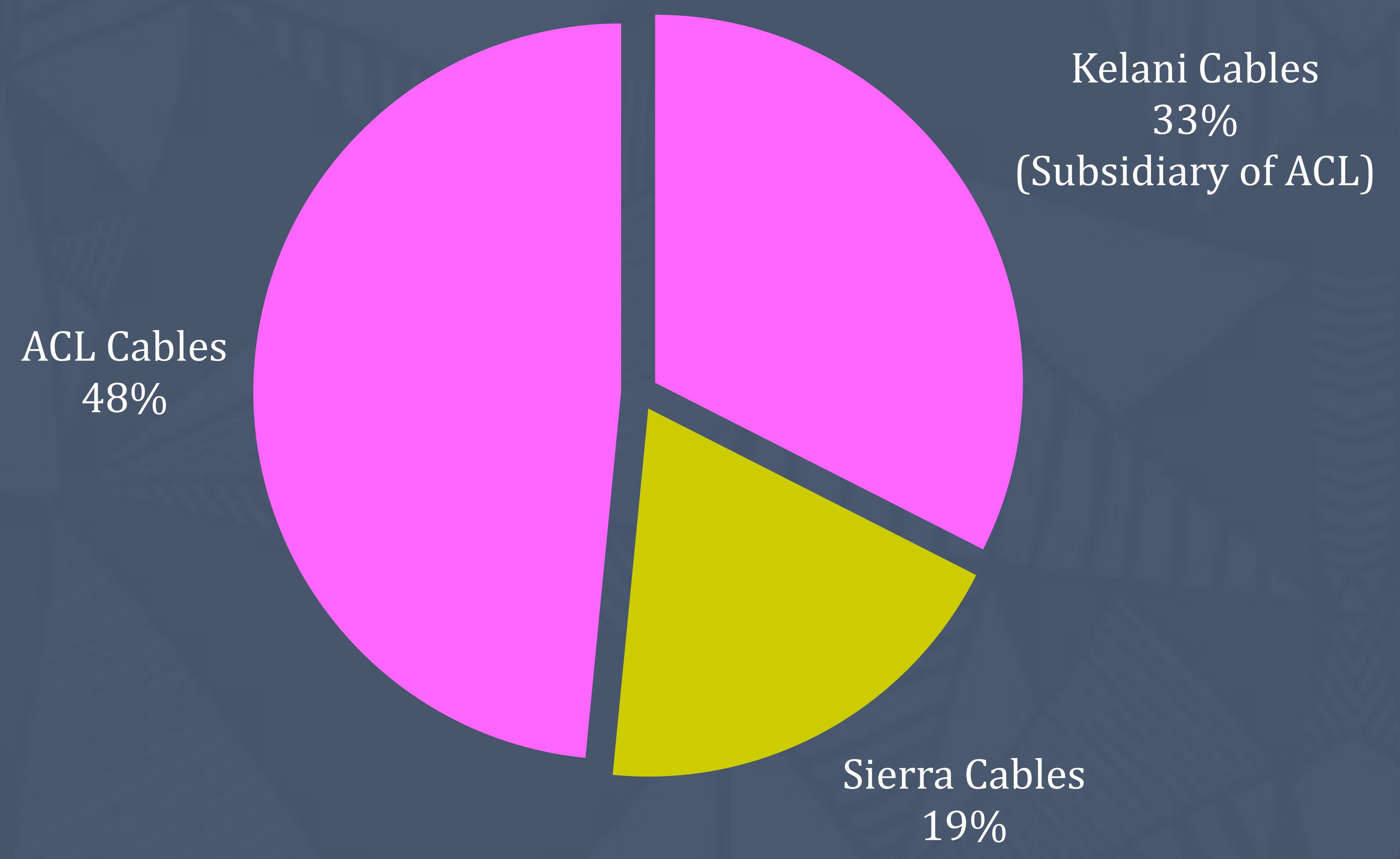
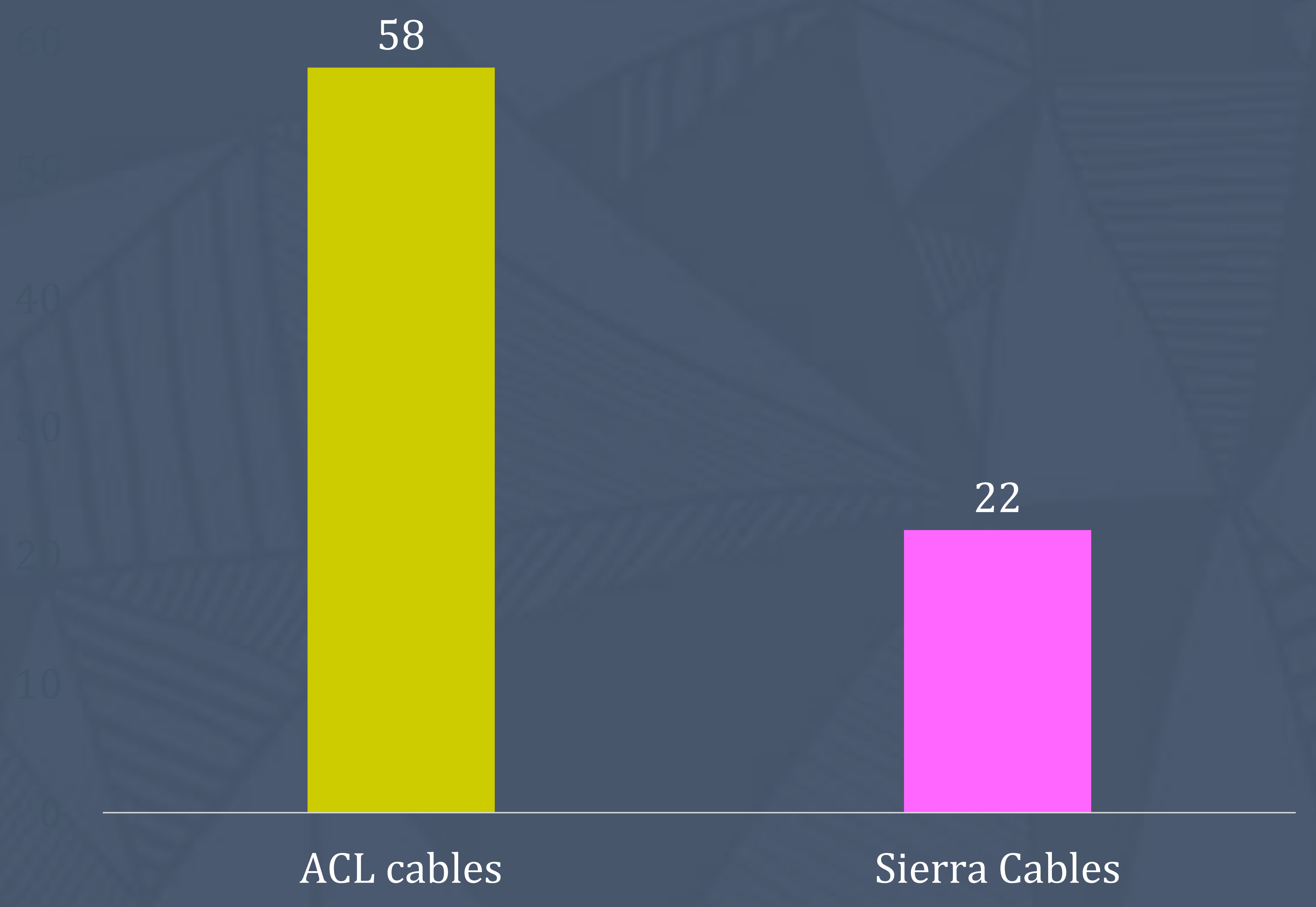
Working relationships and experience in complex installations may allow leading players like ACL and SIRA to win high value projects

Market share of cables firms based on 9MFY21 revenue shows the ACL group having a c.81% share…



…whilst being in operation for over 58 years, almost 3x longer than its main competitor

Number of years in operation



Building cables are fairly protected in the near term due to established players having strong relationships with distributors, whilst in power distribution cables, relationships with the CEB is essential, acting as a barrier to entry.

Note: ACL cables own 75% of KCAB through its 100% owned subsidiary Lanka Olex Cables

Source: Bloomberg, SSB Research

The Pipe Industry

An Overflowing Pipeline

Increased budgetary allocations to pipe-borne water may boost PVC demand as only 54% of the households have access to pipe borne water

The budget 2021 proved to be a gold mine for the PVC industry, with a phenomenal demand projected for the next 4 years, backed by an allocation of LKR 1 tn for the expansion of pipe borne water by the government of Sri Lanka.

40,000 Km

Pipe Demand

2021

60%	Thermostatic HDPE*	LKR 5mn – 10mn
25%	50mm PVC (S/S)	LKR 650,000
5%	75mm PVC (S/S)	LKR 1.0mn
5%	90mm PVC (S/S)	LKR 3.2mn
5%	225mm PVC (S/S)	LKR 13mn

**High load bearing underground pipes used in road networks*

LKR 235bn

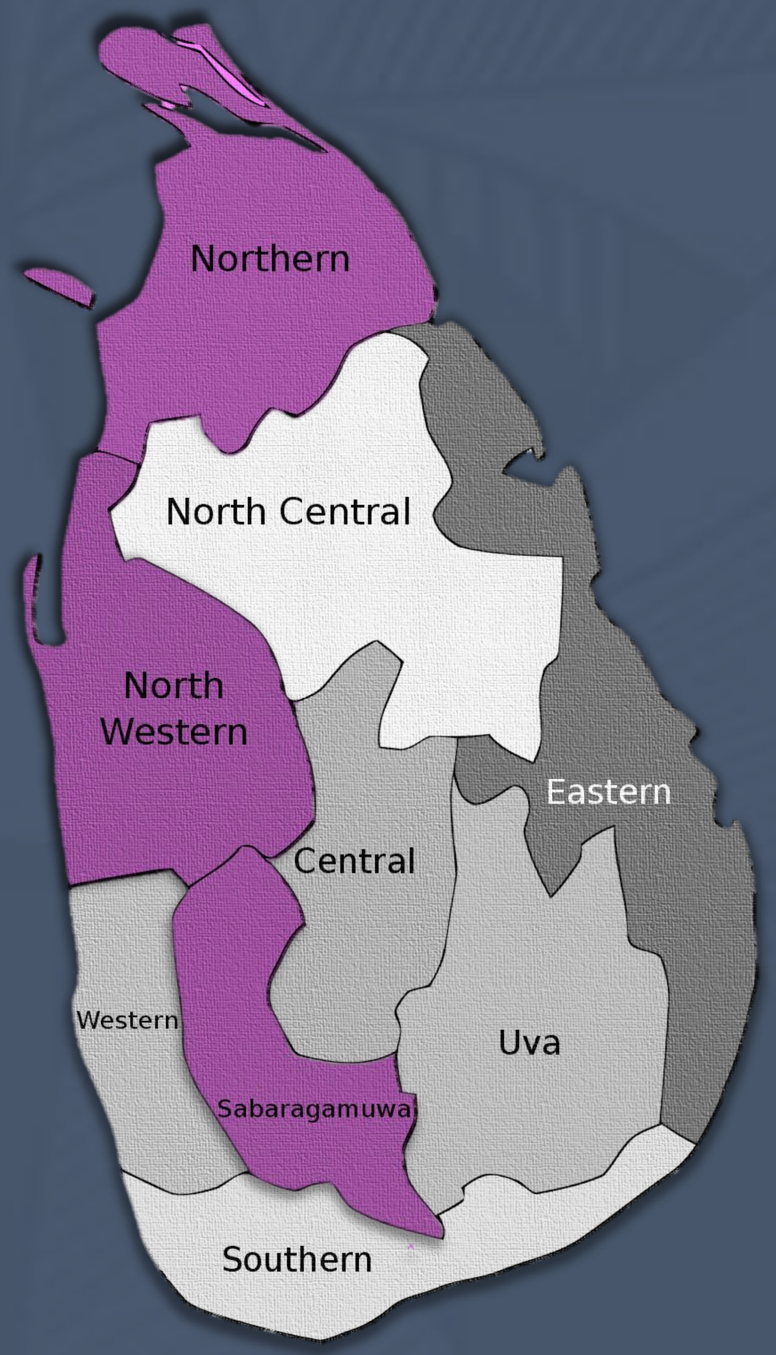
Projected demand for pipes

The 40,000 km expansion plan could result in the creation of LKR 200-250bn of demand purely in the PVC and HDPE segment, which is nearly 10x the current turnover of the entire local industry

Source: GoSL budget 2021, Industry Sources, SSB Research

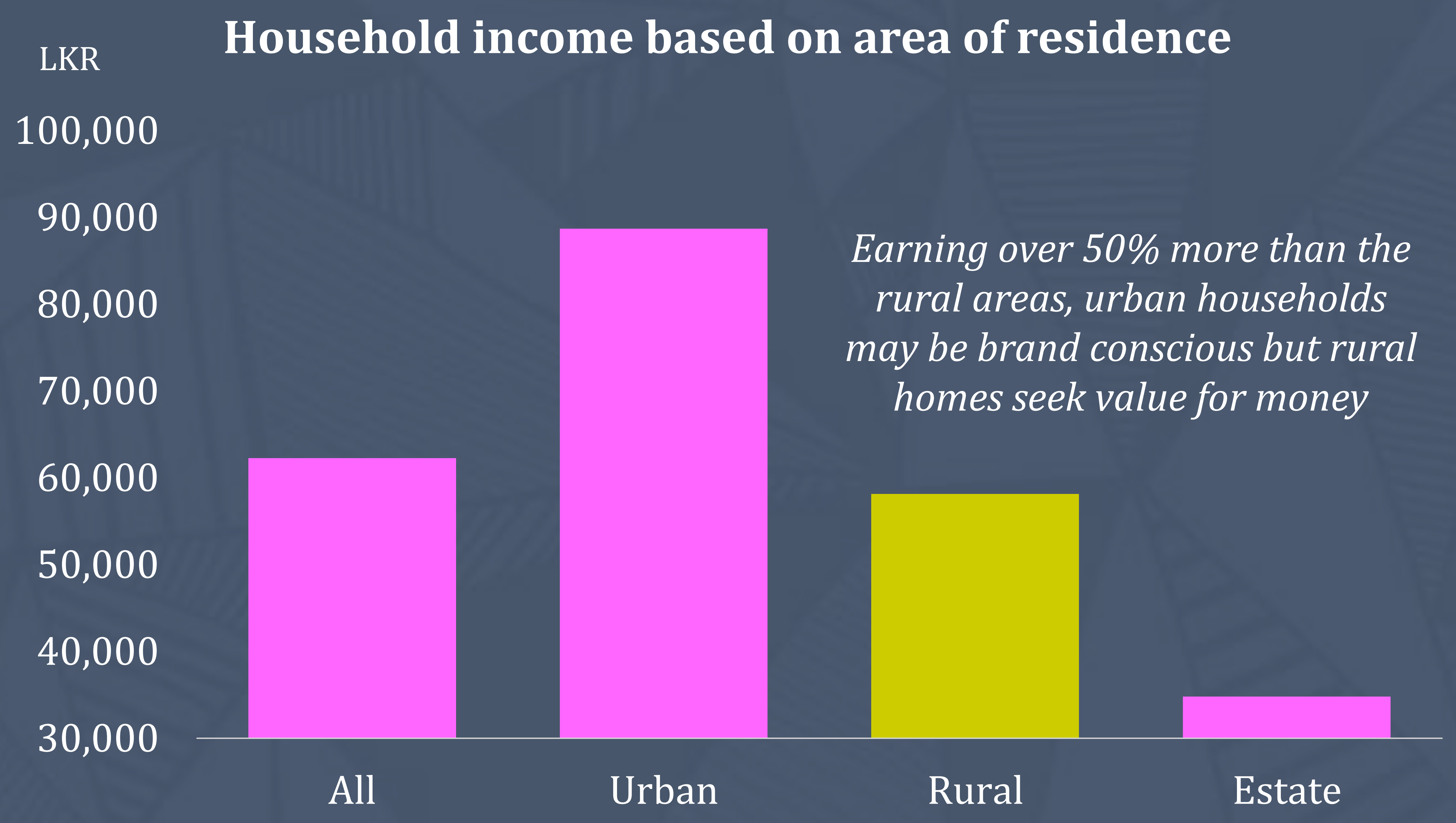
As majority of the remaining c.46% of the houses are in rural areas, standard products may attract demand cf. to premium products

Most of the underdeveloped water systems lie in the North, North-Western and Sabaragamuwa provinces



	2013	2019
North	*8%*	*13%*
SG	*23%*	*25%*
NW	*24%*	*26%*
UVA	*42%*	*47%*
SW	*33%*	*48%*
NW	*38%*	*50%*
NC	*46%*	*52%*
Central	*49%*	*54%*
South	*55%*	*57%*
East	*43%*	*67%*
West	*92%*	*98%*

Having received a pipe-borne water connection, a new demand cycle is formed in each household



Whilst retail demand within Colombo suburbs may remain favorable for the premium products, the true demand would be reflected from the rural segment who opt for value for money products due to its price sensitive nature

Source: Department of census and statistics, National water supply and drainage board, SSB Research

The resulting demand from new water connections would be towards the value for money alternative as opposed to the premium brand

The key players in the industry comprise of S-lon, National PVC (Central Industries) and Anton PVC

Whilst S-lon focuses on its premium brand image for retailers, contractors rank it on par with national

The Premium Loss

Despite its well marketed presence as the industry leader via the facets of product quality, being ranked on par with its rivals make it a tough sell to the rural villages who have not enjoyed pipe-borne water.

The Value Victory

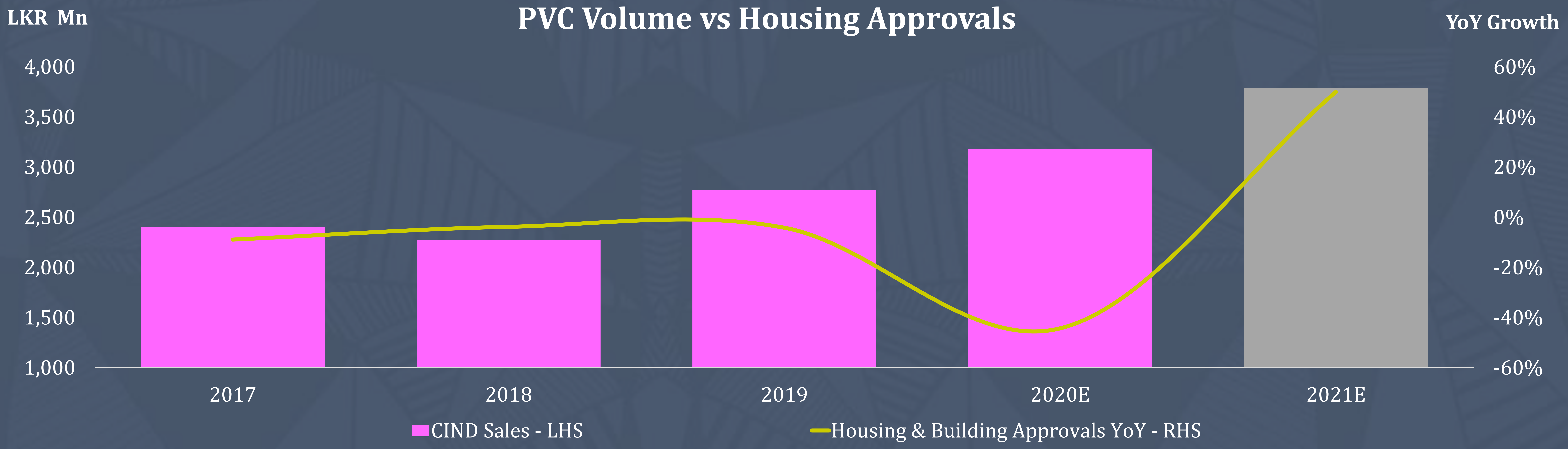
Whereas an equally competitive product on quality that is at a significant discount to S-lon, would then be the product of choice among the rural segment. As such, national PVC is ideally poised to ride the next wave of growth.

Being priced lower compared to the premium brand (S-lon,) while having similar quality standards (or better quality in certain segments), will provide an edge to CIND over other players in a market expansion

Source: Daily mirror, SSB Research

In addition to the stimulus driven boost, the segment may also see a pent-up demand spike rising from the generally low mobility of 2020

The low interest rate climate and housing loan scheme would prove to compliment the industry further as home expansions and pent-up demand from the lockdown period is expected to drive short run growth.



With overall housing approvals and construction projects coming to a halt for most of 2020, 2021 is expected to see a pent-up demand driving the market over and above the standard housing requirement

Source: CSE data, CBSL, Department of census and statistics, SSB Research

National PVC is a preferred choice in the govt's large-scale projects and budget allocations for construction may work in favor of CIND

The addition of 11,000 new housing units would add c. LKR 0.8 Bn in artificial demand to the industry

11,000
Housing Units

×

75,000
Average PVC cost

=

LKR 825mn
Demand purely via housing

CIND faces a unique edge as a local producer with a track record of catering to government projects

Government Projects

CIND is one of the two main suppliers to the National Water Supply and Drainage Board, making it inevitable that the benefits of such state sanctioned expansions would be passed on to CIND.

The Local Drive

With the government making it mandatory to source certain construction materials such as PVC locally, in a bid to reduce the pressure on the exchange rate, growth may be retained within the local players, allowing CIND to capitalize on the opportunity.

Being one of the main two suppliers to National Water Supply and Drainage Board of Sri Lanka, National PVC (CIND) has the ability to secure a majority of the PVC requirement in the country

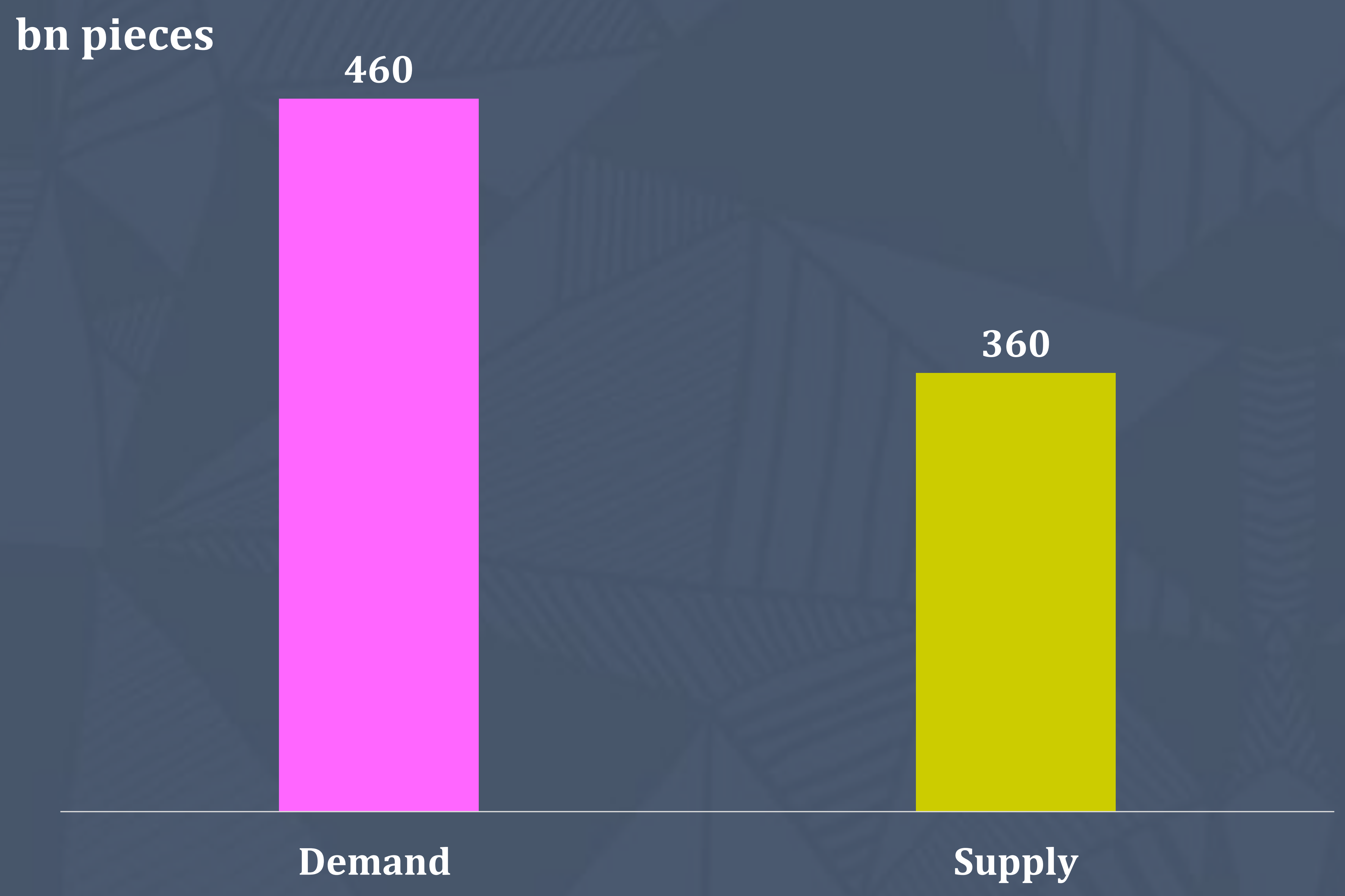
Source: UDA, Private Projects, SSB Research

The Hand Gloves

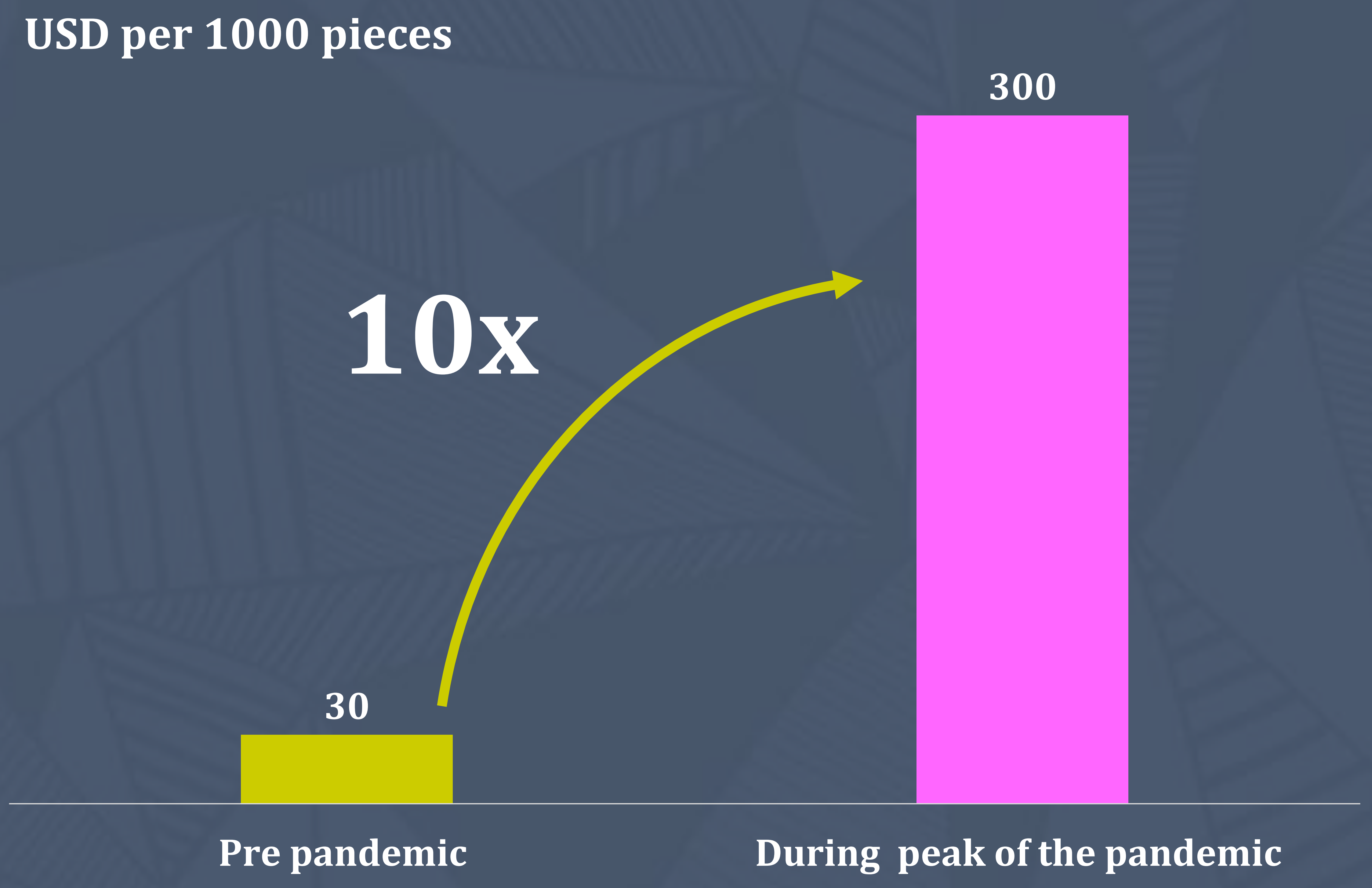
Running on overdrive, bracing for impact…

IN HIGH DEMAND: A c. 100bn unit supply mismatch for hand gloves resulted in average selling price (ASP) spiking by 10x in 2020

With the unprecedented demand for medical gloves for COVID-19, the market faced a shortage of 100bn units in 2020



The average cost of nitrile gloves increased by 10X due to demand and supply mismatch at the peak of the pandemic



