

“Harvesting the growth potential”

CIC Holding PLC (CIC) is a prominent conglomerate in Sri Lanka, boasting a diversified portfolio spanning multiple segments, including crop solutions, livestock solutions, health and personal care, industrial solutions, and agri-produce. We initiate coverage at a time when the share is trading at an attractive discount to its fair value, providing an upside of 27.61% for CIC.N and 28.75% for CIC.X. **BUY**

CIC's strategic investment in JKH and recognition as an associate: In October 2023, CIC entered into an agreement with Paints & General Industries Limited (P&GI) and its major shareholder Sohli Captain, along with several companies held by him and Rusi Captain. This agreement grants CIC an irrevocable and unconditional proxy over their voting rights in John Keells Holdings PLC (JKH) for 10 years. The shares involved in this agreement amount to ~18.7% of JKH's issued shares, giving CIC control over ~25.3% of JKH's voting rights. As a result, CIC can consider JKH as an associate company, only for the shares CIC effectively holds, which is ~6.72% currently. Consequently, CIC applies equity accounting for its and its subsidiaries' holdings in JKH, reflecting this in their financial statements from the quarter ended December 2023. Operational results attributable to JKH will be shown in CIC's financials as the share of profit from the equity-accounted investee, up to ~6.72% effectively held by CIC.

Topline growth to be strong from the livestock and healthcare segment as tourist arrivals boost and consumer demand picks up: CIC's poultry cluster expects revenue growth from increased tourist arrivals, especially benefiting the HORECA channel. Tourist arrivals surged by ~107% from 2022 to 2023 and continued to rise by ~70%YoY in the initial months of 2024, projected to reach ~2Mn in 2024, indicating a recovery to pre-pandemic levels. CIC also explores new sales channels and agreements to boost sales further. Moreover, as per the CBSL projection, private sector credit growth is expected to be 8.5% in 2024, suggesting potential growth in consumer spending, which would benefit CIC's livestock and healthcare segments with an expected 5%-7% growth in FY25F and FY26F.

Margins to remain stable at the historical level: In FY23, high prices of imported products, driven by a weakening local exchange rate, boosted margins. The Gross Profit (GP) margin is forecasted to maintain a historical average of 26%-28% from FY25F to FY28F, while the EBIT margin is expected to remain at 14%-16% during the same period. In FY24, the Net Profit (NP) margin increased to 13% (11% in FY23) due to the LKR 5.36Bn gain on bargain purchase transactions related to the JKH acquisition. However, it is projected to decline to 6%-8% from FY25F to FY28F, reverting to historical average levels.

Finance costs to ease as interest rates have come down: CIC's debt-to-equity ratio was recorded at 0.55x-0.64x in FY21-FY24 and is expected to remain at the same level during the forecasted period. Due to declining interest rates, borrowing costs decreased by ~32% in FY24. In FY25F-FY26F CIC's effective

BUY

CIC.N

Current price	LKR 76.50
Fair value	LKR 97.62 (+27.61%)

CIC.X

Current price	LKR 57.10
Fair value	LKR 73.51 (+28.75%)

Key data	CIC.N	CIC.X
Historical return		
1-year capital gain	25.62%	25.49%
1-year dividend yield	4.11%	5.49%
1-year total return	29.72%	30.99%
Beta	1.66	1.66
1-year high	82.10	60.90
1-year low	58.00	40.00

Valuation multiples		
PE ratio	2.98x	2.22x
PB ratio	0.83x	0.62x
Per share data		
EPS (LKR)	25.70	25.70
NAVPS (Mar24) (LKR)	92.05	92.05
DPS (LKR)	2.50	2.50

Shareholding details (31st Mar 24)	
No of shares (Mn)-voting	291.60
No of shares (Mn)-non-voting	87.48
Total no of shares (Mn)	379.08
MCAP (Mn)-voting	22,307
MCAP (Mn)-non-voting	4,995
Public holding-voting	46.68%
Public holding-non voting	96.50%

Top 5 shareholders - CIC.N	
Paints & General Industries Limited	53.31%
Employee's Provident Fund	9.06%
Sampath Bank PLC/ Chacra Capital Holdings (Private) Limited	4.49%
Citibank Newyork S/A Norges Bank Account 2	3.42%
Employees Trust Fund Board	1.82%

Top 5 shareholders - CIC.X	
Employee's Provident Fund	12.70%
Sampath Bank PLC/ Chacra Capital Holdings (Private) Limited	7.07%
Paints & General Industries Limited	3.32%
Mrs. J.N. Ambani	3.30%
DFCC Bank A/C No.01	1.86%

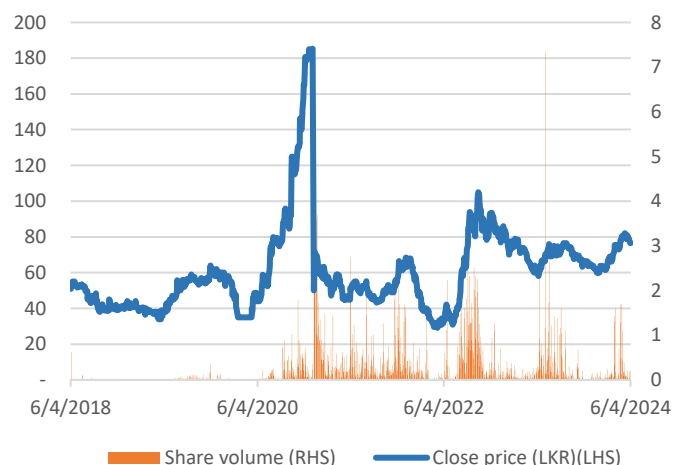
interest rates are expected to remain at the current market rates which have significantly declined from FY23.

Growth opportunities in exports: There are growth opportunities for CIC's health and personal care exports. LINK Natural Products, especially 'LINK Samahan,' has a strong global presence in over 30 countries and distribution partnerships with major retailers. It has received approval from Canadian health authorities and is being marketed with localized descriptions in the Middle East, Japan, and Russia. It also holds approved private label status in the USA. Additionally, Earth Essence and Swastha Amurtha products have the potential for market penetration due to rising global interest in herbal products. Total export revenue for the group has remained below 2% of the overall group revenue. Export revenue for this cluster, which constitutes 80%-89% of total group export revenue, grew by ~104%YoY in FY23 and it further increased by ~9%YoY in FY24, driven by increased volume.

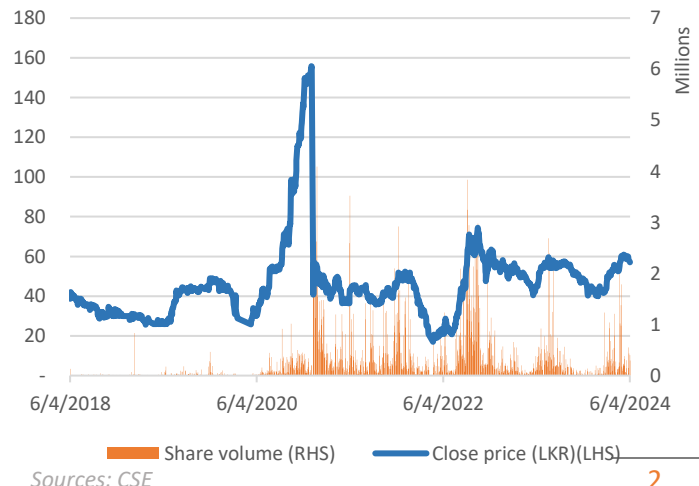
Valuation upside: The estimated weighted average fair values of CIC.N and CIC.X are LKR 97.62 and LKR 73.51, respectively. These valuations provide potential upsides of 27.61% and 28.75% based on current market prices, indicating an attractive investment proposition for investors. The valuation strategy encompasses a combination of absolute and relative valuation methodologies to determine the stocks' intrinsic values, considering both fundamental value and market sentiment.

