

RIL PROPERTY PLC

Restructured to generate wealth

BUY

Bloomberg ticker – RIL.SL

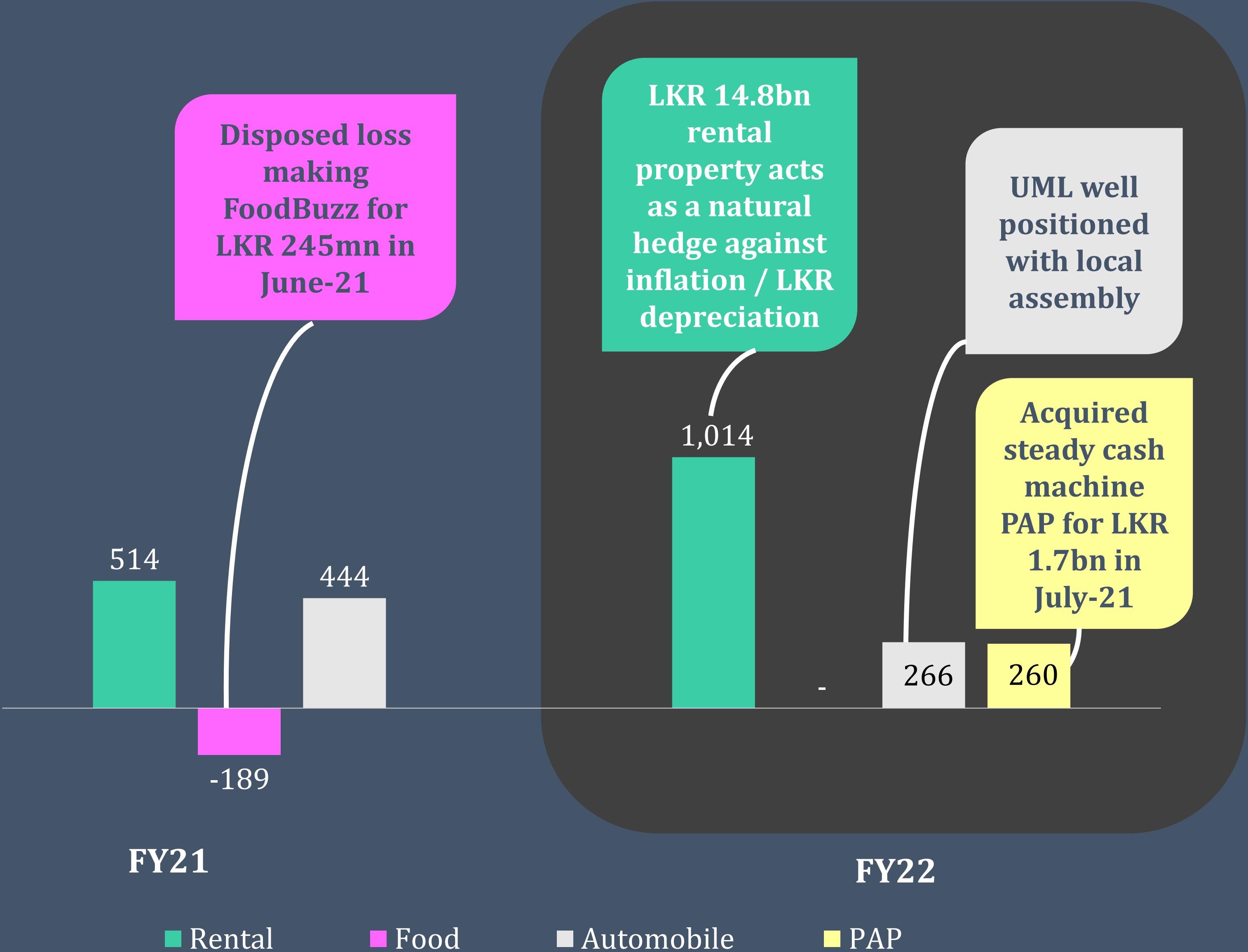
Capital Goods
Price (LKR) – 8.1
Target Price (LKR) – 10.8
Total Return (%) – 35%

Share Data

Market Cap (USD mn)	32.4
Market Cap (LKR bn)	6.5
12M H/L (LKR)	11.4/4.2
Free Float (%)	40%

Analysts :
Thuvarakan Senthilmani
Raynal Wickremeratne

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*above chart shows RIL's segmental PAT breakdown in LKR mn

The Switch To Profits: Dropping the company's black sheep in exchange of a high-growth renewable energy player

The Turnaround

The company recently sold its loss-making subsidiary which operated the “Bread Talk” franchise and made an investment into Panasian Power PLC, one of Sri Lanka’s fastest growing renewable energy players.

PAP has witnessed a capacity growth of almost 50% over the past financial year and has multiple projects in the pipeline for FY22 and FY23.

The Price Hike

Despite witnessing a fair value loss during the height of COVID due to the lack of large transactions, retail property prices have undergone a sharp growth along with the cost of construction.

This should result in a combined effect which is bound to spike valuations in FY22E as transactions normalize and valuers are able to reflect the true value of the company's properties.

The Import Arbitrage

The import ban on motor vehicles and the sharp appreciation of used vehicles value in the secondary market should allow UML’s DFSK passenger vehicle segment to outperform in FY22E.

Management claimed that they are looking at the option to assemble Perodua and JMC vehicles in Sri Lanka.

The COVID Strategy

With COVID disrupting the working culture of corporates and with firms being forced to switch to a Work-From -Home approach, the need for larger office spaces and gathering areas has reduced considerably.

In order to get ahead of the trend, RIL is designing compact work-spaces that are customized to suit hybrid work models. This is expected to boost the capacity as well as occupancy levels.

The Turnaround: A 180 degree turn from a loss-making retail investment to a profit-making growth stock...

Energy thrives, in the battle between Restaurants vs Renewables, being a high-growth, highly profitable segment

Bread-talk



Highly volatile earnings with a heavy dependance on a post-covid recovery



Company performance is highly contingent of strong marketing campaigns in a highly competitive sector



The company may face speedbumps in the face of an economic decline and may be impacted by inflation

Panasian Power PLC



Electricity generation is not impacted by COVID, and it acts as a natural hedge for rental earnings



Inelastic demand as PAP enters into power purchase agreements with the government for up to 20 years