Whilst the short run prospects remain extremely attractive for the sector in the coming 12 months, there would be an inevitable tapering of demand in the industry

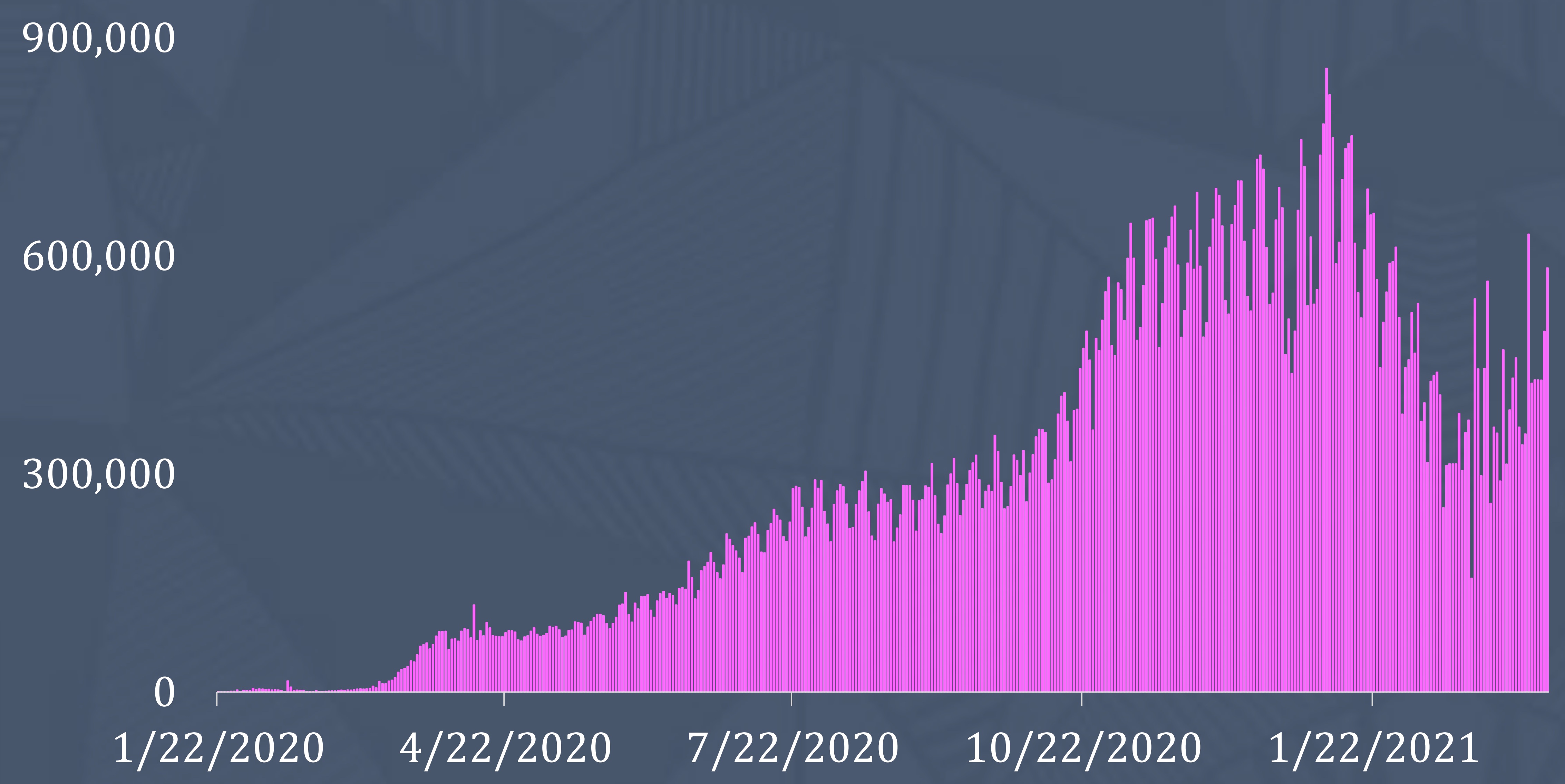
Source: Bloomberg, MARGMA, SSB Research

Softlogic Stockbrokers

However, with the COVID-19 cases dropping amidst a vaccine launch and virus's seasonality ASP may trend downwards, contracting margins

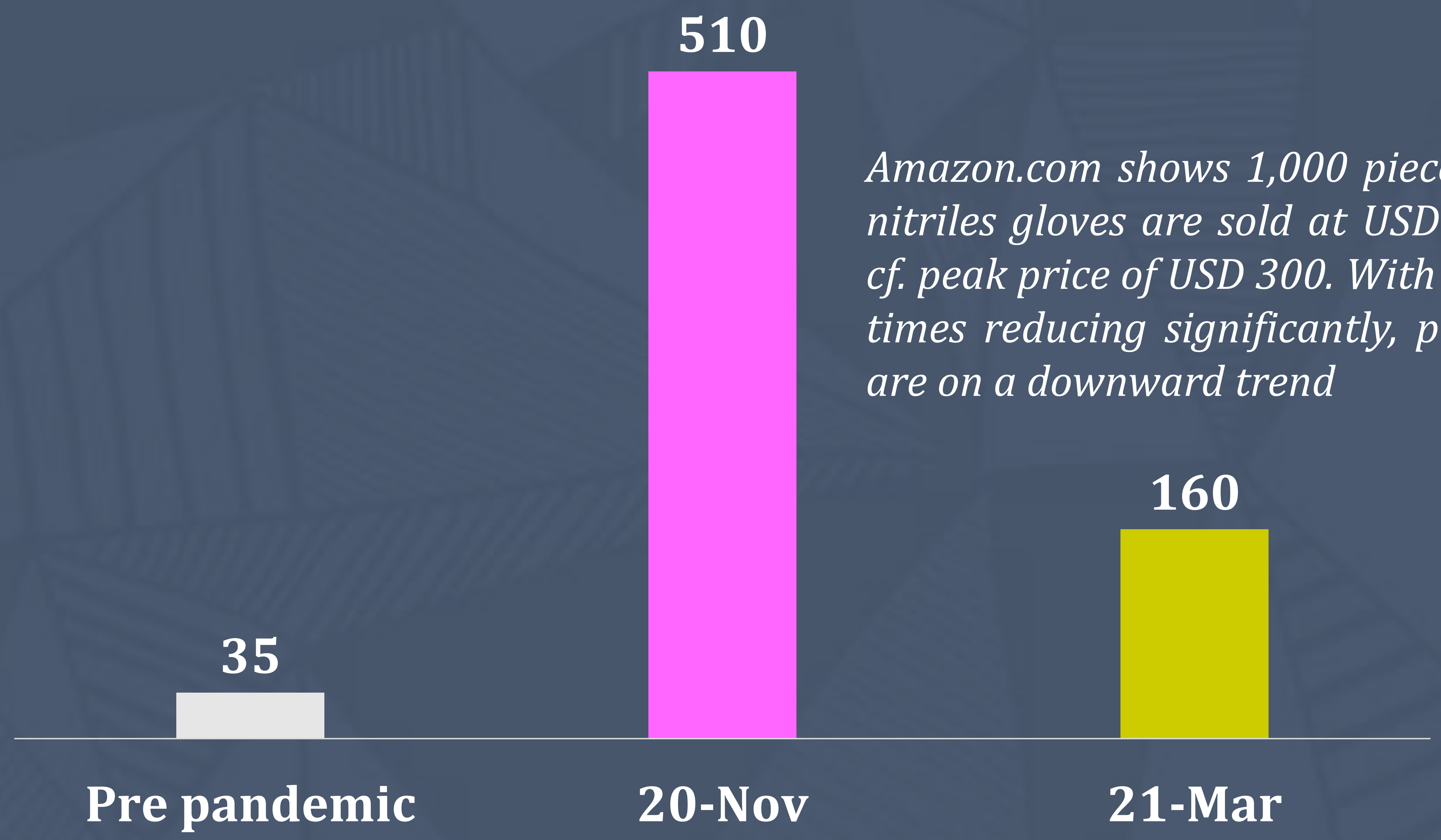
With vaccinations underway, we do not anticipate demand to come under significant pressure as we saw during the past year

Changes in daily Global COVID-19 cases



Delivery times reduced to 160 days from a peak of 510 days, with new capacity additions and customers rebalancing their glove inventory with the roll out of the vaccine

Lead time in days

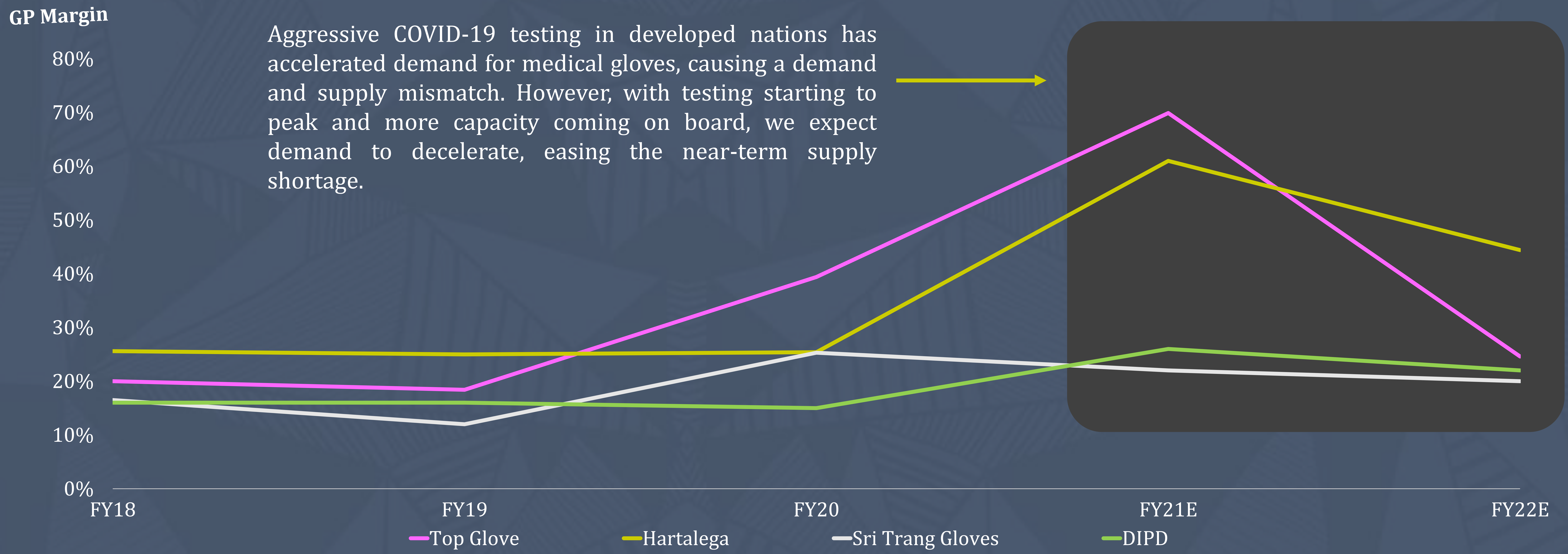


Amazon.com shows 1,000 pieces of nitriles gloves are sold at USD 260 cf. peak price of USD 300. With lead times reducing significantly, prices are on a downward trend

The price drop indicates that the price hike is not sustainable as vaccinations start and new capacity additions enter. However, demand may be above pre-covid levels with the global increase in awareness about hygiene and cleanliness

Source: Worldmeter, Topgloves, Amazon.com, SSB Research

The Malaysian glove industry expects major players to witness a margin normalization post FY21E



Aggressive COVID-19 testing in developed nations has accelerated demand for medical gloves, causing a demand and supply mismatch. However, with testing starting to peak and more capacity coming on board, we expect demand to decelerate, easing the near-term supply shortage.

Therefore, we believe that glove prices has already peaked and will start to normalize going forward.
As a result, post COVID-19 profit and fair value may normalize for industry players

**Note: Year end for each company is as follows 1) Sri Tang – December 2) Top Gloves – August 3) Hartalega & DIPD - March*

Source: JP Morgan, Finannsia, SSB Research

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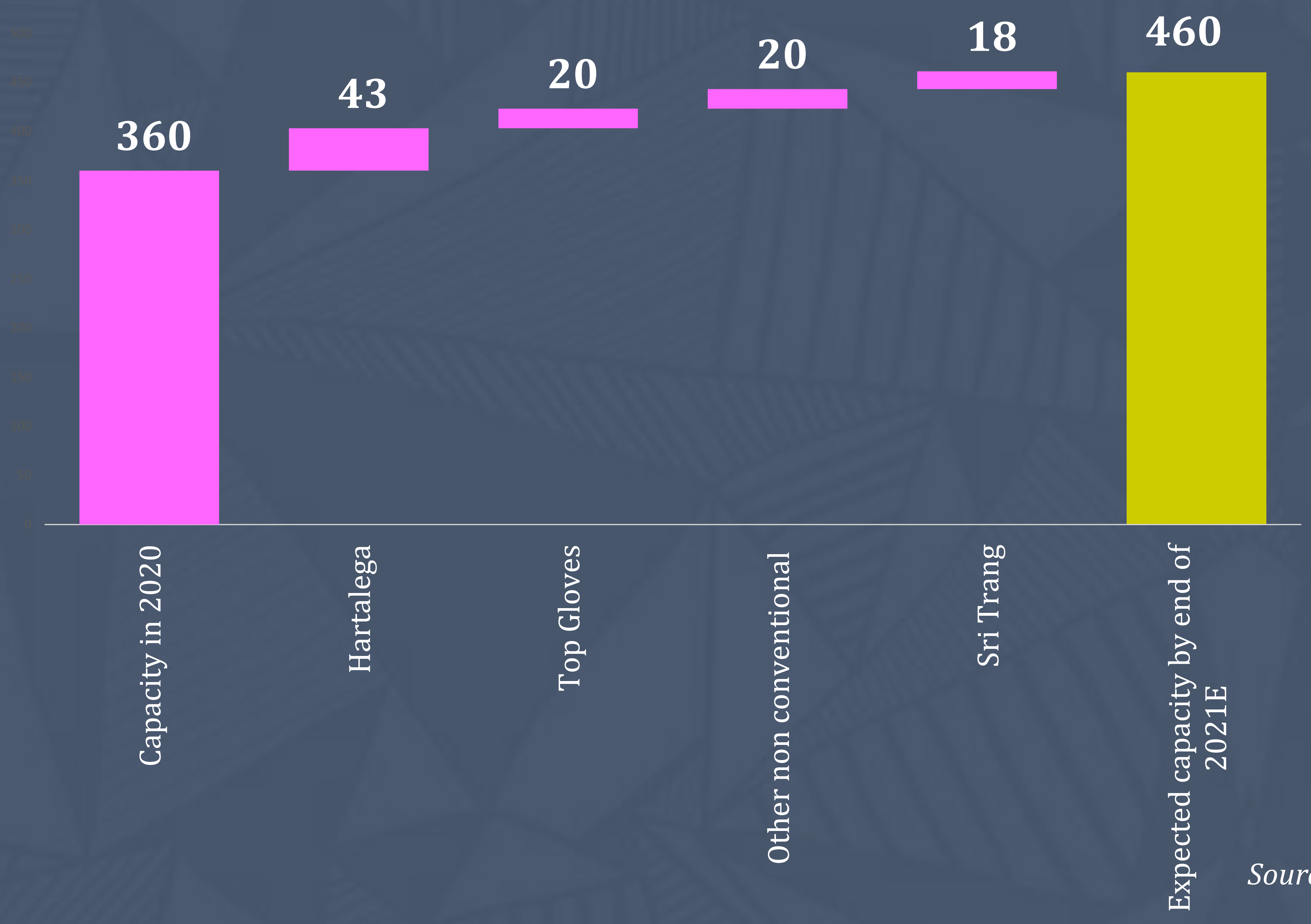
What Next?: The industry post 2021E is expected to face an oversupply with 100bn pieces of additional capacity in the market

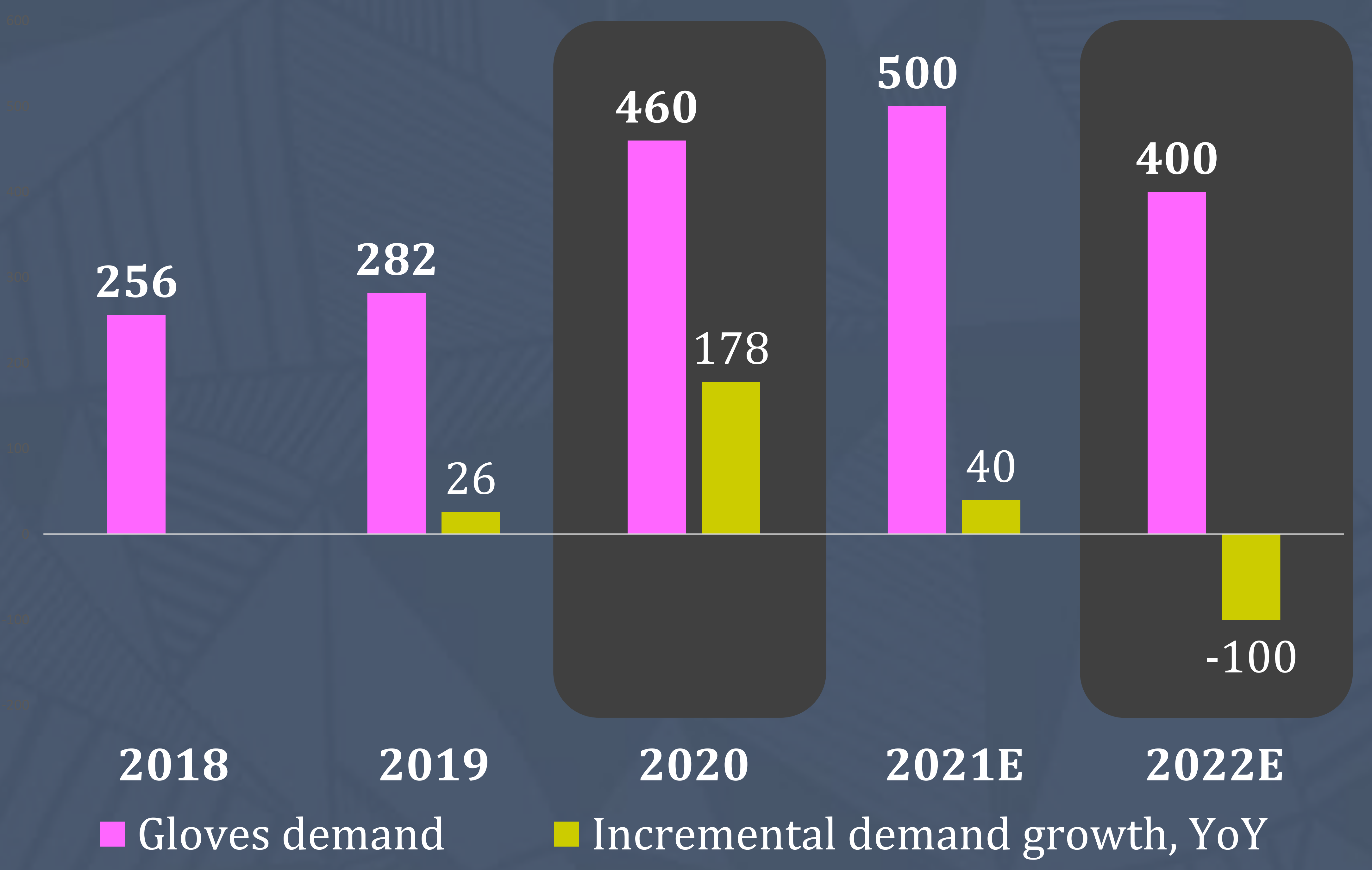
We expect the industry to add in over 100bn pieces in capacity to reach a total capacity of 460bn

Capacity additions in bn pieces



Ongoing vaccinations in Europe push the glove demand above 2020 levels in 2021E. However, in 2022E we expect the demand to drop by c.100bn pieces with vaccinations easing pressure on the healthcare system.

Gloves demand in bn pieces



Source: MARGMA, Topgloves, Hartalega, Malaysia rubber gloves manufacturer association *SSB Research*

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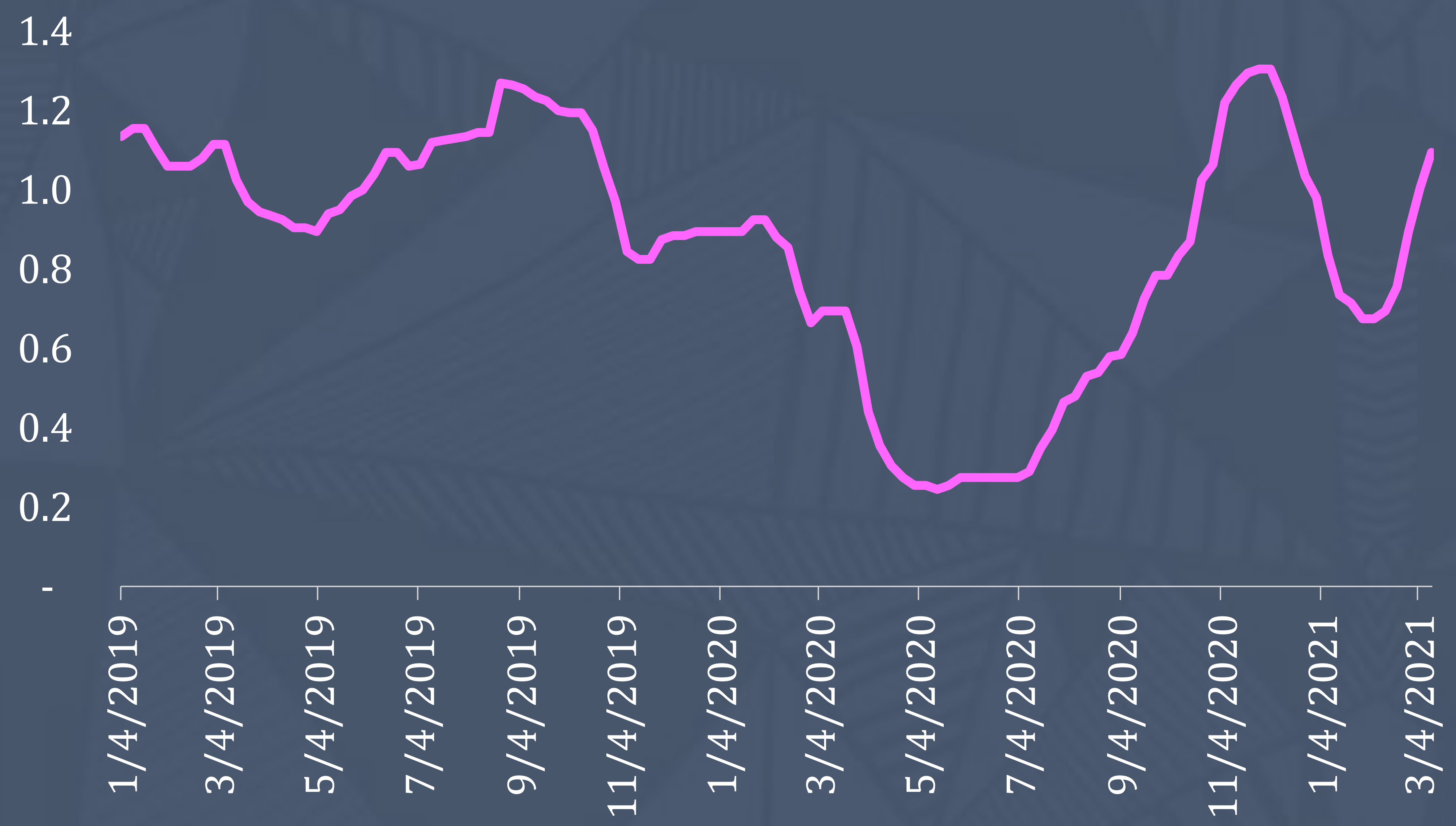
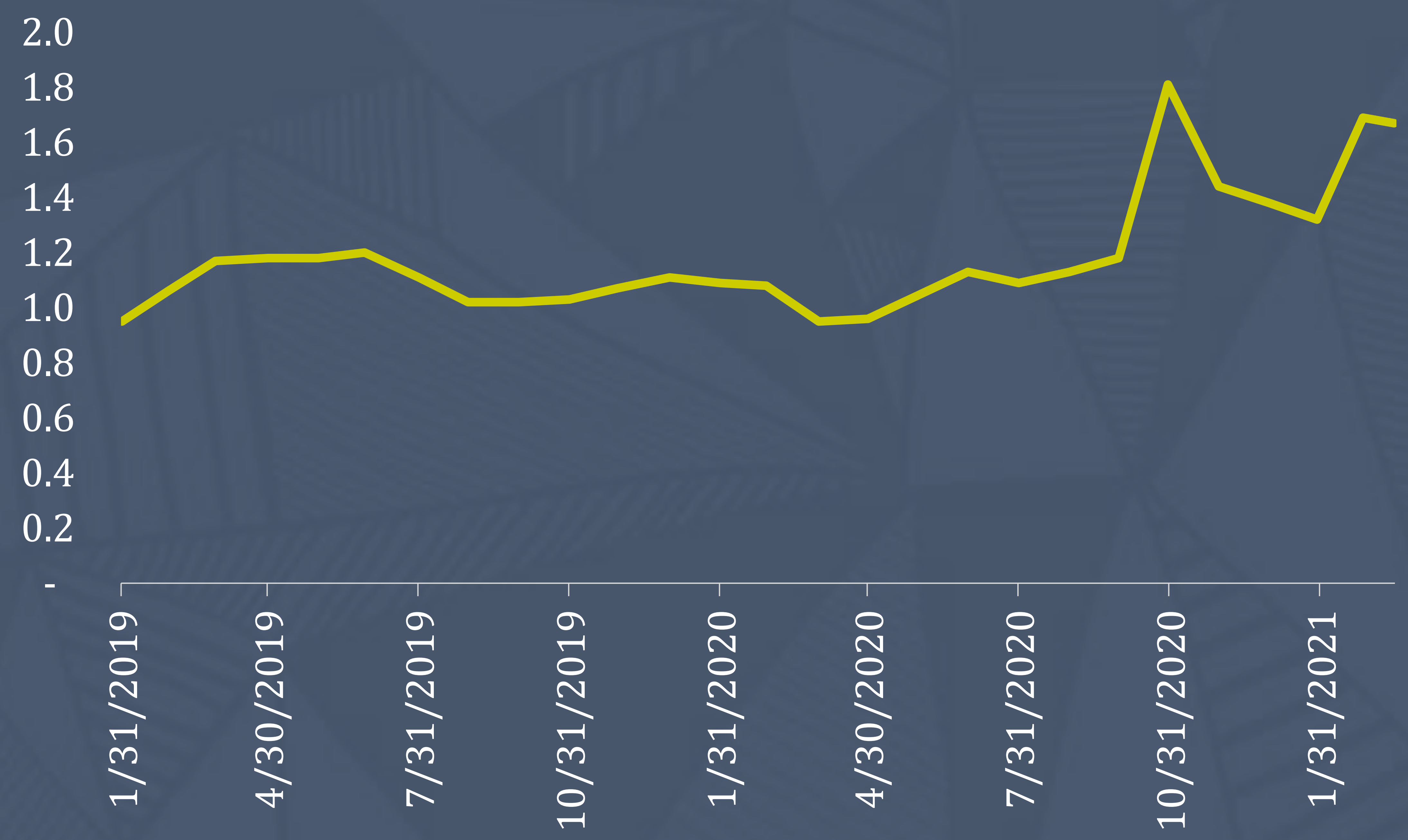
The 4x spike in Butadiene, the main raw material of nitrile gloves should exert pressure on margins

The spike in glove demand had led to a supply squeeze on butadiene (the key raw material to produce nitrile gloves). According to industry sources raw material accounts for nearly 50% of the cost of goods sold for hand gloves producers.

