

# TOKYO CEMENT LANKA PLC

INTERIM UPDATE - 2QFY12



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Ticker: TKYO.N/ TKYO.X

Manufacturing (growth Stock)

N – LKR41.00 X – LKR30.20

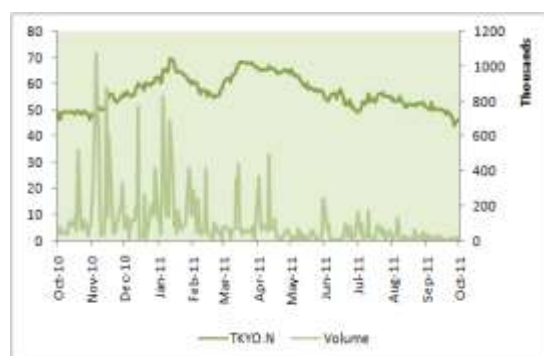
Recommendation: Long- term Buy

## INTERIM UPDATE - 2QFY12

We initiate our coverage of Tokyo cement with a **strong buy recommendation** in lieu of its financial strength and its strong growth prospects. Despite the accelerated post-war growth of the construction sector, Tokyo's stock is trading at a discount reflecting a 6-year revenue and EPS CAGR of 12.6% and 5% respectively.

### Highlights

- ✓ **Foray into the sustainable energy sector to pay off** – The commissioning of the firm's 6MW Dendro power plant in Mahiyangana which in this quarter commenced the ground work on the project is expected to yield strong payoffs for equity holders. We expect the project to be valued at LKR319.8 mn based on an NPV calculation.
- ✓ **Deleveraging trend set to continue**- 2Q FY12 results confirms our expectation that the firm is deleveraging as it moves towards its optimal level of debt of approx. 20%. A sharp decline in its finance cost in FY11 led to a staggering 135% increase in earnings. Earnings are expected to remain at an elevated level as the firm de-levers by retiring some its long term debt preferring instead to fund investments such as the Dendro plant with retained earnings.
- ✓ **Strong upside potential based on P/E & FCF valuation** - Despite the volatility created due to the recent surge in raw material prices in source countries, TKYO has demonstrated exceptional cost management which has resulted in fairly stable GP margins. Based on a Free cash flow (FCF) and Dividend discount model (DM) valuation we expect a **price appreciation potential of 18-60%** for its voting stock relative to its current trading price



### Market Profile

TKYO.N - Voting	
Intrinsic value(LKR)	66
52-week high(LKR)	69.4
52-week low(LKR)	43.9
Average(LKR)	69
Shares Outstanding	202.5 mn
TKYO.X - Non-voting	
Intrinsic value(LKR)	66
52-week high(LKR)	49.1
52-week low(LKR)	27
Average(LKR)	39.55
Shares Outstanding	101.2 mn
Beta	0.87
WACC	10.3%
Return on equity(ROE)	15.6%
Altman's Z-score	3.57
Institutional Holdings	24.3%
Insider Holdings	72%
Market Capitalization(LKR)	12.7 bn

LKR mn	FY09	FY10	FY11	FY12E	FY13E
Earnings to Equity holders	346.63	369.30	874.01	1,045.86	1,116.68
YoY %	-37.4%	6.5%	136.7%	19.7%	6.8%
EPS- voting (LKR)	1.71	1.82	4.32	5.16	5.51
YoY %	-37.4%	6.5%	136.7%	19.7%	6.8%
EPS- Non voting (LKR)	3.42	3.65	8.63	10.33	11.03
YoY %	-37.4%	6.5%	136.7%	19.7%	6.8%
P/E - voting	24.0	22.5	9.5	7.9	7.4
P/E - Non voting	8.82	8.28	3.50	2.92	2.74
DPS	0.36	0.27	1.65	0.63	1.84
Dividend Yield- Voting	0.87%	0.65%	4.02%	1.53%	4.48%
Dividend Yield - Non Voting	1.18%	0.88%	5.46%	2.08%	6.09%

## Timely entry into the lucrative energy sector...

### The Project

Building on its initial success as the pioneer in bio mass power generation in Sri Lanka, the ground work on the firms 6MW Dendro Power Plant at Mahiyanganaya commenced on schedule in October 2011. The plant, which will be built by Tokyo Power Ltd; a fully owned subsidiary of Tokyo Cement will on average supply around 37,230,000 Kwh(At 85% capacity) to the National grid and is expected to commence operations by Q1 FY14. The firm has already entered into a purchasing power agreement (PPA) to supply to the Ceylon Electricity board (CEB) for two decades at a fixed tariff.

### Market overview

Given the growth prospects for the economy and the over dependence on hydro power which has in the past proven to be unreliable, the sustainable energy sector offers a lucrative avenue for investment. Research reveals that similar sustainable energy ventures are expected to deliver 11-12% Returns on investment p.a. These figures are expected to improve with increasing energy prices from traditional sources such as coal which is increasing by a factor of 6 YoY.

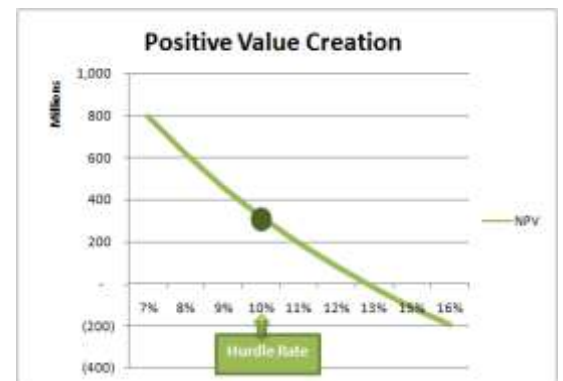
### Impact

The project is expected to deliver a stable source of revenue of approx. LKR 733.9 mn p.a. The gross margin for Dendro power has been at an elevated level of 80% due to cheap access to raw materials such as Glyricidia wood which has no other competing uses. Based on Consensus data, it is expected that the project will yield an operating profit of LKR 231.2 mn p.a. discounting at the companies cost of capital (WACC), the project is expected to generate a positive Net present value (NPV) of LKR 319.8 mn with an IRR of 13.1%. This represents a 3-5% addition to current market cap and a positive value creation to shareholders with a ROI of 21% which is over and above the cost of equity. The venture would also indirectly benefit the company through access to silicate at no charge which is a raw material used in the firms brand of Blended Hydraulic Cement (BHC).