Key financials (LKR Mn)	FY22	FY23	FY24F	FY25F	FY26F	FY27F
Revenue	41,760	68,275	76,424	81,255	84,918	87,272
Gross profit	11,525	24,493	20,718	21,939	22,928	24,000
Operating profit	7,028	16,843	10,674	11,980	12,494	13,089
Profit for the year	3,684	7,801	9,743	5,987	6,457	6,663
Total assets	46,127	55,803	78,487	89,909	99,532	110,806
EPS (LKR)	9.72	20.58	25.70	15.79	17.03	17.58
NAVPS (LKR)	43.55	60.66	92.05	102.84	113.56	124.32
Revenue growth	12.16%	63.49%	11.94%	6.32%	4.51%	2.77%
Net profit growth	17.61%	111.76%	24.89%	-38.55%	7.84%	3.19%
Net Margin	8.82%	11.43%	12.75%	7.37%	7.60%	7.63%
ROE	22.31%	33.93%	27.92%	15.36%	15.00%	14.14%
ROA	7.99%	13.98%	12.41%	6.66%	6.49%	6.01%

CIC.N - Price and volume



CIC.X - Price and volume



1. Company description

CIC is one of Sri Lanka's leading conglomerates, incorporated in 1964 and listed in CSE in the same year. The company operates in five segments: crop solutions, livestock solutions, health and personal care, industrial solutions and agri produce. CIC serves the local and export markets, exporting agri products and health and personal care products. However, the group's overall exports are below 2% of its total revenue. The crop solutions, livestock solutions, and health and personal care products segments are the top revenue contributors, accounting for 41%, 21%, and 21% of the total revenue, respectively (refer Annex I for revenue segmentation). These segments also maintain a significant market share.

The company employed 2,272 staff, recorded LKR 76.42Bn revenue and a net income of LKR 11.02Bn in FY24, as its highest-ever top-line result in the group's history, and it has an asset base of LKR 78.49Bn. The company's manufactured capital has a Net Book Value of LKR 10Bn, accounting for ~13% of the group's total assets.

There is a ~12% revenue growth recorded in FY24 by the company, key contributors to revenue growth included crop solutions (+34%), agri produce (+25%), health and personal care (+22%).

In FY24, the group acquired an additional 2.52% of the shareholding in Link Natural Products (Private) Limited, increasing its total shareholding to 86.13%. The group's personal care products are exported under the Link Natural brand. Also, brands such as 'Samahan', 'Swastha', and Earth Essence' belong to the personal care segment. The group's industrial chemicals are mainly driven through their subsidiary Chemanex PLC (CHMX), in which CIC holds 50.55% of shares.

Additionally, CIC entered into an agreement in October 2023 with P&GI and P&GI's major shareholder Sohli Captain and several companies held by him and Rusi Captain whereby they have granted CIC an irrevocable unconditional proxy over their voting rights from their shareholdings in of JKH to CIC for a period of 10 years. The shares which are the subject matter of this agreement aggregate at present to ~18.7% of the issued shares of JKH. This agreement results in CIC holding ~25.3% of the voting rights in JKH. Accordingly, CIC is permitted to treat JKH as an associate company only to the extent of the percentage of shares effectively held by CIC in JKH which is ~6.72% from the quarter ending 31 December 2023.

CIC Group Structure

Company	Holding %
CIC CropGuard (Pvt) Ltd	100
Unipower (Pvt) Ltd	100
Asiavet Lifesence (Pvt) Ltd	100
CIC Properties (Pvt) Ltd	100
Crop Management Services (Pvt) Ltd	100
CIC Lifesciences Limited	99.89
Link Natural Products (Pvt) Ltd	86.13
Colombo Industrial Agencies Limited	85.56
CIC Feeds (Pvt) Ltd	82.44
CIC Agri Businesses (Pvt) Ltd	67.68
Precision Agricultural Technologies (Pvt) Ltd	60.00
Chemanex PLC (CHMX.N)	50.55
CISCO Speciality Packaging (Pvt) Ltd	50.00
Akzo Nobel Paints Lanka (Pvt) Ltd	49.37
CIC Grains (Pvt) Ltd	49.00
CIC Dairies (Pvt) Ltd	14.15
John Keells Holdings PLC (JKH.N)	6.72

Sources: Company reports

SWOT analysis

<p>Strengthens</p> <p>The group has a diversified portfolio and market leadership. CIC operates in 05 different segments, with three of CIC's segments possessing a notable market share, positioning it as a key player in fertilizer, agrochemicals, seeds, livestock, industrial chemicals, and herbal drinks.</p> <p>Brand legacy leads to loyal customer relationships with CIC products.</p> <p>The 'LINK' brand already has a strong global presence in over 30 countries including Russia, Japan, Latvia and in several countries in Latin America, Europe, Asia, and the Middle East, with its products.</p> <p>All the Link Natural products are processed in accordance with ISO HACCP and GMP certification.</p> <p>Continued product innovation and research related to existing products such as Earth Essence range, Rivaroxaban and fixed-dose combinations lead to further enhancements.</p>	<p>Weaknesses</p> <p>There is a heavy reliance on the domestic market, as the group's overall export accounts for less than 2% of the total revenue.</p> <p>Most of the raw materials are being imported.</p>
<p>Opportunities</p> <p>Expanding 'Earth Essence' products into new foreign markets through existing distribution channels.</p> <p>According to Future Market Insights Inc., the market for herbal beauty products is expected to undergo significant growth, with a projected CAGR of 6.1% during the period from 2024 to 2034.</p> <p>Within FY23, CIC acquired a 30% shareholding of Unipower (Pvt) Ltd, leading in full ownership. Additionally, CIC increased its shareholding in Link Natural Products (Pvt) Ltd by acquiring 13% in FY23 and an additional 2.52% in FY24, bringing its total shareholding to 86.13%.</p> <p>The rise in tourist arrivals contributes to heightened demand for livestock and strengthens the agricultural cluster through HORECA channels. In comparison to 2022, tourist arrivals surged by approximately 107% in 2023, climbing from 0.7Mn to 1.5Mn. It recorded a ~70% YoY growth in the first 05 months of 2024.</p>	<p>Threats</p> <p>Government-imposed import bans severely impact all clusters of the CIC group, which heavily rely on imported raw materials, resulting in inventory shortages and increased costs for sourcing materials domestically.</p> <p>Due to the heavy reliance on imported raw materials, fluctuations in foreign exchange rates can result in increased costs and reduced margins.</p> <p>Adverse weather conditions have impacted the agri cluster. For instance, according to the CIC quarterly reports, in Q3 2023/24 there was a 91% achievement (784K ha) in overall paddy cultivation during the Maha season. However, approximately 4% (37K ha) of the cultivation area was affected due to floods.</p> <p>Geopolitical tension and global uncertainties could impact operations by increasing import costs.</p>

2. Industry Overview

CIC operates in several industries, including crop solutions, livestock solutions, health and personal care, industrial solutions, and agri-produce.

The industries in which CIC operates have encountered several challenges amidst the recent Sri Lankan economic crisis. These challenges include shortages of chemical fertilizer and other agricultural chemicals, increased costs of raw materials, escalating interest rates, limited availability of foreign currency, and currency volatility.

Under the crop solution segment, 03 clusters include plant nutrition (fertilizer), plant protection (pesticides), and seeds (paddy, potato, imported and local vegetable seeds) which all are largely import-dependent businesses. According to the LMD, CIC crop solution segment has cemented its position as the market leader in the provision of high-quality agricultural inputs. The tea sector drives the demand for the plant nutrition segment. Additionally, CIC offers fertilizer for other crops such as coconut and vegetables.

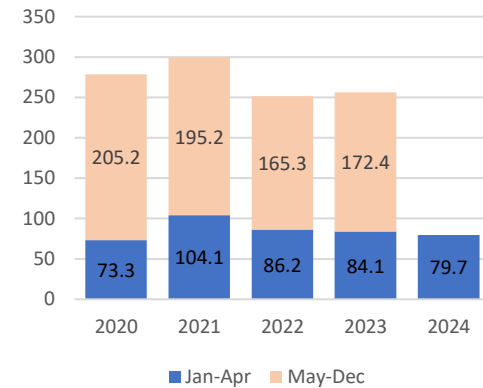
CIC become a leading poultry solution provider in Sri Lanka with its diverse portfolio comprising animal nutrition (feed milling), Day-Old-Chicks (DOC), poultry and veterinary care under the livestock segment, CIC sells frozen and chilled chicken products under the brand name 'CIC chicken'.

The healthcare and personal care segment serves under three clusters pharmaceuticals, medical devices, and personal care. The personal care segment has captured a significant portion of the local market with its range of natural and herbal care products marketed locally under the 'LINK' brand. Some selected products under the 'LINK' brand are exported. From the overall health and personal care segmental revenue, ~7% of revenue is derived from exports in FY24.