Butadiene price in USD/Kg



Latex price in USD/Kg



A significant spike in raw material prices may hurt the margin of glove manufacturers. However, as the demand for gloves normalizes, we believe glove manufacturers will not be able to pass the entire cost escalation to the end customer

Source: Bloomberg, SSB Research

The Activated Carbon Industry

Supercharged: EV’s to lead the next wave of growth

THE PRICING STORY: Super capacitor carbons fetch ~5X the market value of regular activated carbon at ~15 USD per kg

USD
15.0-20.0

USD
2.5-3.0

Super Capacitor Activated Carbon
Used in supercapacitors catering to the EV market

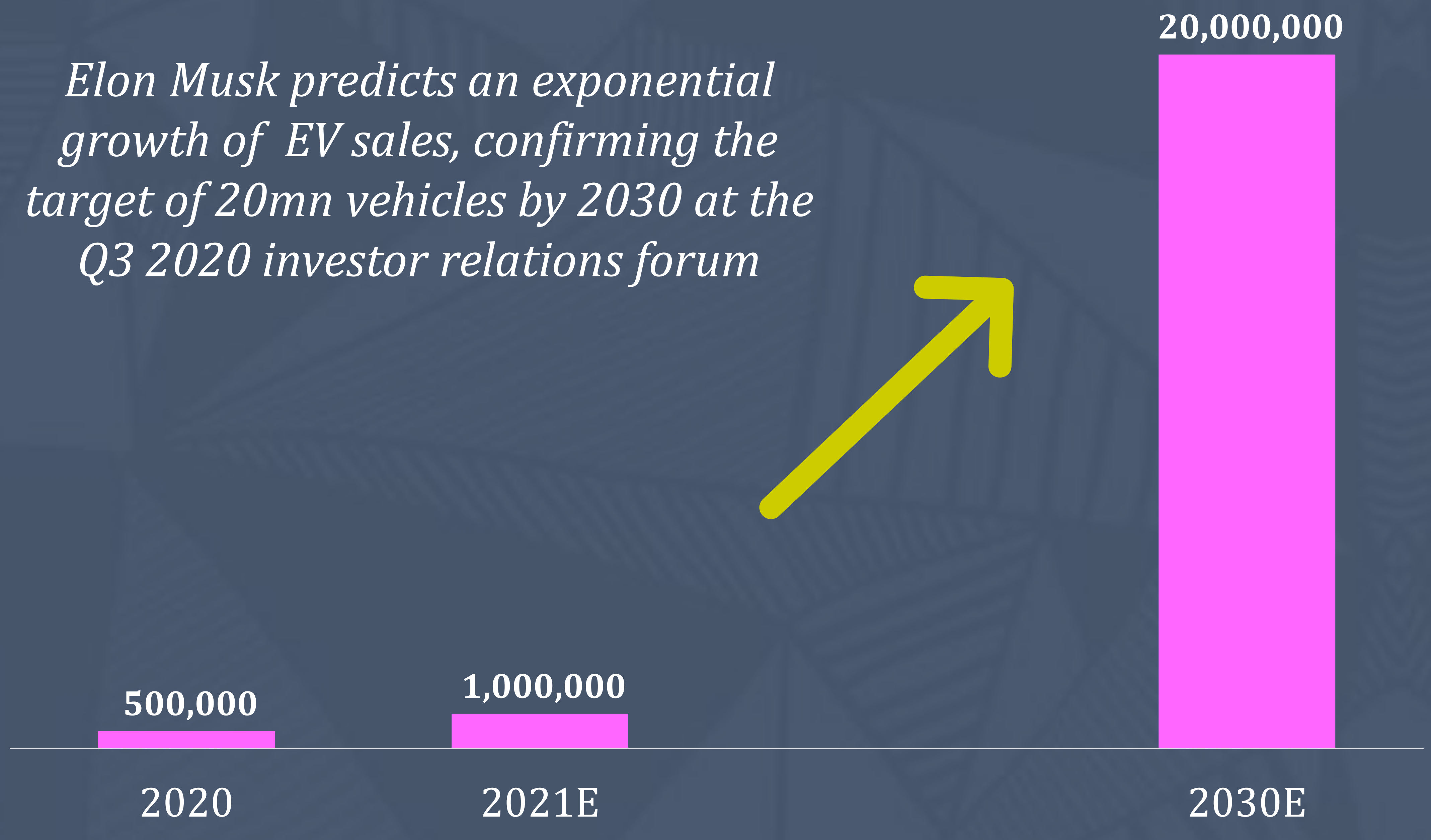
Regular Activated Carbon
Used in water, air and gold purification

Activated Carbon is the single largest cost in a typical supercapacitor, at an estimated 20% of the total cost. As a key raw material, large producers prefer to lock in contracts with established players with a good track record.

Source: Industry Sources, Bloomberg, SSB Research

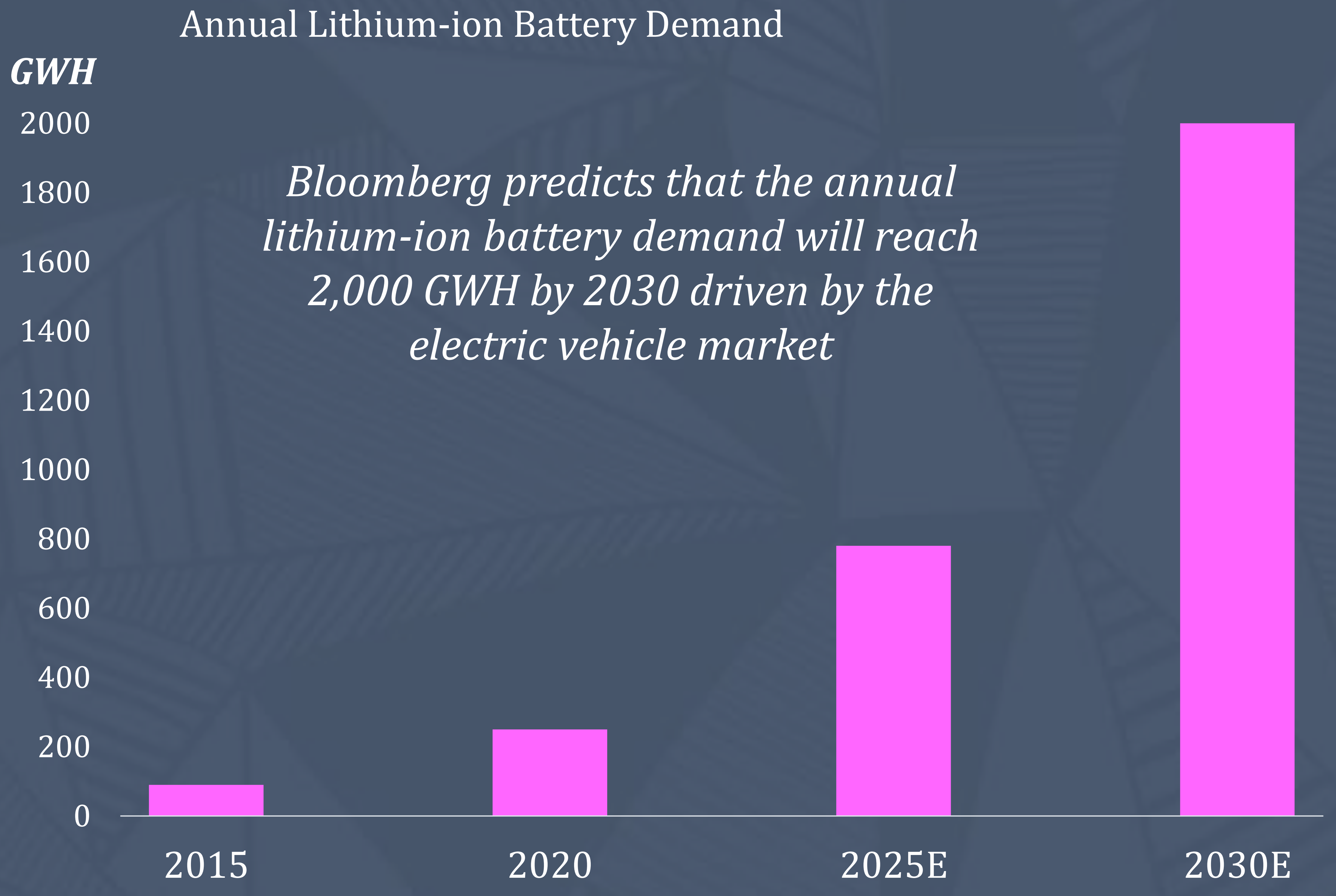
THE GROWTH STORY: The rapidly growing electric vehicle market is expected to exponentially boost the demand for activated carbon

With almost a third of the worlds EV market, Tesla leads the pack, selling a record 0.5 mn units in 2020 despite the pandemic



As a supplier of activated carbon for Tesla, HAYC may witness a boost in sales in line with Tesla

In light of this expectation, Tesla created a 250GWH giga factory, which singlehandedly is the size of the current global demand

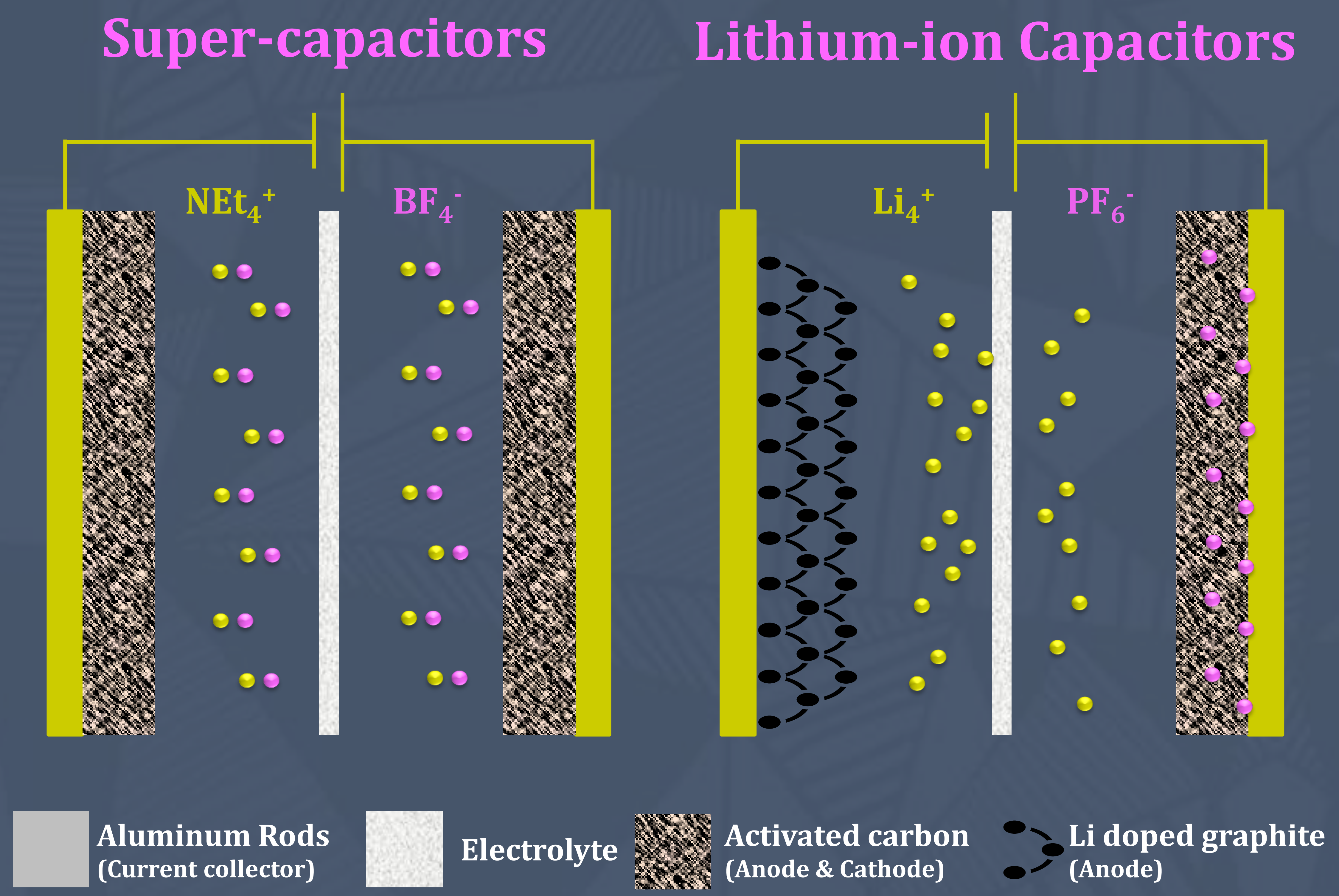


Investing in a factory that can double global supply overnight, is proof of a strong growth sentiment

Source: Industry Sources, Tesla Investor Forums, Bloomberg

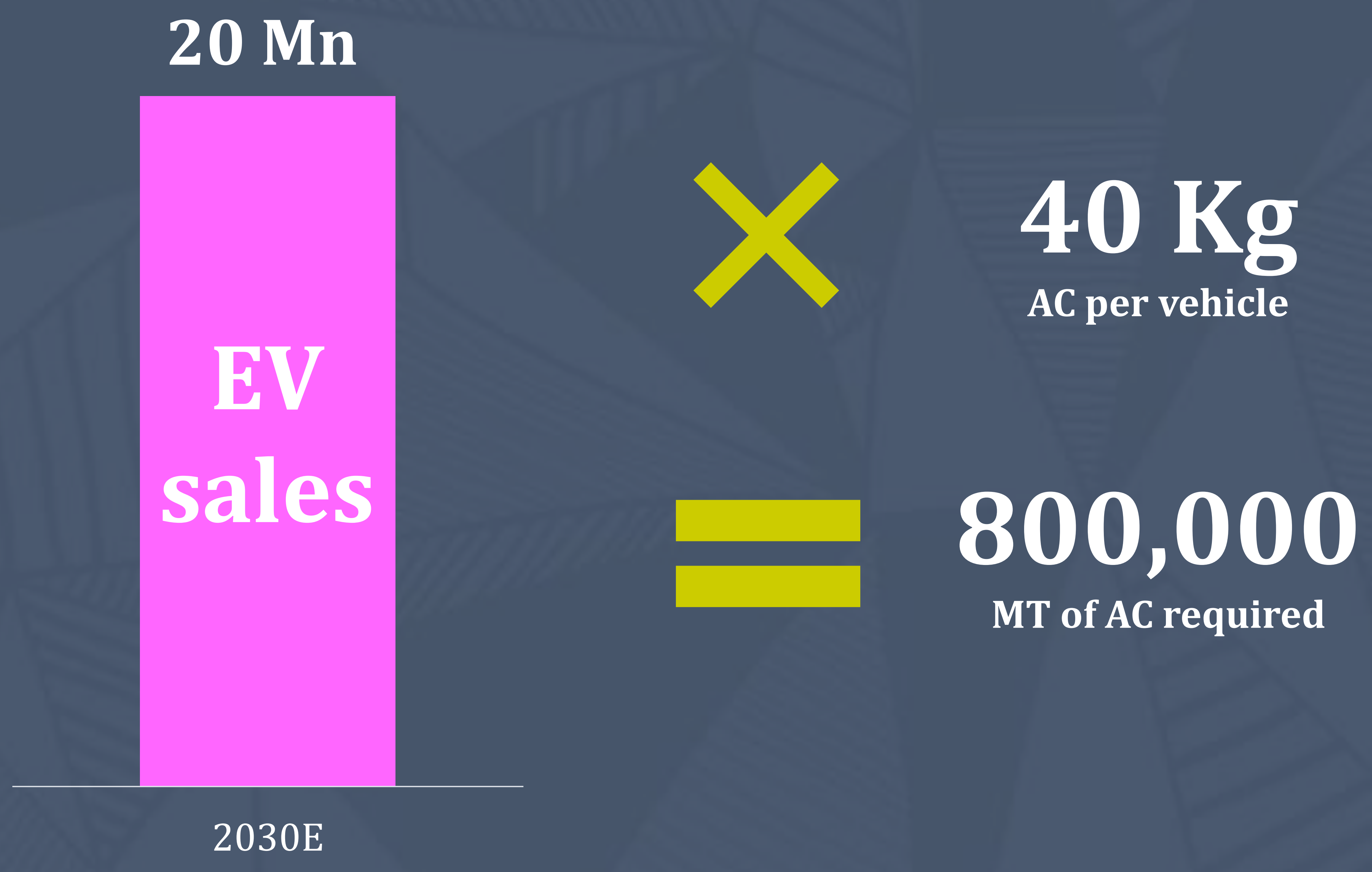
THE EV BOOM: The electric vehicle segment has the potential of being a strong revenue driver, given the activated carbon required

Activated carbon is a key input in the production of Super-capacitors and Lithium-ion Capacitors



Most supercapacitors use coconut shell based activated carbon due to its good value proposition

As such, electric vehicles in current production contains an estimated 40-60 Kg of activated carbon cumulatively



As non-coconut advanced carbons range from USD 50 - 200, the price hike is not backed by performance

Source: Industry Sources, Tesla Investor Forums, SSB Research

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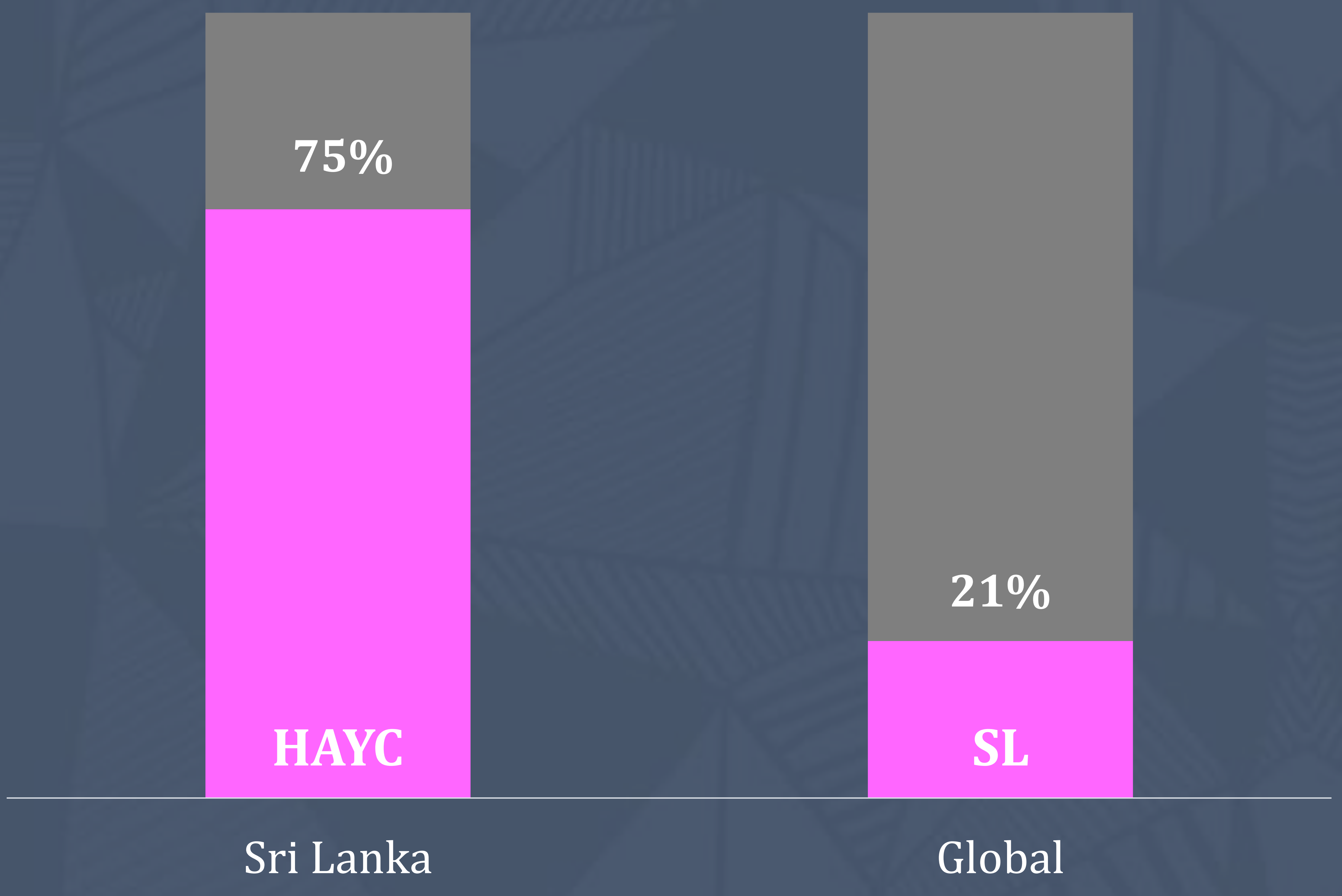
THE FULL PICTURE: SL is a world leader in coconut-based activated carbon, the clear sustainable choice backed by its unique qualities

Sri Lanka has a c. 20% market share globally whilst HAYC controls 75% of the local coconut based activated carbon



Viewed as the sustainable alternative with unique chemical properties that aid absorption, coconut-based AC is here to stay

The coconut-based model is built on a sustainable foundation, a key consideration for multinationals who wish to maintain a clean reputation

Viewed as the sustainable alternative with unique chemical properties that aid absorption, coconut-based AC is here to stay

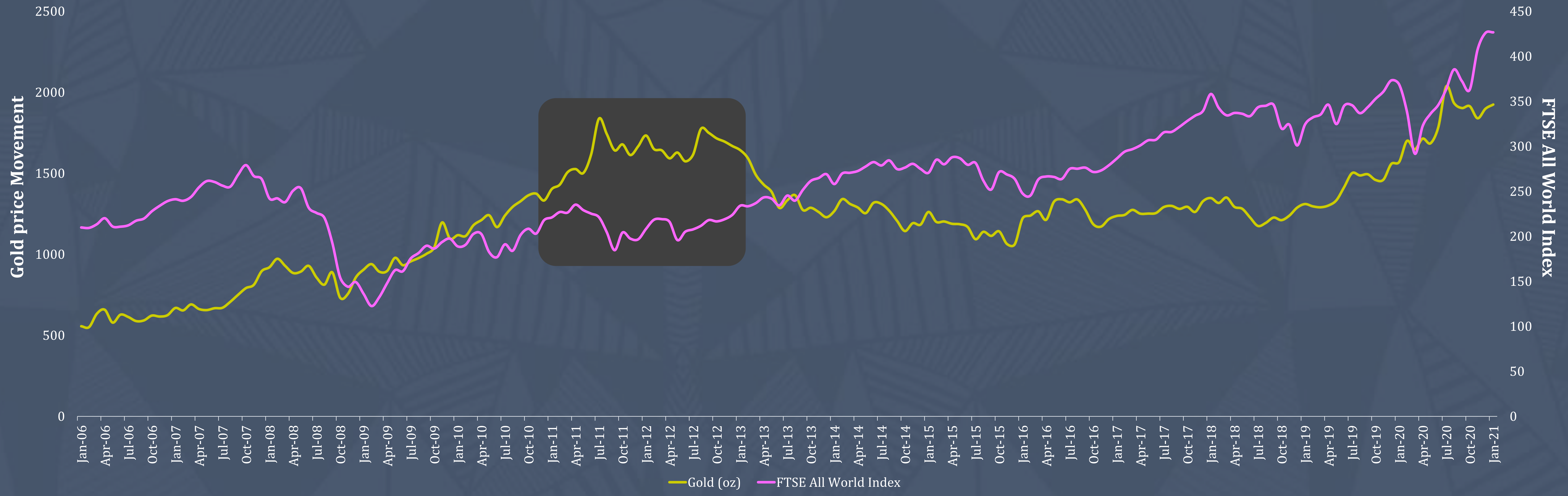
Being the 2nd largest producer of coconut-based activated carbon in the global market, HAYC has built a strong reputation with key players like Tesla

With a strong presence in the industry as a global giant in the activated carbon market, HAYC is ideally positioned to ride the wave of growth, whilst other local producers may leverage off the country's track record via HAYC to drive growth

Source: Industry Sources, Company Data, SSB Research

THE TRUE COVID BENEFIT: The COVID induced gold rush is expected to continue beyond the market recovery as seen during the financial crisis…

Gold prices continued to rise on a post crisis recovery cycle, outlasting the equity market recovery by 18 months



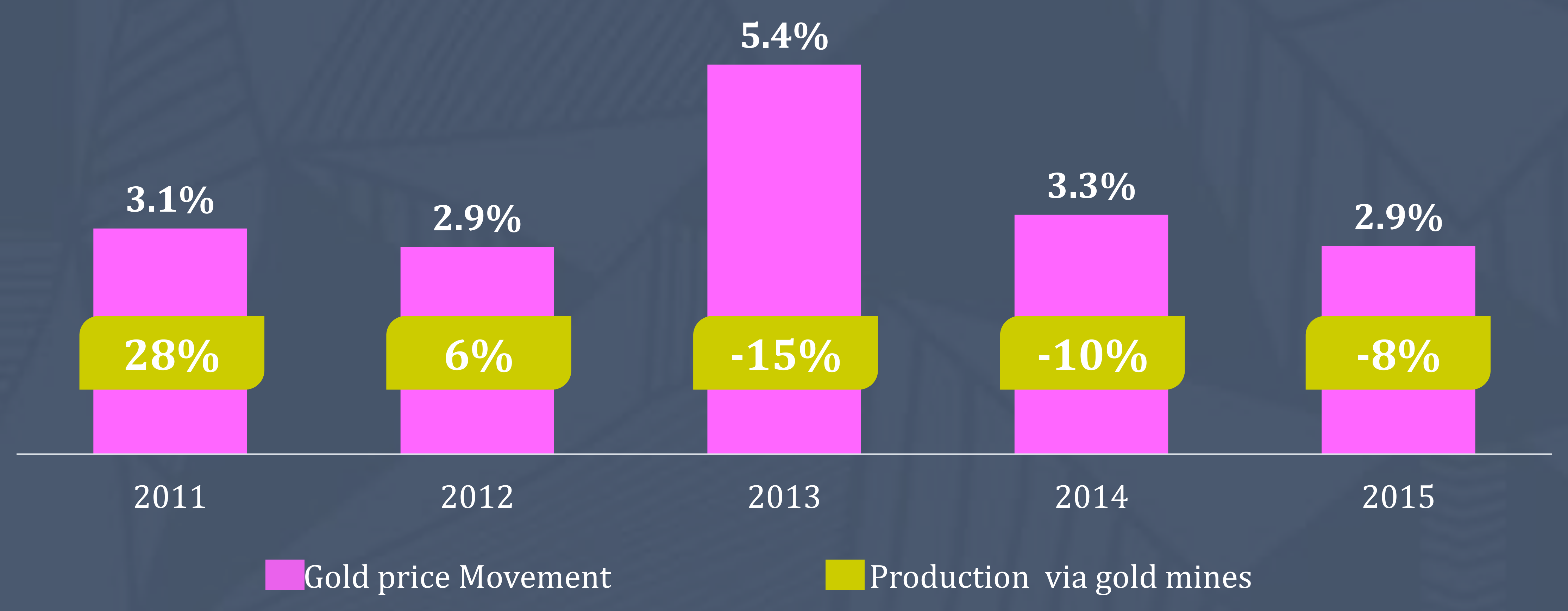
Investors have a strong tendency to shift to safe heaven assets following a crisis, with gold being a major beneficiary of the global financial crisis, starting its ascent from 2007 to 2011 before the inevitable drop in 2013

Source: FTSE All World Index, World Gold Council

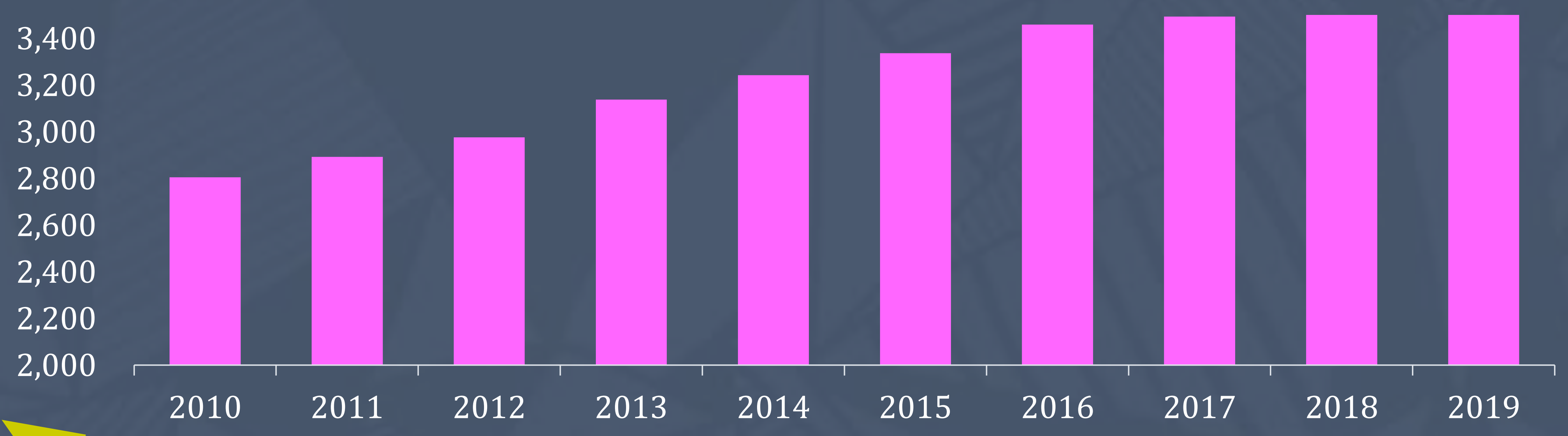
Softlogic Stockbrokers

…whilst the supply side continued to grow, reaching its peak 5 years into the recovery cycle despite gold prices beginning to crash in 2012