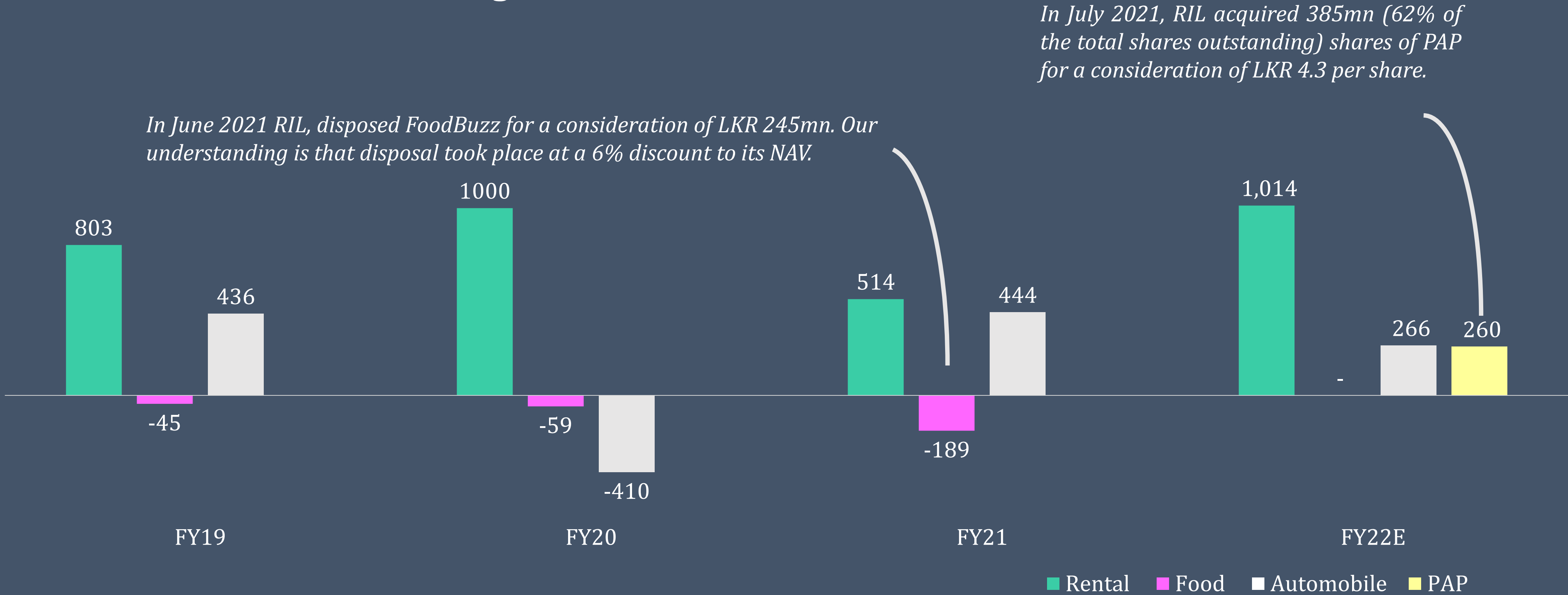


With c.20-25% of FY22E expected generation capacity abroad, the company becomes a forex earner

Panasain Power PLC (“PAP”) rises as the clear winner of the duel, a much-needed addition to RIL’s portfolio as it functions on a similar build and operate business model to typical property rentals, which is the core line of expertise of the group.

The disposal of Bread-talk, enables the otherwise profitable group approach its true potential

PAT of RIL's segment in LKR mn

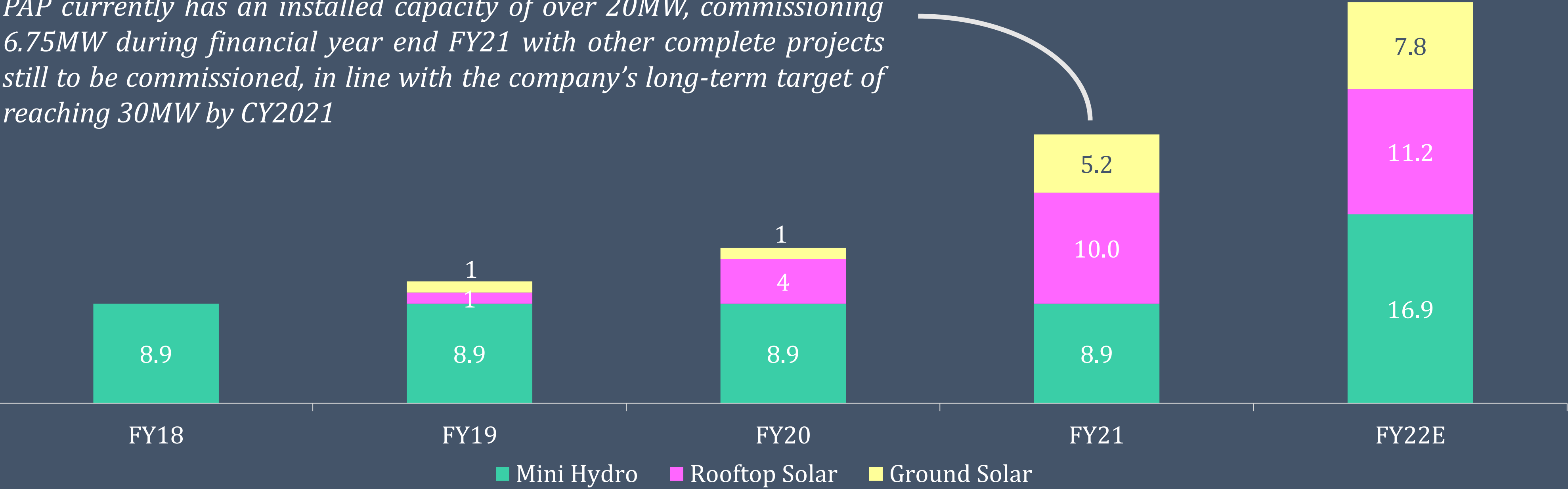


Although the acquisition took place at 12.2x PE of FY21 earnings, we believe the PAP inclusion will make RIL's earnings more stable going forward. The management indicated that the acquisition of PAP is through a combination of cash + debt funding. As per the latest filing, RIL's company balance sheet had a short-term liquid asset of LKR 573mn (adjusted for LKR 0.15 DPS), this along with the proceedings from FoodBuzz adds up to LKR 818mn. Hence, we believe closer to LKR 1bn will be funded through debt.

The acquisition of PAP, one of the fastest growing renewable energy players in Sri Lanka; A robust pipeline of projects ahead

Growth in Installed Capacity (MW)

PAP currently has an installed capacity of over 20MW, commissioning 6.75MW during financial year end FY21 with other complete projects still to be commissioned, in line with the company's long-term target of reaching 30MW by CY2021