Under the industrial solution segment, CIC manufactures plastic containers for the domestic and export markets and supplies to manufacturers of Sri Lankan carbonated soft drinks and mineral water brands as specialty packaging products. As an associate of CIC, Akzo Nobel Paints Lanka (Private) Limited serves the construction sector by offering paint and decorative products under the brands Glidden and Dulux. Additionally, this cluster serves the textile sector providing textile dyes. This segment resulted in a decline backed by the construction sector slowdown and textile export reduction.

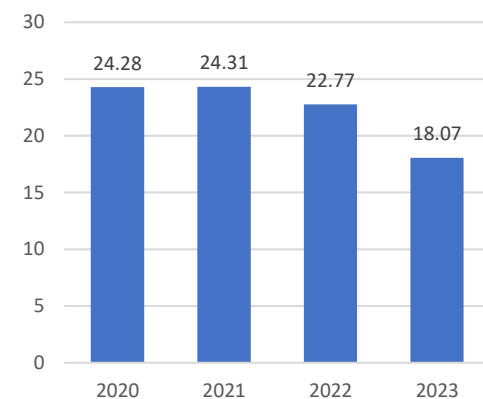
During the crisis period, the construction sector experienced a significant decline in the SL Purchasing Managers' Index (PMI) for the construction industry, dropping sharply from 47.2 in February 2022 to 3.8 in May 2022. However, by April 2024, it has surged to 31.9 indicating an improvement in construction activities.

Tea production statistics (MT'000)



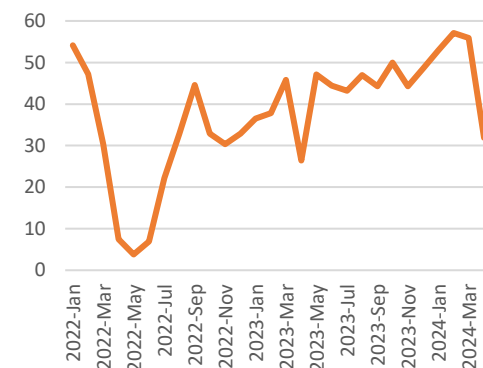
Sources: <https://web.forbestea.com>

National poultry production (in Mn)



Sources: Department of Census and Statistics

Purchasing Managers' Index - Construction (Total Activity Index)

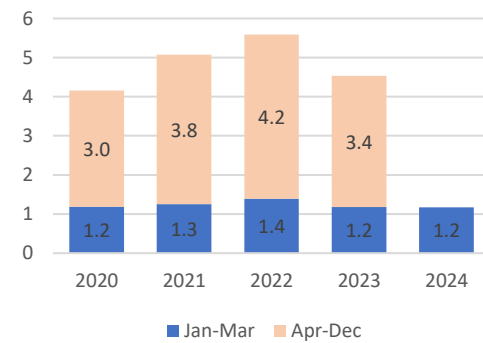


Sources: CBSL

According to the Joint Apparel Association Forum (JAAF) data, textile and apparel exports experienced a significant YoY decline of ~19% in terms of USD Mn in 2023 compared to 2022. This downturn was primarily attributed to the economic slowdown observed in major Western markets. Apparel exports are displaying signs of recovery. In March 2024, they achieved their highest performance in the last 15 months, totaling USD 418.3Mn, marking a growth of ~8% YoY. Accordingly, with the recovery of economic activities, this segment is expected to pick up again.

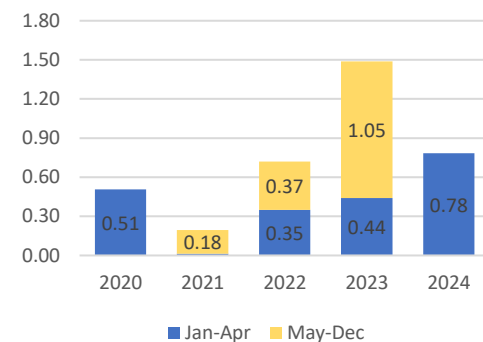
CIC agri produce segment offers locally sourced, high-quality staple foods such as specialty rice, dairy, and fresh produce, with its UHT fresh milk branded as 'CIC Creamoo'. Over recent years, this segment faced pressure from a sharp decline in consumer demand due to the country's economic crisis and inflationary conditions. However, with economic recovery expected in the coming years, demand for consumer products is expected to increase, and rice demand is anticipated to rise, especially through HORECA channels alongside increased tourist arrivals.

Textile and apparel exports (USD Bn)



Sources: <https://www.srilankaapparel.com>

Tourism arrivals in Mn



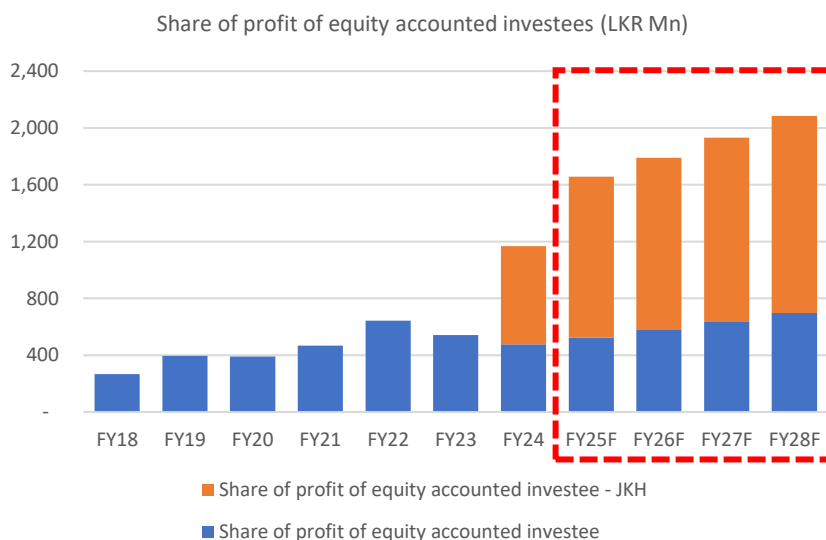
Sources: SLTDA

3. Investment highlights

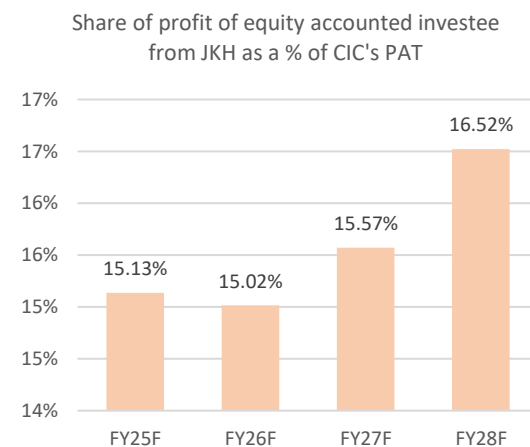
CIC's strategic investment in JKH and recognition as an associate

In October 2023, CIC agreed with P&GI and its major shareholder Sohli Captain, and several companies held by him and Rusi Captain whereby they have granted CIC an irrevocable unconditional proxy over their voting rights from their shareholdings in JKH for 10 years, the shares which are the subject matter of this agreement aggregate at present to ~18.7% of the issued shares of JKH. CIC now holds ~25.3% of the voting rights in JKH. Accordingly, CIC is permitted to treat JKH as an associate company, only to the extent of the percentage of shares effectively held by CIC in JKH. Thus, CIC will apply equity accounting only in respect of CIC and its subsidiaries' holdings in JKH, currently amounting to approximately 6.72% of the issued shares or the percentage of shares effectively held in JKH at that time, from the quarter ending 31 December 2023.

Starting from the moment JKH was recognized as an associate of CIC, any operational results attributable to JKH will henceforth be represented in CIC components as the share of profit from equity accounted investee up to 6.72%, effectively held by CIC. The strong earnings potential of JKH is expected to significantly benefit CIC's bottom line.