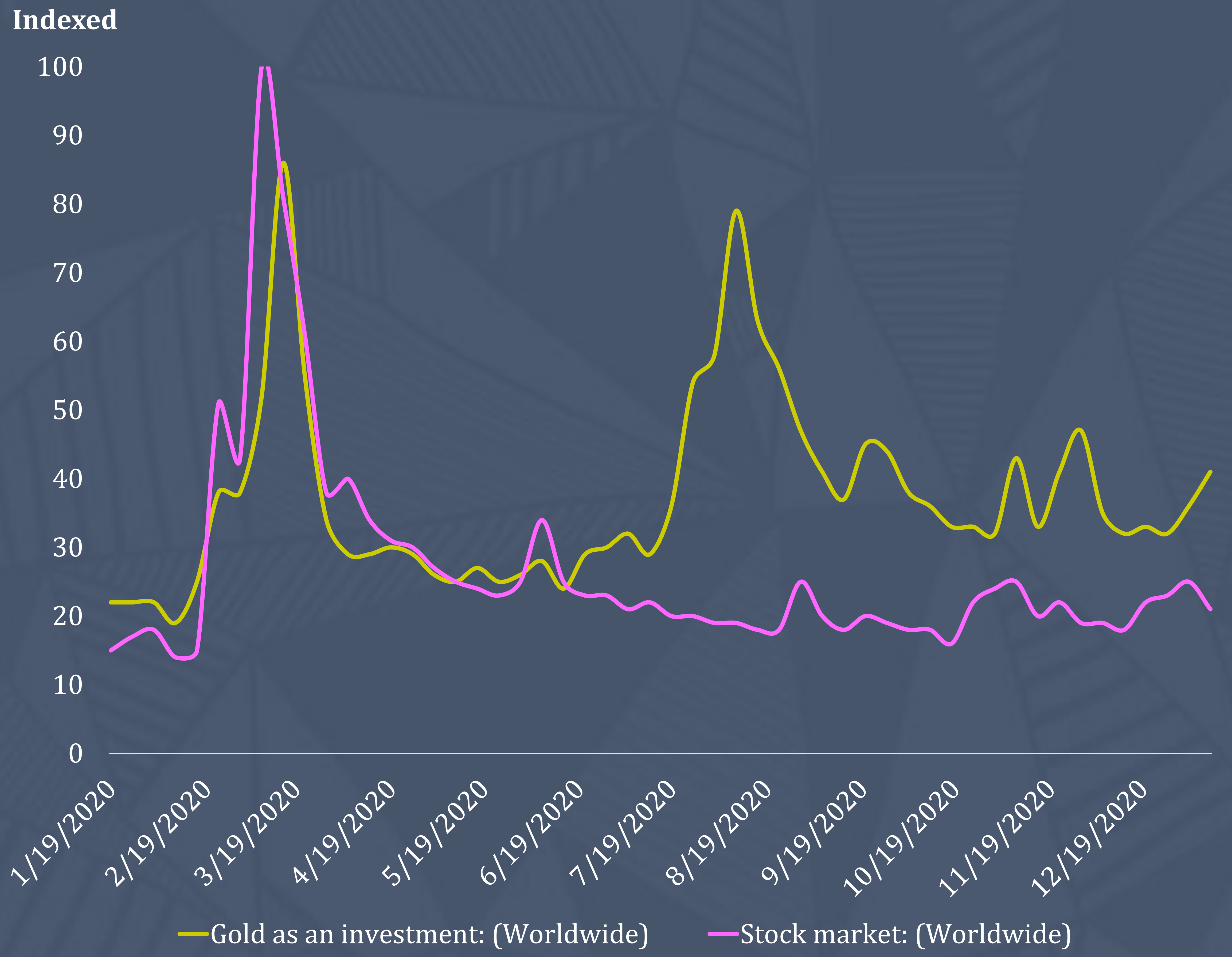
From the supply side, gold mining witnessed its strongest growth in 2013, with a 51% correlation on a 24-month production lag



Gold mining continued to surge forward following the crisis, with growth remaining stable despite the gold crash in 2013

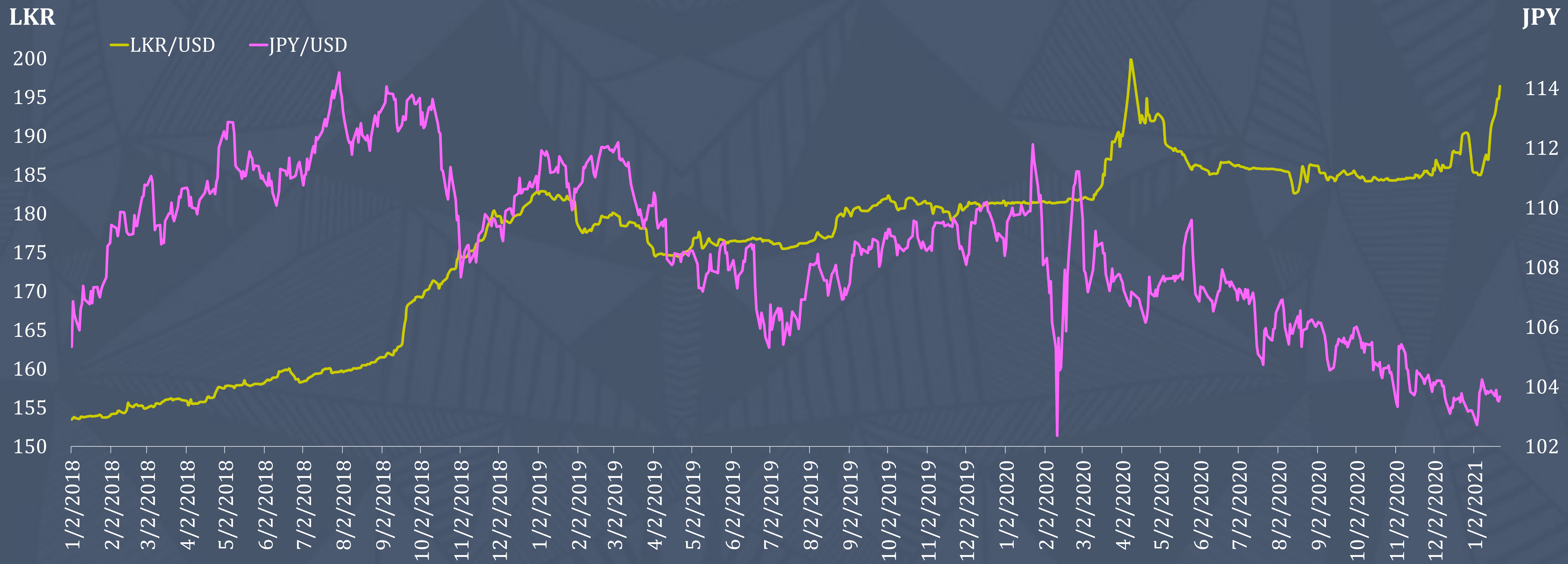


While google searches for stock market investments have begun to decline, searches for gold as an investment continues to grow



Source: Google Search Trends, World Gold Council

THE ADDED BONUS: With high levels of LKR depreciation, Sri Lankan exporters become much more competitive compared to its peers

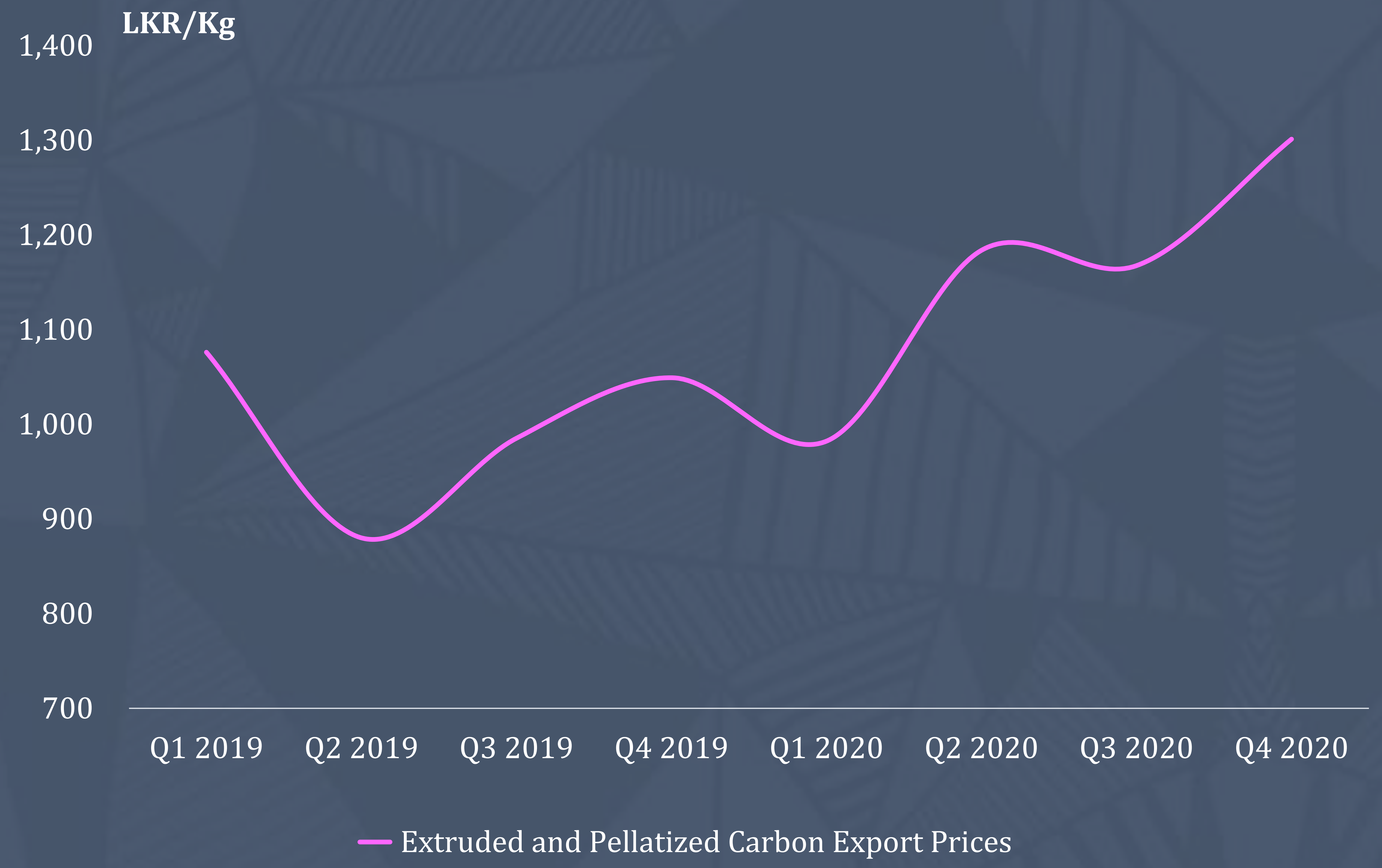


With its main competitor being a Japanese entity, HAYC has the added advantage of getting higher margins in LKR terms with the ability to maintain competitive pricing in the market, whilst receiving higher margins

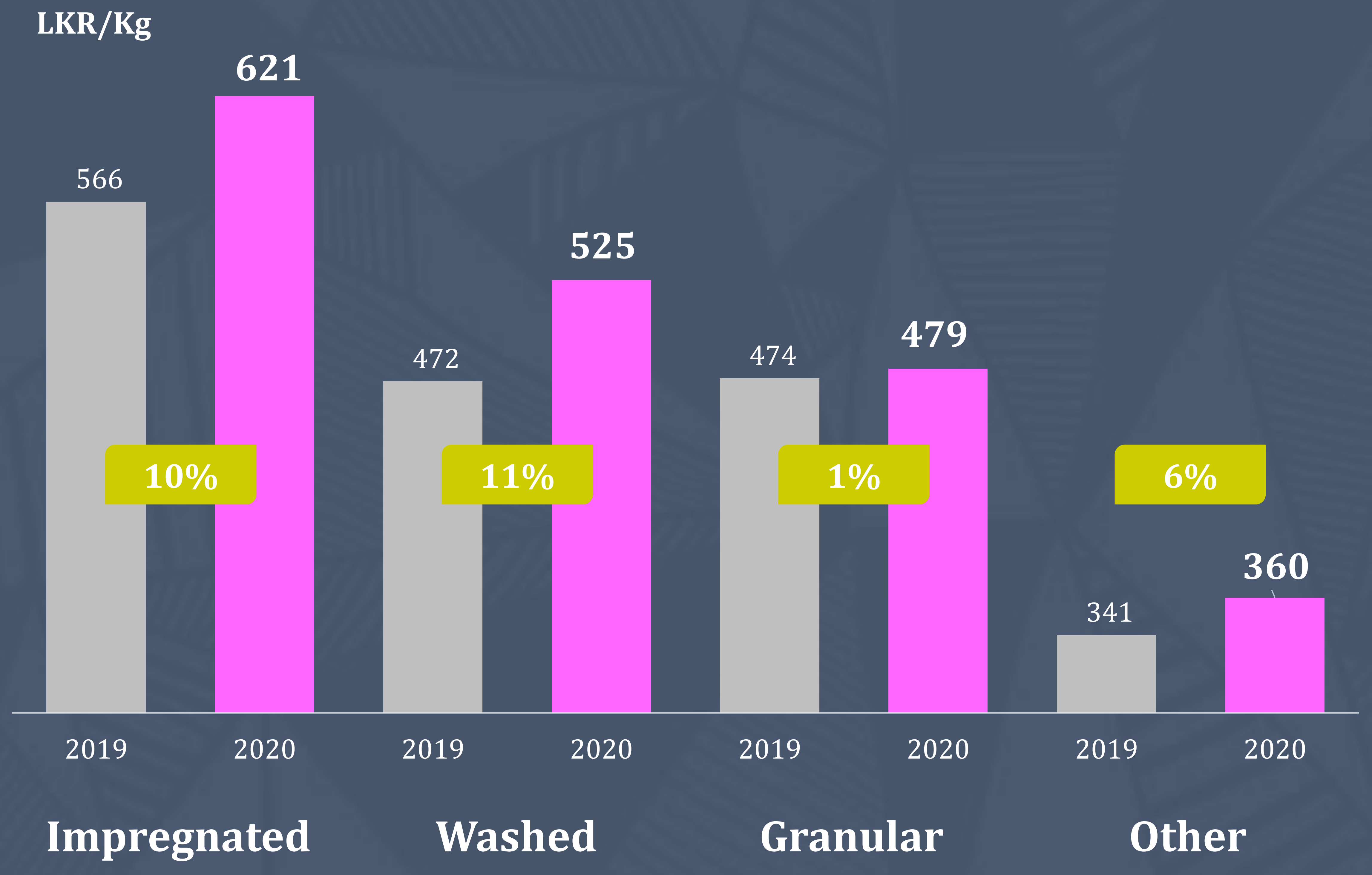
Source: CBSL Data, US Federal Reserve

THE PRICE HIKE: AIR purification remains to be one of the key segments, with pelletized export prices growing by 23% YoY in 2020

Pelletized carbon is one of the main high margin products catering to the air purification segment



All forms of carbon continued to see a strong price uptick, with impregnated and washed carbon witnessing double digit growth



Whilst the overall prices for activated carbon have been on the rise, Air Purification remains to be one of the highest contributors to a margin growth, given its revenue contribution of c. 20% to the company

Source: Customs Data, SSB Research

THE LEGAL LANDSCAPE: Many industrial nations have faced strong legislative pressure over the past years, with restrictions on emissions

With many countries rallying under the Paris Agreement, taxes on emissions become a key tool for reducing pollution

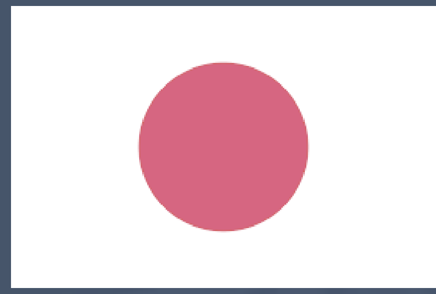
Emissions Trading Systems

This caps total greenhouse gas emissions and allows those industries with low emissions to sell their extra allowances to larger emitters.

Direct Carbon Taxes

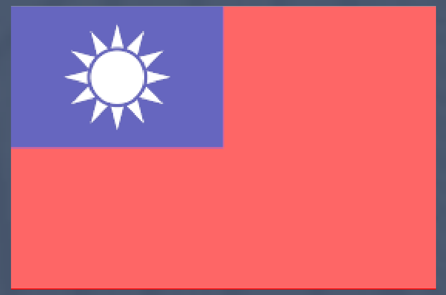
A Carbon Tax directly sets a price on carbon by defining a tax rate on greenhouse gas emissions or on the carbon content of fossil fuels.

71% of pelletized carbon exports are sourced from Japan, South Korea and Taiwan, who are on the verge of passing such laws



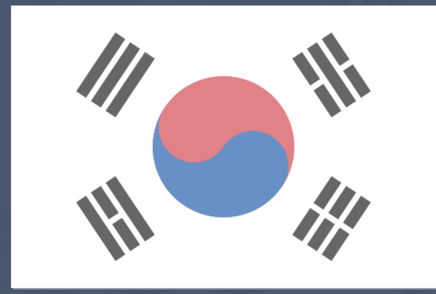
Emissions Trading Systems - Under Consideration

The Carbon Tax System - Implemented / Scheduled



Emissions Trading Systems - Under Consideration

The Carbon Tax System - Under Consideration



Emissions Trading Systems - Implemented / Scheduled

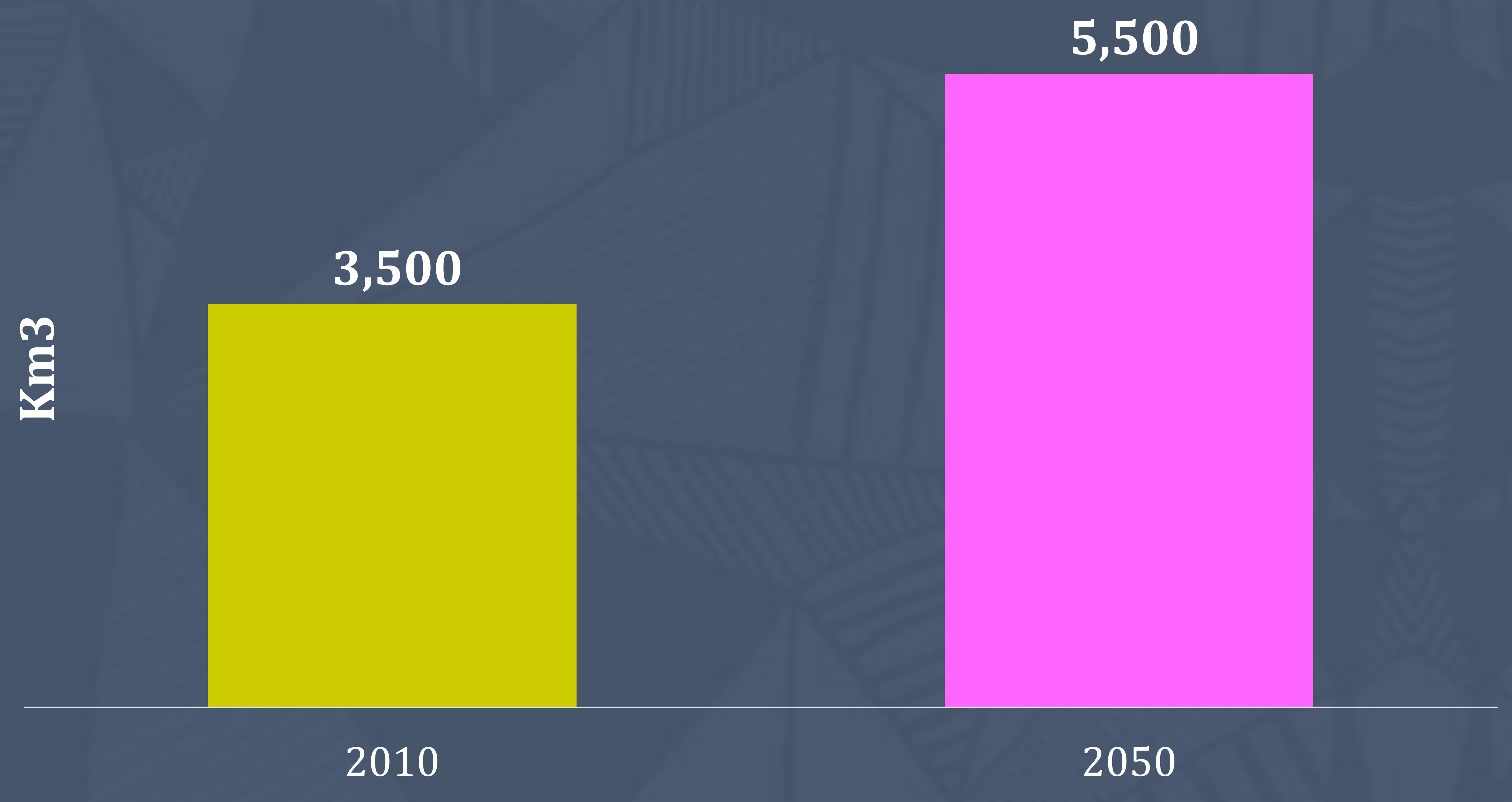
The Carbon Tax System – N/A

With more countries adopting a firm stance against air pollution and introducing carbon pricing and/or tax structures, the demand for activated carbon is expected to rise, which could lead to a further price hike in the industry.

Source: Customs Data, SSB Research

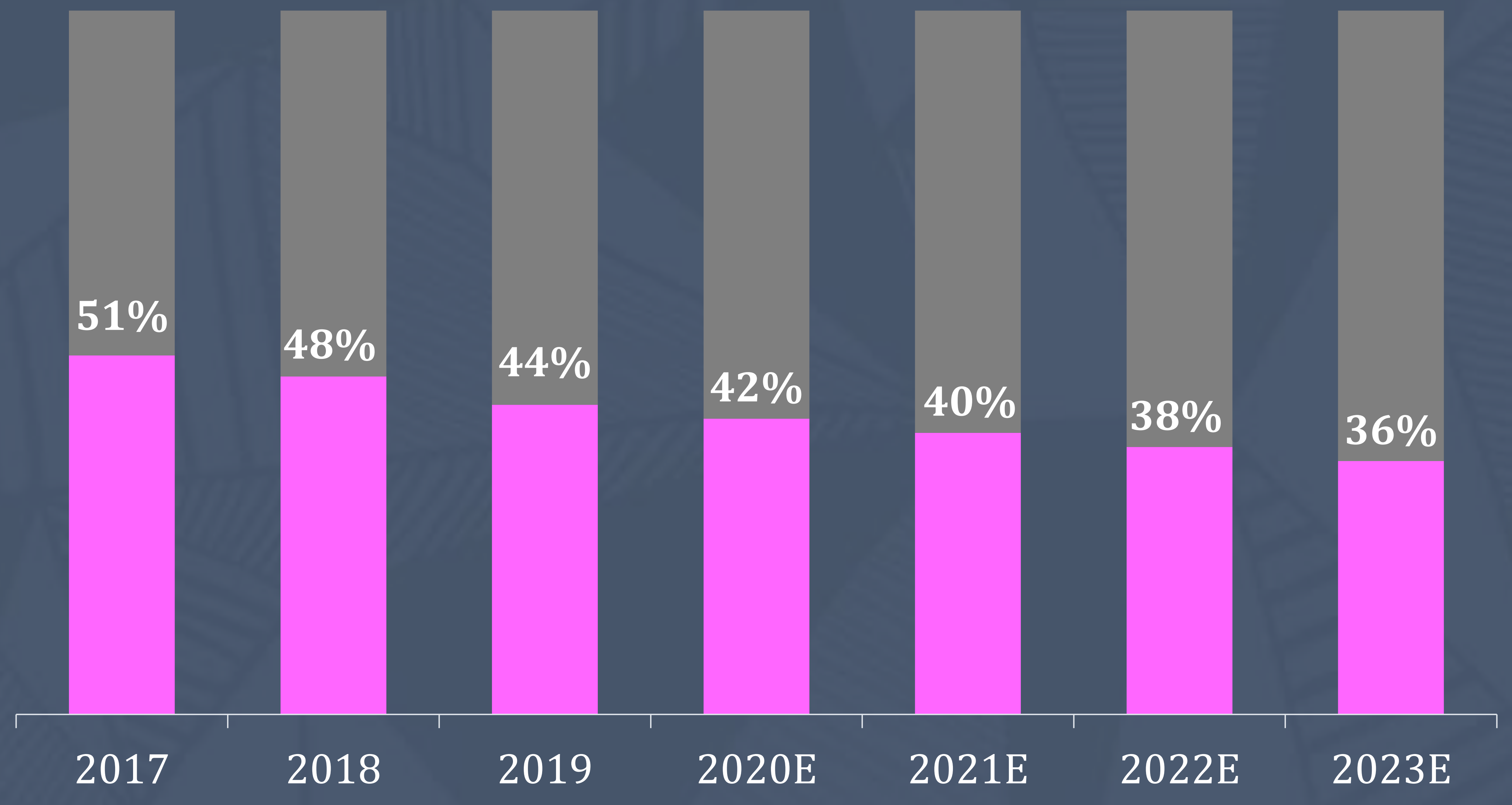
THE SHIFTING TREND: The exodus from low to high margin products leaves water purification as a non-key product, despite a stable demand landscape

The global water requirement is expected to expand by 55% from 2010 to 2050, with industrial usage as the key growth driver



Industrial water usage is expected to grow by 400% from 2010 to 2050 as per OECD statistics.

The contribution of water purification to the group's revenue is expected to continue its downward trend, as it remains a low margin product



In the long run, HAYC may diversify its business verticals to include high margin products

Source: Company Data, OECD Reports and Statistics, SSB Research

Softlogic Stockbrokers

THE MARGIN STORY: HAYC has strategically diversified its source markets to enjoy lowest raw material costs, whilst being a price setter

With key players increasing the pricing structure, HAYC would benefit from the overall upward price revisions of the industry to either increase its margins or acquire market share

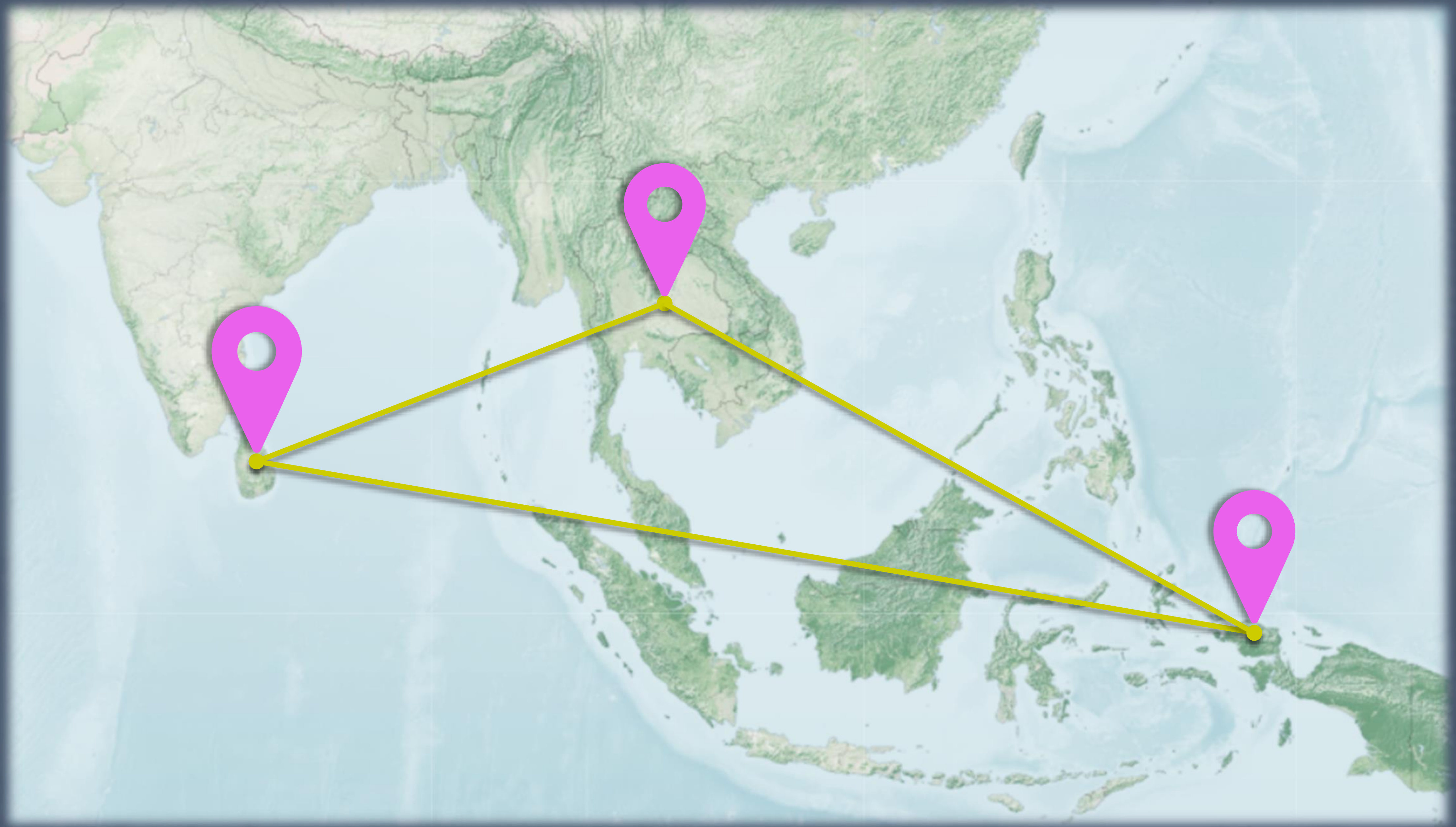
HAYC's main competitor issued a statement in Nov 2020, announcing a price increase across all categories, varying from 5%-10% depending on the product

HAYC also enjoys such long-term contracts with clients, with the ability to re-negotiate prices based on client requirements and market factors, as a trusted supplier

HAYC could renegotiate contracts in the event of any unforeseen events such as the COVID pandemic which would otherwise be a potential risk factor

HAYC has built a strong reputation over the years as a trusted source for mega projects

Strategically sourcing coconut from Sri Lanka, Indonesia and Thailand enables HAYC to maintain a stable cost base, minimize impacts of bad weather and ensure scalability