Key Facts	
Sector	Power & Energy
Type	Bio Mass(Dendro)
Location	Mahiyangana
Capacity	6MW
Raw Material	Gliricidia wood
Ex. Date of completion	1Q FY14
Investment Outlay	LKR 1.5 bn
PPA Contract	Fixed tariff for 20 years
Tariff rate p.a	LKR 20.70kwh
Sector GP margin	80%
Operating margin	30-35%
ROI	21%
Sector ROI	11-12%

Source: Asia Wealth management (Pvt) Ltd estimates

**“Dendro power yields 2<sup>nd</sup> highest fixed tariff rate among sustainable energy alternatives”**



Source: Asia Wealth management (Pvt) Ltd estimates

**“15-17% contribution to Net profit p.a”**

## Quarterly Financial Performance.....

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Quarterly Performance review	2QFY12	2QFY11	% change	Cum FY12	Cum FY11	Cum % Change
Turnover	5,873,940	4,516,766	↑ 30%	10,416,344	7,942,734	↑ 31%
Cost of Sales	(4,751,010)	(3,482,091)	↑ 36%	(8,404,764)	(6,082,295)	↑ 38%
<b>Gross Profit</b>	<b>1,122,930</b>	<b>1,034,675</b>	<b>↑ 9%</b>	<b>2,011,580</b>	<b>1,860,439</b>	<b>↑ 8%</b>
Other Operating Income & expenses	(441,214)	(348,468)	↑ 27%	(799,970)	(553,941)	↑ 44%
Profit from operations	681,716	686,207	↓ -1%	1,211,610	1,306,498	↓ -7%
Depreciation	(240,649)	(242,599)	↓ -1%	(481,302)	(476,193)	↑ 1%
Finance Cost	(102,311)	(146,674)	↓ -30%	(210,887)	(293,002)	↓ -28%
<b>Profit Before Taxation</b>	<b>338,756</b>	<b>296,934</b>	<b>↑ 14%</b>	<b>519,421</b>	<b>537,303</b>	<b>↓ -3%</b>
Taxation	(2,700)	(2,700)	0%	(5,400)	(22,359)	↓ -76%
<b>Profit After Taxation</b>	<b>336,056</b>	<b>294,234</b>	<b>↑ 14%</b>	<b>514,021</b>	<b>514,944</b>	<b>↑ 0%</b>
Minority Interest	23,052	61	↑ 37690%	59,165	19,899	↑ 197%
<b>Earnings attributable to equityholders</b>	<b>359,108</b>	<b>294,295</b>	<b>↑ 22%</b>	<b>573,186</b>	<b>534,843</b>	<b>↑ 7%</b>

Source: CSE

### GP margins sustained despite rising raw material costs

As discussed in our interim update for 1Q FY12, the development boom taking place in the firm's raw material source countries namely, Thailand and Indonesia coupled with the weakening of the LKR against the Thai Baht and Indonesian Rupiah has resulted in a surge in cost of sales over and above revenue growth. The long standing relationship the firm has cultivated with its south Asian suppliers for almost three decades is somewhat of a hindrance for the firm to switch to cheaper sources. The cost factor is however not unique to TKYO as Indian competitor's face similar raw material cost appreciations as the monsoon season sets in which hinders quarrying activities leading to a rise in Limestone & gypsum prices.

Despite this, as in the past the firm has displayed excellent cost management procedures with the GP margin for the first six months of FY12 holding steady at our forecasted annual rate of 16.6%. Furthermore crude oil prices according to the NYMEX and ICE index are set to decline to approx. USD 95 bn a barrel by 2015 due to the global slowdown. This acts as a natural hedge as costs associated with the transportation of clinker weighs heavily on overall raw material costs.

*"GP margin steady at 16.6%, in line with forecast"*

*"Thailand development boom losing momentum; Construction index on a downward trend since mid-July"*

*"Limestone & clinker Index of India up 127-143 bps"*

### Extraordinary items & declining handling charges

Net other operating expenses rose 27% for the 2Q of FY12 compared with the same quarter of the previous year despite administration and distribution expenses remaining fairly stable. As discussed in the 1Q FY11 interim update, the reason for this is a due to a combination of extraordinary items that occurred in FY10 and a change in government policy over duty free concessions. Given the current government policy with regard to imports of duty free concessions granted to industrial materials, handling charges which previously accounted for around 20% of other income is expected to remain at a more modest level in the future (Almost 60% YoY decline in handling charges from FY10 to FY11). However the government budget proposal for 2012 contains certain favourable provisions towards the construction sector as part of the governments import substitution strategy which would favorably impact the firm's bottom line.

### Moving towards optimal capital structure

As per the management disclosure in August, the 6MW Dendro power plant will be predominantly funded with retained earnings as it is hopes to reduce its overall debt burden. The 6-months FY12 results reveal that the management is adhering to this policy as long term outstanding borrowings have declined 58% for the period. Further this confirms are expectations that the deleveraging that was recorded in FY11 was not a one-off event and that the firm is moving towards its optimal debt ratio of approx. 20% as per the cost of capital approach. This has contributed towards a 14% rise in PBT relative to 2QFY11 results.