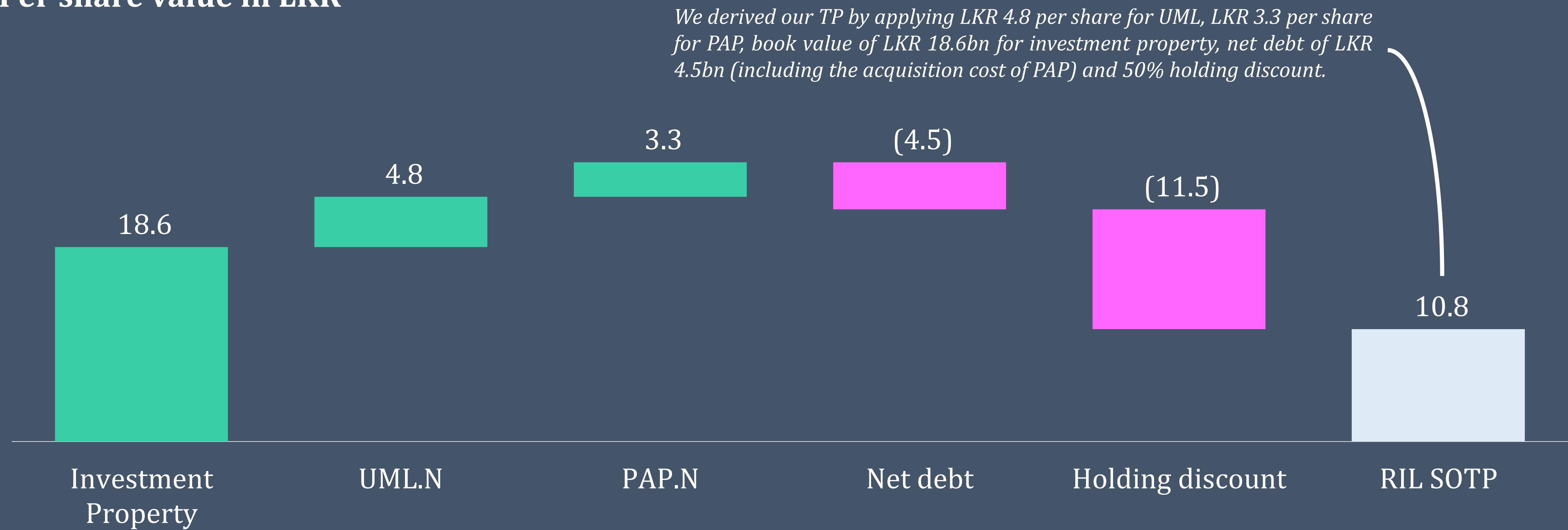


The company's recent acquisition of Panasain Power PLC ("PAP") enables the company to further diversify its revenue streams, in a sector which is prone to risks such as lockdowns, which enables the group to be increase its overall earnings stability. The forex earnings of PAP also provide a further hedge against potential local currency devaluation.

The Price Hike: With a strong revaluation upside on the cards, the company currently trades at a discounted earnings...

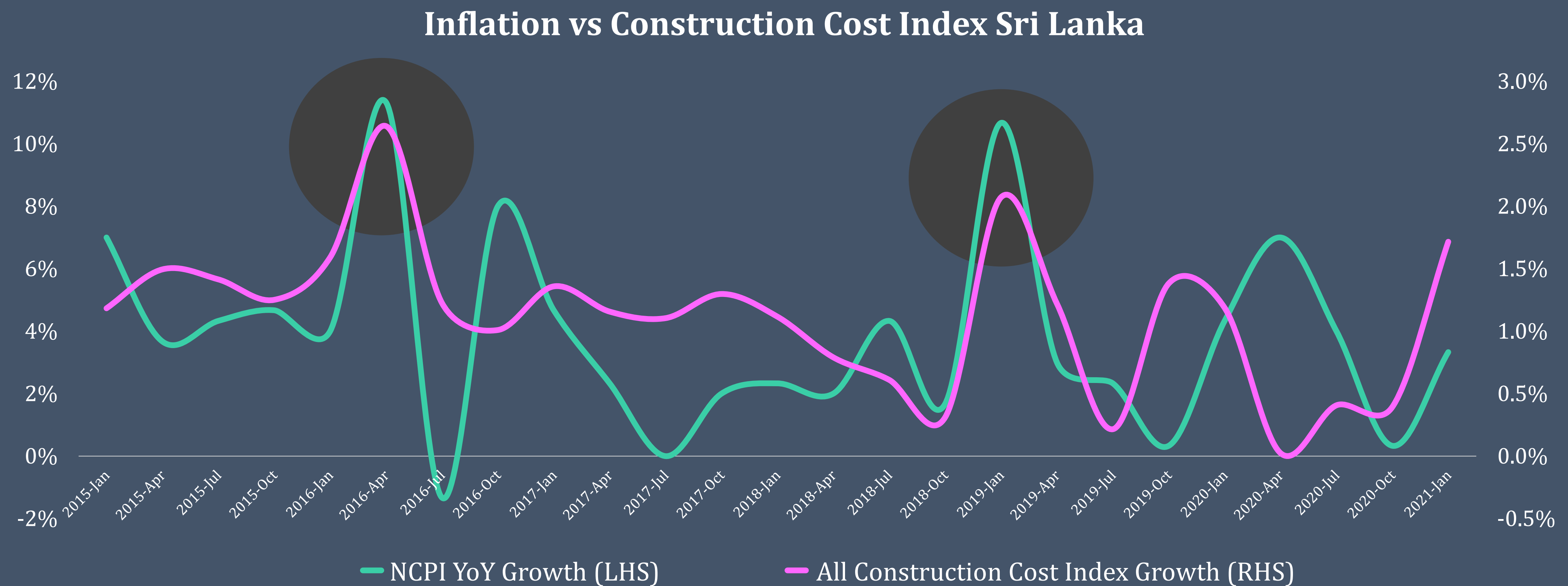
A Valuation Play: We expect RIL to provide a total return of 35% based on our SOTP valuation of LKR 10.8/share

Per share value in LKR



We believe the RIL is well-positioned to continue delivering robust performance ahead, reflecting: 1) 89% occupancy rate at PARKLAND; 2) positive earnings contribution of LKR 250mn from PAP cf. loss of LKR 190mn reported by Food segment in FY21; 3) Higher sales contribution from locally assembled DFSK (22% revenue contribution in FY21) to maintain positive earnings from UML; 4) Real estate being a natural hedge against inflation and LKR depreciation which inflates cost of construction and real estate valuations.

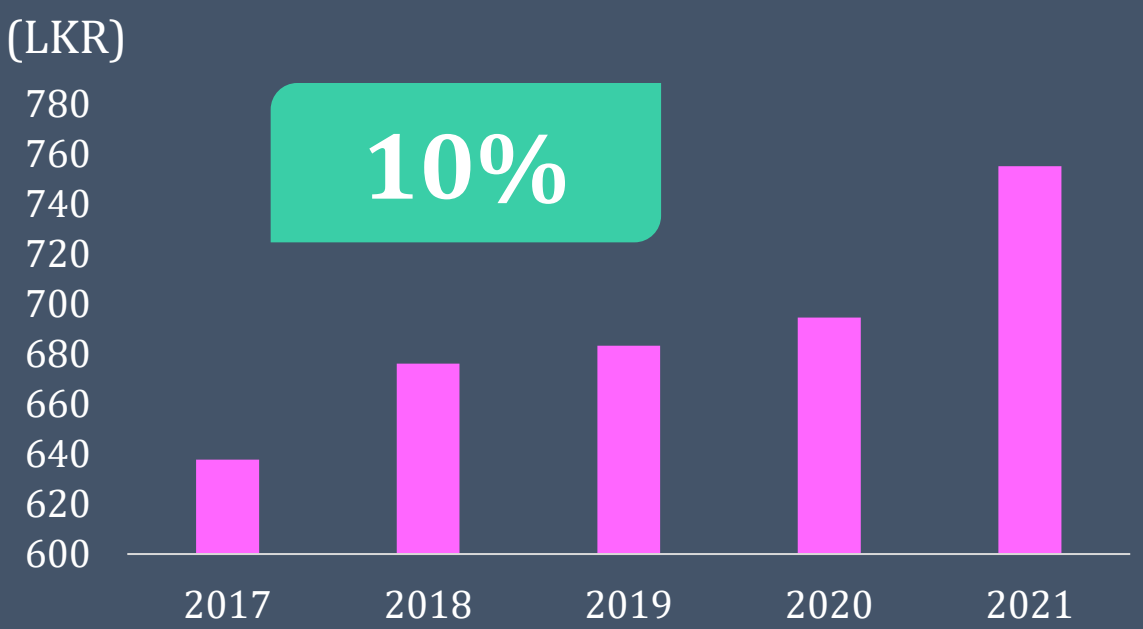
Real estate is a safe pick during high inflation eras, as SL shows a 59% correlation between construction costs and inflation



