



Member of the Colombo Stock Exchange

November 2020

### Trading Snapshot

Sector	Food,Bev.&Tob:	
CSE Code	MAL.N0000	
Bloomberg Ticker	MAL SL	
Shares in Issue (Mn) V	203	
	NV	20
52W High (LKR) V	13.10	
52W Low (LKR) V	3.50	
Market Cap (LKR.Mn)	2,817	
Market Cap (USD.Mn)	15	
LKR:USD	183.73	
Market Price (LKR) V	12.90	
	NV	9.90

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# Malwatte Valley Plantations PLC

## Earnings Review: Strong BUY

Market Price LKR. 12.90 | Target Price LKR. 15.90 | **Upside +23%**

### Bottom line surge on the back of increase in tea and rubber prices

**High price for tea amidst low production:** Increase in global demand for tea amidst a decline in global production is driving up prices. Since the beginning of the current financial year (April 2020), Sri Lankan average tea prices have gone up 14%.

**High price for rubber due to surge in local consumption:** Rubber prices have increased due to improved local consumption following the import restrictions on rubber based value added products. This has increased the demand for domestically produced rubber products such as tyre and rubber gloves.

**High price for rubber due to low production:** Global rubber production is driving up prices. Natural Rubber Producing Countries expects a nearly 5% fall in global production, with output hit by corona virus-related labour shortages as well as floods and unfavorable weather in Thailand and Vietnam affecting rubber tapping.

**Global demand for rubber gloves continues to surge:** COVID 19 is driving the global demand for both consumer and surgical rubber gloves. Sri Lanka being one of the leading rubber glove producers, local demand for rubber is increasing fetching higher prices.

**Significant increase in profitability:** Profits will significantly increase in FY2020 as Tea and Rubber are expected to continue to attract higher yields.

### Investor Guide

Year ended 31 December	2016	2017	2018	2019	2020 (F) 6M results Annualized
LKR. Million					
Turnover	2,857	4,601	4,755	4,857	5,365
Gross Profit/(Loss)	(7)	559	173	(86)	482
Operating Profit/(Loss)	124	595	171	(111)	385
Profit/(Loss) After Tax	62	554	107	(228)	354
EPS (LKR)	0.28	2.50	0.48	(1.02)	1.59
PE (X)	10.00	4.40	16.25	(6.08)	8.14
NAV/ share (LKR)	12.48	15.68	14.87	13.24	14.83
PBV (X)	0.22	0.70	0.52	0.47	0.87
ROE	2.2%	15.9%	3.2%	-7.7%	10.7%
Dividend Per Share (Rs.)	-	0.15	-	-	-
Share Price–Voting (LKR)	2.80	11.00	7.80	6.20	**12.90

\*\* Current market price.

Source: MAL Financial Statements, SC Securities

## About the Company

Malwatte Valley Plantations PLC (MAL) is engaged in cultivation, manufacture and sale of black tea, rubber and other crops. The Company's segments include Tea, Rubber, Coconut and Others. The Company produces tea from its tea gardens located in over three agro climatic regions namely Badulla-Hali Ela, Bandarawela and Welimada.

Its portfolio includes approximately six rubber estates in the Avissawella Region. The Company also cultivates fruits and spices. The Company ships its rubber to Malaysia, Pakistan, Czech Republic, Brazil, Germany, Netherlands, India and Bangladesh. It has a total of over four natural rubber processing plants, which cater to the various needs of the domestic and international market, having a total production capacity of approximately 1.5 million kilos of rubber made per year with a productive extent of over 2100 hectares.

## Earnings Reviews

### 1H FY20 Financial Performance

LKR.Million	3M ended - 30 June			1H ended - 30 June		
	2020	2019	Growth	2020	2019	Growth
Turnover	<b>1,615</b>	1,256	29%	<b>2,682</b>	2,406	11%
Cost of Sales	<b>(1,457)</b>	<u>(1,231)</u>	18%	<b>(2,441)</b>	<u>(2,366)</u>	3%
Gross profit	<b>158</b>	25	539%	<b>241</b>	40	501%
Other income	<b>25</b>	22	15%	<b>65</b>	74	-13%
Finance income	<b>20</b>	23	-13%	<b>37</b>	45	-17%
Admin: expenses	<b>(48)</b>	(49)	-2%	<b>(97)</b>	(92)	6%
Interest on Gov <sup>n</sup> finance lease	<b>(8)</b>	(8)	4%	<b>(16)</b>	(16)	2%
Finance cost	<b>(28)</b>	<u>(29)</u>	-6%	<b>(53)</b>	<u>(55)</u>	-4%
PBT	<b>118</b>	(18)	772%	<b>177</b>	(4)	4985%
Tax	-	-		-	-	
PAT	<b>118</b>	(18)	772%	<b>177</b>	(4)	4985%
EPS (LKR)	<b>0.53</b>	(0.08)	763%	<b>0.79</b>	(0.02)	4050%