Source: Asia Wealth management (Pvt) Ltd estimates

## DuPont Analysis

	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
ROE	17.11%	18.60%	11.06%	6.61%	6.68%	15.55%	19.26%	22.93%
Tax Burden	103.81%	98.84%	102.40%	53.58%	106.28%	103.81%	75.12%	75.60%
Interest Burden	68.33%	70.01%	57.96%	43.67%	29.33%	63.42%	78.13%	78.61%
EBIT margin	10.28%	10.66%	6.65%	8.39%	8.04%	8.05%	9.02%	8.95%
Asset turnover	1.18	1.24	1.24	1.31	1.19	1.44	1.60	1.60
Equity Multiplier	0.47	0.44	0.57	0.70	0.57	0.49	0.56	0.55

Source: Asia Wealth management (Pvt) Ltd estimates

A DuPont analysis quantifies our expectations for the firm in terms of a number of key metrics. This mirrors our future outlook for the sector and the firm

### Return on Equity (ROE)

Return on Equity for the FY11 more than doubled to 15.55% in contrast to 6.68% for the previous year. This was primarily due to an increase in return on assets from 2.98% to 7.63% for the same period as the post-war construction boom finally took off. ROE would further be bolstered by the deleveraging that is currently taking place as well as due to investments in value creating ventures such as the Dendro power plant.

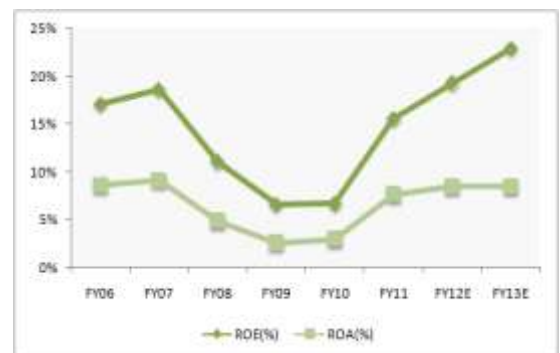
### Equity multiplier

As with all debt management ratios, the equity multiplier is an indicator of the proportion of debt in the capital structure. Based on an evaluation of the optimal capital structure using the cost of capital methodology, the company was slightly over-leveraged relative to its peers (39% vs. 41%). The firm's main source of debt is its joint venture partner; Nippon, coke and engineering Plc. However overdrafts and outstanding value of debt is on a downward trend since 2010 as the firm tends to favor financing capital expenditure with retained earnings and new share issues. Hence the equity multiplier is expected to fall over time.

### Tax Burden

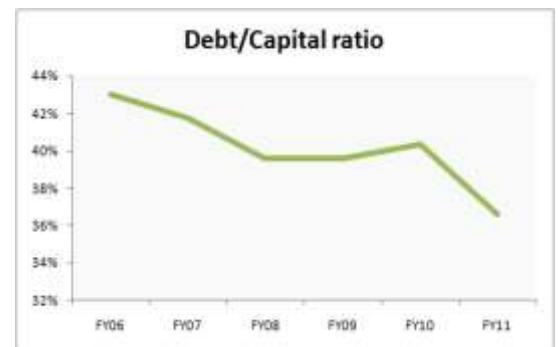
Tokyo cement benefits greatly from a number of tax breaks it enjoys from the Sri Lanka Board of investment (BOI) due to its involvement in sustainable power generation. The firm's tax burden is expected to increase as the tax break enjoyed by its subsidiary Tokyo super cement plc will expire in 2013. However the Dendro power plant which is expected to be commissioned by mid-2013 would benefit from a tax holiday which would partially offset its impact.

ROE vs. ROA



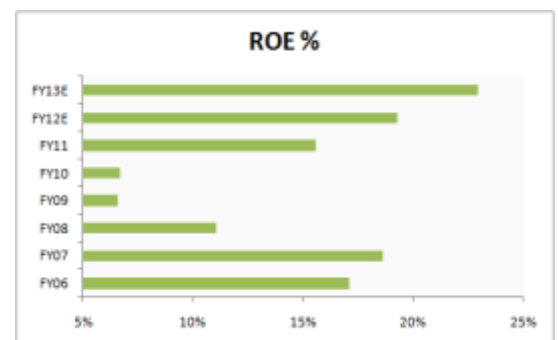
Source: Asia Wealth management (Pvt) Ltd estimates

Debt/Capital ratio



Source: Asia Wealth management (Pvt) Ltd estimates

ROE %



Source: Asia Wealth management (Pvt) Ltd estimates

## Valuation

Taking into account consideration the growth prospects of the industry and the strategic positioning of the firm, we are confident of the strong upside potential for the firms stock. Considering the firms past performance for the past six years it has continuously outperformed the sector in terms of Revenue and EPS CAGR's which stood at 12.6% and 5% respectively. In this light we project the firm to achieve a net profit figure of LKR 1,346 mn in FY12E which represents a 62% YoY growth

A special mention must be made with respect to the possibility of a windfall dividend being paid out in FY13E. As per the BOI guidelines, with the expiration of a tax shield enjoyed by the firm's subsidiary Tokyo Super in FY12, we have considered the possibility of a bumper dividend in the following year (FY13). This is expected to result in an increase in dividend payout ratio from 18% to 50% and a DPS of LKR1.65.

Based on a historical price movement, the voting stock has been observed to reach a maximum of LKR 69.40 over a 52-week time horizon. The 52-week historical price movement implies a price volatility of 6.03% on a mean of LKR56.30. This implies a price deviation of LKR2.47 with the share expected to reach a price of LKR43.50 against the current price of LKR 41.00 in the event of an upward swing.

The non-voting shares have also met with investor approval and have in the past reached a maximum of LKR 49.1 over a 52-week period. Based on a historical analysis over the same time horizon, we arrive at a mean of LKR39.55 with a price volatility of 5.14%. This gives an upside potential of LKR31.80 for the stock against the current price of LKR30.20.