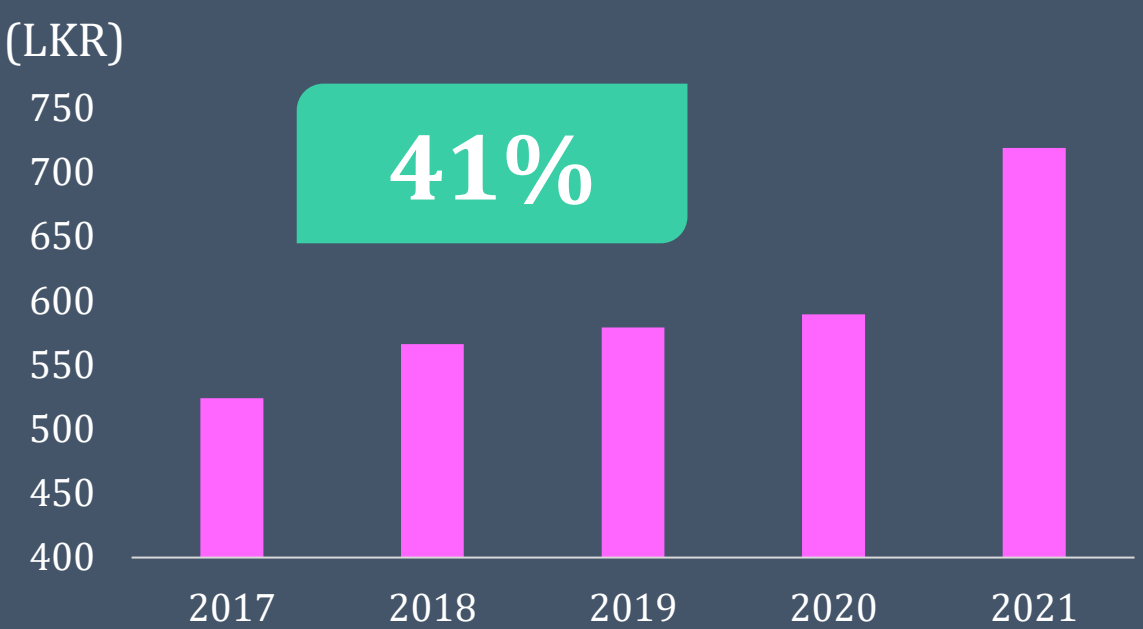
Our analysis indicates that inflation and construction costs maintain a positive relationship especially during sharp spikes as seen in mid-2016 and once again in 2019, giving an overall pre-covid correlation of 59%. However due to the prolonged lockdowns and lack of economic activity, this impact was delayed in 2020 and is catching up rapidly in 2021.

High LKR depreciation drives up construction costs and results in a hike in real estate valuations

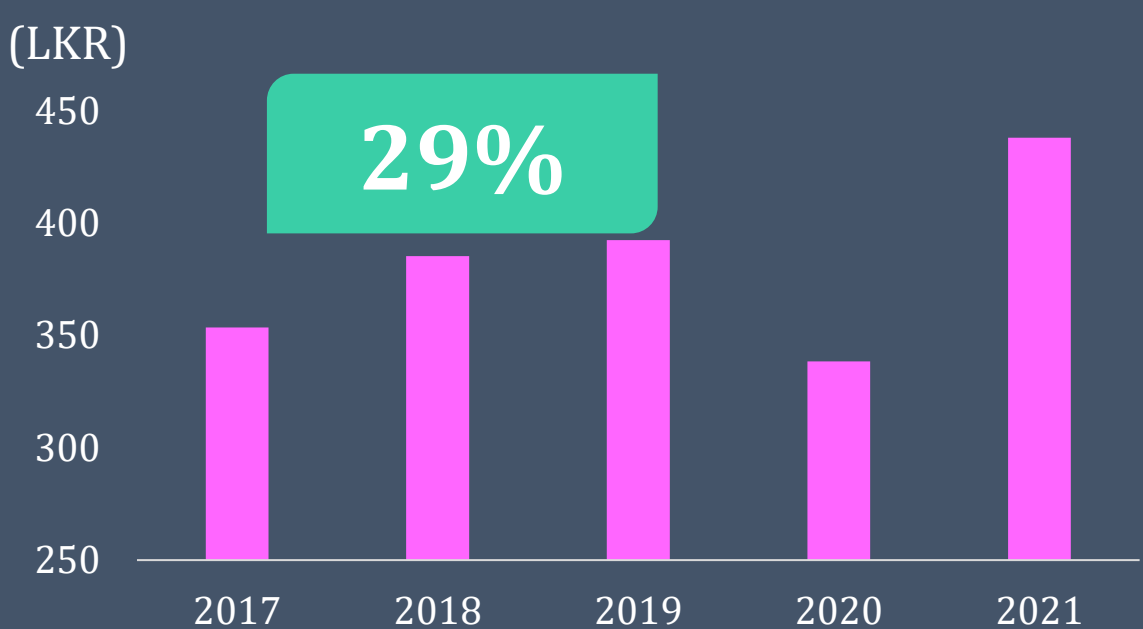
Cement Blocks
(average price of a 400 x 200 x 100 mm (solid) size block)