Source: MAL quarterly financial statement 30<sup>th</sup> June 2020

### Segmental Gross Profit – 1H ended 30 June

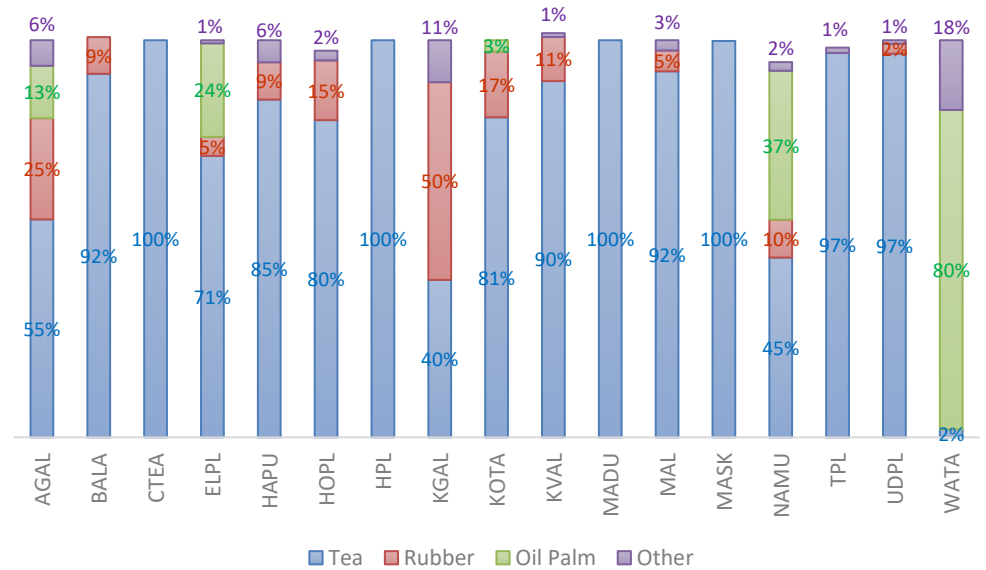
LKR.Million	1H 2020	1H 2019	Change (%)
Tea	<b>215.2</b>	18.9	1040%
Rubber	<b>(7.4)</b>	(21.3)	-66%
Coconut	<b>0.8</b>	0.6	23%
Other (including spices)	<b>32.6</b>	<u>42.0</u>	-22%
Total	<b>241.2</b>	40.2	501%

Source: MAL quarterly financial statement 30<sup>th</sup> June 2020

## Peer Comparison

Company Code	Revenue FY19/20 (LKR Mn)	Segmental Revenue (LKR Mn)			
		Tea	Rubber	Oil Palm	Other
CTEA	10,713	10,713			
KVAL	8,909	7,993	989		86
MAL	4,857	4,478	254		125
MASK	4,167	4,160			8
HPL	4,040	4,040			
TPL	3,886	3,762	13		52
WATA	3,327	67		2,675	584
ELPL	3,308	2,345	157	780	26
KOTA	3,270	2,635	541	93	
HAPU	3,170	2,697	298		176
AGAL	2,650	1,455	675	349	171
BALA	2,573	2,356	237		
NAMU	2,555	1,157	244	958	56
KGAL	2,422	960	1,206		256
MADU	2,007	2,007			
HOPL	1,762	1,408	265		43
UDPL	1,632	1,577	40		15

## Sector Exposure in Terms of Revenue Earned – FY19/20



Source: Financial reports of respective companies FY19/20

## Relative Valuation

Company Code	Share Price LKR	EPS (LKR) Annualized	PE (X) Annualized	ROE (%)	Mkt.Cap (LKR. Mn)
ELPL.N0000	46.00	4.22	10.90	6.6%	3,352
KGAL.N0000	86.40	9.45	9.14	6.7%	2,160
MAL.N0000	12.90	1.59	8.11	11.3%	2,817

MAL is trading at a relatively lower PE(x) compared to its peers; Elpitiya Plantation (ELPL) and Kegalle Plantation (KGAL). By using the average PE of the peers (10x) MAL share can be valued at **LKR.15.90**; with a potential **upside of 23%**.