In addition we expect the forward P/E's of TKYO.N for the years FY12E and FY13E to stand at 7.9X and 7.4X respectively. Similarly the forward multiples for TKYO.X for FY12E and FY13E is expected to be 2.9X and 2.7X respectively.

P/E based valuation is complemented by a DCF valuation which indicates strong upside potential for the firms stock.

*All in all we stand by our initial recommendation that Tokyo cement is a growth stock with strong long term upside potential and is a definite **buy**.*

## Valuation dashboard

### P/E based valuation

TKYO.N	FY11	FY12E	FY13E
Price(LKR)	41.00	41.00	41.00
EPS	4.3	5.2	5.5
P/E	9.5	7.9	7.4
BVPS	27.8	26.8	24.1
P/BV	1.5	1.5	1.7
TKYO.X			
Price(LKR)	30.20	30.20	30.20
EPS	8.6	10.3	11.0
P/E	3.5	2.9	2.7
BVPS	55.5	53.6	48.1
P/BV	0.54	0.56	0.63

Source: Asia Wealth management (Pvt) Ltd estimates

Voting	FY11		FY12E		FY13E	
LKR	43.5	69.4	43.5	69.4	43.5	69.4
P/E	10.1	16.1	8.4	13.4	7.9	12.6
P/BV	1.6	2.5	1.6	2.6	1.8	2.9
Non-Voting	FY11		FY12E		FY13E	
LKR	31.8	49.1	31.8	49.1	31.8	49.1
P/E	3.7	5.7	3.1	4.8	2.9	4.5
P/BV	0.6	0.9	0.6	0.9	0.7	1.0

\*The above price range is based on the following criteria;  
The lower bound is based on an upward growth of 6.03% for voting shares and 5.14% for non-voting based on a 12-month standard deviation of the stock.  
The upper bound is the maximum closing price of the stock recorded over the same 12-month period

### DCF Valuation

A multi-stage free cash flow to firm (FCFF) model with a 5-year explicit forecast period and a terminal value reveals that TKYO's voting stock is trading at a discount of 60% to an expected intrinsic value of LKR66/per share against a benchmark price of LKR41. Incorporating our NPV valuation for the Dendro power project into our FCFF valuation indicates the potential for further upside potential.

**"DCF valuation price target  
LKR54.4-LKR83.1"**

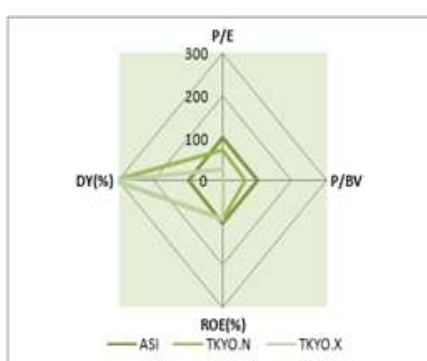
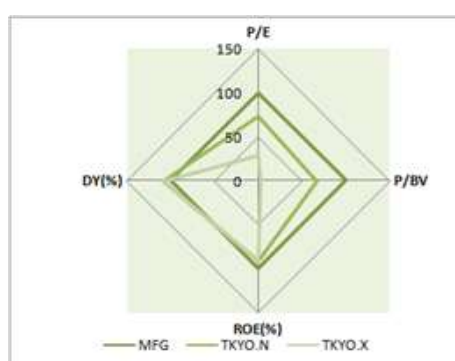
Growth Rate	WACC					
	66.42	8.29%	9.29%	10.29%	11.29%	12.29%
7.50%	56.51	53.48	50.61	47.91	45.35	
8.00%	64.07	60.66	57.45	54.41	51.55	
8.50%	74.00	70.11	66.43	62.96	59.69	
9.00%	87.65	83.08	78.77	74.71	70.86	
9.50%	107.55	102.00	96.77	91.83	87.17	

Source: Asia Wealth management (Pvt) Ltd estimates

### Relative valuation

A global and regional peer comparison compliments our initial DCF recommendation. A like-for-like comparison with a specific company is difficult to be carried as there is wide disparity in scale and scope of cement manufacturers. However based on a broad analysis it is clear that Tokyo cement outperforms both its peers and the market in a number of key metrics.

**"50X-157X Higher ROE relative to  
global & regional peers"**



Source: Asia Wealth management (Pvt) Ltd estimates & Bloomberg data

## Investment risks

### ✓ Competition risk

Due to the various Indo-Sri Lanka and Indo-Pakistan free trade agreements, bagged cement from these sources experience a cost advantage. The average bag of imported cement is LKR 684.00 which is almost 5% lower than domestically produced cement. However this cost advantage is confined to the generic Ordinary Portland Cement (OPC) which is not suitable for mega infrastructure projects in which TKYO's premium Nippon brand remains the preferred choice.

### ✓ Expected reopening of the KKS plant

The government plans to revive the ailing KKS fully integrated cement plant by next year with the aid of a private investor. The KKS plant with its limestone deposits spread over 1,000 acres in Jaffna has the potential to meet 50% of the total domestic demand for cement. However in stark contrast to this, the current installed capacity of the plant is a pitiful 250,000 tons p.a as opposed to TKYO's 1.8 mn tons p.a. In order for this investment to generate a meaningful return, it is necessary to construct integrated cement kiln with at least 1 mn tons of capacity costing approx. LKR 10 bn with a construction time of 3 years. Further a significant cost would be incurred in upgrading the limestone mining infrastructure as the limestone deposits are situated close to the coastline and is partially submerged making extraction difficult. Hence, the KKS plant poses no immediate threat to the firm's monopoly position in the North although it could eat into the firm's market share in the long run.