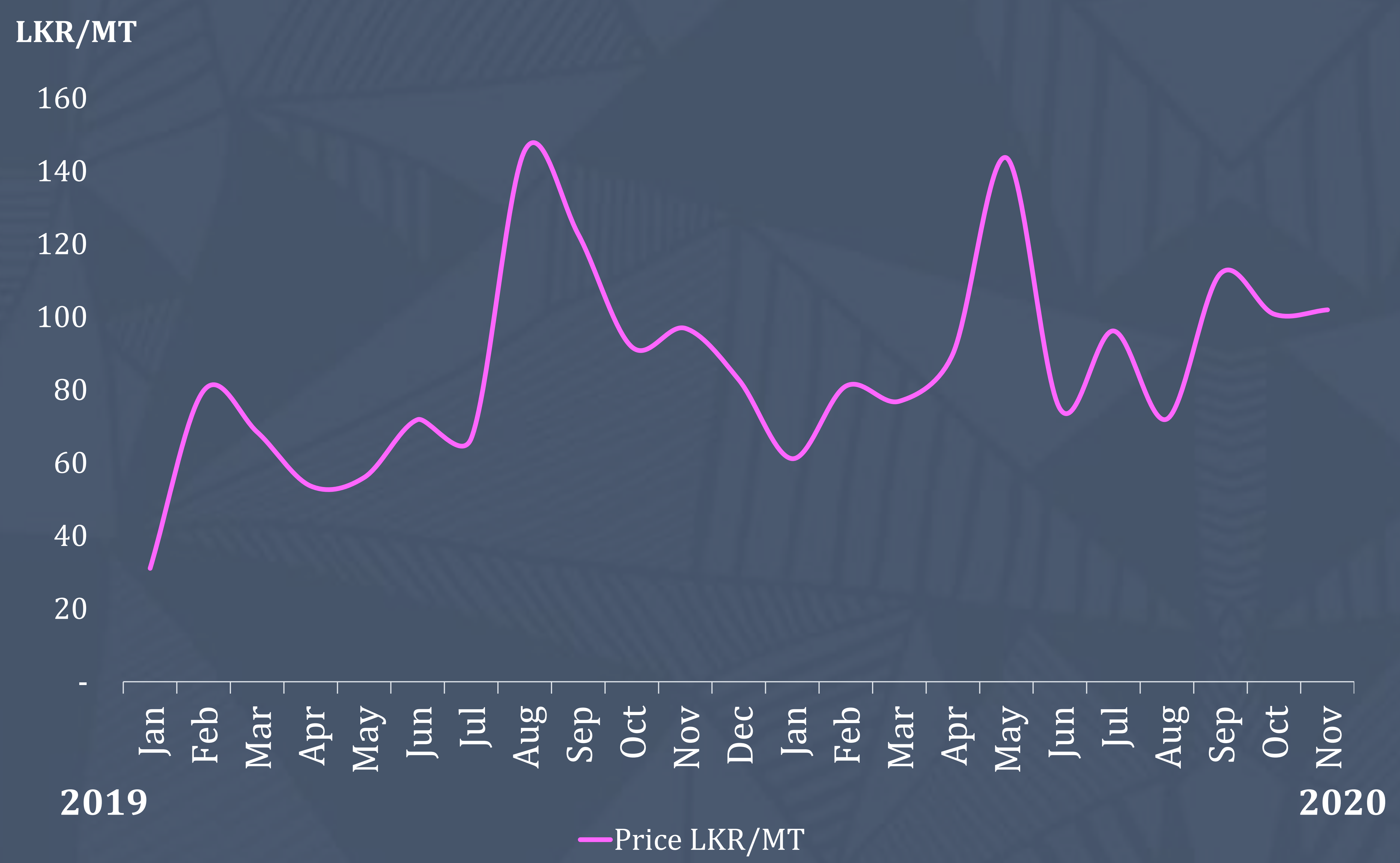


Mitigating its risks by sourcing coconut from three countries allows HAYC to reduce cost volatilities

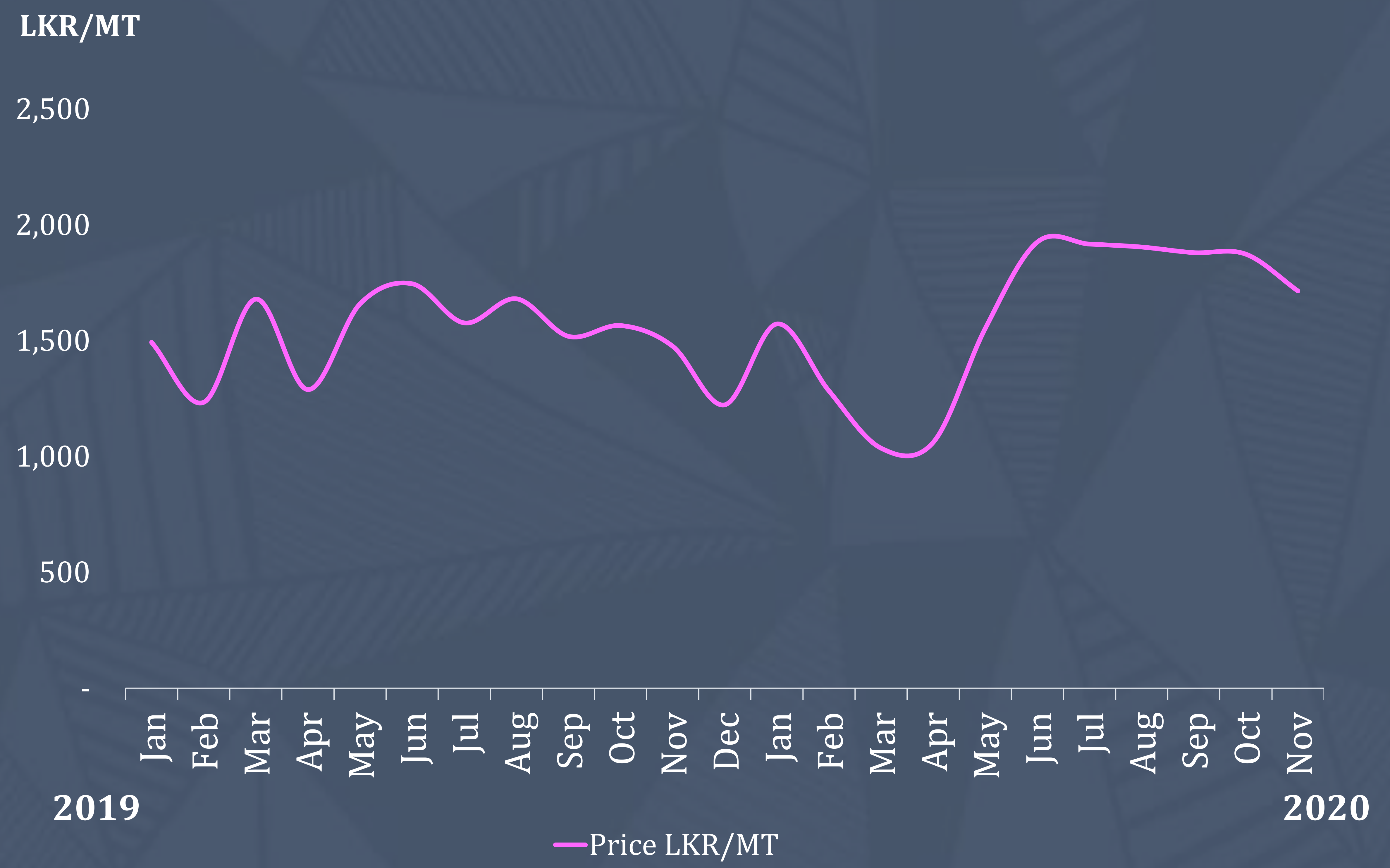
Source: Company Data, Industry Sources, SSB Research

THE KEY RISK FACTOR: Given HAYC's stance as a global giant in the coconut-based AC segment, the company can pass on small cost spikes

Coconut charcoal price movement over the past two years per MT has remained considerably volatile



However, export data suggests that there has been a 7% increase in export prices of activated carbon in 2020



In order to combat one-off cost spikes as seen in April-May 2020, the company maintains a sufficient buffer stock to minimize the impact of one-off spikes, whilst being aided by the upward revision of export prices.

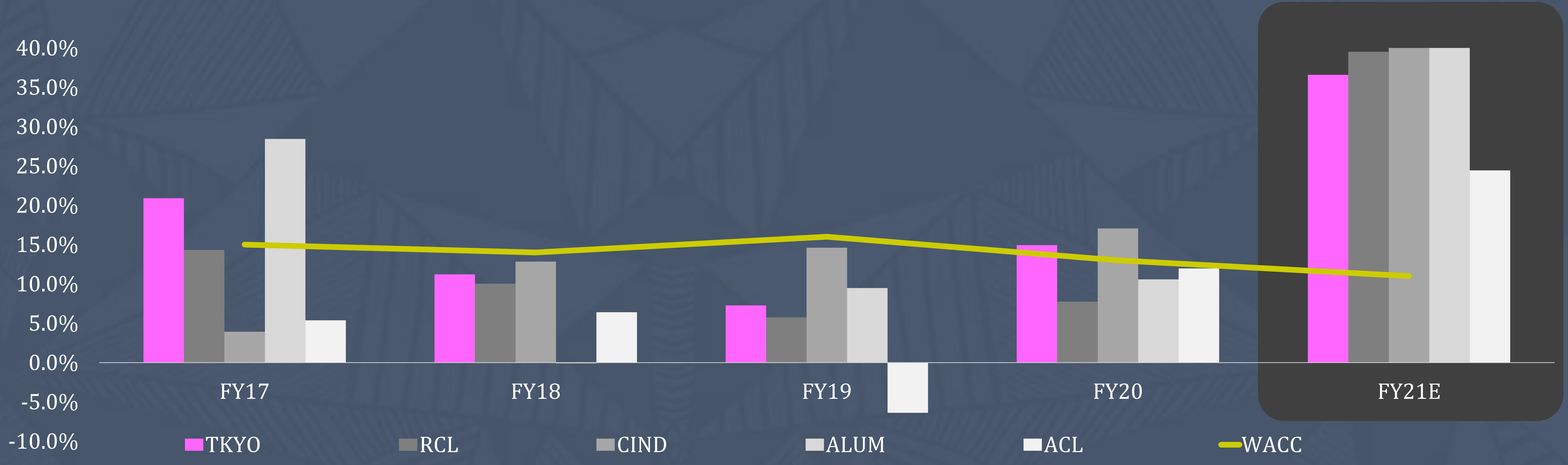
Source: Customs Data, Sri Lanka Coconut Development Authority

Our top picks

Standing tall amidst the pandemic, with a bounty in sight

From value destruction to value creation: CFROI has more than tripled to 38% in FY21E cf. historical average of 12%, implying value creation in FY21E

CFROI in % compared with WACC



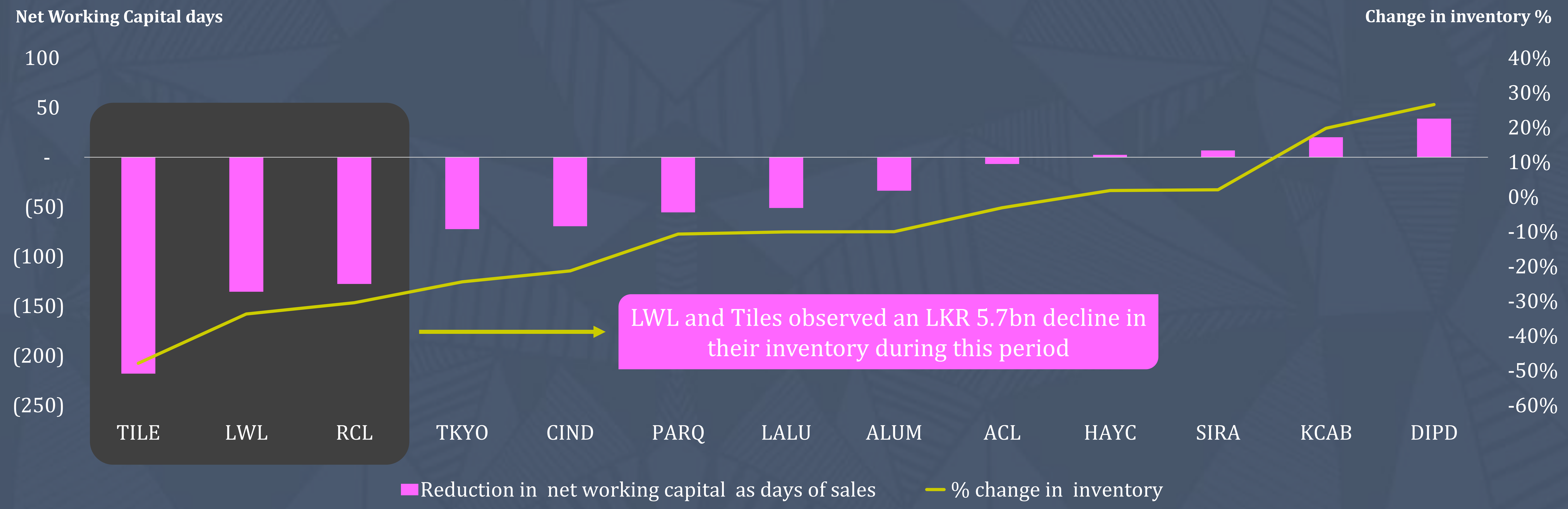
Our core coverage in the construction materials industry historically generated a CFROI lower than the cost of capital as highlighted above. This was driven by low EBITDA margins that generally failed to exceed c. 16%. However, EBITDA margins jumped over 16% in 9MFY21, leading to CFROI exceeding 38%, moving from value destruction to value creation for the first time in at least 4 years. This move to sustained value creation seemingly opens the companies to a larger class of investors focused on return on capital

**CFROI (Cash flow return on investment) = Cash generated from operations/Capital employed*
***CFROI for FY21 is annualised*

Source: Company data, Bloomberg, SSB Research

Working capital fell sharply in 9MFY21 for construction material firms, implying that the large working capital-based interest costs will reduce

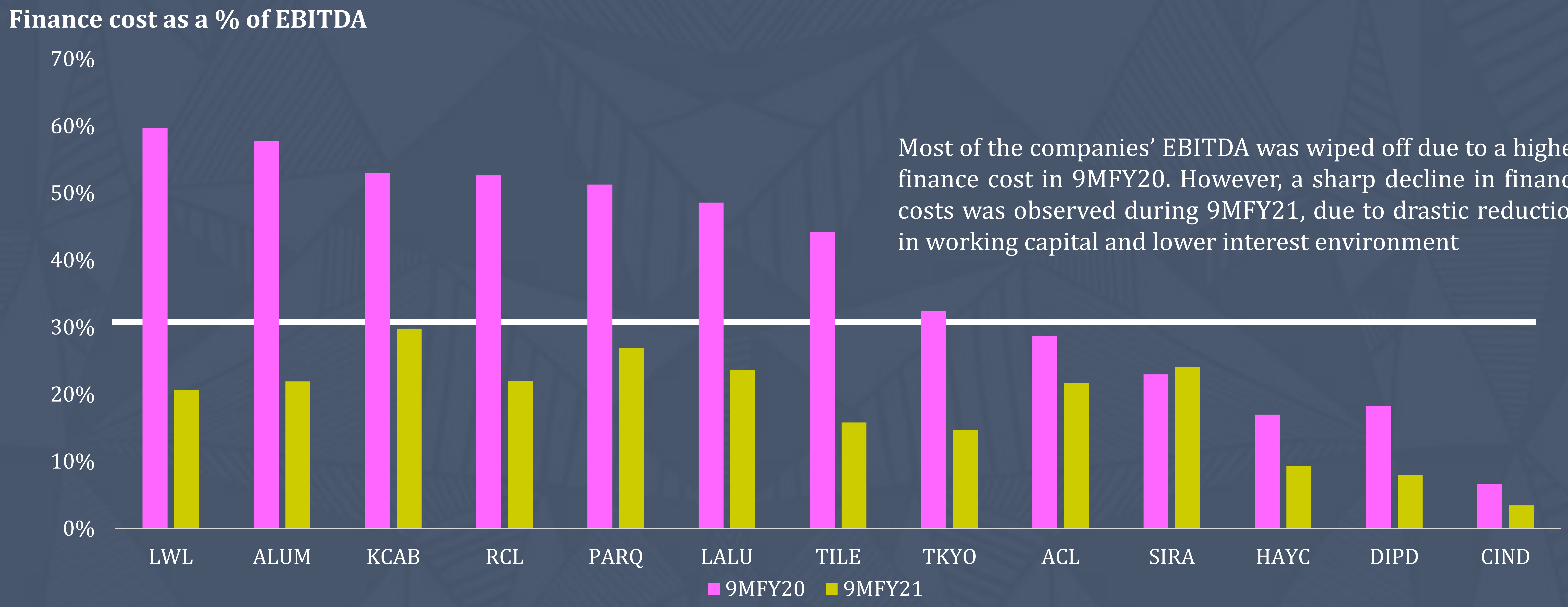
Reduction in net working capital days of sales and % change in inventory from 4QFY20 to 9MFY21



The materials sector's working capital movement between 9MFY21 and 4QFY20 suggests that construction related companies have sold out their larger inventory build up and are currently running on production

Source: Company data, SSB Research

Our analysis of data indicates that finance cost have almost halved…

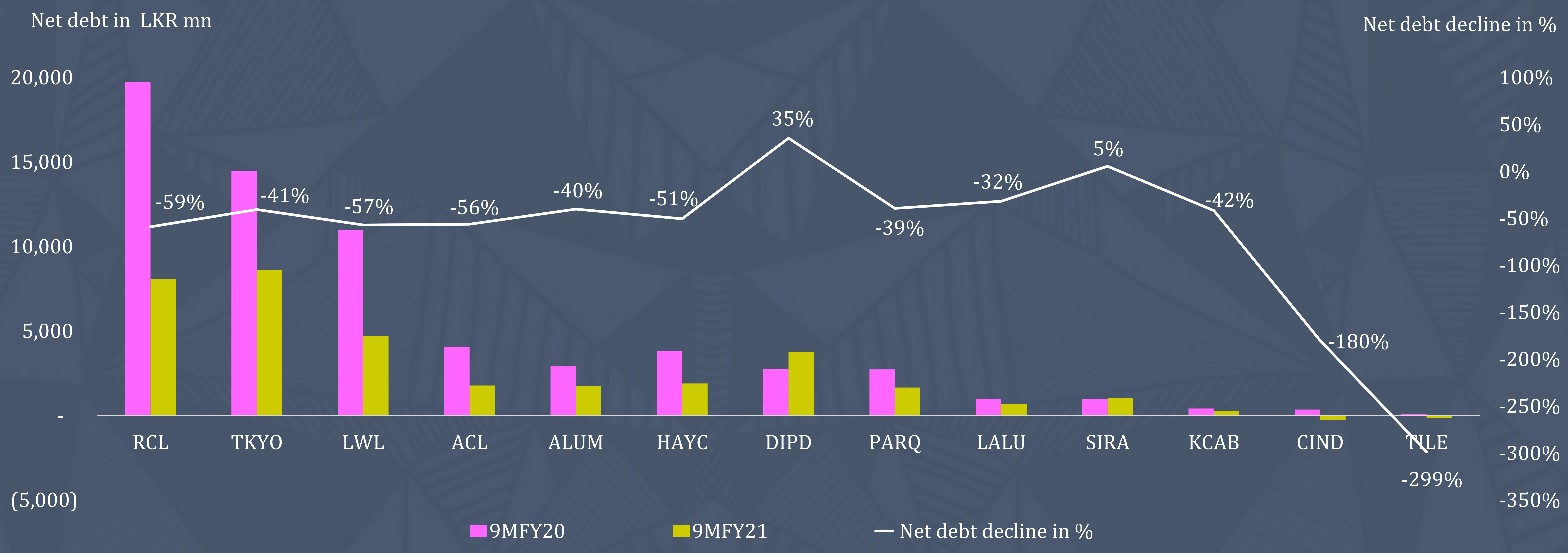


Most of the companies' EBITDA was wiped off due to a higher finance cost in 9MFY20. However, a sharp decline in finance costs was observed during 9MFY21, due to drastic reduction in working capital and lower interest environment

We highlight that construction companies have a high proportion of their EBITDA being consumed by interest cost leaving a limited bottom line. Given this, the construction sector can be a substantial beneficiary of lower interest rates and improved working capital

Source: Company data, SSB Research

...as most firms observed a significant improvement in net debt, giving them the capacity to expand amidst low borrowing rates

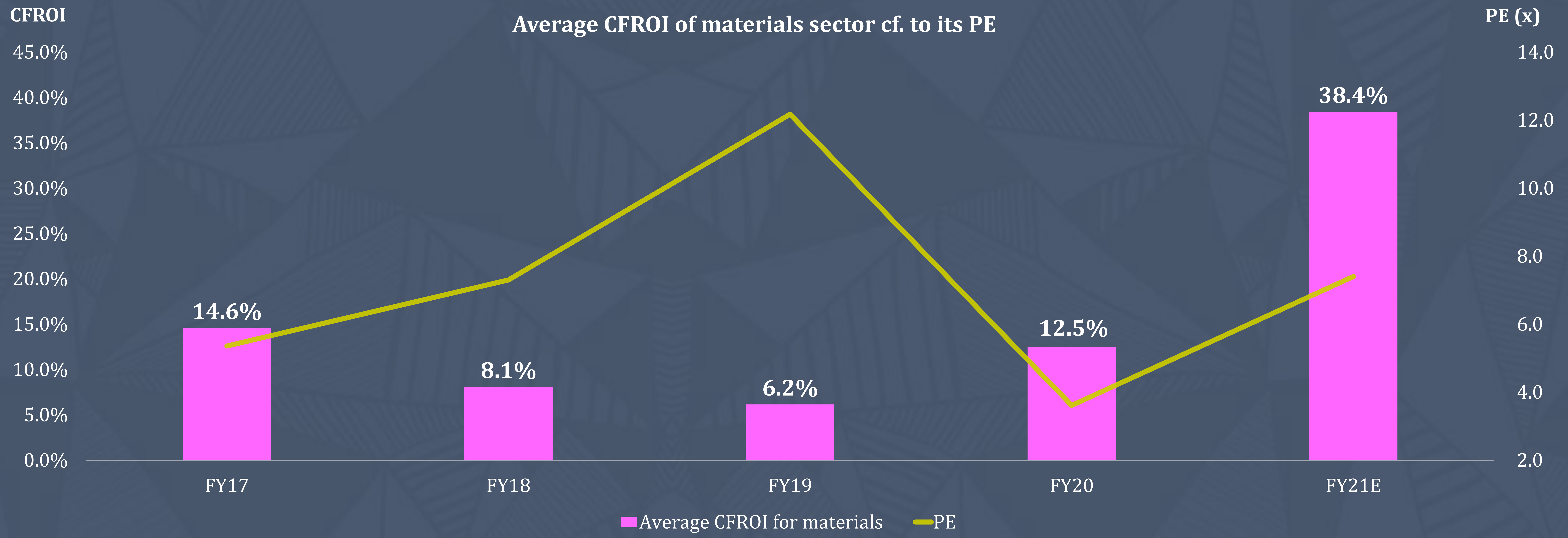


TILE, CIND, RCL, TKYO, LWL, ACL and ALUM observed a significant improvement in net debt due to higher operating cashflows during 9MFY21. We believe they are well positioned to capitalize on capacity expansion or target acquisition

Source: Company data, SSB Research

Softlogic Stockbrokers

The time to shine: With a strong CFROI position, the sector is equipped to expand; however, overall valuations still remains low



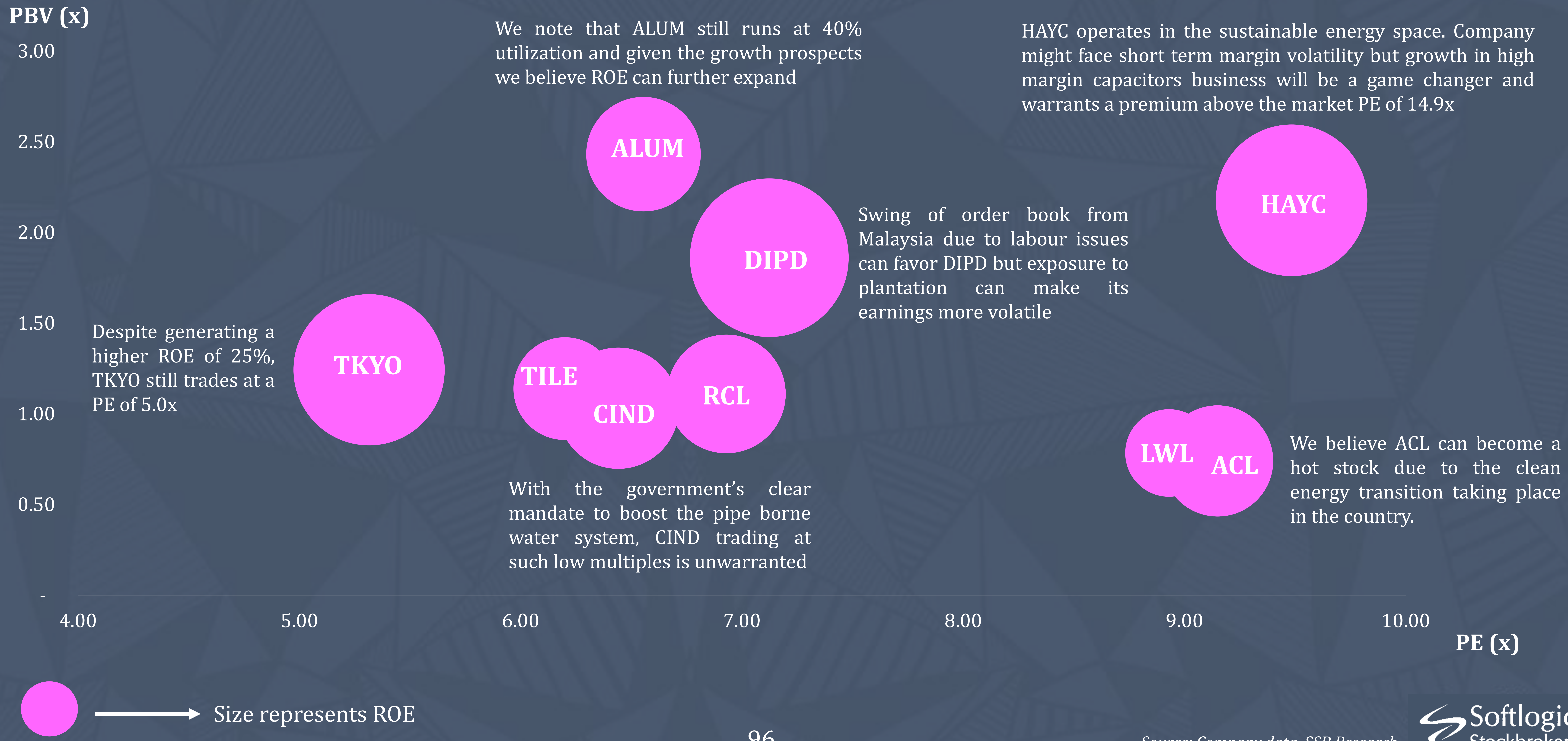
The chart aggregates CFROI annually for the 5 core coverage companies against their valuations (PER). Historically the market PE has been within 6-12x despite low CFROI. Despite a CFROI improvement, valuations have not adjusted to reflect the growth. Thus, we view implied expectations as punitive and believe they trade at a steep discount

**Note: The above calculation includes TKYO, RCL, CIND, ALUM and ACL*

Source: Company data, SSB Research

Softlogic Stockbrokers

Material sector companies are trading at compelling valuation multiples



Source: Company data, SSB Research

Softlogic Stockbrokers

The Material Industry

Valuation

TOKYO CEMENT PLC (TKYO): BUY

Neglected due to negative market sentiment but unwavering on earnings performance; debt reductions to continue

CMP.N LKR 65.9	+	Gain: 79% / DY: 3.3%	=	TP: LKR 120.0
CMP.X LKR 60.7	+	Gain: 73% / DY: 3.6%	=	TP: LKR 106.0

- We foresee lucrative growth opportunities in the local cement industry on the back of recent developments in the areas of macroeconomics, government policy, and industry dynamics. TKYO's capacity addition plan announced on 19th November 2020 was well-calibrated (1mn MT, LKR 2.3bn Capex), addressing the capacity constraints due to the diminishing market share of importers. Our view is that this expansion plan can be comfortably funded through internal funds, without leveraging the balance sheet significantly.

- We note new entrants have impacted investor sentiment on TKYO despite the competitive edge and the positive outlook ahead. We believe new entrants to have minimal impact on TKYO given the current industry dynamics detailed throughout our report. We expect TKYO to maintain its market leadership position while retaining an exponential growth opportunity.

- We believe the company is best placed from an expected demand upcycle, given its increasing scale through the organic route, diversified presence and favorable market exposure to North and East. Notably, the company's cost saving initiatives via increasing fly ash component and shipments through sea are yielding positive results and we expect margin stability despite a LKR depreciation of 12% in 2021E.

- The Voting share currently trades at ~52% discount (FY22E earnings) to its 5 Yr average PE multiple of 9.1x (Bloomberg). Furthermore, based on an implied PE of 8.0x FY22E earnings, the voting share derives an upside of +79% to its target price of LKR 120. Additionally, the non-voting share is expected to trade at a ~12% discount to the voting share and reach an intrinsic value of LKR 106.