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

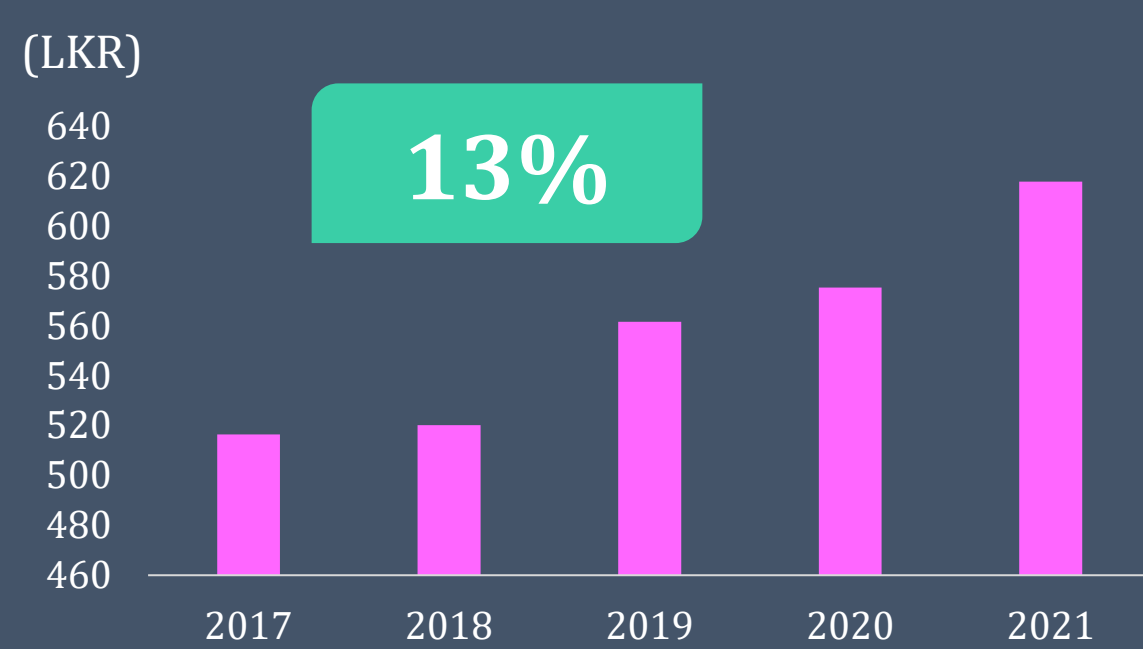


Bitumen 60/70
(the weighted average prices of a liter of Bitumen 60/70 in bulk form)

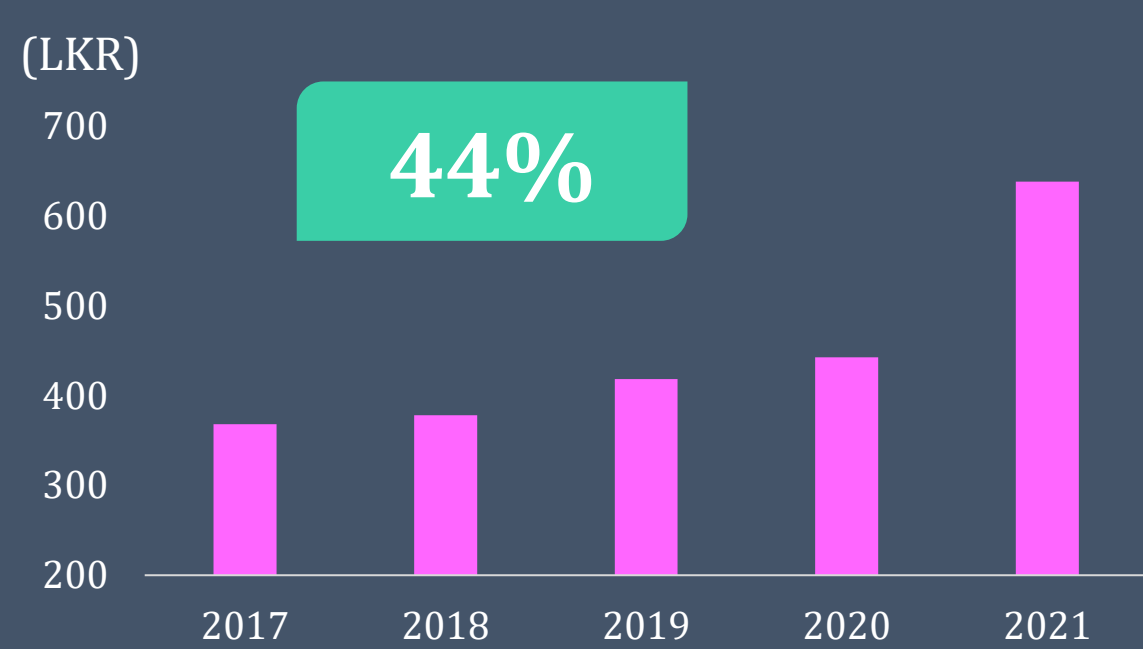


C. 25%
YoY Growth

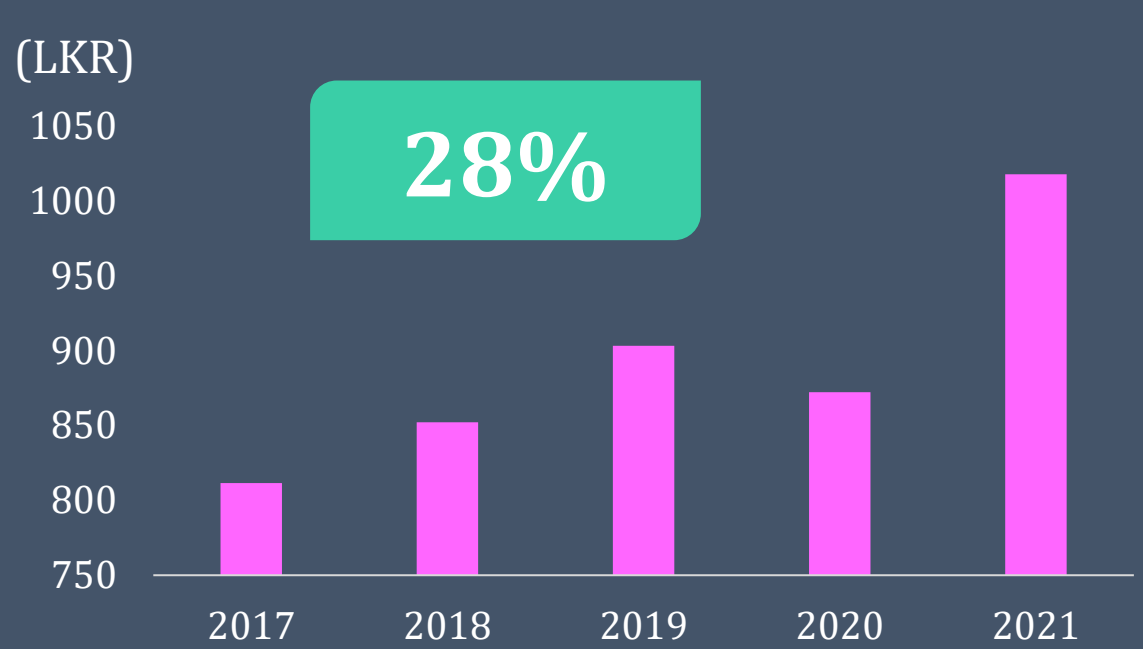
Structural Steel
(average price of a 400 x 200 x 100 mm (solid) size block)



Glass
(the average price of a square foot of 3mm plain glass sold)