### ✓ Interest rate risk

The delicate state of the economy's foreign reserves has put pressure on the Central Bank to raise interest rates in order to curb credit growth. This would raise the cost of borrowings for consumers in the form of higher mortgage rates. This could deter investors away from housing construction and towards rented accommodation leading to an overall decline in cement demand from the household sector. However large scale government housing projects such as the Henamulla housing complex which is expected to add a further 68,000 houses is unlikely to be deterred on account of this. From the firm's point of view, rising interest rates could lead to rising borrowing costs although the firm's exposure to this would be limited as its debt burden is on a declining trend.

## Income Statement

LKR millions	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Turnover	11,308	14,029	17,652	14,738	16,495	19,762	20,989
Cost of sales	(9,373)	(11,978)	(14,952)	(12,442)	(13,588)	(16,482)	(17,505)
Gross profit	1,936	2,052	2,700	2,295	2,906	3,280	3,484
Net operating income	243	101	204	464	237	237	237
Distribution cost	(820)	(1,036)	(1,095)	(1,097)	(1,298)	(1,186)	(1,259)
Administrative expenses	(153)	(184)	(328)	(478)	(519)	(550)	(583)
Profit from operations	1,205	933	1,481	1,185	1,327	1,782	1,879
Finance cost	(361)	(392)	(834)	(837)	(486)	(390)	(402)
Profit before taxation	844	541	647	347	842	1,392	1,477
Taxation	(20)	32	(289)	4	(13)	(46)	(46)
Profit after taxation	824	572	357	351	829	1,346	1,431
Minority Interest	(10)	19	11	(18)	(45)	19	7
Earnings to equityholders	814	591	368	333	784	1,365	1,438

Source: Asia Wealth management (Pvt) Ltd estimates

## Balance sheet

Non-Current Assets	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Property, Plant & Equipment	4,473	4,687	9,359	9,055	8,557	8,764	9,013
Capital Work-in-Progress	2,564	3,698	397	93	53	448	1,395
Goodwill	13	13	13	13	13	13	13
Investments	1	4	4	3	3	3	3
Operating Lease Prepayment	82	78	74	69	65	61	56
<b>Total Non-Current Assets</b>	<b>7,133</b>	<b>8,481</b>	<b>9,846</b>	<b>9,234</b>	<b>8,692</b>	<b>9,289</b>	<b>10,481</b>
Current Assets							
Inventories	600	1,212	1,388	688	1,122	989	1,050
Trade & Other Receivables	948	1,464	1,728	1,313	1,096	1,313	1,150
Operating Lease Prepayment	4	4	4	4	4	4	4
Tax Receivable	-	-	215	259	346	346	346
Cash and Cash Equivalents	441	181	311	911	199	407	124
<b>Total Current Assets</b>	<b>1,993</b>	<b>2,861</b>	<b>3,646</b>	<b>3,175</b>	<b>2,768</b>	<b>3,059</b>	<b>2,675</b>
<b>Total Assets</b>	<b>9,126</b>	<b>11,342</b>	<b>13,492</b>	<b>12,409</b>	<b>11,460</b>	<b>12,347</b>	<b>13,155</b>
EQUITY & LIABILITIES							
Stated Capital	225	1,793	1,793	1,793	2,367	2,367	2,367
Reserves	1,251	150	150	150	150	150	150
Retained Earnings	3,009	3,062	3,300	3,589	3,103	3,958	4,517
attributable to Equityholders	4,485	5,005	5,243	5,532	5,620	6,475	7,033
Minority Interest	128	147	158	140	95	114	121
<b>Total Equity</b>	<b>4,613</b>	<b>5,152</b>	<b>5,401</b>	<b>5,672</b>	<b>5,715</b>	<b>6,589</b>	<b>7,155</b>
Non-Current Liabilities							
Interest Bearing Borrowings	1,772	1,273	868	1,387	940	969	999
Deferred Tax	69	33	264	214	496	626	665
Retirement Benefits Obligation	18	23	23	30	37	34	36
Deferred Revenue	-	-	10	7	4	1	-
Lease Creditors	33	35	98	53	17	-	-
<b>Total Non-Current Liabilities</b>	<b>1,892</b>	<b>1,363</b>	<b>1,263</b>	<b>1,690</b>	<b>1,495</b>	<b>1,630</b>	<b>1,700</b>
Current Liabilities							
Trade & Other Payables	924	2,251	3,775	2,220	1,645	1,488	1,580
Current Maturity of Long-Term Loans	1,440	2,010	2,569	2,357	2,304	2,374	2,449
Bank Overdrafts	238	354	441	422	261	267	272
Lease Creditors & other liabilities	19	212	42	49	40	-	-
<b>Total Current Liabilities</b>	<b>2,621</b>	<b>4,827</b>	<b>6,828</b>	<b>5,047</b>	<b>4,250</b>	<b>4,128</b>	<b>4,301</b>
<b>Total Equity &amp; Liabilities</b>	<b>9,126</b>	<b>11,342</b>	<b>13,492</b>	<b>12,409</b>	<b>11,460</b>	<b>12,347</b>	<b>13,155</b>