YE 31 March	FY18	FY19	FY20	FY21E	FY22E
Net Profit (LKR mn)	**2,307**	**(506)**	**2,301**	**5,496**	**6,073**
YoY growth (%)	*-32.2%*	*-121.9%*	*554.5%*	*138.8%*	*10.5%*
EPS (LKR)	5.8	(1.3)	5.7	13.7	15.1
DPS (LKR)	1.3	0.3	1.3	2.0	2.2
BVPS (LKR)	38.5	37.2	42.8	54.6	67.5
EBITDA (LKR mn)	4,818	3,107	5,879	8,650	9,353
YoY growth (%)	*-11.6%*	*-35.5%*	*89.2%*	*47.1%*	*8.1%*
EV/EBITDA	8.6	13.3	7.0	4.8	4.4
Dividend Payout	22.0%	0.0%	21.8%	14.6%	14.6%
ROE (%)	15.0%	-3.4%	13.4%	25.1%	22.4%
Voting					
PE (x)	11.6	NA	11.7	4.9	4.4
PBV (x)	1.7	1.8	1.6	1.2	1.0
Dividend Yield (%)	1.9%	0.4%	1.9%	3.0%	3.3%
Non-Voting					
PE (x)	10.6	NA	10.6	4.4	4.0
PBV (x)	1.6	1.6	1.4	1.1	0.9
Dividend Yield (%)	2.1%	0.5%	2.0%	3.3%	3.6%

Source: SSB Research

LANKA WALLTILES (LWL): BUY

Upbeat in construction to cross-brace LWL growth

CMP LKR 188.5 + Gain: 62.9% / DY: 8.0% = TP: LKR 307.1

- LWL, another subsidiary company of RCL which is engaged in manufacturing of tiles and associate products, sanitary ware, Aluminium products through Swisstek, packaging business and in plantations sector via Horana Plantations, could observe similar sentiments as RCL over the forecast years.

- Moreover, the awarding of the prime grand projects along with the re-commencement of large-scale construction projects such as Port City and private sector mixed development projects could aid the growth of LWL's flooring and tile accessories in the medium term.

- Innovation and new product launches remain a key strength for LWL where over the recent quarters it launched a new range of bath ware, sanitaryware and accessories under the brand COLOMA, enhancing the overall customer value proposition.

- Aluminium could also sustain its growth momentum over the coming quarters benefiting from the export restrictions of scrap Aluminium and continue to maintain the higher capacity utilization of ~60% at Swisstek amidst the expected revival in construction.

- The packaging sector which is a direct beneficiary of country's growing exports will continue to play a vital role in the upcoming quarters. Nevertheless, despite the higher auction prices for tea and rubber, LWL's Plantation margins would come under pressure due to the wage hike that has been finally approved .

- LWL trades at a PER of 6.8x (Bloomberg), generating ~80% discount to the average regional peers. Based on an implied PER of 8.0x, LWL derives a 12-month TP of LKR 307.1. Thus, the forward dividend yield of ~8% and the capital appreciation of ~63% translates to a total return of ~71%.

YE 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Profit (LKR mn)	**1,388**	**1,087**	**617**	**405**	**1,925**	**2,096**
YoY growth (%)	*-53%*	*-22%*	*-43%*	*-34%*	*375%*	*9%*
EPS (LKR)	25.4	19.9	11.3	7.4	35.3	38.4
DPS (LKR)	7.5	9.5	3.0	-	14.0	15.0
BVPS (LKR)	179.4	192.6	205.9	212.8	234.1	257.5
GP Margin	33%	29%	22%	24%	30%	29%
EBIT Margin	18%	15%	10%	10%	15%	13%
NP Margin	9%	6%	3%	2%	6%	5%
Dividend Payout	30%	48%	27%	0%	40%	39%
ROE (%)	14%	10%	5%	3%	15%	15%
Investor Ratios (%)						
PE (x)	7.4	9.5	16.7	25.4	5.3	4.9
PBV (x)	1.1	1.0	0.9	0.9	0.8	0.7
Dividend Yield (%)	4.0%	5.0%	1.6%	0.0%	7.4%	8.0%

Source: SSB Research

HAYCARB PLC (HAYC): BUY

On the verge of exponential growth

CMP LKR 95.8	+	Gain: 60% / DY: 1.8%	=	TP: LKR 153.5

- **We see a key growth opportunity for HAYC in the Supercapacitor segment.** HAYC activated carbon is used to make supercapacitors in electric vehicles, and the company has secured contracts with companies such as Tesla over the years. As one of the largest electric vehicle manufacturers in the world, tesla is currently gearing itself for exponential growth and HAYC could be a recipient of the EV boom.

- **New laws on climate change and emissions controls would fuel the Air purification segment.** This segment has witnessed a strengthening of margins due to high demand, with more countries adopting a firm stance against air pollution and introducing carbon pricing structures. As such, the demand for activated carbon is expected to rise, which could lead to a further price hike in the industry.

- **Shifting to high margin products despite a stable demand for gold extraction and water purification** ensures that the company stays ahead of the curve and significantly increase profitability within current output capacity.

- **Whilst raw material prices remain to be the key risk of the industry, HAYC is ideally positioned to counteract such price hikes.** This is mainly due to 1) The ability to renegotiate contracts and adjust selling prices; 2) Sourcing raw materials from 3 strategic locations in Sri Lanka, Indonesia and Thailand and 3) Maintaining buffer stocks.

- The net result was that HAYC's gross margin expanded from c.19% in FY19 to surpass 30% in 9M FY21. The expansion was largely due to an upward revision of average selling prices seen in the industry and the impact of the USD depreciation. Based on an implied PE of 14x on FY22E earnings, the share derives a 60% upside and a dividend yield of 3%.

YE 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Profit (LKR mn)	**940**	**774**	**1,082**	**1,766**	**3,460**	**3,691**
YoY growth (%)	*4.6%*	*-17.7%*	*39.8%*	*63.3%*	*95.9%*	*6.7%*
EPS (LKR)	2.7	2.3	3.2	5.2	10.3	11.0
DPS (LKR)	0.6	0.6	0.8	1.5	2.6	2.8
BVPS (LKR)	22.7	25.0	27.8	31.4	39.0	47.2
Ratios (%)						
Revenue Growth	*15.8%*	*14.5%*	*34.8%*	*9.1%*	*8.8%*	*16.7%*
EBIT margin	10.1%	7.0%	7.3%	11.0%	18.0%	16.6%
NP margin	6.9%	5.0%	5.2%	7.7%	13.9%	12.7%
Dividend Payout	22.2%	26.5%	24.9%	28.6%	25.7%	25.7%
ROE (%)	12.5%	9.3%	11.6%	16.6%	26.1%	23.0%
PE (x)	5.6	5.3	3.9	3.1	10.8	14.0
PBV (x)	22.7	25.0	27.8	31.4	39.0	47.2
Dividend Yield (%)	4.0%	5.0%	6.3%	9.4%	2.4%	1.8%

Source: SSB Research

CENTRAL INDUSTRIES (CIND): BUY

CIND a clear winner on a value for money basis

CMP LKR 105 + Gain: 57.8% DY: 7.9% = TP: LKR 165.7

- With the expectation of c.40,000km of pipes being laid within the next 4 years, CIND may require to operate at full capacity in the forth coming periods to fulfill the demand. As one of the main two suppliers to the National Water Supply and Drainage Board, CIND would be able to secure a significant portion of the PVC requirement in the country. We believe current capacity of the players will not be sufficient to cater to this demand and capacity expansions will be on the cards.

- With the government's clear intention to boost the economy with fiscal stimulus and the allocation of LKR 1tn for public investments in 2021E (cf. LKR 419bn in 2020), we believe CIND may see lucrative growth in earnings over the forth coming periods. Being a preferred choice in government and large-scale projects, the budget allocation for constructing housing units for low and middle-income earners may further boost demand for PVC.

- Being priced lower (10-25% discount) compared to the premium brand (S-lon,) while having similar quality standards (or better quality in certain segments), provides an edge over other players in a market expansion.

- A low interest rate environment (AWPR down from c.13% in 2019 to c.10%) has resulted in a surge in demand for housing loans which may improve retail volumes in the forth coming periods. Budgetary concessions on housing loans at 7% to state employees may further boost housing loan demand.

- Given the stable earnings growth potential over the forecast years, we value CIND at an implied PER of 8.0x which derives a fair value of LKR 165.7 (upside of 58% to CMP). Hence the share remains attractive with a TR of 65.7% (forward dividend yield of 7.9%).

YE 31 March	FY18	FY19	FY20	FY21E	FY22E
Net Profit (LKR mn)	**83**	**129**	**194**	**373**	**429**
YoY growth (%)	*-40.2%*	*55.5%*	*49.7%*	92.4%	14.9%
EPS (LKR)	4.0	6.3	9.4	18.0	20.7
DPS (LKR)	2.0	2.5	4.0	8.0	8.3
BVPS (LKR)	63.5	78.7	85.8	96.6	110.0
Dividend Payout	49.7%	40.0%	42.7%	44%	40%
ROE (%)	6.3%	7.9%	10.9%	19%	19%
GP Margin	17.1%	16.3%	18.2%	21%	20%
EBIT margin	6.0%	7.2%	9.1%	12%	12%
NP Margin	3.7%	4.7%	6.1%	10%	10%
PE (x)	26.1	16.8	11.2	5.8	5.1
PBV (x)	1.7	1.3	1.2	1.1	1.0
Dividend Yield (%)	1.9%	2.4%	3.8%	7.6%	7.9%

Source: SSB Research

LANKA TILES (TILE): BUY

Growth intact with the mass market and construction boom to drive volumes

CMP LKR 185.0 + Gain: 48.0% / DY: 10.8% = TP: LKR 275.0

- Lanka Tiles, a subsidiary of RCL and a premier floor and wall tile producer which caters to the mass market at competitive margins against cheaper imported tiles is expected to sustain its revenue over the coming quarters backed by the expected infrastructure drive, rise in disposable income levels and lower finance costs amidst slashed interest rates.

- TILE's accumulated inventory levels almost fell by ~50% cf. end FY20 given the pent-up tile demand when the country opened up post lock downs for business in May'20, amidst the absence of cheaper Chinese and Indian tile imports.

- Additionally, the expansion in total production capacity of TILE to 17,500 sq.mt in FY19/20 (cf. previous 14,500 sq.mt) for larger format tiles was a timely move amidst GoSL imposing restrictions on imports in Mar'20 which aided to fully utilize the additional capacity.

- Moreover, the anticipated recommencement in large scale private and government projects would continue to drive volumes whilst aiding TILE to retain the higher capacity utilization levels in the forecast period (TILE's capacity utilization stood at near 100% levels in 3Q'21).

- Meanwhile, TILE might also look into debt funded ~50% capacity expansion at its Ehaliyagoda plant whilst the bath ware segment could also see expansions with an investment of ~LKR200 mn amidst lower interest rates.

- TILE trades at a PER of 7.6x (Bloomberg), which derives a ~80% discount to the average regional peers. Based on an implied PER of 8.0x, TILE derives a 12-month TP of LKR 275.0. Thus, the forward dividend yield of ~11% and the capital appreciation of ~48% translates to a total return of ~59%.

YE 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Profit (LKR mn)	**1,245**	**1,004**	**528**	**582**	**1,624**	**1,824**
YoY growth (%)	*5.6%*	*-19.3%*	*-47.4%*	*10.2%*	*179%*	*12%*
EPS (LKR)	23.5	18.9	10.0	11.0	30.6	34.4
DPS (LKR)	7.5	6.0	3.2	-	18.0	20.0
BVPS (LKR)	124.3	130.5	137.6	148.5	159.1	173.5
GP Margin	*45%*	*39%*	*29%*	*36%*	*35%*	*36%*
EBIT Margin	*25%*	*18%*	*11%*	*15%*	*18%*	*15%*
NP Margin	*24%*	*16%*	*8%*	*9%*	*12%*	*10%*
Dividend Payout	32%	32%	32%	0%	59%	58%
ROE (%)	19%	15%	7%	7%	19%	20%
Investor Ratios (%)						
PE (x)	7.9	9.8	18.7	16.9	6.1	5.4
PBV (x)	1.5	1.4	1.4	1.3	1.2	1.1
Dividend Yield (%)	4.0%	3.2%	1.7%	0.0%	9.7%	10.8%

Source: SSB Research

ROYAL CERAMIC (RCL): BUY

Attractive at a steep discount to peers amidst thriving demand and lower cost of borrowings

CMP LKR 255.0 + **Gain: 38.5%** / **DY: 6.5%** = **TP: LKR 353.2**

- RCL which holds monopoly position in the local floor tile industry with a combined market share of ~75% (through Rocell and TILE) is poised to witness a notable growth trajectory and sustain its higher capacity utilization levels (stood near 100% in 3Q'21) over the coming quarters mainly owing to a revival in the home builders market which accounts for nearly 85% of revenue fueled by the reduced housing loan rates along with the expected upbeat in the local construction industry in the coming months.

- Meanwhile the recently revised CESS on tile imports acts positive for RCL which further narrows the pricing gap between imports, whilst the 180 day credit period for LC openings for importers is likely to wipe away the small-scale importers further giving RCL the advantage to sustain volumes.

- Moreover, the reduced cost of borrowings amidst the prevailing lower interest rate regime is likely to bode well for RCL in the near term to further curtail finance cost amidst its efforts to restructure its debt (RCL's debt to equity improved to ~40% in 3Q'21 cf. 77% in 3Q'20) further supported by a sound cash position of LKR2.6 bn as of end 3Q'21.

- Additionally, improved performance in all other segments such as Sanitary ware, Packaging and associate income from LFIN along with effective cost controls such as momentary shift to kerosine, implementation of TPM and initiating measures to reduce the total cycle time could drive RCL's earnings north of LKR 5bn in FY22E.

- RCL currently trades at a PER of 7.1x (Bloomberg), deriving ~82% discount to its regional peers. Further, based on the SOTP valuation (WACC of 12.3%), RCL derives a 12-month TP of LKR 353.2 (with a post diversified discount of 10%). Thus, the forward dividend yield of ~6.5% and the capital appreciation of ~38.5% translates to a total return of ~45%.

YE 31 March	FY18	FY19	FY20	FY21E	FY22E
Net Profit (LKR mn)	**2,880**	**2,632**	**2,586**	**4,817**	**5,734**
YoY growth (%)	*-15%*	*-9%*	*-2%*	*86%*	*19%*
EPS (LKR)	26.0	23.8	23.3	43.5	51.8
DPS (LKR)	7.0	4.0	4.0	14.0	16.6
BVPS (LKR)	183.3	207.5	226.9	257.7	292.9
EBITDA (LKR mn)	6,894	6,241	6,194	9,137	10,718
YoY growth (%)	*-5.8%*	*-9.5%*	*-0.8%*	*47.5%*	*17.3%*
EV/EBITDA (x)	6.1	6.8	6.8	4.6	3.9
Debt to Equity	74%	82%	83%	54%	45%
Dividend Payout	27%	17%	25%	32%	32%
ROE (%)	14%	11%	10%	17%	18%
Investor Ratios (%)					
PE (x)	9.8	10.7	10.9	5.9	4.9
PBV (x)	1.4	1.2	1.1	1.0	0.9
Dividend Yield (%)	2.7%	1.6%	1.6%	5.5%	6.5%

- RCL's Mosaic tile plant which commenced in 2020 is currently having encouraging capacity utilization levels whilst the incremental revenue from the new mosaic tile exports in 2021E (plans to export mainly to USA to grab the opportunity created after the imposition of anti-dumping duties by USA) will also aid to sustain RCL's FY22E profits.

Source: SSB Research

ACL CABLES PLC (ACL): BUY

Sustainable, long term growth drivers

CMP LKR 36 + Gain: 39% DY: 4.1% = TP: LKR 50

- We see a positive multi-year backdrop for ACL cables. The expected acceleration towards the installation of solar and wind plants to provide visibility on growth into the next decades for the cables industry. We believe that demand for high voltage cables and submarine cables will remain elevated in the high single digits and will be supported by the drive towards grid modernization.

- Significant investment in power infrastructure should drive demand for cables and wires. CEB intentions to reduce electricity net loss through the upgrading of transmission and distribution system should generate higher demand for cables and wires. Our check with the CEB data indicates that approximately LKR 37bn is allocated towards transmission and distribution of which 22% will be towards cables and conductors.

- Competitive cost structure due to backward integration. To maintain its competitive cost structure and quality, ACL cables integrated backward to manufacture copper rods from copper cathodes. The company has setup a company called Ceylon Copper to manufacture rods and it has been awarded SLS certificate for armored cables.

- Rising raw materials prices and weakening LKR against USD constitute key risks to our rating. ACL earnings are vulnerable to raw materials price volatilities. Although the company has pricing power for its most of its products, any sudden spike in copper and Aluminium prices is likely to lead to near term margin compression.

- The company has strong brand equity, nation wide distribution network and a robust balance sheet. The free cash flow generation from CEB projects will allow the company to diversify into other electrical segments. Net-Net working capital position with LKR 7bn may help it to expand inorganically as well. Our target price of LKR 50 per share for ACL cables is based on a market PE of 10.2x.

YE 31 March	FY18	FY19	FY20	FY21E	FY22E
Net Profit (LKR mn)	**695.9**	**559.7**	**824.6**	**1,085.8**	**1,169.6**
YoY growth (%)	*-35.6%*	*-19.6%*	*47.3%*	*31.7%*	*7.7%*
EPS (LKR)	2.9	2.3	3.4	4.5	4.9
DPS (LKR)	0.8	0.8	0.8	0.8	0.8
BVPS (LKR)	43.0	44.0	47.0	50.8	54.8
Dividend Payout	25.8%	32.1%	21.8%	16.5%	15.4%
ROE (%)	7.0%	5.3%	8.2%	9.5%	10.2%
PE (x)	12.6	15.7	10.6	8.1	7.5
PBV (x)	0.9	0.8	0.8	0.7	0.7
Dividend Yield (%)	4.1%	4.1%	4.1%	4.1%	4.1%

Source: SSB Research

ALUMEX PLC (ALUM): BUY

Near-term earnings turnaround

CMP LKR 10.7 + Gain: 31% / DY: 5% = TP: LKR 14

- We expect the aluminum industry to be on a strong growth trajectory, which may allow ALUM to operate above 50% utilization, generating gross margins of *c.*30%. ALUM reported a strong earnings growth of LKR 351mn in 3QFY21 cf. LKR 29mn in 3QFY20. The major reason for the margin expansion was the improvement in the factory utilization rate from 30% to c.40% in 9MFY21.

- The 2021 budget encouraged the recycling and re-use of material from the construction sector along with a ten-year tax holiday for investments in selected recycling sites. We expect ALUM to benefit from this outcome, as the company increased the usage of recycled local aluminum billets (imported aluminum billets are 4.5x the price of local scraps). Furthermore, we believe the budget proposal to build 5 “Techno Parks” and expand solar power plants could benefit ALUM (if awarded).

- The recent cabinet approval to ban the export of scrap aluminum may allow ALUM to source raw materials at a cheaper rate, expanding margins.

- The recent circular issued to source material from local manufacturers for government projects may drive overall volumes.

- The company has 10 customers onboarded from the USA, UK, and Australia with the first batch of testing orders delivered. Notably 3 customers have written back with full orders. Going forward management expects export revenue to stand at 10% of the total revenue cf. 2% in FY20.

- The Target Price of LKR 14 is based on 10x PE FY22E earnings, including our base case utilization rate of 50%. With lower CAPEX in the next 12 months, and a dividend yield of 5%, we expect ALUM to provide a total return of 36%.

YE 31 March	FY18	FY19	FY20	FY21E	FY22E
Net Profit (LKR mn)	**364.5**	**126.5**	**30.8**	**734.0**	**851.2**
YoY growth (%)	*-51.6%*	*-65.3%*	*-75.6%*	*2279.3%*	*16.0%*
EPS (LKR)	0.6	0.2	0.1	1.2	1.4
DPS (LKR)	0.5	0.1	-	0.3	0.5
BVPS (LKR)	3.8	4.0	4.0	4.9	5.8
EBITDA (LKR mn)	762.0	790.8	710.1	1,465.0	1,623.0
YoY growth (%)	*-34.3%*	*3.8%*	*-10.2%*	*106.3%*	*10.8%*
Dividend Payout	0.8	0.4	N/A	0.3	0.4
ROE (%)	16.2%	5.4%	1.3%	25.2%	24.6%
PE (x)	17.9	51.9	109.0	8.9	7.7
PBV (x)	2.9	2.8	2.7	2.2	1.9
Dividend Yield (%)	4.6%	0.7%	0.0%	3.0%	4.6%

Source: SSB Research

DIPPED PRODUCTS PLC (DIPD): BUY

Best is yet to come but we are becoming cautious

CMP LKR 46.3 + Gain: 19% DY: 4.3% = TP: LKR 54.9

- **Our check with the Malaysian gloves company indicates that DIPD should be able to post QoQ earnings growth in 4QFY21 as average selling prices for nitrile gloves has increased by 30% from Nov-20 to Feb-21.** However, the lead time of nitrile gloves declined to 160 days in Feb-21 cf, 510 days in Nov-20 indicates that elevated selling prices is not sustainable post FY22E with the ongoing vaccination programs.

- **DIPD's diversified gloves portfolio caters to three main segments 1) household, 2) industrials and 3) surgical & examination, could insulate demand variations in FY22E.** The ongoing labor issues at the Malaysian factory is expected to favor DIPD (factory in Sri Lanka and Thailand) as sourcing managers might try to shift their focus towards factories which have a good track record.

- However, our key concern with DIPD is its exposure to plantation companies Kelani Valley Plantations (KVAL) and Talawakelle Tea Estates (TPL). With the Government's decision to hike the plantation wage to LKR 1,000 per day, we expect a P&L hit of LKR 1.4bn to DIPD from plantation companies in FY22E.

- **Oversupply situation from 2023E may create a pricing war that may hurt margins.** With leading players expected to add 100bn gloves capacity by 2022E, we expect an oversupply situation in the medical gloves segment with the ongoing successful vaccination program. With the oversupply situation, players are likely to engage in pricing war which can dent the profitability of DIPD.

- We value DIPD using a PE target of 9x cf. a market average of 15x, tagged to FY22E EPS of LKR 6.1. The 40% discount to TTM market PE is justified due to its exposure to plantation companies. Hence the share is expected to give a TR of 23% (dividend yield of 4%).

YE 31 March	FY18	FY19	FY20	FY21E	FY22E
Net Profit (LKR mn)	**801**	**1,076**	**850**	**5,460**	**3,989**
YoY growth (%)	*-34.0%*	*45.4%*	*3.7%*	*564.3%*	*-26.9%*
EPS (LKR)	0.8	1.2	1.2	8.3	6.1
DPS (LKR)	0.3	0.4	0.4	2.3	2.0
BVPS (LKR)	16.3	17.4	18.7	24.7	28.8
Dividend Payout	36.2%	33.2%	32.0%	27.7%	33.0%
ROE (%)	5.2%	7.2%	7.0%	31.8%	20.6%
PE (x)	55.6	38.2	36.8	5.5	7.6
PBV (x)	2.8	2.6	2.5	1.9	1.6
Dividend Yield (%)	0.7%	0.9%	0.9%	5.0%	4.3%

Source: SSB Research

Annexures and Appendices

A deeper look

Financial summary

TOKYO CEMENT (TKYO.N/X) – Financial summary

Income Statement (LKR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Sales	35,701	35,633	38,496	35,758	41,655	45,838
Gross Profit	8,941	8,472	7,888	10,266	13,012	14,465
EBIT	4,516	3,481	2,193	4,510	7,222	7,864
Profit before tax	4,078	2,572	379	2,627	6,164	6,965
Tax	(677)	(243)	(475)	(304)	(616)	(836)
Profit for the year	3,401	2,329	(96)	2,324	5,548	6,129
Equity Holders Profit	**3,401**	**2,307**	**(506)**	**2,302**	**5,496**	**6,073**

Statement of Financial Position	FY17	FY18	FY19	FY20	FY21E	FY22E
ASSETS						
Non-current Assets	20,877	27,256	28,169	27,586	30,229	32,929
Current Assets	7,563	7,745	10,292	9,331	11,151	11,978
Total Assets	**28,440**	**35,002**	**38,461**	**38,263**	**41,380**	**44,907**
EQUITY AND LIABILITIES						
Total Equity	14,424	15,491	15,016	17,272	21,966	27,153
Non-currents Liabilities	7,373	8,488	7,804	10,481	9,108	8,014
Current Liabilities	6,642	11,016	15,614	10,174	10,305	9,740
Total Equity and Liabilities	**28,440**	**35,002**	**38,461**	**38,263**	**41,380**	**44,907**

Ratios	FY17	FY18	FY19	FY20	FY21E	FY22E
GP Margin	25%	24%	20%	29%	31%	32%
EBIT Margin	13%	10%	6%	13%	17%	17%
NP Margin	10%	6%	-1%	6%	13%	13%
Debt/Equity	64%	92%	105%	87%	61%	42%
Revenue YoY growth	19%	0%	8%	-7%	16%	10%
NP YoY growth	78%	-32%	-122%	555%	139%	10%

Source: SSB Research

LANKA WALL TILES PLC (LWL.N) – Financial summary

Y/E 31st March (LKR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue	16,000	18,313	19,627	19,930	32,884	40,119
Gross Profit	5,217	5,317	4,303	4,785	9,865	11,634
Operating Profit	2,878	2,680	2,034	1,973	4,933	5,215
Profit Before Tax	2,612	2,311	1,193	804	4,114	4,479
Profit for the Year	1,947	1,611	780	415	2,468	2,687
Profit attributable to :						
Equity holders of the parent	1,388	1,087	617	405	1,925	2,096
Non controlling interest	560	524	163	10	543	591

Y/E 31st March (LKR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Non Current Assets	13,543	15,379	18,278	18,787	19,093	19,954
Total Current Assets	8,660	10,344	12,778	14,635	14,829	16,715
Total Assets	22,203	25,723	31,056	33,423	33,921	36,669
Total Equity	13,559	14,415	15,185	15,558	16,719	17,996
Total Non Current Liabilities	3,610	4,660	6,300	6,285	5,618	5,722
Total Current Liabilities	5,033	6,649	9,572	11,580	11,585	12,952
Total Liabilities	8,644	11,308	15,871	17,865	17,203	18,673
Total Equity and Liabilities	22,203	25,723	31,056	33,423	33,921	36,669
GP Margin	33%	29%	22%	24%	30%	29%
EBIT Margin	18%	15%	10%	10%	15%	13%
NP Margin	9%	6%	3%	2%	6%	5%
Revenue Growth	3%	14%	7%	2%	65%	22%
NP Growth	4%	-22%	-43%	-34%	375%	9%
Debt to Equity	36%	38%	61%	73%	60%	63%

Source: SSB Research

Softlogic Stockbrokers

HAYCARB PLC (HAYC .N) – Financial summary

Income Statement (LKR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Sales	13,554	15,518	20,918	22,823	24,826	28,963
Gross Profit	3,163	3,094	4,039	5,390	7,352	8,288
EBIT	1,368	1,090	1,525	2,502	4,459	4,799
Profit before tax	1,190	926	1,353	2,176	4,263	4,547
Tax	(250)	(153)	(271)	(410)	(803)	(856)
Profit for the year	940	774	1,082	1,766	3,460	3,691
Equity Holders Profit	**804**	**672**	**955**	**1,559**	**3,054**	**3,257**

Statement of Financial Position (LKR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
ASSETS						
Non-current Assets	6,233	6,391	6,661	6,899	6,864	6,885
Current Assets	8,003	8,891	12,314	12,546	16,870	18,458
Total Assets	**14,235**	**15,282**	**18,975**	**19,446**	**23,733**	**25,342**
EQUITY AND LIABILITIES						
Total Equity	7,523	8,338	9,353	10,657	13,252	16,020
Non-currents Liabilities	905	903	820	1,055	1,152	1,152
Current Liabilities	5,808	6,042	8,802	7,734	9,329	8,170
Total Equity and Liabilities	**14,235**	**15,282**	**18,975**	**19,446**	**23,733**	**25,342**

Ratios	FY17	FY18	FY19	FY20	FY21E	FY22E
GP Margin	22%	20%	19%	24%	30%	29%
EBIT Margin	14%	7%	7%	11%	18%	17%
NP Margin	7%	5%	5%	8%	14%	13%
Revenue YoY growth	15%	14%	35%	9%	9%	17%
NP YoY growth	-1%	-16%	42%	63%	96%	7%

Source: SSB Research

LANKA TILES PLC (TILE .N) – Financial summary

Y/E 31st March (LKR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue	5,176	6,126	7,009	6,695	13,055	17,689
Gross profit	2,316	2,379	2,006	2,416	4,569	6,280
Operating Profit	1,300	1,099	752	1,027	2,350	2,653
Profit before income tax	1,605	1,353	746	775	2,082	2,399
Profit for the year	1,245	1,004	724	582	1,624	1,824
Equity holders of the parent	**1,245**	**1,004**	**528**	**582**	**1,624**	**1,824**

Y/E 31st March (LKR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Non-Current Assets	4,510	5,024	7,062	7,494	7,787	7,901
Total Current Assets	3,849	3,732	4,845	6,388	6,399	6,879
Total Assets	8,360	8,756	11,907	13,883	14,186	14,779
Total Equity	6,595	6,925	7,297	7,879	8,442	9,204
Total Non Current Liabilities	624	808	2,287	2,277	3,795	3,349
Total Current Liabilities	1,141	1,023	2,323	3,728	1,950	2,226
Total Liabilities	1,765	1,831	4,610	6,004	5,744	5,575
Total Equity and Liabilities	8,360	8,756	11,907	13,883	14,186	14,779
GP Margin	45%	39%	29%	36%	35%	36%
EBIT Margin	25%	18%	11%	15%	18%	15%
NP Margin	24%	16%	8%	9%	12%	10%
Revenue Growth	-7%	18%	14%	-4%	95%	5%
NP Growth	6%	-19%	-47%	10%	179%	12%
Debt to Equity	8%	3%	29%	45%	18%	18%

