

Tokyo Cement Company PLC

Issued Quantity

TKYO(N) : 180,000,000

TKYO(X) : 90,000,000

Foreign Holdings

Voting : 59,303,430

Non-Voting : 52,862,800

CDS Quantity

Voting : 53,745,230

Non-Voting : 88,190,438

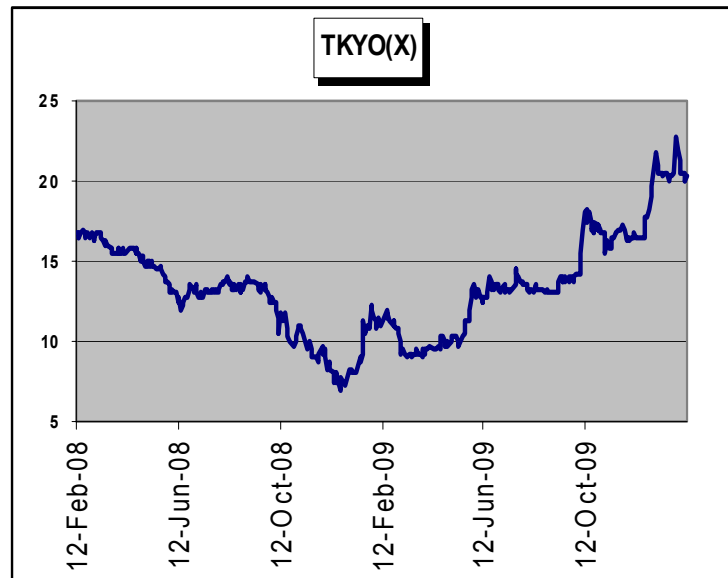
Price

Voting : Rs.32.25

Non-Voting : Rs.20.00

Recommendation : BUY

Date : 10-02-2010



Tokyo Cement Company was founded in 1982 by an alliance between two innovative and enterprising companies -Mitsui Mining Company Limited, Japans multi-national industrial conglomerate and Sri Lanka's St.Anthony's Consolidated Ltd.

Initially TKYO released its premium cement brand “Mitsui” to the Sri Lankan market with production capacity of 300,000 MT. The Company reached greater heights and became the first cement manufacturer in Sri Lanka to obtain the coveted SLS mark and the prestigious ISO 9002 and ISO 14001 certification. In 1999 a new brand of cement 'Atlas' was introduced as a cost-effective choice to the customers both corporate and household. This brand was then re-launched in February 2005 as Tokyo Super Super Portland Cement.

In 1998, the Company ventured into the biggest expansion by 300,000 MT with the setting up of 'Fuji Cement Company (Lanka) Ltd, with an investment of Rs.540 million. Tokyo cement expanded the capacity by further 300,000 MTs. by introducing Vertical Roller Press in 2003 by the investment of Rs.750Mn.

Tokyo Cement Company (Lanka) PLC (TKYO) is a joint venture between local conglomerate St. Antony's consolidated and Nippon Coke and Engineering Company of Japan. TKYO is one of the largest cement producer in Sri Lanka with three (3) subsidiaries namely Fuji Cement Company (Lanka) Ltd, Tokyo Super Cement Company Lanka (Pvt) Ltd and Tokyo Cement Colombo Terminal (Pvt) Ltd.

Local Cement Industry and Construction Sector

World consumption of cement is forecasted to increase throughout the next 10 years, taking the annual consumption volume up from the 2283 Million MT of 2005 to around 3130 million MT by 2015, and 3560 Million MT by 2020.

Sri Lanka's annual demand for cement is around 3.5 million metric tones, and it forecasted to be increased at a rate greater than 8% simultaneously with the growth in the constructions sector. This rising annual demand of cement is fulfilled by a mixture cement companies, where Tokyo Cement Company supplies more than 30 percent of it. Swiss cement giant Holcim Lanka Ltd also has a significant share in the local market.

The performances of the local cement industry, was affected by the high cost of raw materials and the deceleration of private sector construction activities. Expected improvement in infrastructure facilities such as power generation, port, airport, roads and highways, and anticipated rehabilitation and reconstruction activities in the Northern and Eastern Provinces, is expected to enhance the production in cement and building material industries.

Year	2005	2006	2007	2008	2009*
Local Total	1,455	1,544	1,639	1,575	1,158*
Imported Total	1,457	1,847	2,116	2,001	1,435*
Total Consumption	2,912	3,391	3,755	3,576	2,593*

- Jan-Oct

Sri Lankan cement consumption witnessed over 10% growth during the calendar year 2006 and 2007 that boosted the consumption levels above 3.7 million MT but the industry got affected in 2008 and 2009 due to high raw material cost.

Per Capita Cement Consumption	
Country	Cement (kg)
India	110
Poland	319
Korea	1,090
Japan	540
China	450
Thailand	300
Sri Lanka	178
Average World	273

Per Capita cement consumption in Sri Lanka amounts to 178kg per person based on the cement consumption in 2008. Local consumption level stands at relatively lower position compared to average world cement consumption of 273kg per person.

Average Wholesale Cement Price (50kg bag)					
Year	2005	2006	2007	2008	2009
Price	502.00	576.00	631.00	726.00	715.00

The industry boomed in 2006 & 2007 as growth rates picked up by 9.2% and 9% respectively on the back of rapid escalation of housing and condominium projects. However, with inflation and interest rates skyrocketing, the growth in the sector slipped during FY08 while large scale infrastructure projects in the country which multiplied with the liberation of the East gave some respite to the sector.