Source: Asia Wealth management (Pvt) Ltd estimates

## Quick performance review

Profitability ratios	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Revenue growth	0.00%	26.27%	24.06%	25.83%	-16.51%	11.92%	19.81%	6.21%
Gross Profit margin	16.75%	17.12%	14.62%	15.30%	15.58%	17.62%	16.60%	16.60%
PBIT margin	10.28%	10.66%	6.65%	8.39%	8.04%	8.05%	9.02%	8.95%
PBT margin	7.02%	7.46%	3.85%	3.66%	2.36%	5.10%	7.05%	7.04%
Net profit margin	7.29%	7.38%	3.95%	1.96%	2.51%	5.30%	5.29%	5.32%
<b>Liquidity ratios</b>								
Current ratios	0.85	0.76	0.59	0.53	0.63	0.65	0.74	0.62
Quick ratio	0.49	0.53	0.34	0.30	0.44	0.30	0.46	0.31
<b>Efficiency ratios</b>								
Interest cover	3.16	3.33	2.38	1.78	1.42	2.73	4.57	4.68
Inventory Cycle	29.43	23.38	36.95	33.89	20.18	30.15	21.90	21.90
Receivable Cycle	25.12	30.60	38.08	35.72	32.52	24.26	24.26	20.00
Payables Cycle	29.78	35.99	68.61	92.14	65.12	44.18	44.18	30.60
<b>Gearing ratios</b>								
Debt to equity ratio	75.50%	71.62%	65.59%	65.56%	67.68%	57.72%	61.57%	70.78%
Debt to capital ratio	43.02%	41.73%	39.61%	39.60%	40.36%	36.60%	38.11%	41.45%
<b>Investor ratios</b>								
ROE(%)	17.11%	18.60%	11.06%	6.61%	6.68%	15.55%	19.26%	22.93%
ROA(%)	8.6%	9.1%	4.9%	2.6%	3.0%	7.6%	8.5%	8.5%
ROIC(%)	8.6%	9.1%	4.9%	2.6%	3.0%	7.6%	9.3%	10.2%
Asset turnover(X)	1.18	1.24	1.24	1.31	1.19	1.44	1.60	1.60
Equity Multiplier(X)	0.47	0.44	0.57	0.70	0.57	0.49	0.56	0.55
DPS	0.3	0.5	0.1	0.4	0.3	1.7	0.6	1.8
Dividend Yield	0.8%	1.0%	0.2%	0.7%	0.6%	3.5%	1.3%	3.9%

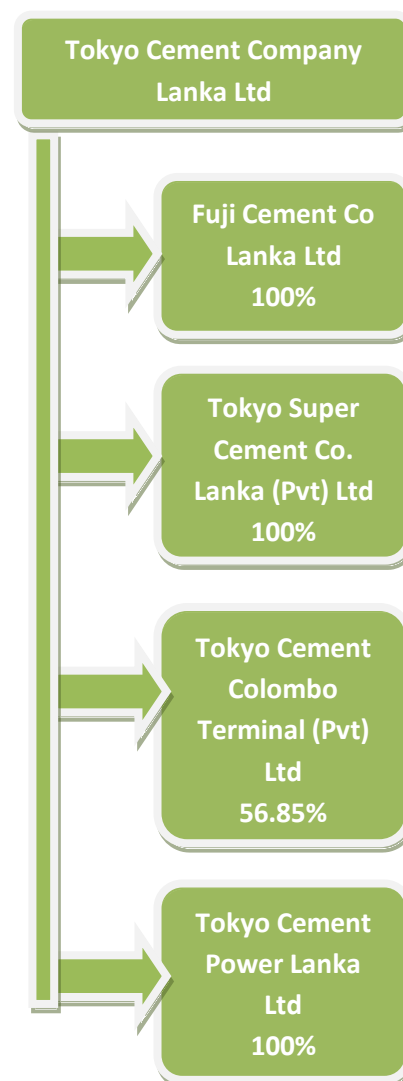
Source: Asia Wealth management (Pvt) Ltd estimates

## Company description

Tokyo cement; a joint venture between Nippon, coke and engineering (Formerly Mitsui Mining Company) and St. Anthony's Consolidated, has been the leading cement producer in Sri Lanka for almost three decades. Together with the Swiss Cement manufacturer Holcim, they make up almost 60% of the domestic cement market and have been the market leader since 2006. Tokyo cement has the singular honor of being the only listed company in the Colombo Stock exchange. After the country saw the end of a three decade long civil war, the expected post-war reconstruction boom is yet to achieve its full potential. At the end of June 2011 the company's revenue increased by 12% to LKR 16.5 Billion. Compared to the recorded values of Sales of the industry of about LKR 51.56 Billion this gives them a market share of about 31%.

The company has a reputation for being innovators and risk takers; steered by its visionary founder Mr. A.S.G Gnanam, it aggressively increased its production capacity in the North-East of the island despite the ongoing conflict that prevailed at the time. It was also the pioneer of "green Cement" with an investment in a 10MW Bio mass plant which grants the firm a cost advantage and is an additional source of revenue. Furthermore, the firm identified the future potential of blended hydraulic cement (BHC) and enjoys a first mover advantage in this segment.

The firm uses a closed circuit cement production process for its three grinding mills in China Bay Trincomalee, producing 200 tons of cement per hour. The mill employs some of the latest production techniques including the cost effective vertical roller mill (VRM). Installed in 2008, it is the only VRM exclusively dedicated to the production of cement in the South Asian region. The plant also enjoys a significant competitive advantage by being self-sufficient in its energy requirements, supplied from its 10MW bio mass power plant. The firms employment of green technology entitles it to carbon credits which could be worth as much as LKR 40-45mn per annum at current market prices.