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

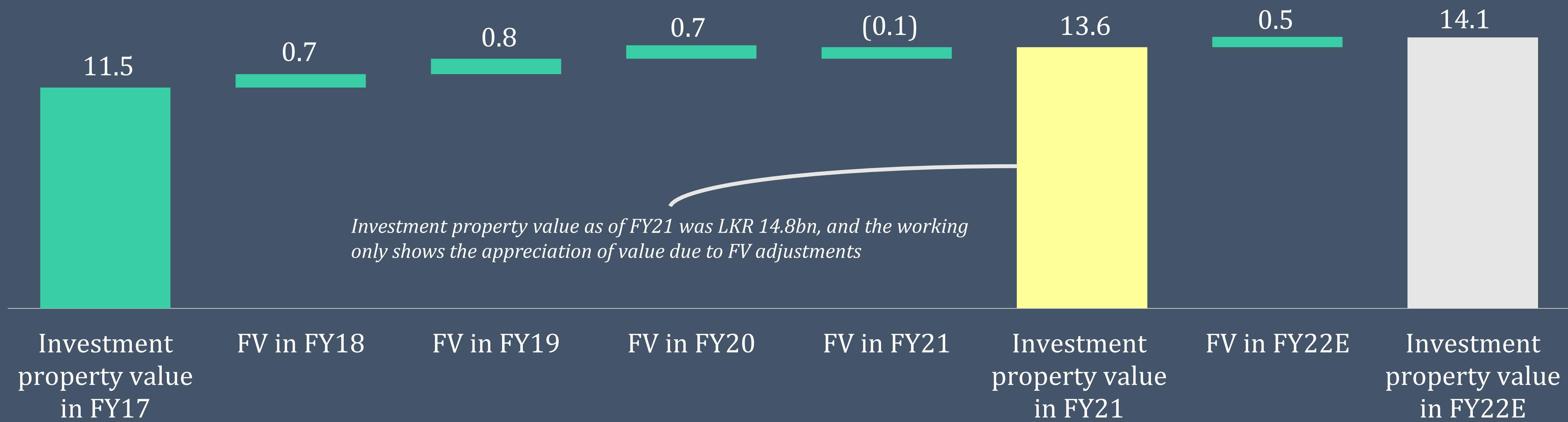


The period that entailed the virus resulted in the country witnessing multiple import restrictions and shortages in building materials.

This has given rise to a spike in construction costs of c. 25% for basic products such as cement, GI sheets, steel, glass and PVC pipes.

Steady cashflows via Investment property with 89% occupancy, while fair value gains are anticipated amidst cost inflation

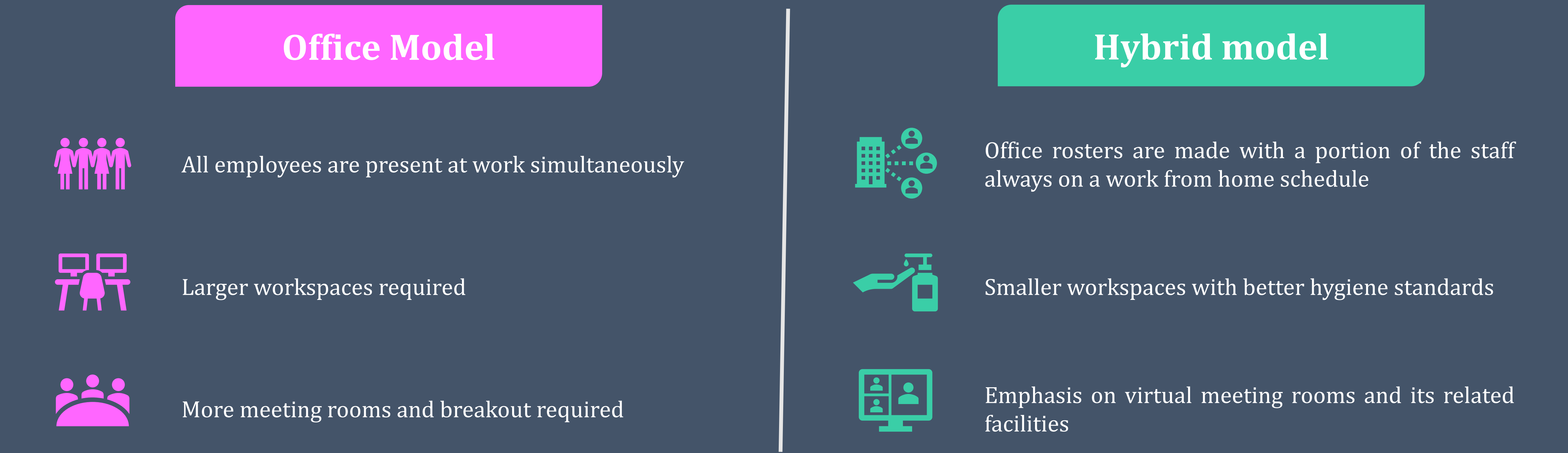
Investment property value growth due to FV adjustments in LKR bn



Rental segment earnings dipped to LKR 500mn in FY21 cf. LKR 1bn in FY20, mainly due to the fair value loss of LKR 107mn reported in FY21 as the pandemic period resulted in less transactions. However, the recovery driven by a successful vaccination rollout and the correction of transaction volumes should allow valuers to provide for a fair value gain going forward. The group’s PPE of LKR 23.5bn, is in our view a natural hedge against inflation.

The COVID Strategy: Customized office spaces to suit a hybrid working model, backed by the focus on assembly and repairs...

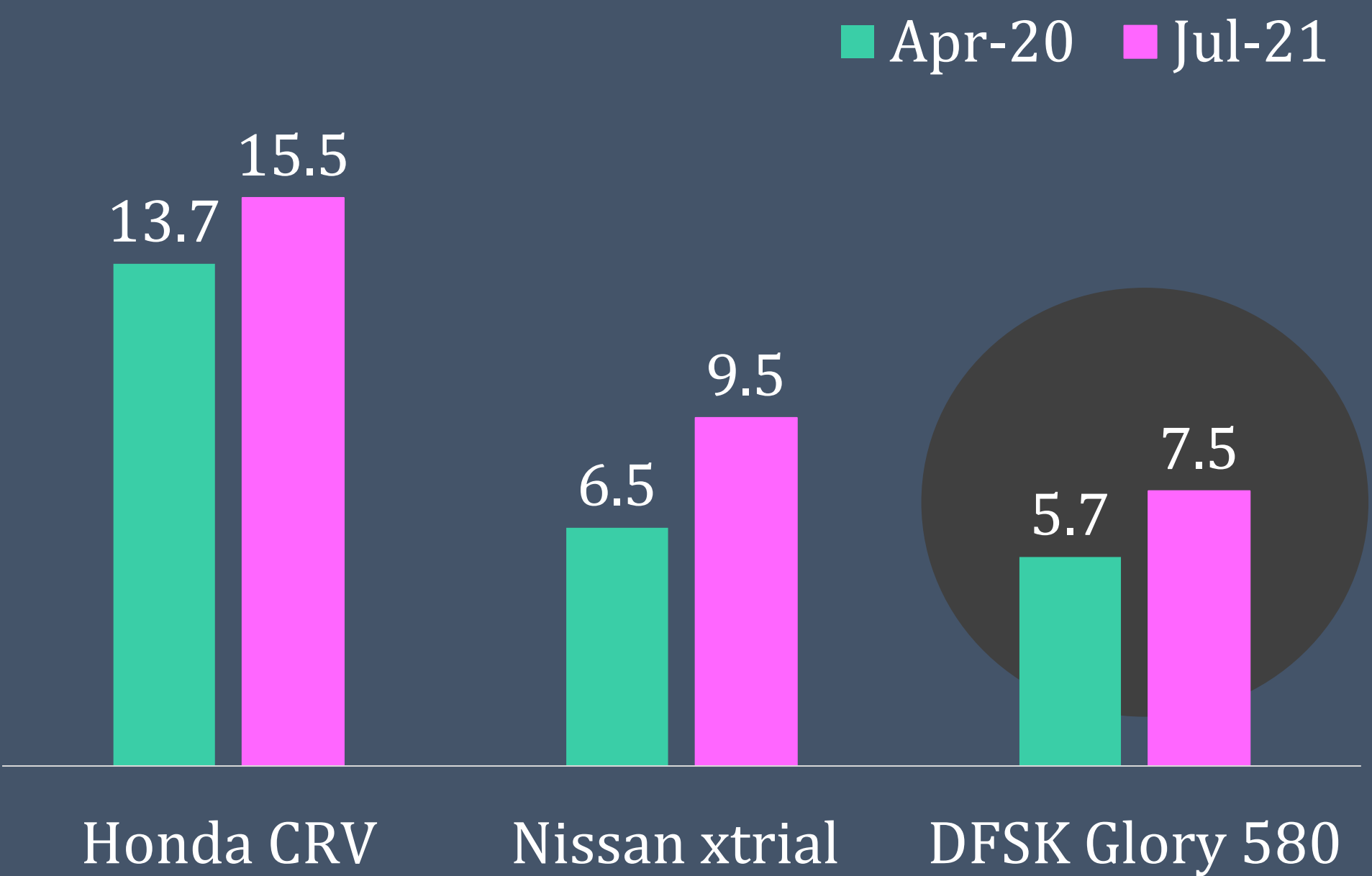
Keeping up with the emerging trends, RIL is geared to cater to the evolving requirements in the rental space