Sources: Company reports, Ambeon Estimates



Sources: Company reports, Ambeon Estimates

Topline growth to be strong from the livestock and healthcare segment as tourist arrivals boost and consumer demand picks up

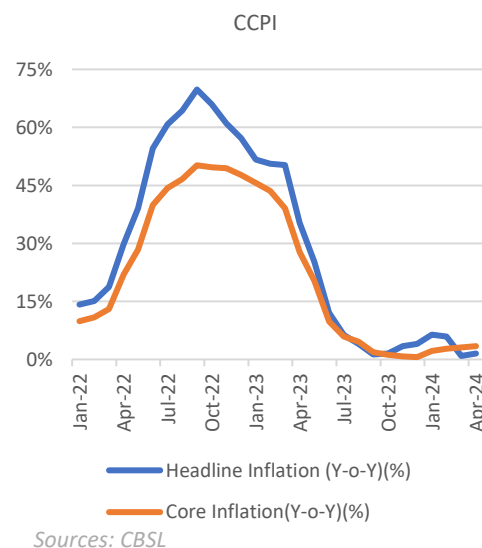
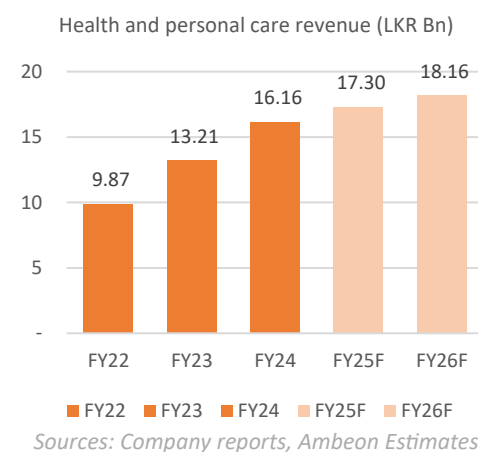
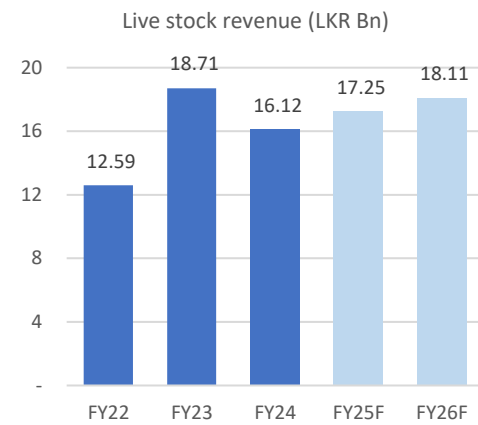
Tourist arrivals boost the demand: CIC's poultry cluster expects to boost revenues with the tourist arrivals. The recent resurgence in the tourism sector has notably bolstered the performance of the HORECA channel, with an evident increase in volume.

Comparing figures from 2022 to 2023, tourist arrivals surged by 107%, rising from 0.72Mn to 1.49Mn. Additionally, during the initial five months of 2024, tourist arrivals increased by ~70% YoY. According to the state minister for tourism, Diana Gamage, and the SLTDA, it is projected that there will be around 2Mn tourist arrivals in 2024, making a recovery to pre-pandemic levels.

In addition to tourist arrivals, CIC has explored new channels and entered into agreements with key accounts, aiming to boost sales in the coming quarters.

Basket size/average consumer spending growth: Credit to the private sector has the potential to impact consumer spending significantly. During periods of economic downturn, there is typically a decrease in demand for credit as businesses reduce output and households cut back on consumption. This results in a reduced need for credit overall. In Sri Lanka, there has been a noticeable increasing trend in credit to the private sector since the pre-COVID pandemic era up until May 2022, peaking at around LKR 7,755Bn. After this peak, there was a sharp decline in credit until May 2023, representing a decrease of ~10% (LKR 756 Bn) compared to May 2022. This decline coincided with a severe economic crisis marked by foreign exchange shortages and unprecedented levels of inflation. The simultaneous decrease in credit to the private sector suggests a potential reduction in consumer spending. However, as economic activities began to recover, there was a subsequent increase in credit to the private sector. Over the past 9 months, there has been an around 5% (LKR 322 Bn) increase compared to May 2023. As per the CBSL projections, private sector credit growth is expected to be 8.5% in 2024. This uptrend indicates a resurgence in household consumption. Consequently, CIC's livestock and healthcare segments may experience a recovery in demand within the next few years. We expect ~5%-7% growth in these two segments in FY25F and FY26F.

Decrease in inflationary pressure: Between January 2022 and September 2022, headline inflation surged by ~56% due to the economic crisis. However, it declined to 1.3% by September 2023, marking a level lower than that before the crisis period and indicating a gradual decline of around 69%. Subsequently, it recorded 1.5% in April 2024. According to the World Bank and ADB, the annual average inflation rate is anticipated to be around ~7.5%-7.8% in 2024. However, the uncertainties in global commodity prices will affect this rate due to import cost increases and oil prices increase. This may increase purchasing power and disposable income, which in turn leads to an increase in the volume growth of CIC.

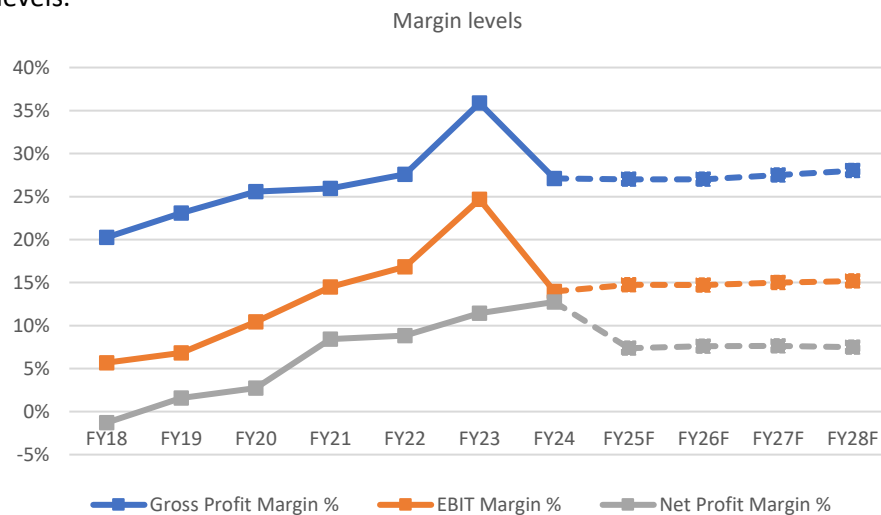


Margins to remain stable at the historical level

In FY23, CIC's margins benefitted from the high prices of its imported products following the weakening in the local exchange rate.

The GP margin is expected to maintain the historical average level of 26%-28% across FY25F-FY28F. We anticipate CIC's EBIT margin to remain at 14%-16% during this period.

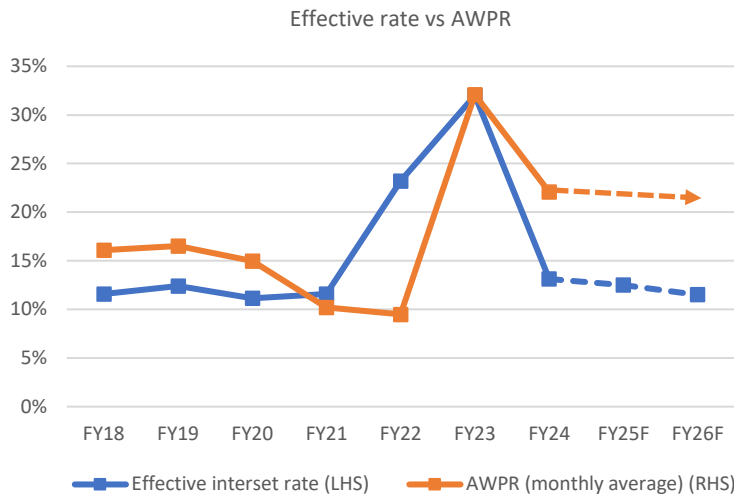
In FY24 NP shows a further increase to 13% (FY23 11%) due to the LKR 5.36Bn gain on bargain purchase transactions from the JKH acquisition. However, it is projected to decline to 6%-8% in FY25F-FY28F returning to historical average levels.