## Tea Market Outlook for 2020

Tea is the most consumed beverage in the world apart from water and analysts predict tea consumption to be growing steadily driven by China accounting for a significant portion and followed closely by India. The demand for tea is likely to be less exposed to economic cycles than other commodities, which augurs well. Global demand for black tea has had a steady influence from China and is likely to show growth during the ensuing year as well. From a Sri Lankan perspective, exports to China have recorded a significant gain.

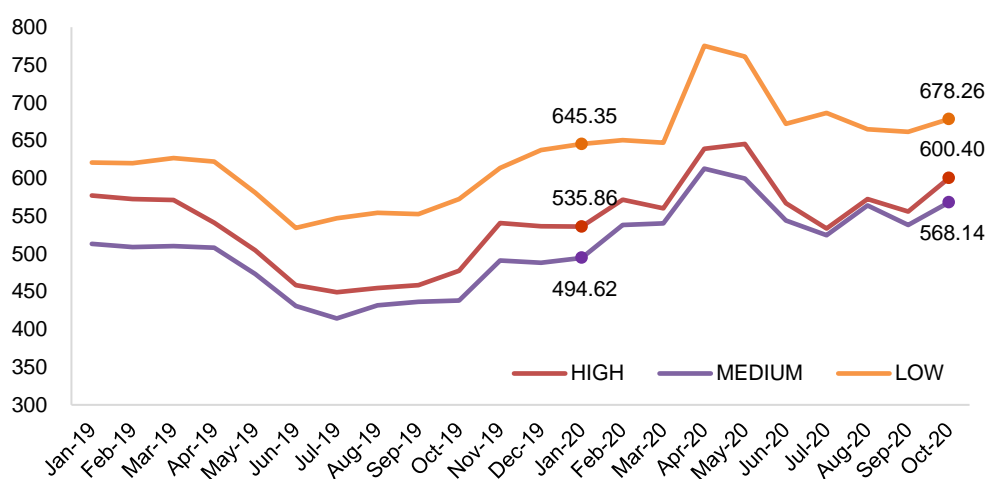
Producer countries consumption is on the rise and consequently, lesser volumes of tea may be available for export which would augur well for prices of orthodox teas, in particular, with its limited supply.

Taking these factors in to consideration and that global production during the 1st quarter is usually the lowest during the year, the buoyancy in the market is likely to continue throughout 1st quarter. Prices for large leaf orthodox teas, could be considered to be in short supply in the backdrop of the lower output from Sri Lanka over the past two to three years and therefore, the large leaf type teas would continue to attract a premium for the 1st half of 2020. The demand for liquoring small leaf teas from the High and Mid Grown region are likely to encounter downward pressure depending on the availability from other centers, where a degree of substitution is possible.

The market demand for teas for the second half of the year would no doubt depend on how the global tea industry would progress during the first half. As Forbes & Walker has highlighted periodically, they are confident that market demand for 'good quality teas' would certainly command a significant premium consistently throughout the year.