With COVID disrupting the working culture of corporates, the need for larger office spaces and gathering areas has reduced considerably. In order to get ahead of the trend, RIL is designing compact work-spaces that are customized to suit hybrid work models. This is expected to boost occupancy levels, whilst the recovery ushers in a correction in rental rates which are still to receive its annual increments.

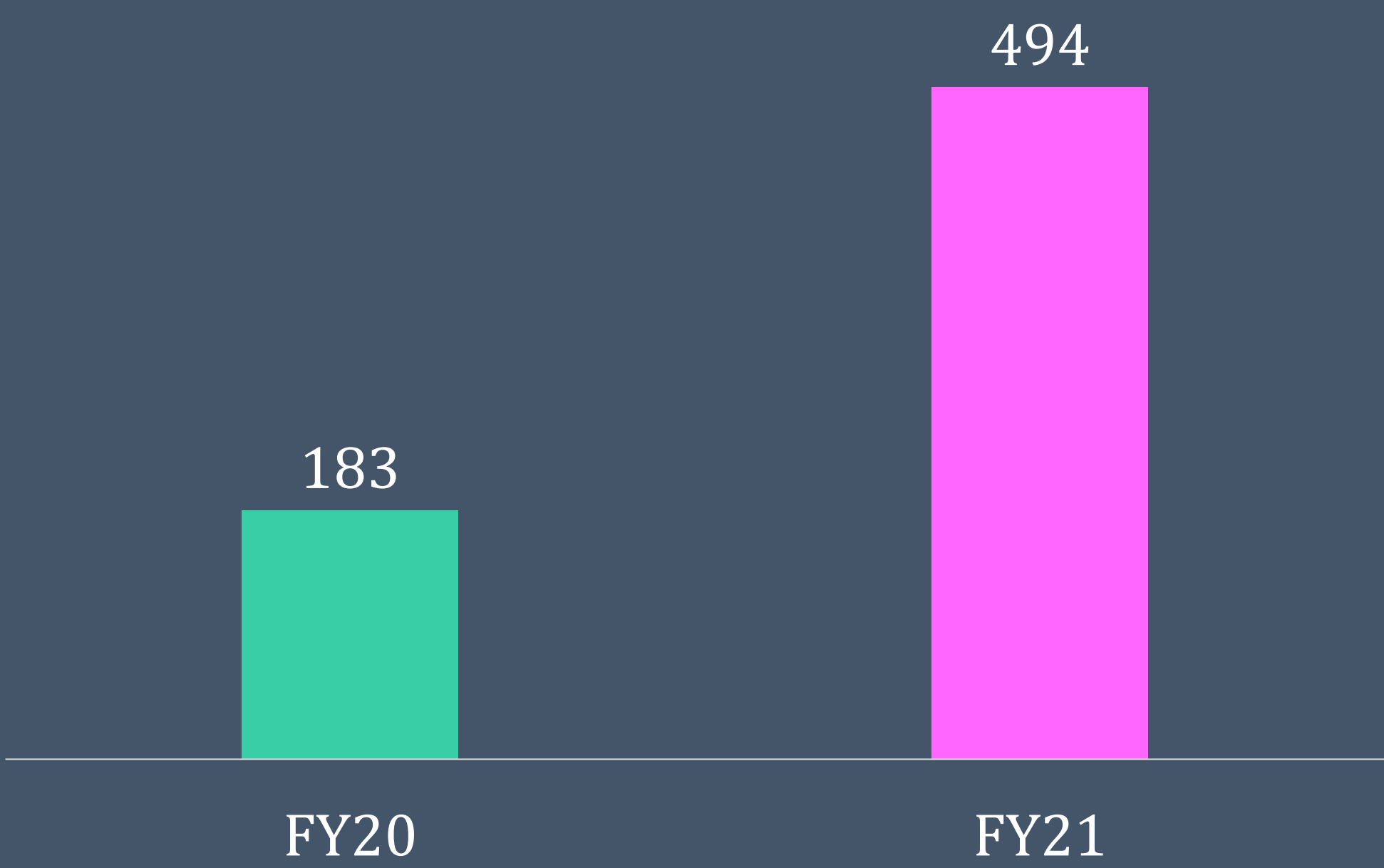
Import restrictions and a sharp appreciation in secondary market prices offer a better value proposition for cheaper DFSK SUVs

Changes in vehicle price (LKR mn)



On average, most vehicles saw a price appreciation of c.50% as opposed to the pre COVID-19 price levels. However, Despite the price appreciation, the DFSK value proposition remains strong at a lower price of c.LKR 7.5mn.