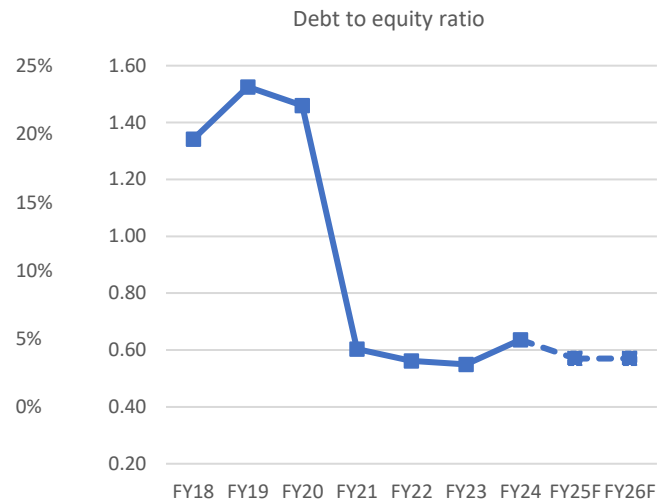
We expect CIC's operating profit to grow by ~13% in FY25 and ~5% in FY26. The net income is expected to decline by ~32% in FY25 given that the abnormal gains from the JKH acquisition will be absent. The pro forma net income, adjusted for one-off gains and losses, is expected to increase from LKR 7.48Bn in FY25 to LKR 8.07Bn in FY26.

Finance cost to ease as interest rates have come down

During FY18-FY20 debt to equity levels were between 1.34x-1.46x. Then, it gradually dropped and remained at 0.55x-0.64x levels in the last 04 years. It is expected to maintain the same levels during the forecast period. The declining interest rate environment is expected to ease the pressure on borrowing costs. Accordingly, finance costs declined by ~32%YoY in FY24. In FY25F-FY26F CIC's effective interest rates are expected to remain at the current market rates which have significantly declined from FY23.



Sources: Company reports, Ambeon Estimates



Sources: Company reports, Ambeon Estimates

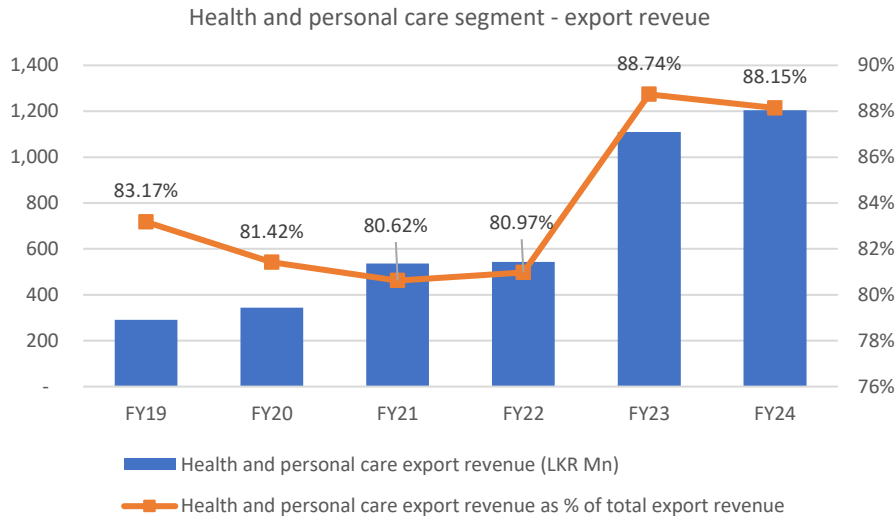
Growth opportunities in terms of exports

There are significant growth opportunities for the health and personal care cluster in terms of exports. Already the LINK natural products specially 'LINK Samahan' have a strong global presence in over 30 countries including Russia, Japan, Latvia and in several countries in Latin America, Europe, Asia, and the Middle East, with its products with distribution partnerships with such as Sharaka Holdings in Qatar and Costco Wholesale stores in Japan Costco wholesale which is the world fifth largest retailer in the world.

Moreover, Link Natural's flagship product, 'Link Samahan,' has achieved notable commercial success. It has garnered approval from Canadian health authorities to be sold in Canada as a herbal product and is marketed in the Middle East with Arabic pack description, in Japan with Japanese description, and in Russia with Russian description. Furthermore, 'Link Samahan holds approved private label status in the USA.

Similarly, there is an opportunity for the Earth Essence product range and Swastha Amurtha products to penetrate foreign markets leveraging Link Natural's well-established distribution network and the growing trend towards herbal products. According to Krishantha Pathmaperuma, Chairman of Ceylon Family Co. Ltd, Link Natural's Yokohama-based distributor, there is a growing interest among Japanese consumers for herbal products. Additionally, Future Market Insights Inc. predicts substantial growth in the global market for herbal beauty products, with a projected CAGR of 6.1% from 2024 to 2034.

Over the past few years, the export revenue of the CIC group has remained below 2% of the overall group revenue. However, the health and personal care cluster contributed around 80% to 89% of the total group export revenue. Notably, health and personal care cluster experienced significant growth of ~104%YoY in FY23 and it further increased by ~9%YoY in FY24. This growth is substantiated by an increase in volume.

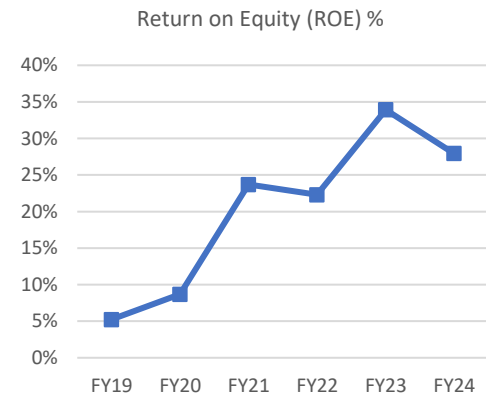


Sources: Company reports, Ambeon Estimates

Attractive valuation

We have estimated the weighted average fair values of CIC.N and CIC.X at LKR 97.62 and LKR 73.51 respectively. CIC.N and CIC.X provide an upside of 27.61% and 28.75% respectively based on the current market price. With anticipated dividends, the returns on CIC.N and CIC.X can go up to 31.74% and 34.28% respectively.

CIC's historical Return on Equity (ROE) reported 22%-34% during FY21-FY24. It showed an increasing trend from 5.24% in FY19 to 33.93% in FY23, and it was reported 27.92% in FY24.



Sources: Company reports

4. Valuation summary

We've calculated the weighted average fair value for CIC.N and CIC.X as LKR 97.62 and LKR 73.51, respectively. This implies an upside of 27.61% and 28.75%, respectively, based on the current market price. Additionally, there's an estimated dividend yield of 4.13% and 5.53% for CIC.N and CIC.X respectively.

Our valuation strategy encompasses a blend of absolute and relative valuation methodologies to gauge the stock's intrinsic value considering both fundamental value and market sentiment.

Weighted average intrinsic value per share	LKR
DCF value	121.16
PE based valuation	88.86
PBV based valuation	82.84
Weighted average intrinsic value per share	97.62

The fair value suggests a potential upside of 27.61% and 28.75% for CIC.N and CIC.X respectively based on the current market price of LKR 76.50 and LKR 57.10 respectively. A dividend yield of 4.13% and 5.53% can be estimated for CIC.N and CIC.X respectively.

Given below are key assumptions used for each of the valuation methods.

DCF valuation (LKR Mn)	
Enterprise Value (EV)	65,941
Less: debt	25,426
Add: cash and cash equivalent	5,416
Equity value	45,931
No of shares (in Mn)	379
FCF-based equity value per share (LKR)	121.16

Weighted Average Cost of Capital (WACC) calculation	
Cost of equity	
Risk-free rate	9.18%
Equity risk premium*	14.00%
Beta	1.66
Cost of equity	32.42%
Cost of debt	
AWPLR	10.38%
AWPLR+2%	12.38%
Effective tax rate	30.00%
After-tax cost of debt (Kd)	8.67%

*Equity risk premium obtained from NYU Stern / A. Damodaran <https://pages.stern.nyu.edu/~adamodar/>

WACC

Debt %	42.15%
Equity %	57.85%
WACC	22.41%

Given below are assumptions for the relative valuations.

PE based valuation

Pro forma EPS (LKR)*	17.77
PE multiple used in the valuation	5.00
Value per share (LKR)	88.86

**Pro forma EPS excludes one-off gains*

It should be noted that the peer average PE ratio is 10.01.