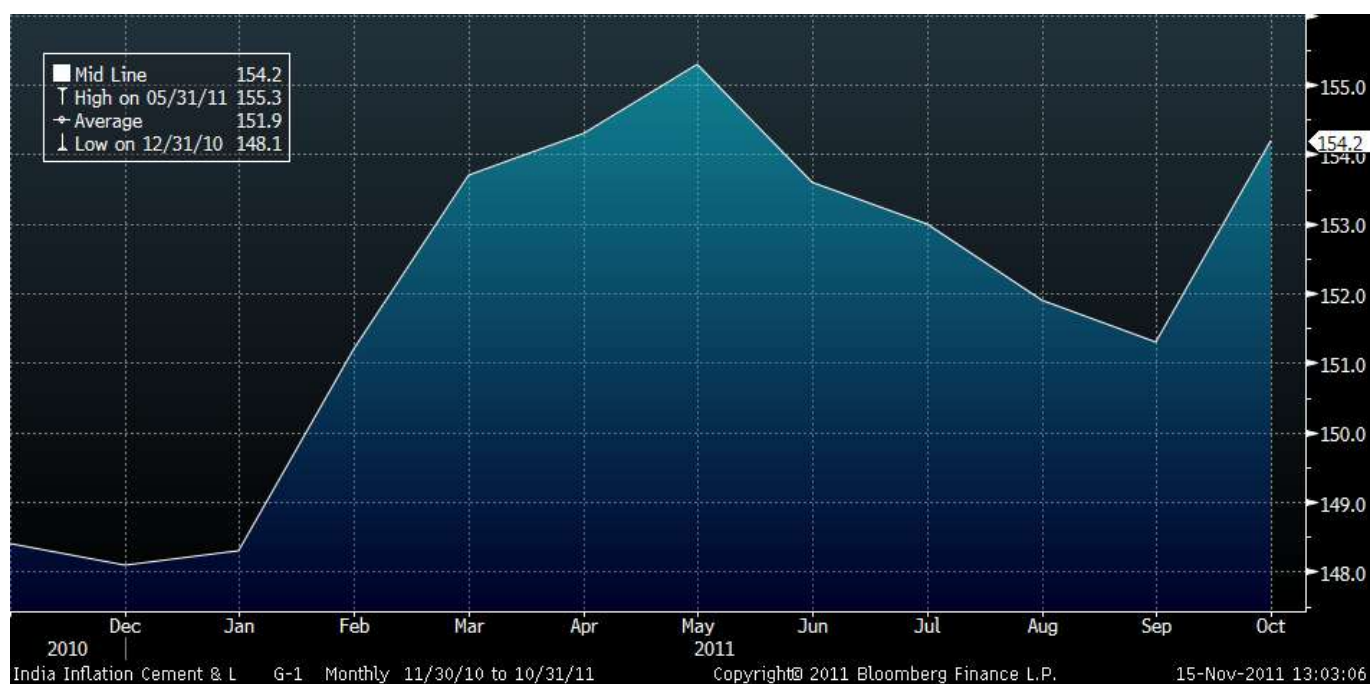


Major Shareholdings % - Voting	
Nippon Coke & Engineering co.	27.5%
St. Anthony's Consolidated Ltd	27.5%
South Asian Investment	16.2%
Capital City Holdings	3%

Major shareholdings %-non voting	
HSBC Intl Ltd - J.P. morgan Clearing corp	7.4%
Hinl-Jpmb-Butterfield Trust Ltd	7.3%
Associated Electrical Corporation	6.4%
Employees Provident Fund	6.2%