Recent developments in TKYO

Ready mix business segments

In **ready mix cement business** the company manufactures “Ready-mix concrete” in a factory and then delivered to a worksite by truck mounted transit mixers. Currently the company has located four ready mix centers in Colombo, Katugastota, Anuradapura and Trincomalee which is highly profitable and growing business segment for the company.

Company positions itself to supply the southern highway project and Sri Lanka's southern market by setting up another ready mix supply centre in Aluthgama at a cost of 100 million rupees. Tokyo Cement is eyeing for new locations around island to expand the ready mix business in order to cater development projects of the government and private sector.

Bio Mass Power Project

A biomass power plant which is to be produced 10 MW from Paddy husks and glidiceria branches has recently established as a part of cooperated social responsibility program of Tokyo Cement Company (Lanka) Ltd. The Plant has been located in Trincomalee with US \$ 14 million (Rs.1.62Bn) investments. Trincomalee plants will be self sufficient with electricity once the operations starts and the excess will be connected to the national grid.

Top Shareholder List as at 30-09-2009

TKYO - Voting		
Name of the Shareholder	No. of Shares	%
Nippon Coke & Engineering Company Limited	4,949,994	27.50%
St. Anthony's Consolidated Limited	4,949,978	27.50%
South Asian Investment (pvt) Limited	2,913,980	16.19%
Capital City Holdings (pvt) Limited	540,000	3.00%
Bank of Ceylon A/C No.1	351,300	1.95%

*A voting share has been spitted into ten shares by 1st February 2010

Stock Valuation

In Thousands	2007	2008	2009	2010F	2011F	2012F
Net Turnover	11,308,448	14,029,181	17,652,390	18,825,080	21,648,842	25,437,389
Gross Profit	1,935,539	2,051,677	2,700,223	3,012,013	3,680,303	4,324,356
Gross Profit Margin	17%	15%	15%	16%	17%	17%
EBIT	1,205,457	932,855	1,481,430	1,506,006	2,597,861	2,798,113
PAT	824,175	553,659	346,631	310,614	757,709	1,017,496
Net Profit Margin	7.29%	3.95%	1.96%	1.65%	3.50%	4.00%
EPS - Voting	3.05	2.05	1.28	1.15	2.81	3.77
EPS - Non Voting	3.05	2.05	1.28	1.15	2.81	3.77
Leading PER						
Voting @ 35.00				30.43	12.47	9.28
Non - Voting @ 21.00				18.26	7.48	5.57

TKYO will be challenged on both the revenue and cost segments in coming years despite of the expected construction boom in the economy. Fluctuations in lime stones in the world market will be the main barrier towards the cost of sales while the government controlling procedures of Retail Cement prices would make an impact on expected revenue of the group.

Any new entry of new players and existing players such as Holcim Cement and other imported cement brands will increase the competitiveness in the industry. Total new entry of a foreign cement giant or reconstructions of Lanka Cement Plant in KKS will reduce the margins and market share of TKYO in the long run. **However continuous decline in gross profit margins of TKYO will not delay the ability to generate strong cash flows and to maintain a strong return on invested capital.**

Present value of the forecasted cash flows

Year	2010E	2011F	2012F
EBIT	1,506,006	2,597,861	2,798,113
EBIT(1-T)	963,844	1,662,631	1,790,792
Depreciation	1,035,945	1,057,351	1,101,616
CAPEX	1,000,000	1,250,000	1,500,000
Free Cash Flow	999,789	1,469,982	1,392,408
PV of FCF		1,245,747	1,000,006
Total PV of FCF	3,245,542		
Terminal Value	10,343,601		
PV of Terminal	7,428,613		

Present value of the forecasted cash flows has been valued at a weighted average cost of capital (WACC) of 18%. PVFCF has been estimated to be Rs.3.245Bn and the forecasted terminal value of the cash flows generates a present value of Rs.7.428Bn under a growth rate of 4% and WACC of 18%.

The present value of the total cash flows have been estimated at Rs.10.674Bn that would generate a per share value of Rs.39.53.

Sensitivity Analysis on TKYO Valuation

	WACC								
	%	14%	15%	16%	17%	18%	19%	20%	21%
Growth Rate	6.0%	65.03	58.26	52.85	48.43	44.74	41.61	38.84	36.62
	5.0%	58.74	53.28	48.81	45.09	41.94	39.23	36.89	34.84
	4.0%	53.72	49.20	45.44	42.26	39.53	37.17	35.10	33.27
	3.0%	49.60	45.81	42.59	39.84	37.45	35.36	33.52	31.88
	2.0%	46.18	42.93	40.15	37.74	35.63	33.77	32.12	30.63
	1.0%	43.28	40.47	38.03	35.90	34.03	32.35	30.86	29.51

This document has been prepared and issued by Asha Phillip Securities Ltd, on the basis of publicly available information, internally developed data and other sources, believed to be reliable. Whilst all responsible care has been taken to ensure that the facts stated are accurate and the opinions given are fair and reasonable neither Asha Phillip Securities Ltd, nor any Director, Officer or employee, shall in any way be responsible for the contents. Asha Phillip Securities Ltd may act as a Broker in the investments which are the subject of this document or related investments and may have acted upon or used the information contained in this document, or the research or analysis on which it is based, before its publication. Asha Phillip Securities Ltd., Its Directors, Officers or Employees may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document.