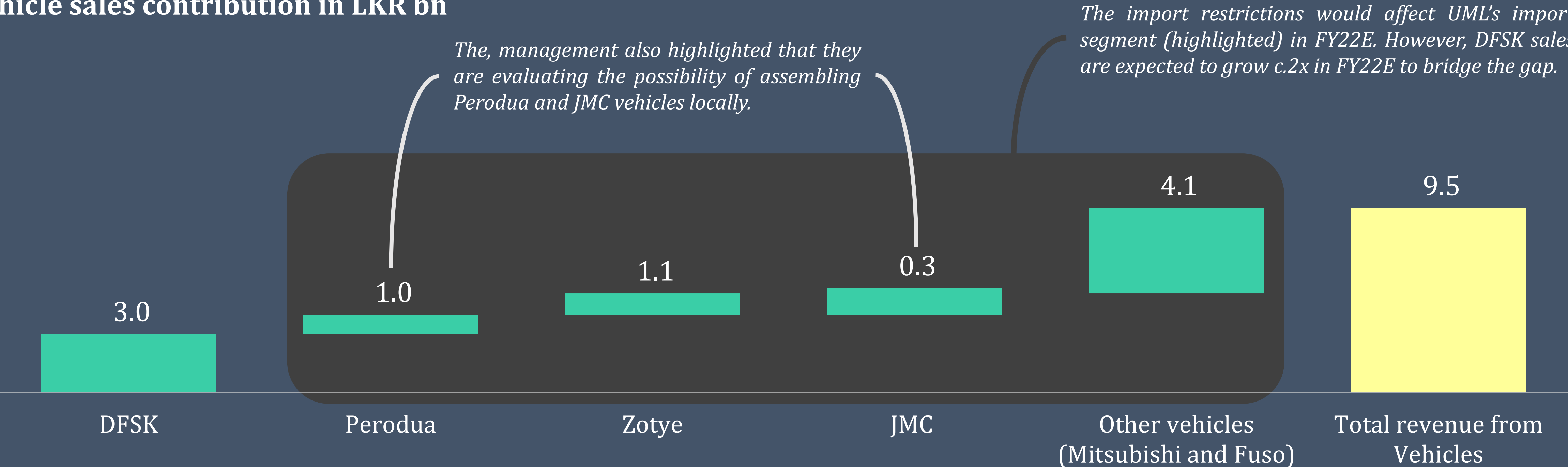
Units sold – DFSK passenger vehicles



In FY21, the average revenue per vehicles was LKR 6.1mn cf LKR 5.8mn in FY20. This is expected to rise sharply in FY22E with the price revision of DFSK Glory 580 and I Auto sales.

The revenue portion of locally assembled DFSK doubled to reach 22% in FY21, and a 2x growth is possible amidst import bans

Vehicle sales contribution in LKR bn



UML reported an earnings of LKR 444mn in FY21 cf. LKR 410mn loss in FY20. The turnaround was only due to vehicle segment reporting a profit of LKR 596mn in FY21 cf. LKR 11mn profit in FY20 while other segments in general maintained a flat growth.

The management claims that DFSK made a significant impact in the local SUV market, capturing 20% market share in FY21. As a result, the DFSK segment converted its returns from an LKR 144mn loss in FY20 to a profit of LKR 59mn in FY21. in FY22E, it is estimated that UML will be able to achieve a sales volume of 1,500 units if the ongoing vaccination improve the business activities.

Annexures

KEY FINANCIAL RATIOS

YE Mar/(LKR mn)	FY18	FY19	FY20	FY21	FY22E
Net Profit	3,744.0	1,103.0	388.0	895.0	1,131.7
YoY growth (%)	210%	-70.5%	-64.8%	130.7%	26.4%
EPS (LKR)	6.1	1.1	0.7	0.8	1.1
DPS (LKR)	0.1	0.2	0.2	0.1	0.1
BVPS (LKR)	24.9	21.8	21.9	23.1	25.0
GP Margin	35.5%	26.2%	27.2%	24.8%	24.2%
EBIT Margin	55.7%	14.7%	12.0%	9.0%	12.4%
NP margin	83.6%	7.9%	3.6%	6.2%	7.4%
ROE (%)	17.7%	4.6%	1.7%	3.6%	4.2%
PE (x)	1.3	7.2	10.8	9.9	7.2
PBV (x)	0.3	0.4	0.4	0.3	0.3
Dividend Yield (%)	1.3%	1.9%	1.9%	1.3%	1.4%

Summary Financial Statements

Summary Financial Statements

INCOME STATEMENT AND BALANCE SHEET

Income Statement					
YE Mar/LKR mn	FY18	FY19	FY20	FY21	FY22E
Revenue	4,477	13,956	10,823	14,490	15,220
Gross Profit	1,588	3,655	2,949	3,594	3,685
OPEX	159	(2,449)	(2,339)	(2,184)	(2,334)
Fair value gain on property	748	840	688	(107)	540
Operating Profit	2,495	2,046	1,298	1,304	1,891
Net finance cost	(278)	(726)	(818)	(276)	(476)
PBT	3,736	1,321	479	1,028	1,415
Net Profit	3,744	1,103	388	895	1,132
Profit to Equity holders	3,638	889	589	677	883
Statement of Financial Position					
YE Mar/LKR mn	FY18	FY19	FY20	FY21	FY22E
Non-current assets	20,682	22,799	25,002	24,830	28,730
Current assets	10,551	10,552	11,583	10,972	12,297
Total Assets	31,233	33,351	36,585	35,802	41,027
Total Equity	21,165	23,749	23,461	24,896	27,051
Non-Current Liabilities	4,526	4,314	5,875	5,526	8,298
Current Liabilities	5,542	5,288	7,249	5,202	5,678
Total Equity and Liabilities	31,233	33,351	36,585	35,802	41,027

Softlogic Stockbrokers (Pvt) Ltd

Level #16, One Galle Face Tower, Colombo 02
Sri Lanka
Telephone +94 117 277 000 |Fax +94 117 277 099
E-mail research@equity.softlogic.lk

Equity Research

Mahesh Udugampala
mahesh.udugampala@softlogic.lk
+94 11 7277001, +94 71 5564612

Shadini Silva
shadini.silva@softlogiccapital.lk
+94 11 7277033

Raynal Wickremeratne
raynal.wickremeratne@softlogic.lk
+94 11 7277033, +94 77 5268282

Equity Sales

Dihan Dedigama
Hussain Gani
Prasanna Chandrasekera
Eardley Kern
Andre Lowe
Dilip Fernando
Dinesh Rupasinghe
Tharindu Senadheera
Madushanka Rathnayaka
Gratian Nirmal
Krishan Williams
Lakshan Rathnapala
Asitha Bandara

Thuvarakan Senthilmani
thuvarakan.senthilmani@softlogic.lk
+94 11 7277030, +94 11 77 5015637

Nishanthi Hettiarachchi
nisha.hettiarachchi@softlogic.lk
+94 11 7277030, +94 11 77 1078499

dihan@softlogic.lk
gani@softlogic.lk
prasanna.chandrasekera@equity.softlogic.lk
l.kern@equity.softlogic.lk
andre.lowe@equity.softlogic.lk
dilip.fernando@equity.softlogic.lk
dinesh.rupasinghe@equity.softlogic.lk
tharindu.senadeera@equity.Softlogic.lk
madushanka.rathnayaka@equity.softlogic.lk
gratain.nirmal@equity.softlogic.lk
krishan.williams@equity.softlogic.lk
lakshan.rathnapala@softlogic.lk
asitha.bandara@softlogic.lk

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+94 11 7277010 / +94 117277955, +94 777689933
+94 11 7277020 / +94 777992086
+94 11 7277056
+94 11 7277053, +94 777348018
+94 11 7277052, +94 777230040
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+94 34 7451000, +94 773566465
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+94 31 7451000, +94 773569827
+94 11 7277000, 077 8329698
+ 0718740019