Source: SSB Research

CENTRAL INDUSTRIES PLC (CIND.N) – Financial summary

Income Statement (LKR mn)	**FY18**	**FY19**	**FY20**	**FY21E**	**FY22E**
Revenue	2,274	2,770	3,182	3,787	4,355
Gross Profit	390	452	580	795	871
EBIT	137	200	288	454	523
Profit before tax	112	177	263	449	517
Profit for the year	83	129	194	373	429
Equity Holders Profit	**83**	**129**	**194**	**373**	**429**

Statement of Financial Position (LKR	**FY18**	**FY19**	**FY20**	**FY21E**	**FY22E**
Total Non-current Assets	632	917	908	954	1,001
Total Current Assets	1,205	1,338	1,668	1,849	2,176
Total Assets	1,837	2,256	2,576	2,802	3,177
Total Equity	1,315	1,630	1,775	2,000	2,276
Total Non-currents Liabilities	148	240	243	239	257
Total Current Liabilities	374	385	559	563	644
Total Liabilities	522	626	801	802	901
Total Equity and Liabilities	1,837	2,256	2,576	2,802	3,177

Ratios	**FY18**	**FY19**	**FY20**	**FY21E**	**FY22E**
GP Margin	17%	16%	18%	21%	20%
EBIT Margin	6%	7%	9%	12%	12%
NP Margin	4%	5%	6%	10%	10%
Revenue growth	-3%	22%	15%	19%	15%
NP Growth	-40%	55%	50%	92%	15%
Debt to Equity	15%	6%	19%	10%	8%

Source: SSB Research

ROYAL CERAMIC PLC (RCL.N) – Financial summary

Y/E 31st March (LKR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue	26,413	29,090	31,499	31,554	38,824	43,094
Gross Profit	10,863	10,933	10,296	10,481	14,036	15,640
EBIT	6,076	5,498	4,651	4,449	7,282	8,731
Share of Associate company's Profit	1,042	1,107	1,304	1,373	850	978
Net Profit Before Tax	6,167	5,373	4,085	3,566	6,930	8,409
Taxation	(1,335)	(1,501)	(991)	(803)	(1,455)	(1,892)
Profit For The Year	4,637	3,851	3,083	2,752	5,464	6,506
Equity Holders Profit	3,375	2,880	2,632	2,586	4,817	5,734

Y/E 31st March (LKR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
ASSETS						
Non Current Assets	29,864	33,873	36,622	41,655	42,364	44,578
Current Assets	14,935	17,681	21,552	23,490	23,436	26,267
Total Assets	**44,799**	**53,158**	**61,200**	**65,145**	**65,799**	**70,844**
Shareholdets Fund	17,631	19,688	22,084	25,135	28,554	32,447
Non Current Liabilities	8,610	8,530	9,233	10,985	9,381	8,978
Current Liabilities	10,095	13,438	16,887	19,616	17,176	17,274
Total Equity & Liabilities	**44,799**	**53,158**	**61,200**	**65,145**	**65,799**	**70,844**

Y/E 31st March	FY17	FY18	FY19	FY20	FY21E	FY22E
YoY Revenue growth	6%	10%	8%	0%	23%	11%
YoY NP growth	15%	-15%	-9%	-2%	86%	19%
GP margin	41%	38%	33%	33%	36%	36%
EBIT margin	23%	19%	15%	14%	19%	20%
NP margin	13%	10%	8%	8%	12%	13%
Debt/Equity	69%	74%	82%	83%	54%	45%

Source: SSB Research

ALUMEX PLC (ALUM.N) – Financial summary

Income Statement (LKR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Sales	4,635	4,423	5,031	4,730	5,300	6,360
Gross Profit	1,446	1,060	1,153	1,002	1,400	1,758
EBIT	1,050	646	594	461	1,200	1,358
Profit before tax	1,016	515	177	67	974	1,181
Tax	(263)	(150)	(50)	(36)	(240)	(330)
Profit for the year	753	365	126	31	734	851
Equity Holders Profit	**753**	**365**	**126**	**31**	**734**	**851**

Statement of Financial Position	FY17	FY18	FY19	FY20	FY21E	FY22E
ASSETS						
Non-current Assets	1,958	3,335	3,828	3,805	3,744	3,768
Current Assets	2,306	3,067	3,148	2,992	3,355	3,644
Total Assets	**4,264**	**6,402**	**6,976**	**6,798**	**7,099**	**7,412**
EQUITY AND LIABILITIES						
Total Equity	2,316	2,253	2,353	2,382	2,663	2,976
Non-currents Liabilities	709	1,464	1,561	1,754	1,521	1,521
Current Liabilities	1,238	2,686	3,062	2,662	2,914	2,914
Total Equity and Liabilities	**4,264**	**6,402**	**6,976**	**6,798**	**7,099**	**7,412**

Ratios	FY17	FY18	FY19	FY20	FY21E	FY22E
GP Margin	25%	24%	20%	29%	31%	32%
EBIT Margin	13%	10%	6%	13%	17%	17%
NP Margin	10%	6%	-1%	6%	13%	13%
Debt/Equity	24%	119%	131%	131%	99%	89%
Revenue YoY growth	18%	-5%	14%	-6%	12%	20%
NP YoY growth	28%	-52%	-65%	-76%	2279%	16%

Source: SSB Research

ACL CABLES PLC (ACL.N) – Financial summary

Income Statement (LKR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Sales	14,672	16,529	18,183	19,619	21,710	23,881
Gross Profit	3,200	2,679	2,765	3,347	3,691	4,060
EBIT	2,007	1,425	1,394	1,856	1,960	2,221
Profit before tax	1,757	1,045	875	1,349	1,655	1,919
Tax	(545)	(292)	(250)	(346)	(331)	(493)
Profit for the year	1,212	754	624	1,003	1,324	1,426
Equity Holders Profit	**1,080**	**696**	**560**	**825**	**1,086**	**1,170**

Statement of Financial Position	FY17	FY18	FY19	FY20	FY21E	FY22E
ASSETS						
Non-current Assets	4,238	5,019	5,858	6,386	6,470	6,741
Current Assets	12,254	13,947	15,031	17,096	17,241	16,901
Total Assets	**16,492**	**18,966**	**20,888**	**23,481**	**23,711**	**23,642**
EQUITY AND LIABILITIES						
Total Equity	10,512	11,727	11,825	12,933	13,919	13,977
Non-currents Liabilities	1,469	916	1,109	2,040	2,164	2,164
Current Liabilities	4,510	6,323	7,955	8,508	7,628	7,501
Total Equity and Liabilities	**16,490**	**18,966**	**20,889**	**23,481**	**23,711**	**23,642**

Ratios	FY17	FY18	FY19	FY20	FY21E	FY22E
GP Margin	22%	16%	15%	17%	17%	17%
EBIT Margin	14%	9%	8%	9%	9%	9%
NP Margin	7%	4%	3%	4%	5%	5%
Debt/Equity	30%	29%	62%	56%	33%	31%
Revenue YoY growth	15%	13%	10%	8%	11%	10%
NP YoY growth	-1%	-36%	-20%	47%	32%	42%

Source: SSB Research

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DIPPED PRODUCT PLC (DIPD.N) – Financial summary

Income Statement (LKR mn)	FY18	FY19	FY20	FY21E	FY22E
Sales	28,485	30,089	30,563	46,100	46,561
Gross Profit	4,460	4,946	4,704	12,100	10,243
EBIT	1,659	1,772	1,432	7,250	5,150
Profit before tax	1,240	1,438	1,161	6,870	4,925
Tax	(440)	(361)	(310)	(1,410)	(936)
Profit for the year	801	1,076	850	5,460	3,989
Equity Holders Profit	**496**	**721**	**748**	**4,969**	**3,630**

Statement of Financial Position	FY18	FY19	FY20	FY21E	FY22E
ASSETS					
Non-current Assets	13,855	14,225	15,570	17,200	18,500
Current Assets	10,775	11,977	11,710	16,750	16,200
Total Assets	**24,630**	**26,202**	**27,280**	**33,950**	**34,700**
EQUITY AND LIABILITIES					
Total Equity	12,306	13,213	14,031	17,195	19,373
Non-currents Liabilities	5,202	5,185	6,016	6,500	6,500
Current Liabilities	7,123	7,804	7,233	10,255	8,827
Total Equity and Liabilities	**24,631**	**26,202**	**27,280**	**33,950**	**34,700**

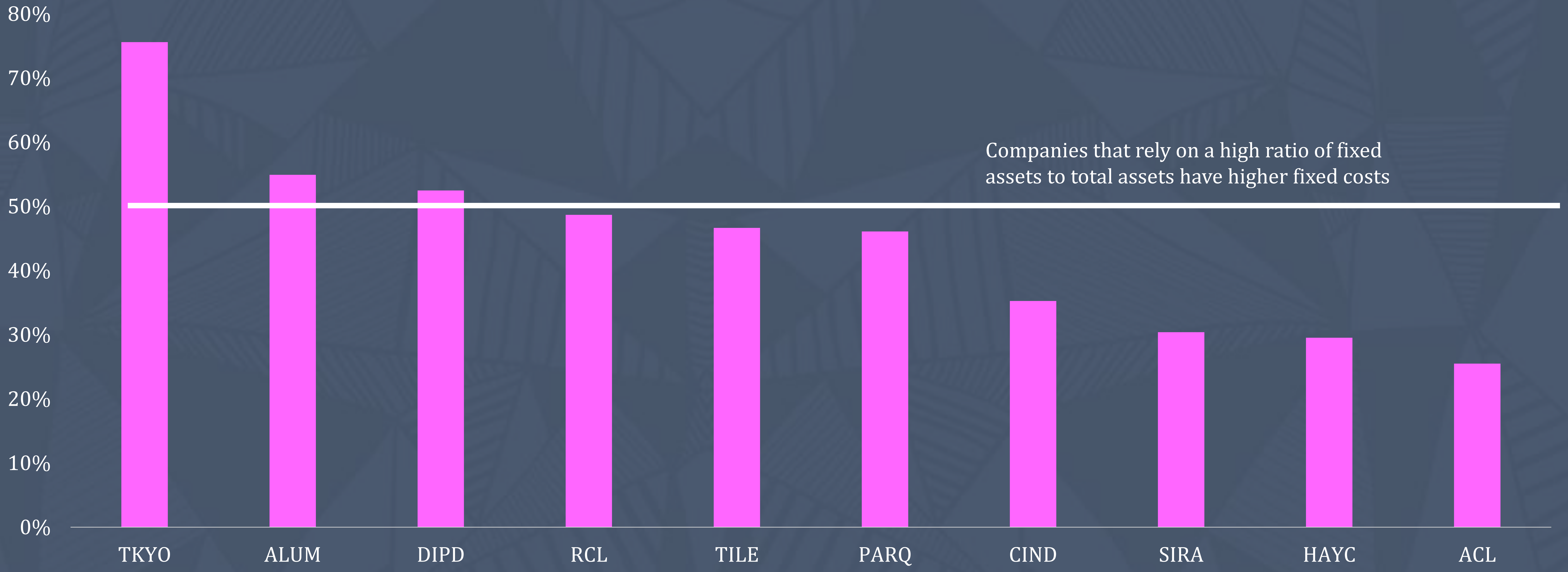
Ratios	FY18	FY19	FY20	FY21E	FY22E
GP Margin	16%	16%	15%	26%	22%
EBIT Margin	6%	6%	5%	16%	11%
NP Margin	3%	4%	3%	12%	9%
Revenue YoY growth	17%	6%	2%	51%	1%
NP YoY growth	-34%	45%	4%	564%	-27%

Source: SSB Research

Other annexures

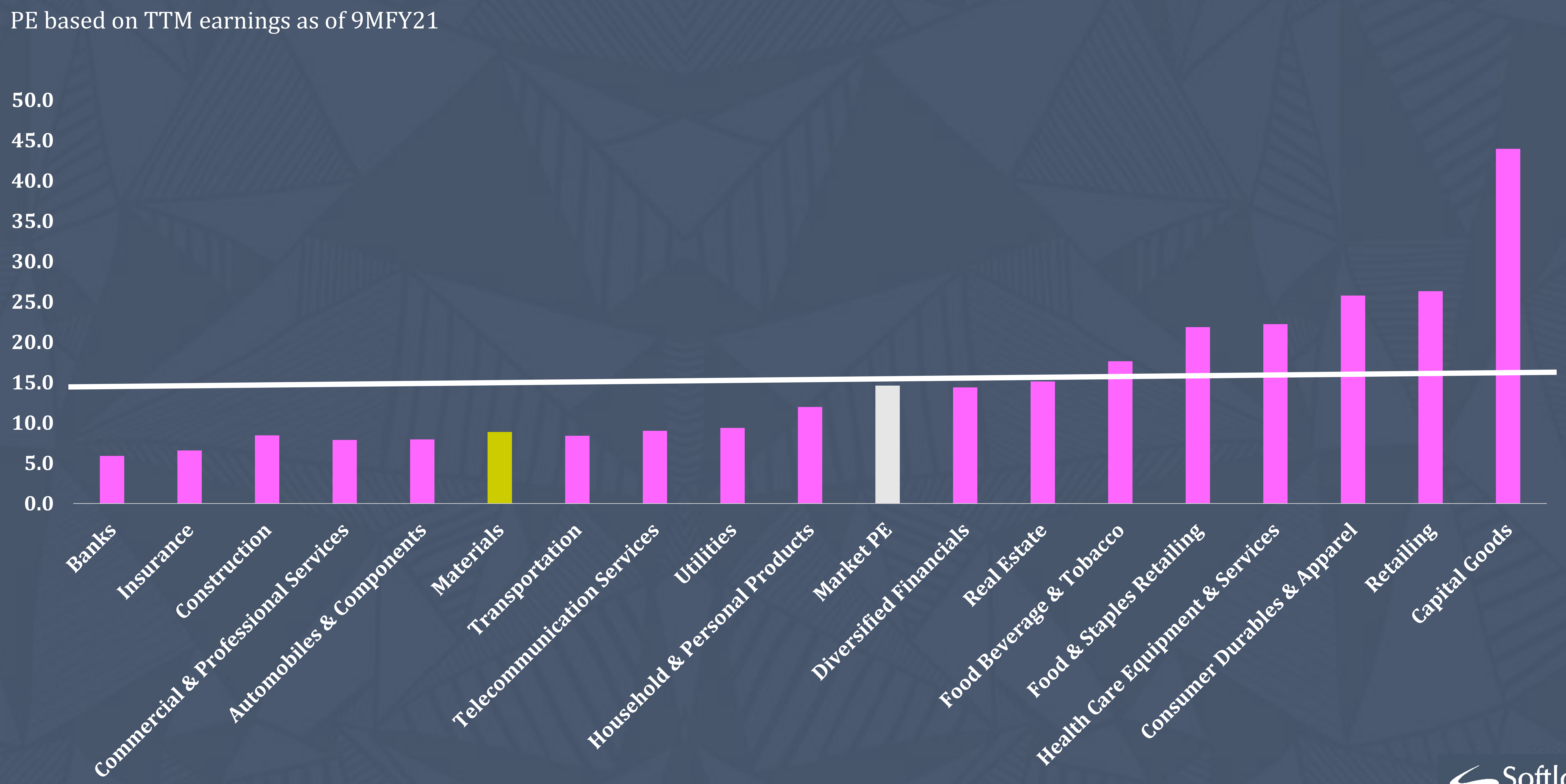
As the benefit of operating leverage play out, we expect cost to income to continue to moderate and ROAs to improve going forward

Fixed assets to Total assets



Source: Company data, SSB Research

PE comparison of Materials sector with other sectors

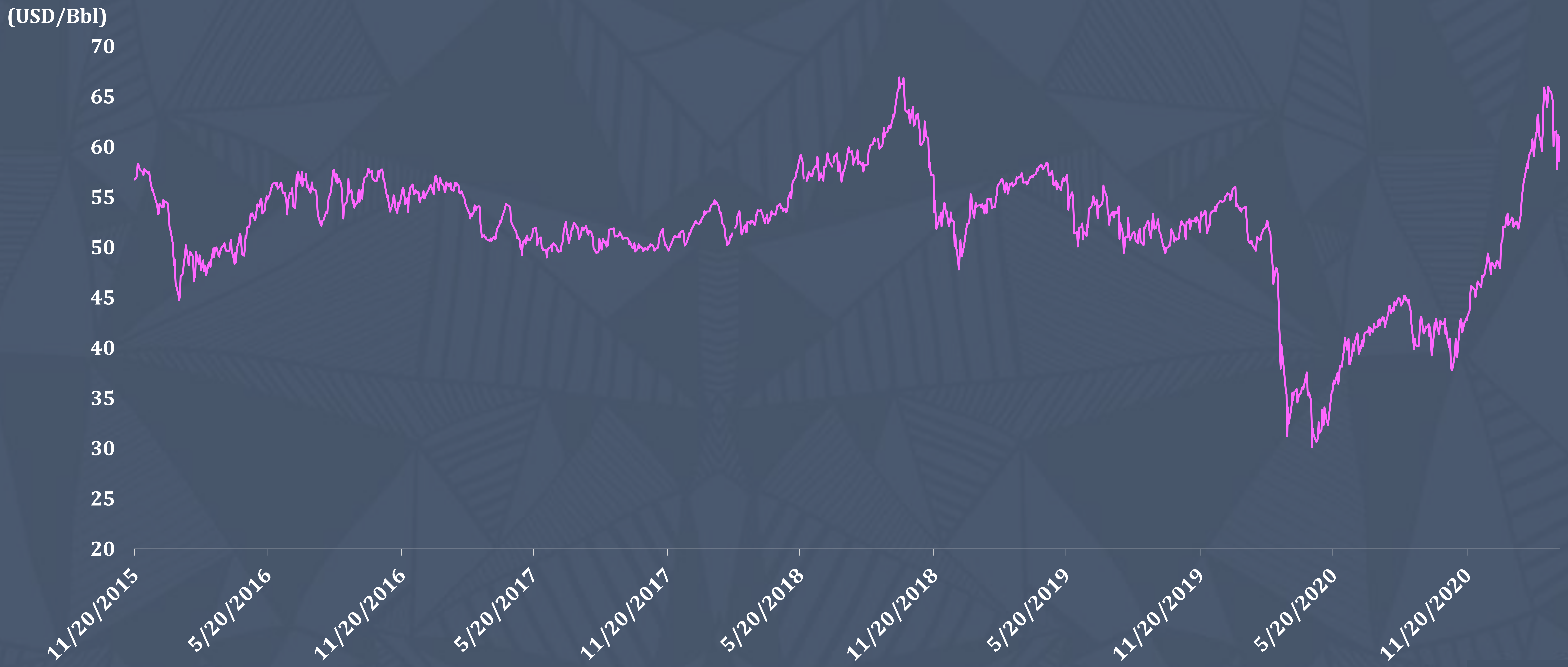


Source: Bloomberg, SSB Research

Softlogic Stockbrokers

Sustained higher lumber prices is beneficial for Aluminium extrusion companies

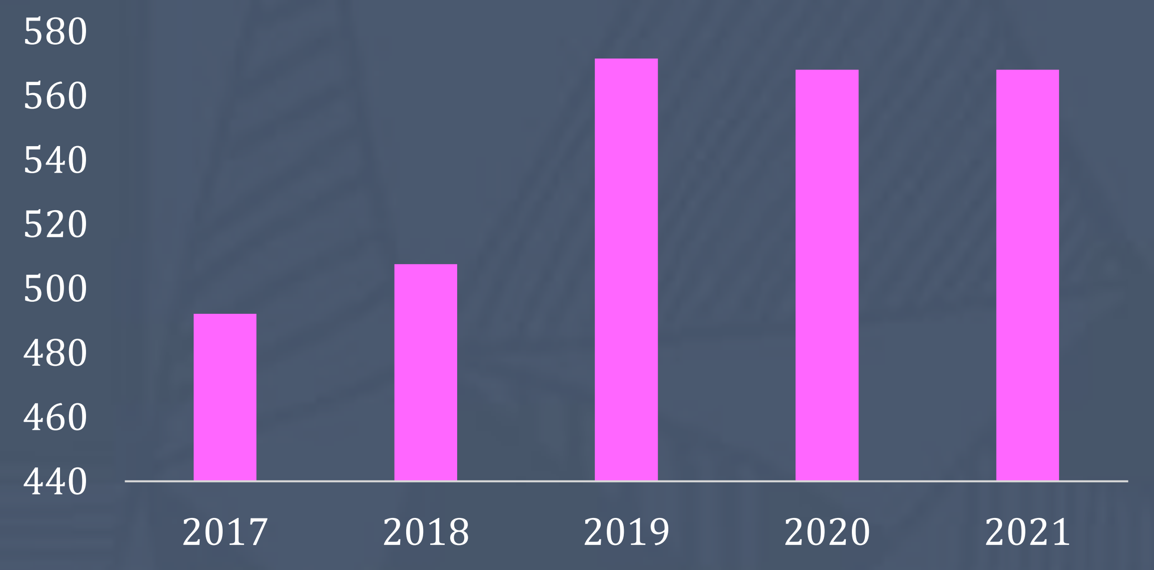
Lumber futures in USD



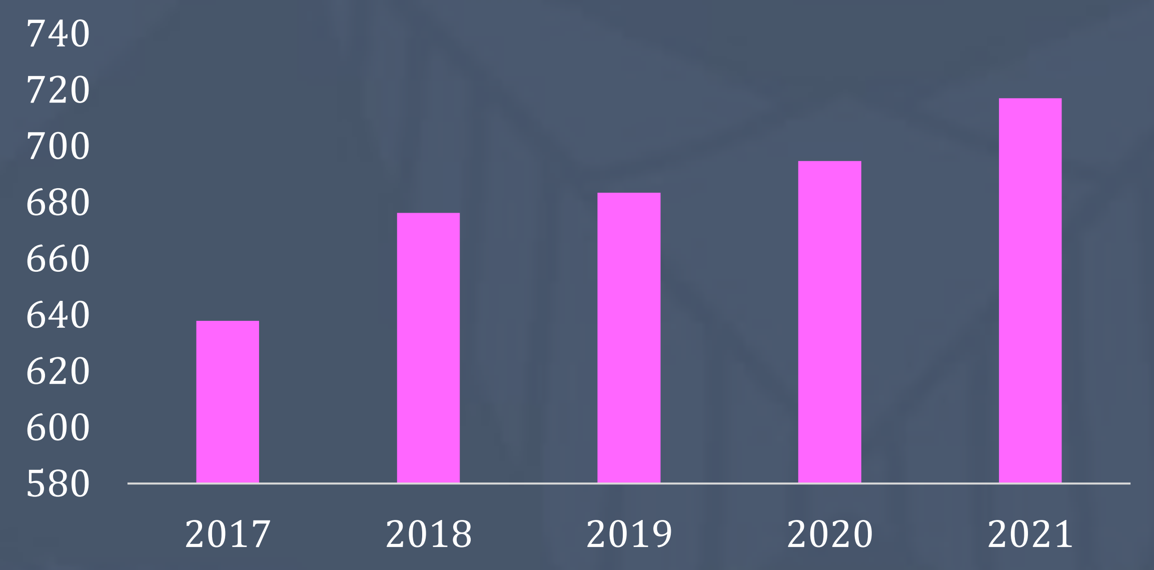
Source: Bloomberg, SSB Research

Prices of Construction materials

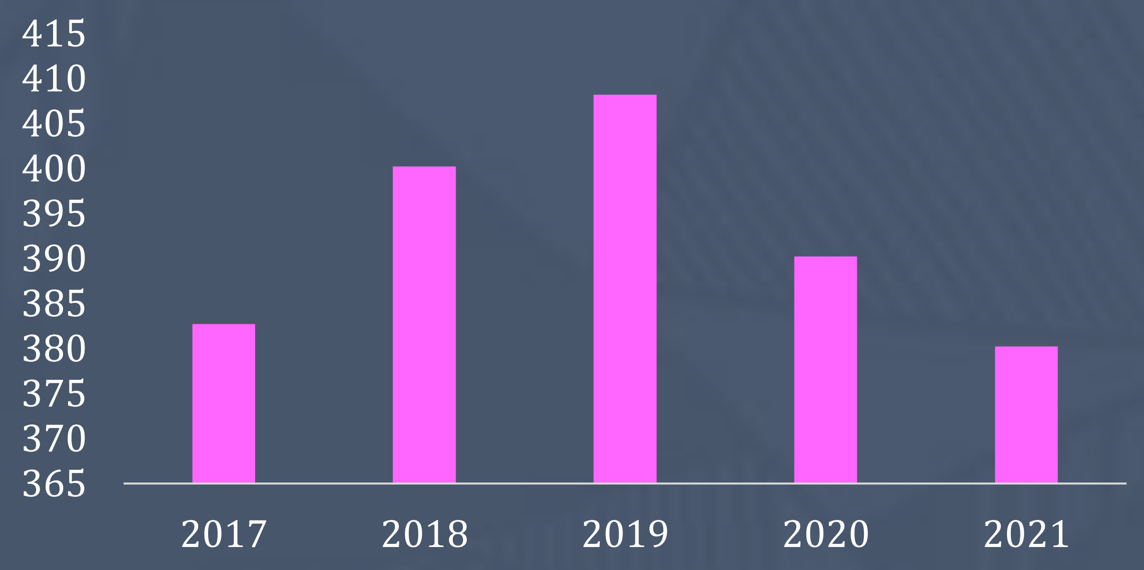
Cement (Local Market LKR/50 Kg Bag)



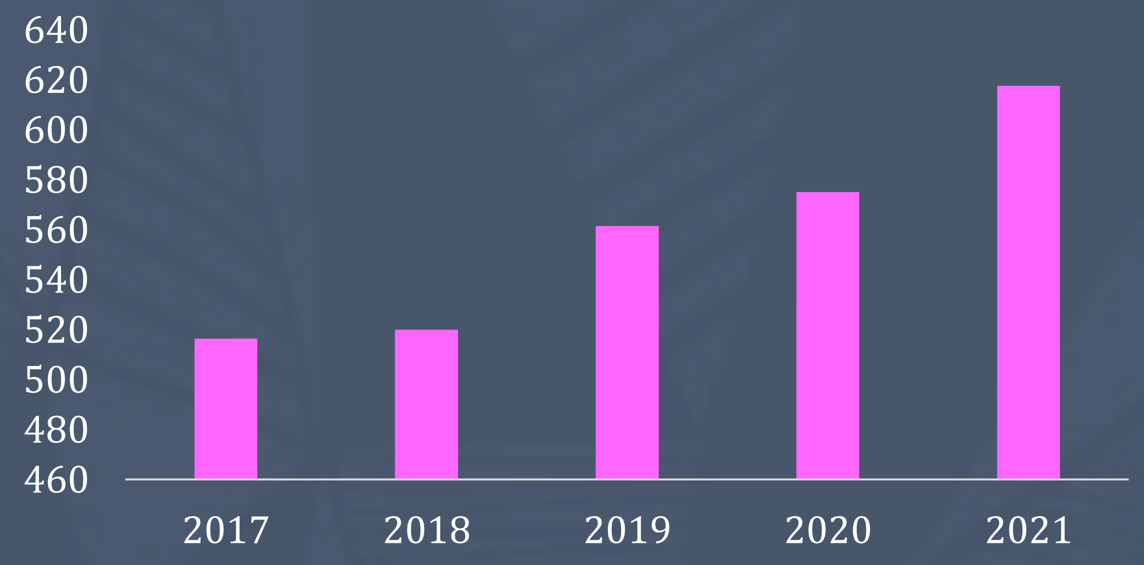
Cement Blocks (average price of a 400 x 200 x 100 mm (solid) size block)



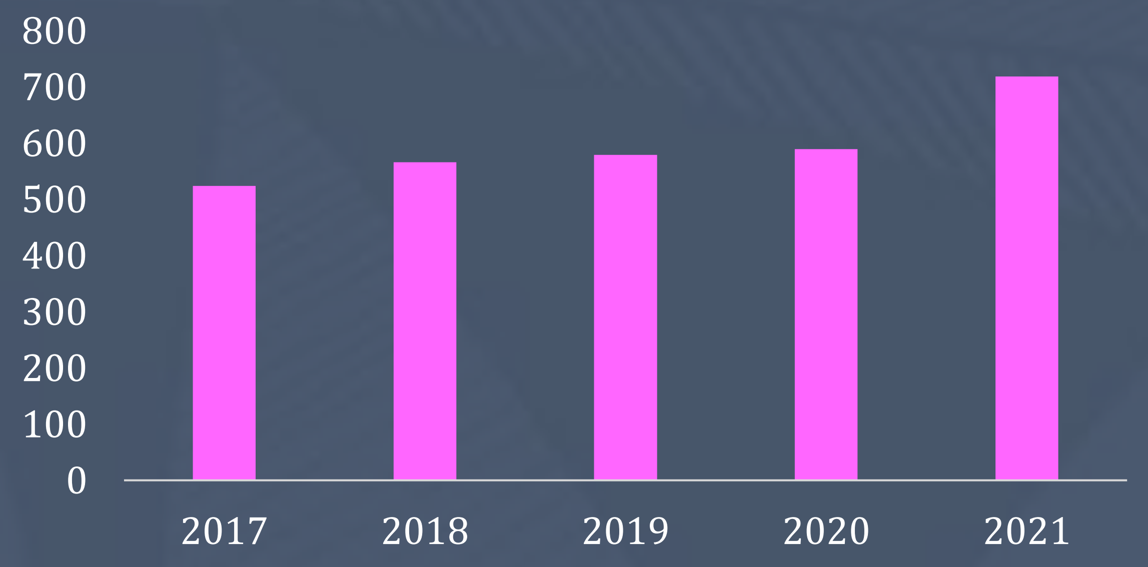
METAL (the average price of a cube (100 cubic feet) of 20 mm size)