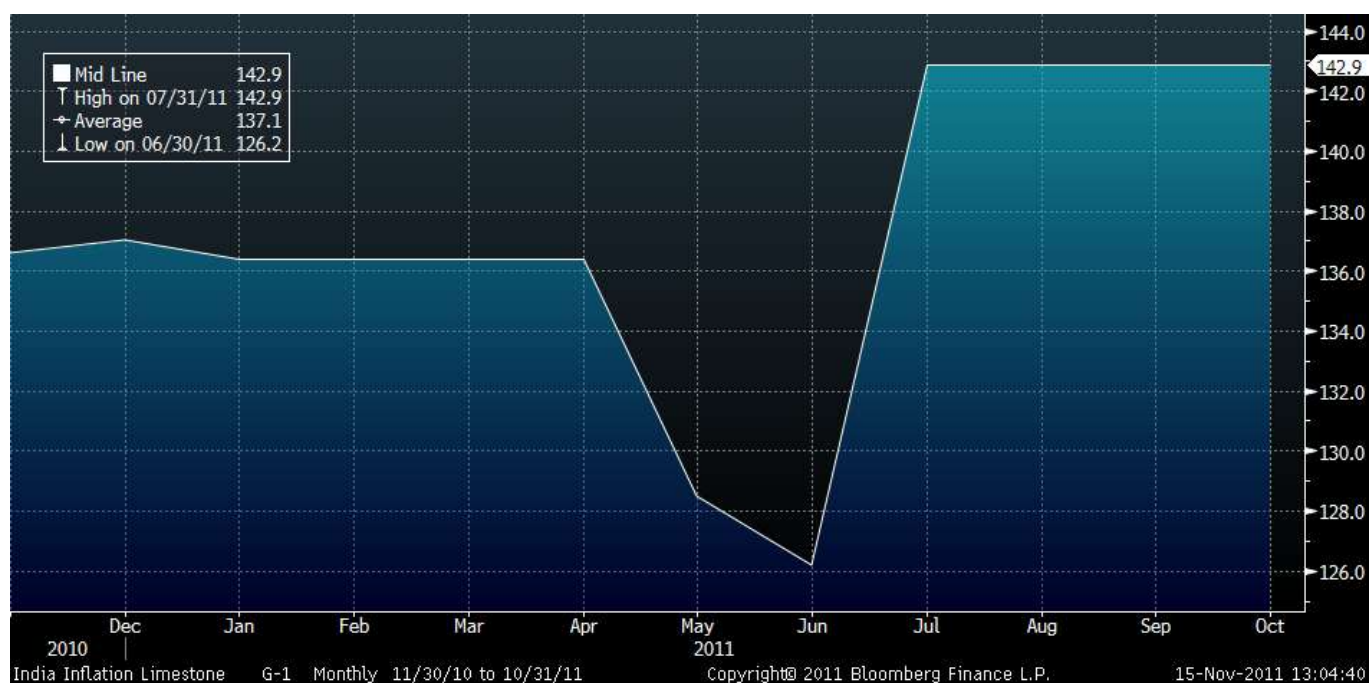
## Annexure

Figure 1- Indian Wholesale Cement price

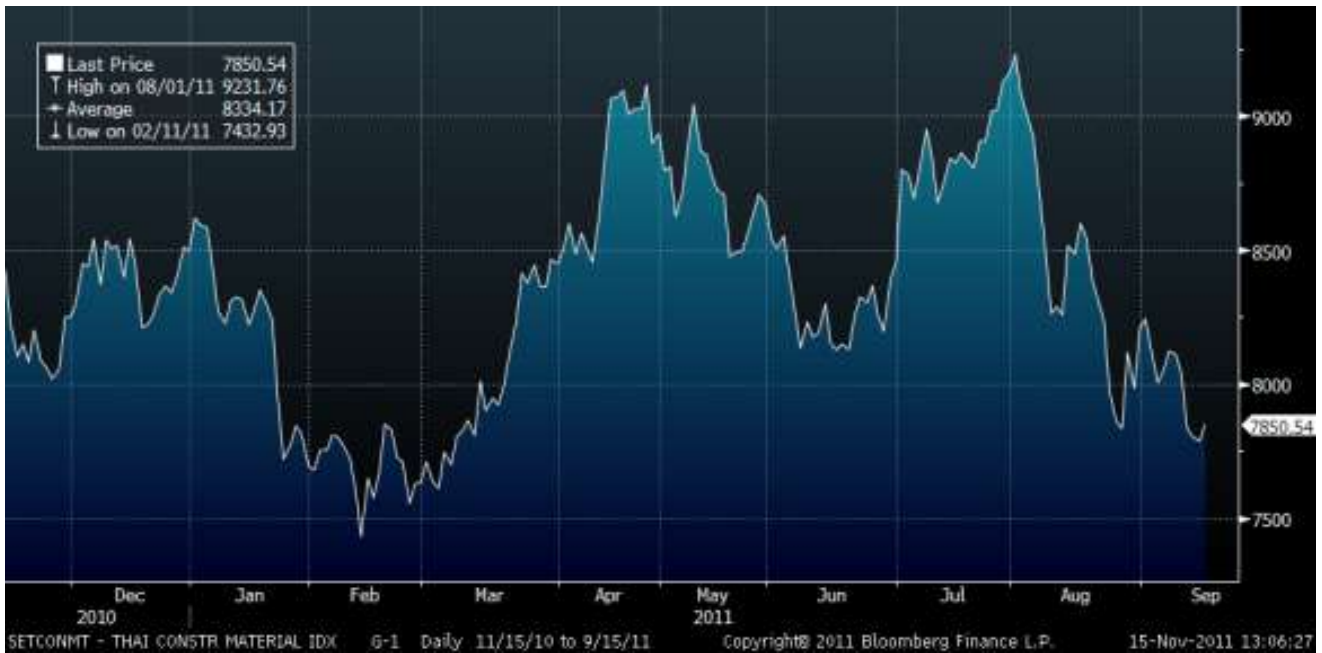


Source: Bloomberg data

Figure 2 - Indian limestone price index



Source: Bloomberg data



Source: Bloomberg data

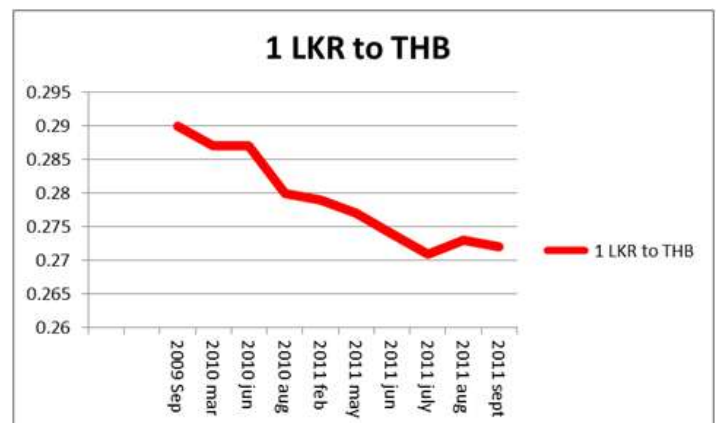
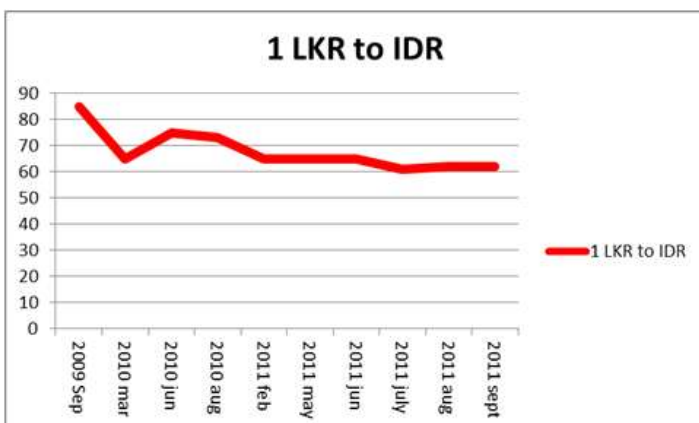
Figure 4 - Purchasing Power agreements Fixed Tariff rates

Technology	rate for years 1-20(LKR/KWh)
Mini-hydro	13.04
Mini-hydro - local	13.32
Wind	19.43
Wind-Local	19.97
Biomass(Dendro)	20.7
Biomass(Agricultural & industrial waste)	14.53
Municipal Waste	22.02
Waste Heat Recovery	6.64

Source: CEB( Applicable for contracts signed between November 2010-December 2011)

Figure 5-Sri Lankan Rupee vs. Indonesian Rupiah

Figure 6 -Sri Lankan Rupee vs. Thai Baht



Source: Bloomberg data

Source: Bloomberg data

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