PBV based valuation

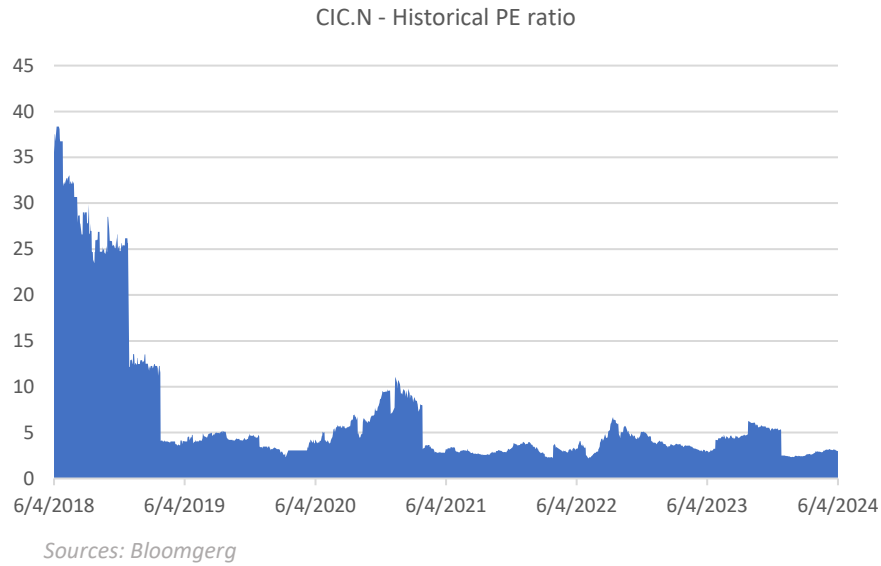
NAVPS (Mar 24) (LKR)	92.05
PBV multiple used in the valuation	0.90
Value per share (LKR)	82.84

It should be noted that the peer average PBV ratio is 1.06.

Given below are peer PE, PBV and EV/EBITDA ratios. These multiples have been used as guidance in the valuation process, excluding outliers.

Peer valuation multiples	PE	PBV	EV/EBITDA
AGST.N	8.54	0.53	6.34
AGST.X	8.02	0.50	1.02
LCEY.N	19.66	1.36	6.03
DIMO.N	12.43	0.41	6.70
LMF.N	6.11	0.58	9.22
COCO.N	NM	0.36	3.49
COCO.X	NM	0.31	2.34
CARG.N	16.63	3.45	7.23
BFL.N	51.74	0.57	8.40
GRAN.N	3.59	0.96	0.91
TAFL.N	2.93	0.91	0.71
KFP.N	NM	2.04	112.61
JAT.N	10.80	1.08	6.72
LCEY.N	19.66	1.36	6.03
UCAR.N	4.20	0.91	2.50
SUN.N	7.58	1.67	3.07
Peer average*	10.01	1.06	11.46

**Peer averages are excluding outliers*



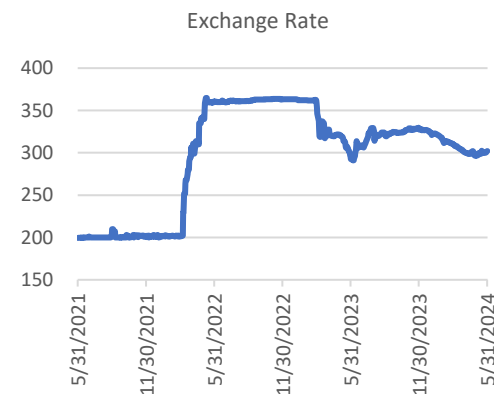
Over the last 4 years, CIC.N has traded at an average PE multiple of 4.34. The fair value of CIC.N is LKR 97.62 implies a PE multiple of 3.80 given the current reported full-year EPS.

5. Investment risks

Reliance on imported raw material

During the crisis period, CIC, heavily reliant on imports, encountered challenges due to forex shortages and import restrictions. The crop solution segment (comprising plant nutrition, plant protection, and seeds) and the industrial solution segment (including industrial chemicals and specialty packaging), along with the feed milling cluster in the livestock solution segment, all depend on imported raw materials. This dependence inevitably leads to increased costs. Moreover, government-imposed import bans further worsen the situation across all clusters of the CIC group, exacerbating inventory shortages and driving up domestic sourcing costs.

Between March 2022 and May 2022, amidst the forex shortage crisis, the exchange rate experienced a sharp increase of ~78% from LKR 202 to LKR 360 and remained at that level for around 10 months. As the economy started to rebound, there was a subsequent decline in the exchange rate, which now stands at the LKR 300 level, indicating a ~5% decrease in the exchange rate over the past 12 months. According to President Ranil Wickremesinghe, the USD will reach LKR 280 by June, as the central bank continues its deflationary policy. This anticipated development may lead to reduced import costs, consequently resulting in decreased cost margins.



Sources: CBSL

Agri products prone to weather changes

Adverse weather conditions have impacted the agri cluster. For instance, according to the CIC quarterly reports, in Q3 2023/24 there was a 91% achievement (784K ha) in overall paddy cultivation during the Maha season. However, approximately 4% (37K ha) of the cultivation area was affected due to floods.

Increasing VAT dampening the consumer demand

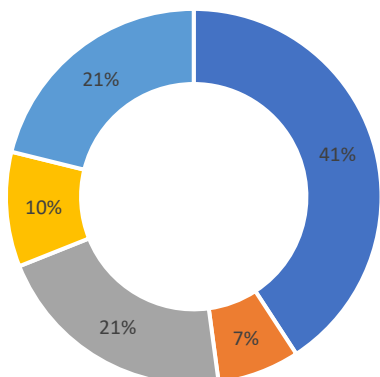
The implementation of VAT is contributing to a declining trend in consumer purchasing power. SL government has raised the rate of VAT on existing applicable goods and services by 20% from 15% to 18% in January 2024. Additionally, a larger number of new items including fuel, gas, chemical fertilizer, telecommunication, milk, poultry, etc. was subject to VAT for the first time, leading to a decrease in consumer purchasing power.

Previously, chemical fertilizers were exempt from VAT. However, starting January 2024, an 18% VAT has been applied to chemical fertilizers, while the 7.5% Ports and Airport Levy on imported chemical fertilizers has been eliminated. As a result, prices of CIC fertilizers have gone up.

Conversely, this has impacted the affordability of CIC's products such as poultry, fertilizer, and dairy items.