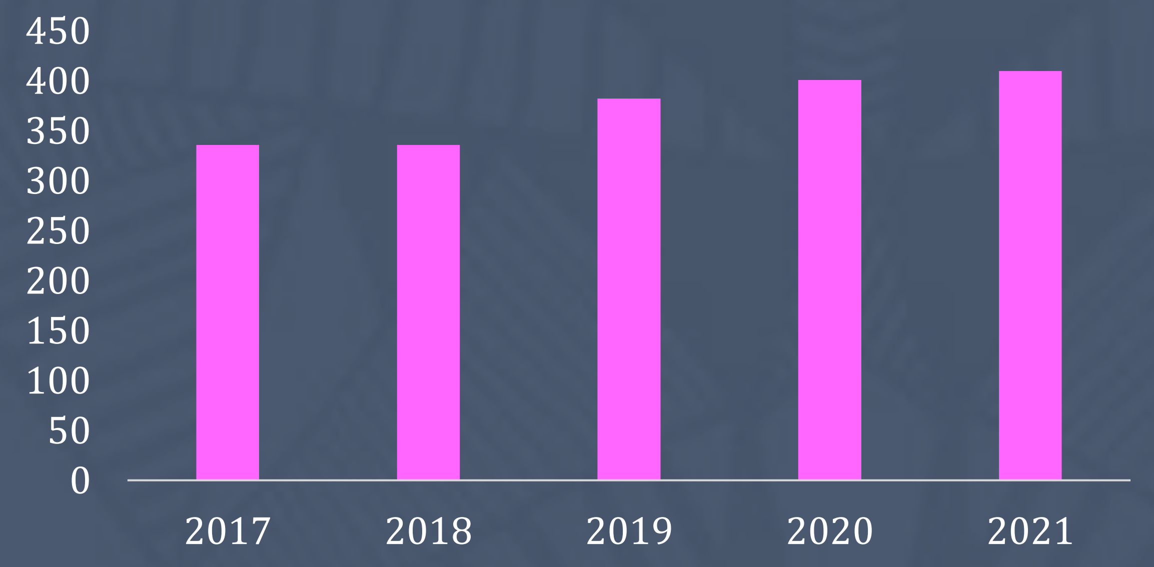
Structural Steel (average price of a 400 x 200 x 100 mm (solid) size block)



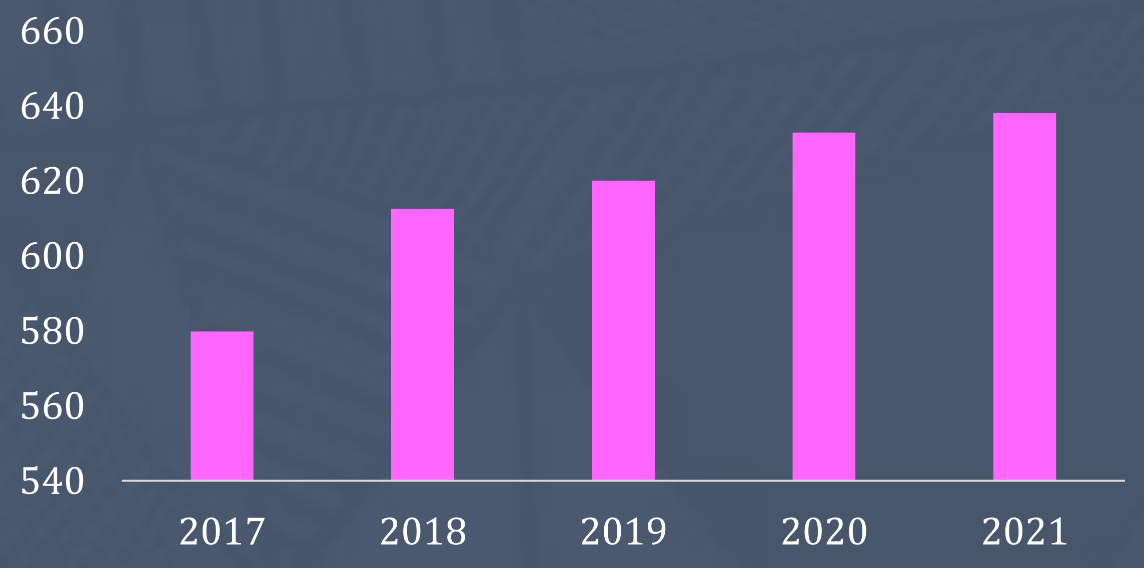
GI Sheets (the average price expressed in square foot rate of a Gauge 26 corrugated sheet 30" x 84")



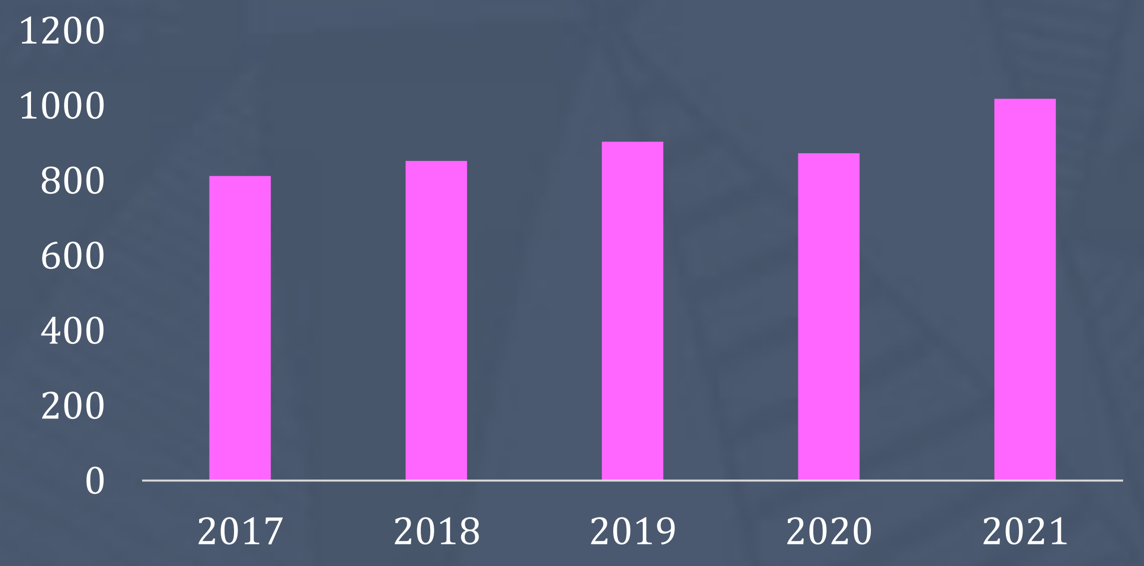
Sanitary Ware - Local (the average total price of a white wash basin and a water closet including accessories)



Sanitary Ware – Imported (the average total price of a white wash basin including accessories)



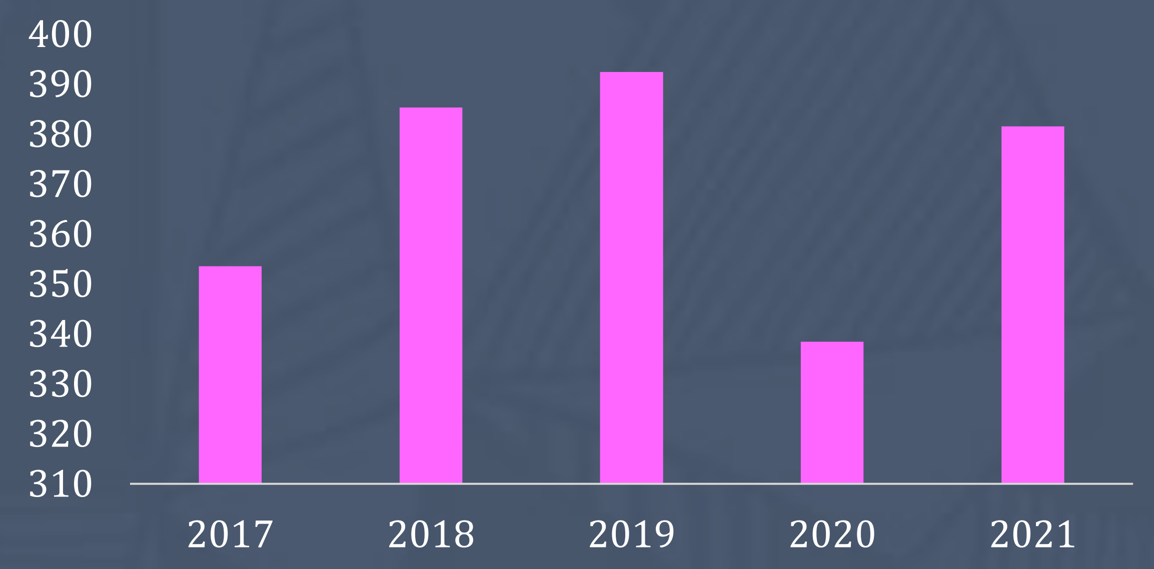
PVC Pipes (the average price of a linear meter of 20 mm diameter PVC water pipe)



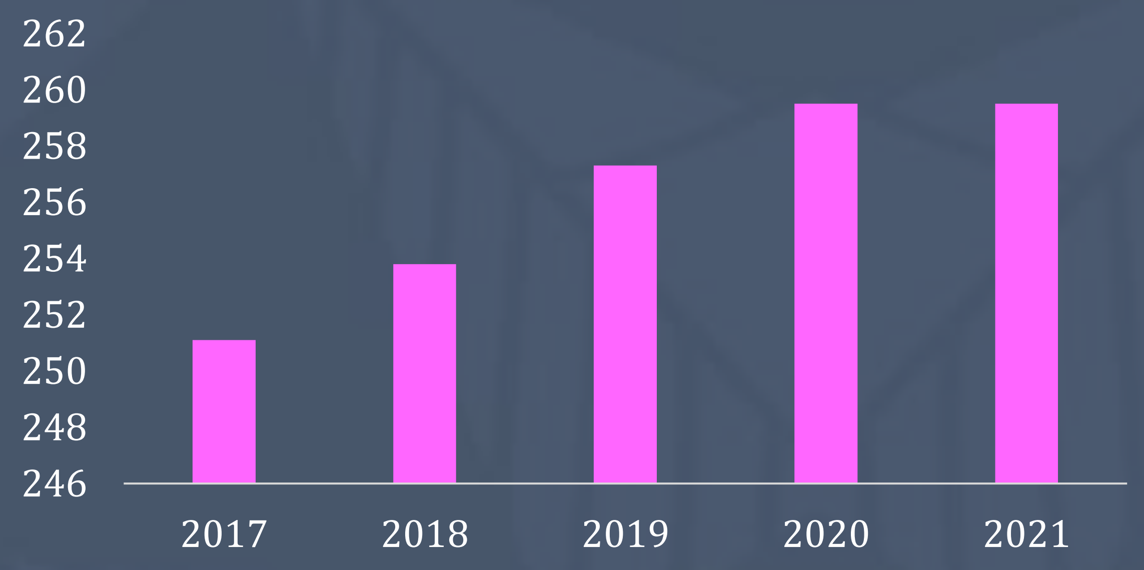
Source: Ministry of Urban Development & Housing, SSB Research

Prices of Construction materials

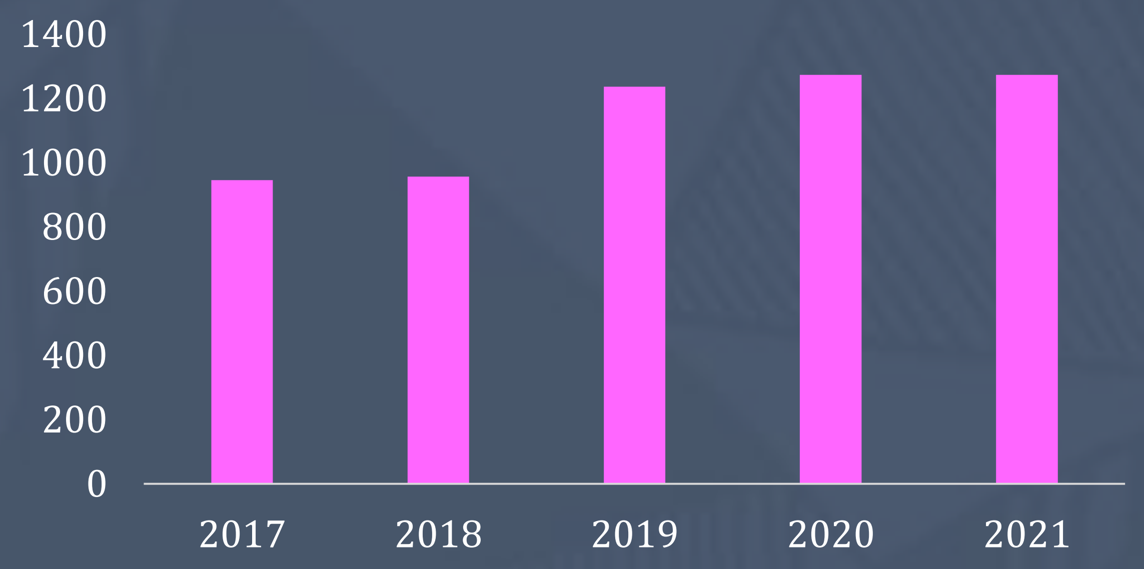
Bitumen 60/70 the weighted average prices of a liter of Bitumen 60/70 (Bulk Form)



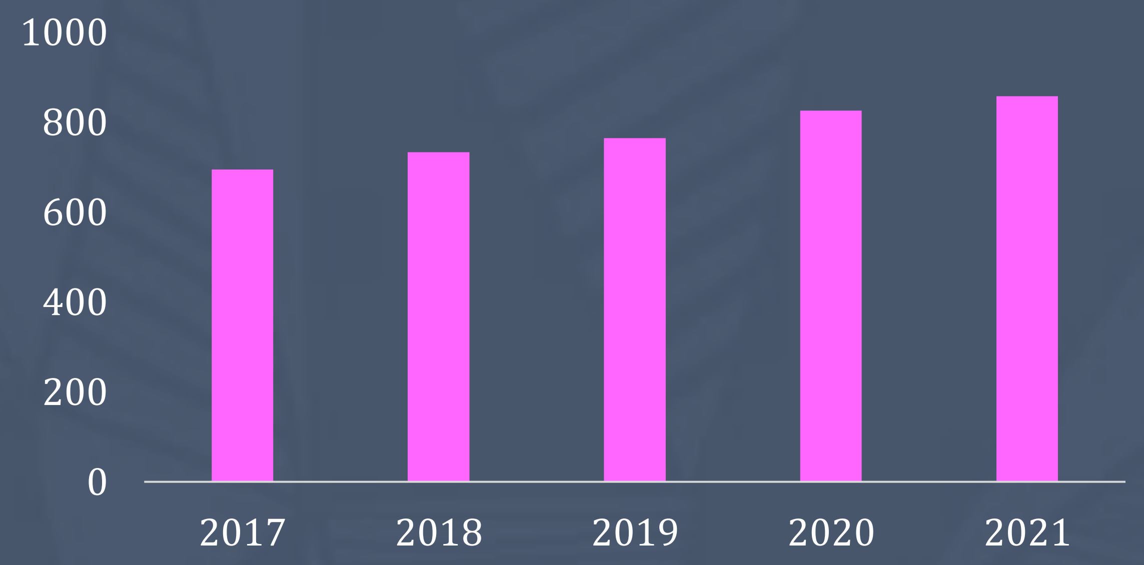
Floor Tiles (the price of a 300 mm x 300 mm homogeneous)



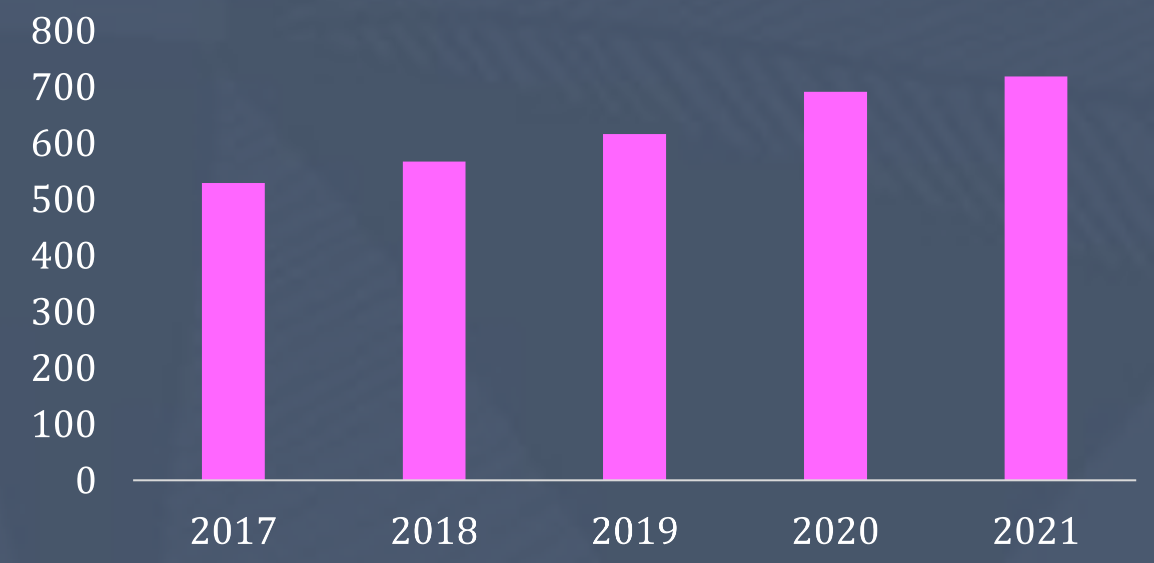
Wall Tiles (the price of a 300 mm x 300 mm white wall tiles)



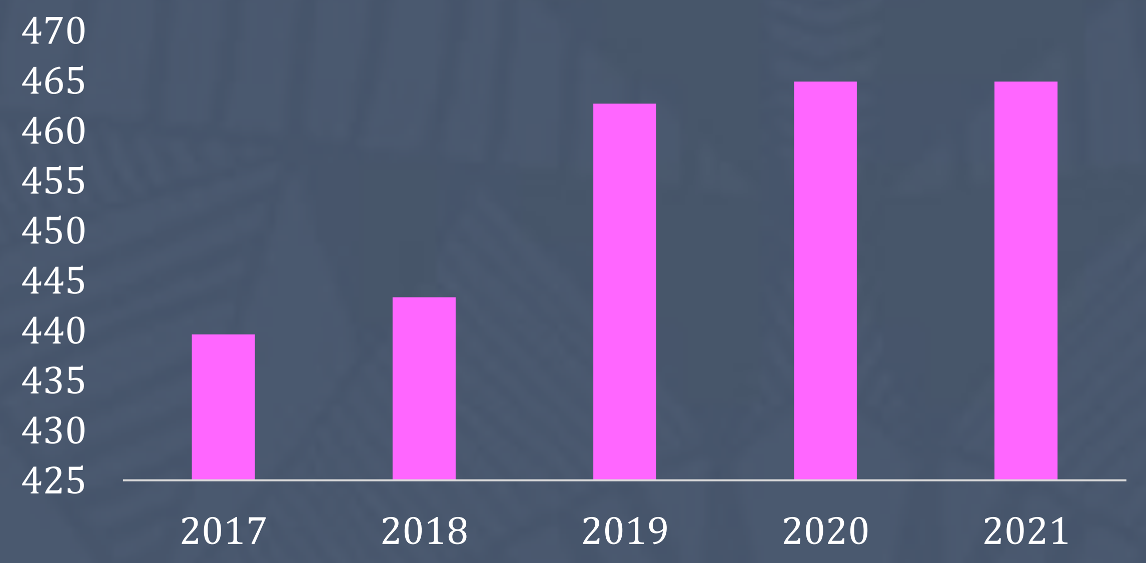
Aluminium Doors Windows & Partitions (the average price of a square foot of Aluminum door)



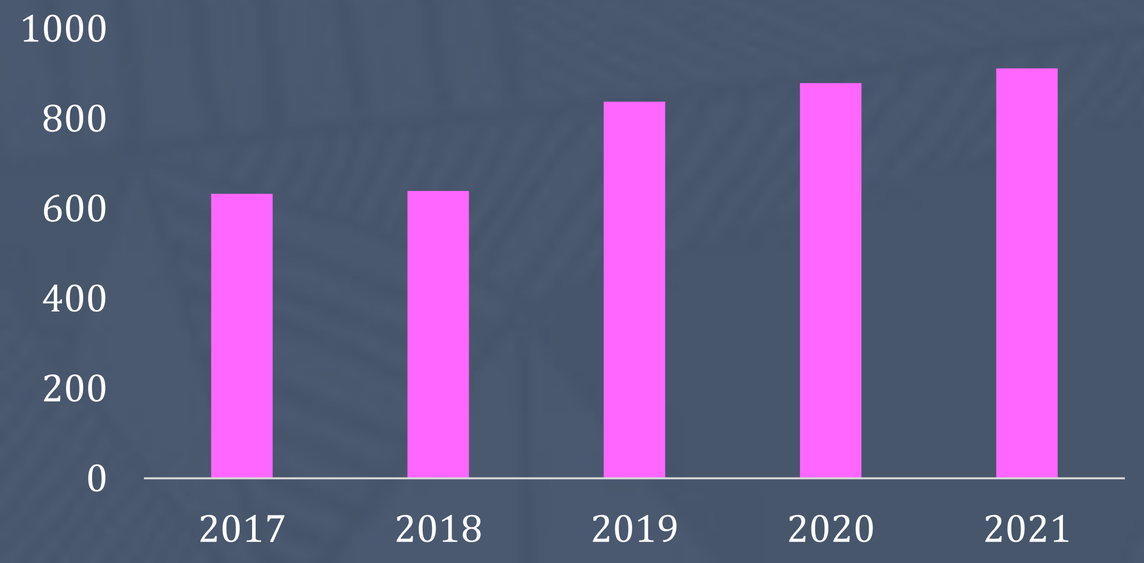
Aluminium Suspended Ceiling (the average price of a square foot of Aluminum framed acoustic paneling ceiling)



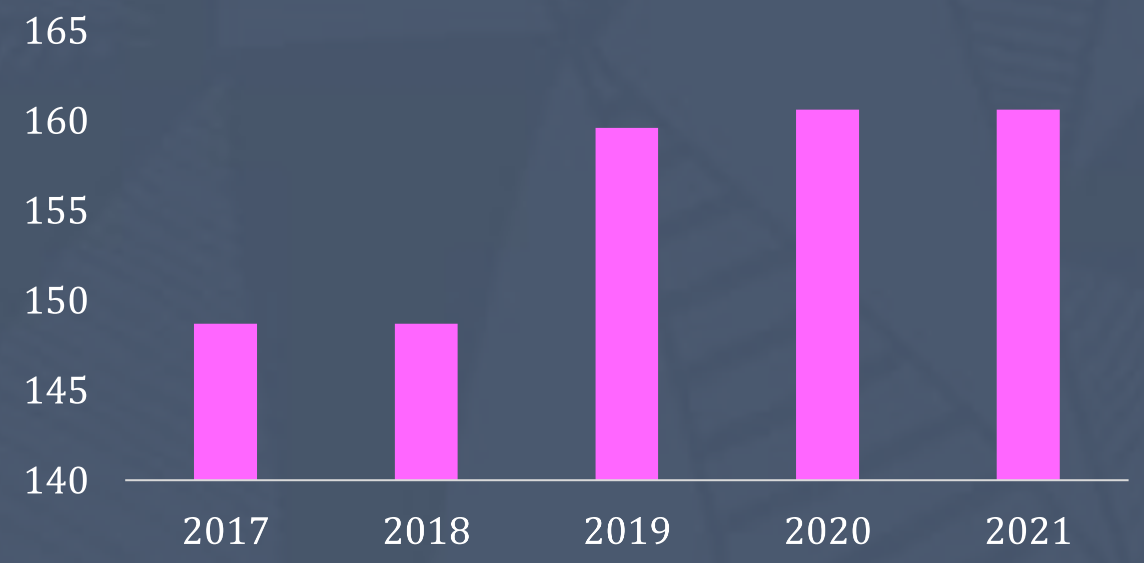
Ready Mixed Concrete (the average price of a cubic meter of Grade 20 ready mixed concrete)



High Tensile Steel Wire (the average price of a metric ton of imported 5 mm diameter high tensile steel wires.)



Cement Roof Tiles (average price of a standard type roof tile)



Source: Ministry of Urban Development & Housing, SSB Research

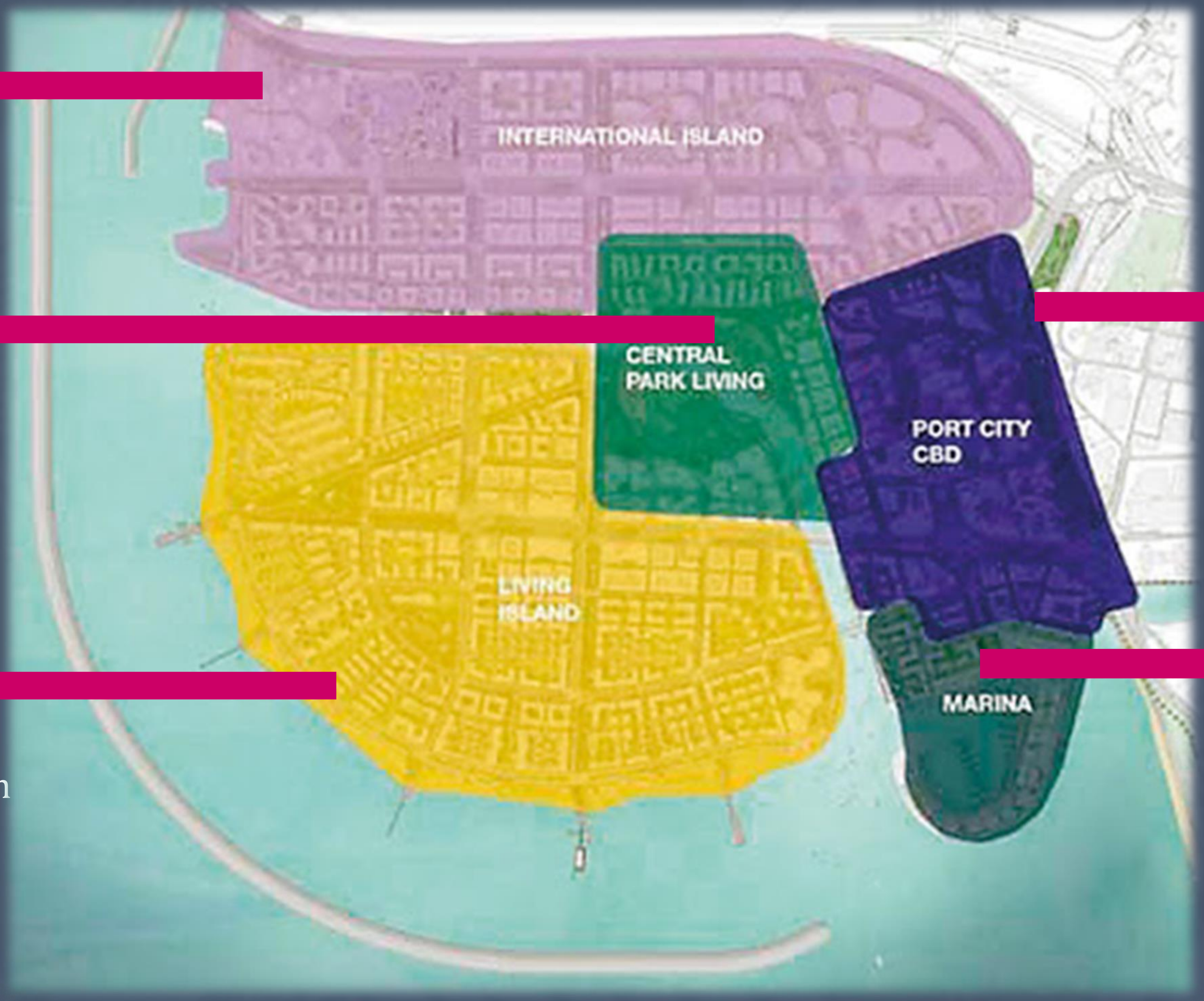
THE INVESTMENT HUB: The construction of Port City to pave the way to boost incremental demand for Cables and Aluminium across the ~178 Ha of buildable area

The 440 Ha of reclaimed land at Colombo Port City is expected to attract ~USD15 Bn worth of FDIs over the medium – long term with the completion due in 2040E

The International Island:
- Convention & Exhibition Centre
- Integrated Resort and Theme Park
- Entertainment hub
- Business Hub

Central Park:
- Recreational Centers
- Pavilions

Island Living:
- Lotus Boulevard
- Public Transportation System



Financial District:
- Grade 'A' Office Building
- Commercial Boulevard
- Linear Park
- CBD Plaza
- Retail Destination

The Marina:
- A marina park and village

Key Beneficiaries in Materials Sector

The Electricity requirement likely to be fulfilled by CEB
Beneficiary : Cables Sector

The Aluminium requirement of all construction projects
Beneficiaries : Aluminum Sector

The Cement requirement for construction projects done by locals in the ~65 Ha owned by GoSL
Beneficiaries : Cement Sector

Did you know...

Industry experts project Port city could contribute to ~USD11.8 bn annually to SL's economy and ~USD0.8 bn to GoSL's annual revenue upon completion

Source: Port city Website, Daily Mirror, SSB Research

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