Source: Forbes & Walker Tea Brokers

### Monthly Average Sri Lankan Tea Auction Price Movement (LKR/ Kg) (Average for High Grown, Medium Grown and Low Grown)



Source: Tea Exporters Association of Sri Lanka, SC Research

## Natural Rubber (NR) Market Outlook for 2020

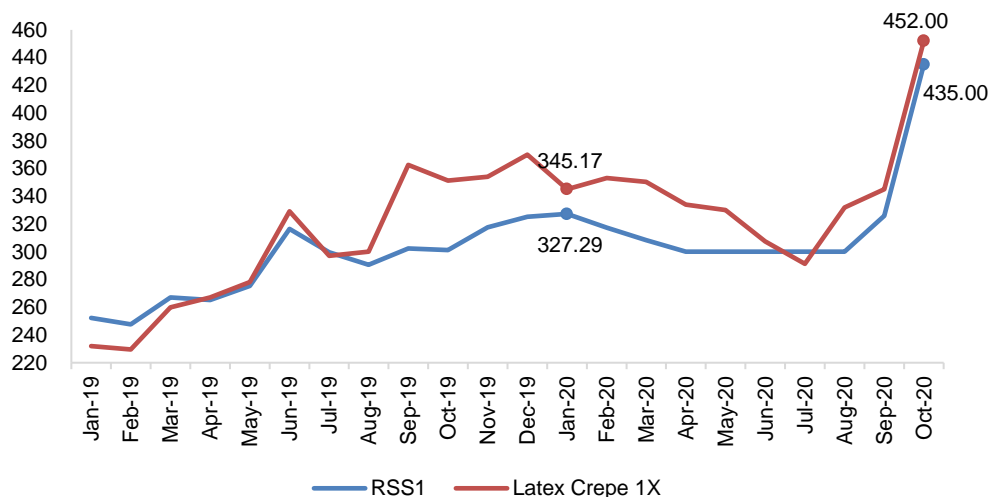
The world production of Natural Rubber (NR) fell 8.7%, year-over-year, during Jan-Aug 2020 to 7.778 million tonnes. Accounting a 3.8% fall anticipated in the remaining four months of the year, the total production during the full year 2020 is anticipated at 12.901 million tonnes reflecting a 6.8% fall from the previous year. This revised outlook of the world supply in 2020 is 1.9 percentage points lower than the outlook reported a month ago which was 13.149 million tonnes by representing a 4.9% fall.

The world consumption of NR fell 11.7%, year-over-year, to 8.151 million tonnes during Jan-Aug 2020. In view of restoration of economic activities across countries, and a faster-than expected economic recovery in China, the consumption sector is anticipated to perform relatively better during the remaining four months of the year by contracting only by 1.8%, year-over-year during the period. The world consumption outlook for the full year 2020 is marginally scaled up to 12.611 million tonnes by representing an 8.4% fall from the previous year. The outlook for 2020 reported a month ago was 12.544 million tonnes by representing an 8.9% fall from the previous year.

Broadly speaking, NR prices further improved during September 2020, at varying degrees across different grades and different physical markets. Among the various grades and markets, RSS3 grade at FOB Bangkok glared during September 2020 by averaging at 13.8% above the average it registered in the previous month (August 2020).

Source: Association of Natural Rubber Producing Countries (ANRPC)

### Annual Average Sri Lankan Rubber Auction Price Movement (LKR/ Kg) (RSS, Scrap Crape and Latex Crepe)



Source: Rubber Research Institute of Sri Lanka.

## Top 20 Shareholders of the Company – 30<sup>th</sup> June 2020

Name of Shareholder	No. of Shares	%
Wayamba Plantation (Private) Limited	135,839,160	66.98
Hatton National Bank PLC /Carlines Holdings (Pvt) Ltd	14,949,487	7.37
Amana Bank PLC/ Almas Organiztion (Private) Ltd	6,329,163	3.12
Peoples Leasing & Finance PLC/Mr. M I Samsudeen	2,075,185	1.02
Mr. Radhakrishnan Maheshwaran	1,206,667	0.6
Miss.A. Radhakrishnan	1,206,667	0.6
Miss. Meenambigai P Radhakrishnan	1,206,666	0.6
Dr. Niranjan Deepal Gunawardena	1,044,834	0.52
Sezeka Limited	891,708	0.44
Employees Provident Fund	792,000	0.39
Camille Consulting Corp	600,000	0.3
J. B. Cocoshell (Pvt) Ltd	591,524	0.3
Tranz Dominion,L.L.C	520,000	0.26
Mr. R. E. Rambukwella	351,842	0.17
Pershing LLC S/A Averbach Grauson & Company	350,000	0.17
MR. E. J .B. U. Fernando	306,743	0.15
People's Leasing & Finance PLC/ Mr. E.J.B.U.Fernando	253,765	0.13
Mr. S. D. Divakarage	249,275	0.12
Mr. K. C. Vignarajah	235,775	0.12
Cocoshell Activated Carbon Company (Pvt) Ltd	220,000	0.11

Source: MAL Quarterly financial statements – 30 June 2020

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Hold: FV between -10% and 10% around Current Trading Price  
Sell: FV more than 10% below Current Trading Price



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