Annexure I: Segmental information

Segmental revenue - FY24



■ Crop solutions

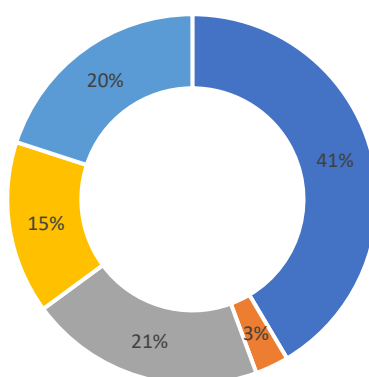
■ Agri produce

■ Live stock

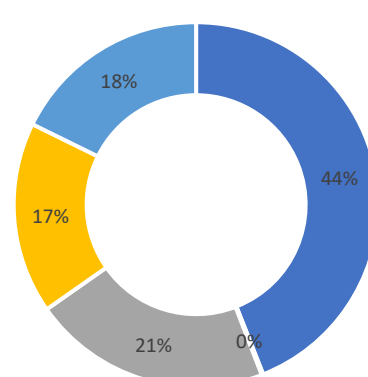
■ Industrial solutions

■ Health and personal care

Segmental operating income - FY24

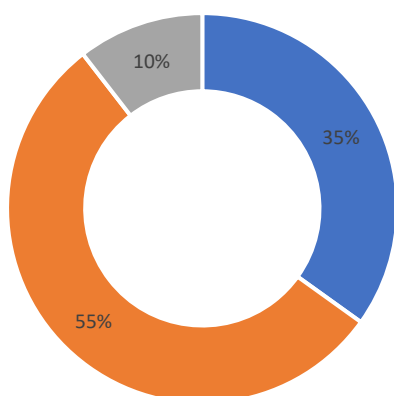


Segmental PAT - FY24



Segmental revenue by major product line

Crop solutions

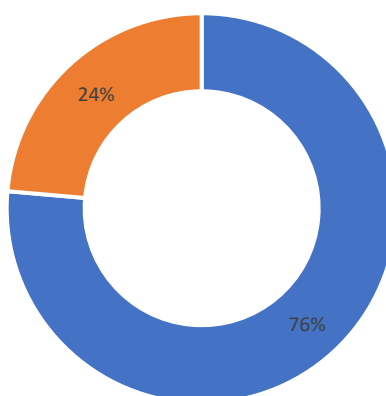


■ Agro chemicals

■ Fertilizer

■ Others

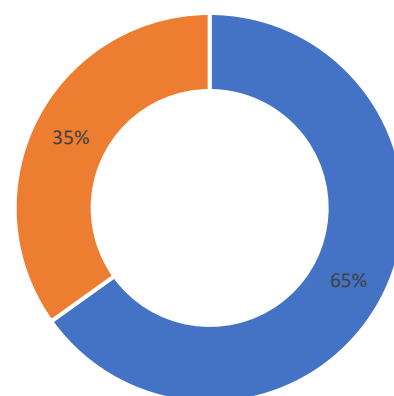
Live Stock Solutions



■ Feeds

■ Others

Health & Personal Care

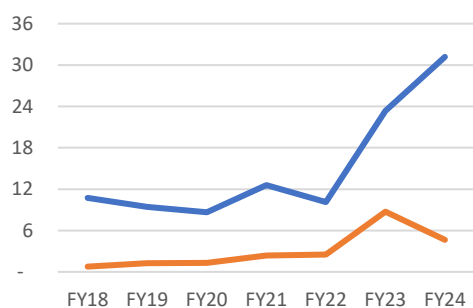


■ Pharmaceuticals and medical devices

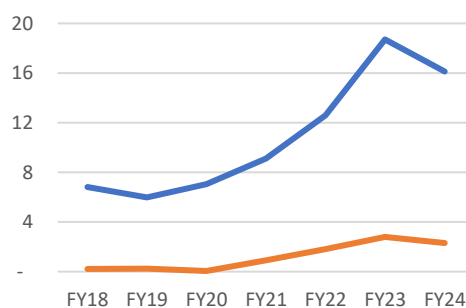
■ Herbal health and personal care

Sales and operating profit - past performance (LKR Bn)

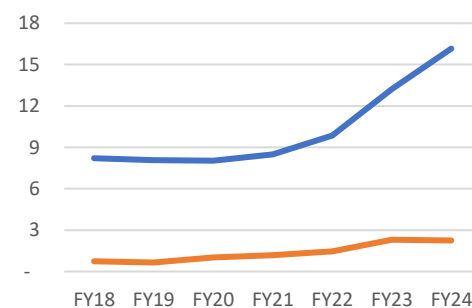
Crop solution



Live stock solution

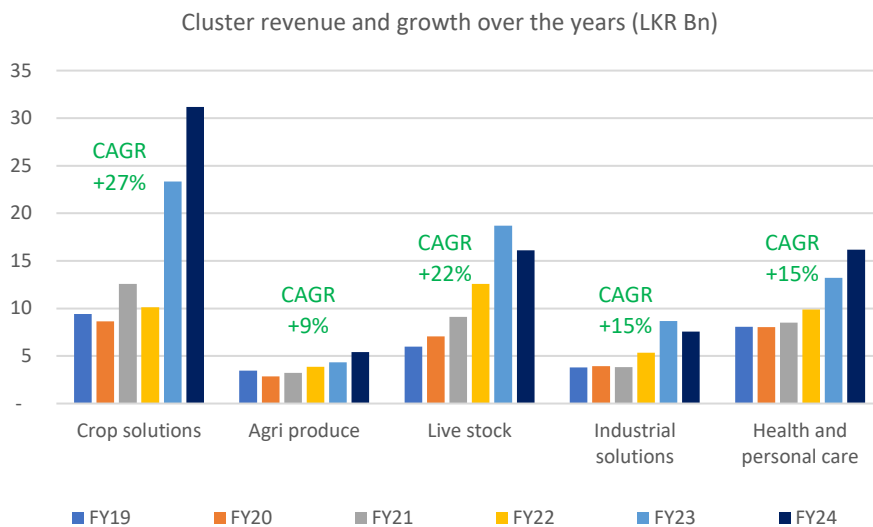


Health & Personal Care



— Revenue

— Operating profit



Sources: Company reports

Annexure II: Financial statements

INCOME STATEMENT (LKR Mn)	FY22	FY23	FY24	FY25F	FY26F	FY27F
Continuing operations						
Revenue	41,760	68,275	76,424	81,255	84,918	87,272
Cost of sales	(30,235)	(43,782)	(55,706)	(59,316)	(61,990)	(63,272)
Gross profit	11,525	24,493	20,718	21,939	22,928	24,000
Other income	309	601	296	311	326	343
Distribution expenses	(2,930)	(4,939)	(6,219)	(5,785)	(6,046)	(6,214)
Impairment (loss)/reversal on trade receivables	56	(112)	(12)	(222)	(154)	(161)
Administrative expenses	(1,902)	(3,133)	(3,987)	(4,226)	(4,522)	(4,839)
Other expenses	(28)	(67)	(122)	(37)	(38)	(40)
Results from operating activities	7,028	16,843	10,674	11,980	12,494	13,089
Finance income	431	577	737	162	162	162
Finance cost	(2,619)	(4,894)	(3,338)	(3,178)	(2,988)	(3,360)
Finance cost (net)	(2,188)	(4,317)	(2,600)	(3,016)	(2,826)	(3,198)
Gain on bargain purchase	-	-	5,356	-	-	-
Loss on dilution of investment in associate	-	-	(1,081)	-	-	-
Share of profit of equity accounted investees (net of tax)	643	542	1,169	1,658	1,789	1,932
Profit before tax	5,484	13,069	13,517	10,621	11,457	11,823
Income tax expense	(911)	(3,071)	(2,543)	(3,186)	(3,437)	(3,547)
Profit from continuing operations	4,573	9,998	10,974	7,435	8,020	8,276
Discontinued operations						
Profit/(loss) from discontinued operations (net of tax)	(227)	55	47	50	51	53
Profit for the year	4,346	10,053	11,021	7,484	8,071	8,328
Earnings Per Share (LKR)	9.72	20.58	25.70	15.79	17.03	17.58

STATEMENT OF FINANCIAL POSITION (LKR Mn)	FY22	FY23	FY24	FY25F	FY26F	FY27F
Assets						
Property, plant & equipment	12,750	12,677	12,608	13,262	13,639	14,050
Investment property	2	2	2	2	2	2
Capital work-in-progress	108	56	95	95	123	165
Biological assets	312	393	504	429	536	670
Intangible assets	373	646	625	597	570	545
Deferred tax assets	11	8	251	251	251	251
Equity accounted investees	1,185	1,264	25,206	25,206	25,206	25,206
Equity investments at fair value through OCI	1,236	5,154	-	-	-	-
Deposits with banks	316	-	-	-	-	-
Inventories	9,542	17,894	18,449	17,876	18,682	19,068
Biological assets	267	321	300	330	363	399
Income tax receivables	-	8	1	1	1	1
Trade receivables	4,739	6,019	9,238	6,679	6,980	7,173
Contract assets	101	131	157	173	190	209
Other receivables	7,615	3,675	3,318	3,318	3,318	3,318
Equity investments at fair value through OCI	1,997	2,033	287	302	317	333
Deposits with banks	1,812	2,273	1,619	1,619	1,619	1,619
Cash in hand and at bank	2,277	1,942	5,416	19,360	27,325	37,387
Assets classified as held for sale	1,434	1,248	351	351	351	351
Assets classified as held for distribution	49	58	59	59	59	59
Total assets	46,127	55,803	78,487	89,909	99,532	110,806

Equity						
Stated Capital	1,008	1,008	1,008	1,008	1,008	1,008
Capital reserves	3,368	3,165	2,412	2,412	2,412	2,412
Revenue reserves	12,134	18,822	31,472	35,564	39,626	43,706
Non-controlling Interests	3,603	4,833	5,102	6,599	8,213	9,878
Total Equity	20,114	27,829	39,995	45,584	51,260	57,005
Liabilities						
Loans and borrowings	338	307	400	650	730	855
Retirement benefit obligations	820	897	1,301	1,392	1,489	1,638
Grants	7	2	1	1	1	1
Deferred tax liabilities	1,530	1,866	1,850	1,850	1,850	1,850
Trade payables	9,336	4,601	4,764	9,751	10,190	10,401
Contract liabilities	156	220	247	247	247	247
Income tax payable	418	1,265	1,020	1,020	1,020	1,020
Accruals and other payables	1,891	3,153	3,333	3,499	3,674	3,858
Contingent consideration payable	-	216	138	138	138	138
Loans and borrowings	10,951	14,983	25,026	25,333	28,488	33,348
Liabilities classified as held for sale	563	462	411	442	442	442
Liabilities classified as held for distribution	2	2	2	2	2	2
Total equity and liabilities	46,127	55,803	78,487	89,909	99,532	110,806
Net Asset Value Per Share (NAVPS)(LKR)	43.55	60.66	92.05	102.84	113.56	124.32

Annexure III: Key ratios

	FY22	FY23	FY24	FY25F	FY26F	FY27F
Profitability ratios						
Gross Profit Margin %	27.60%	35.87%	27.11%	27.00%	27.00%	27.50%
EBIT Margin %	16.83%	24.67%	13.97%	14.74%	14.71%	15.00%
Net Profit Margin %	8.82%	11.43%	12.75%	7.37%	7.60%	7.63%
Return on Assets (ROA) %	7.99%	13.98%	12.41%	6.66%	6.49%	6.01%
Return on Equity (ROE) %	22.31%	33.93%	27.92%	15.36%	15.00%	14.14%
Revenue growth %	12.16%	63.49%	11.94%	6.32%	4.51%	2.77%
Net profit growth %	17.61%	111.76%	24.89%	-38.55%	7.84%	3.19%
Dividend payout ratio %	41.16%	24.30%	19.45%	40.00%	40.00%	40.00%
Activity ratios						
Inventory Turnover ratio (Times)	3.39x	3.19x	3.07x	3.27x	3.39x	3.35x
Receivables Turnover ratio (Times)	8.72x	12.69x	10.02x	10.21x	12.43x	12.33x
Payables Turnover ratio (Times)	3.43x	6.28x	11.90x	8.17x	6.22x	6.15x
Days of Sales outstanding (DSO)	41.84	28.76	36.43	35.75	29.35	29.60
Days of Inventory on hand (DOH)	107.68	114.37	119.07	111.76	107.63	108.89
Days of Payables outstanding (DPO)	106.50	58.09	30.68	44.66	58.71	59.39
Gearing ratios						
Debt to Assets	0.24	0.27	0.32	0.29	0.29	0.31
Debt to Equity Ratio	0.56	0.55	0.64	0.57	0.57	0.60
Interest coverage ratio (Times)	2.68x	3.44x	3.20x	3.77x	4.18x	3.90x
Liquidity ratios						
Current ratio (Times)	1.28x	1.43x	1.12x	1.24x	1.34x	1.41x
Quick ratio (Times)	0.87x	0.71x	0.59x	0.80x	0.92x	1.03x
Cash ratio (Times)	0.10x	0.08x	0.16x	0.48x	0.62x	0.76x
Cash conversion cycle (Days)	43	85	125	103	78	79

Sources: Company reports, Ambeon Estimates

Annexure IV: Analysis of competitive forces**Competitive Rivalry - HIGH**

Competition is high in all the segments since there are several established and emerging players competing in each segment.

Potential of new entrants into the industry - MODERATE

The potential for new entrants into the industry is moderate, as there are significant barriers such as high capital requirements, technical expertise, and existing brand loyalty. Brands like 'CIC Pohora', 'CIC Chicken', and 'LINK Natural' enjoy strong brand loyalty, further reinforcing these barriers.

Power of suppliers - HIGH

Suppliers' power may be high in the crop solution and the industrial solution sectors if there is a disruption in the global supply chain or price fluctuation in key raw materials since CIC largely depends on imported raw materials. The livestock cluster may have a low power of suppliers since CIC has their breeding farms.

Power of customers - MODERATE

In the crop solution sector, customer power is moderate as small and medium-scale farmers are price-sensitive when purchasing fertilizers. However, CIC has cultivated strong brand loyalty among farmers in the Sri Lankan market, mitigating their price sensitivity.

Large construction and textile companies hold significant negotiation power, which may impact high buyers' power in the industrial solution sector.

In the livestock market, and health and personal care segment, customer power is low due to a large buyer base, each making individually insignificant purchases.

However, in the medical devices cluster, customers hold considerable power, particularly within government and private sector hospitals, making them significant customers for CIC.

Threat of substitute products - MODERATE

The threat from substitute products on the crop solution cluster is low since organic farming and domestic alternatives pose a limited threat currently. Fish and plant-based alternatives significantly affect the poultry market, as they satisfy individuals' protein requirements similarly to chicken. A moderate-level threat can impact the industrial solution segment by promoting alternative packing materials and cheaper paints, but CIC focuses on speciality solutions and technical expertise.

Annexure V: BCG Growth-share matrix for CIC

It is possible to grow the personal care segment by differentiating and exporting products. CIC can implement marketing strategies as the current trend is to move towards herbal products.

Akzo Nobel Paints and CIC seeds are major players in the Sri Lankan paint industry and seed market. Chemanex PLC is also a subsidiary company of the CIC group which imports industrial chemicals.

CIC has successfully built a strong brand name among farmers in the local area in plant nutrition and protection fields. CIC currently exports only Cavendish bananas under the fresh produce segment. They can consider expanding their product range and exploring new markets to increase their exports.

Additionally, there is potential for expanding the rice and poultry segments by leveraging HORECA channels, particularly with the rise in tourism arrival.

Market growth	High	Question marks Medical devices Pharmaceuticals Specialty packaging Rice Vet care Industrial chemicals (paint)	Star Personal care Fresh produce
	Low	Dog Dairy Feed milling (animal nutrition)	Cash cow Plant nutrition (fertilizer) Plant protection (pesticides) Seeds Poultry Day-old-chicks (DOC) operation
		Low	High
Cash generation/Market share			

Annexure VI: Recommendation criteria

The recommendations are based on the stock returns compared against the 1-year treasury bill rate as a benchmark.

BUY	Return of the stock > 1-year T bill rate plus 5%
HOLD	1-year T bill rate plus 5% > return of the stock > 1-year T bill rate
SELL	Return of the stock < 1-year T bill rate

1-year T bill rate used for comparison = 9.18%

Abbreviations

ADB	Asian Development Bank
Bn	Billions
CAGR	Compound Annual Growth Rate
CBSL	Central Bank of Sri Lanka
CHMX	Chemanex PLC
CIC	CIC Holding PLC
CSE	Colombo Stock Exchange
DOC	Day-Old-Chicks
EBIT	Earnings Before Interest and Tax
FY	Financial Year
GP	Gross Profit
Ha	Hectare
HORECA	Hotels, Restaurants, and Cafes
JAAF	Joint Apparel Association Forum
JKH	John Keells Holdings PLC
LKR	Sri Lankan Rupees
MCAP	Market Capitalization
Mn	Millions
NAVPS	Net Assets Value Per Share
NP	Net Profit
P&GI	Paints & General Industries Limited
PAL	Ports and Airport Levy
PAT	Profit After Tax
PBV	Price to Book Value
PE	Price Earnings Ratio
PMI	Purchasing Managers' Index
Q3 2023/24	3 rd quarter of the 2023/2024 financial year
ROA	Return on Assets
ROE	Return on Equity
SLTDA	Sri Lanka Tourism Development Authority
TTM	Trailing Twelve Months
VAT	Value Added Tax
WACC	Weighted Average Cost of Capital
YoY	Year on Year

AMBEON SECURITIES (PVT) LIMITED

No: 10, 2nd Floor
 Gothami Road,
 Colombo 08,
 Sri Lanka.
 T: +94 11 532 8 100
 F: +94 11 532 8 177
 E: research@ambeonsecurities.lk



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Sales Team

Charith Kamaladasa	Director/CEO	charithk@ambeonsecurities.lk
Niranjana Niles	Executive Director	niles@ambeonsecurities.lk
Romesh Kenny	Senior Manager Institutional Sales	romesh@ambeonsecurities.lk
Chinthaka Weeraratna	Senior Investment Advisor	chinthaka@ambeonsecurities.lk
Pasindu Yatawara	Senior Investment Advisor	pasindu@ambeonsecurities.lk

Research Team

Hansinee Beddage	Manager Investment Research	hansinee@ambeonsecurities.lk
Shashikala Hanshani	Trainee Investment Research Analyst	
Amoda Prasansana	Trainee Investment Research Analyst	

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