



## Raigam Wayamba Salterns Limited (RWSL)

Date: 17-03-2010

Recommendation - **Subscribe**

### Salient Features of the IPO

Issuer	Raigam Wayamba Salterns Limited
No. of shares to be issued	80,000,000 Voting Ordinary Shares
Issue price	LKR 2.50
Date of opening the issue	23-Mar-10
Closing Date	19-Apr-10
Amount to be raised	LKR 200,000,000
Basis of Allotment	In an event of an over subscription The basis of the allotment of shares will be decided by the directors before the expiry of Seven market days from the closure of the Issue

### Salt industry in Sri Lanka

Total demand for salt in Sri Lanka amount to approximately 150,000MT per annum where the majority or 120,000MT is demanded by households and rest is demanded by industries. Currently the salt market witnessed an oligopoly market structure with very few suppliers in the market.

Market Share	%
Puttlam Salt Limited	20%
Lanka Salt Limited	40%
<b>RWSL (Value added salt)</b>	<b>10%</b>
Other Local Products	10%
Imported (Value added Salt)	20%

## History of the Company

The Company was incorporated on 15<sup>th</sup> June 2005 as a private limited liability Company under the Companies Act No. 17 of 1982. It was registered under the Companies Act No. 7 of 2007 on 15<sup>th</sup> January 2009 and converted to a public limited liability Company in December 2009.

Currently the company benefits from the Government's investment promo on programme captioned "300 Factories Programme", the Company obtained BOI status on 20 March 2006 and in terms of the Agreement executed with the BOI, the Company is entitled to an eight (08) year tax holiday commencing from the financial year 2006/07 and thereafter to a concessionary tax regime. The Parent Company's (Raigam Marketing Services (Pvt) Ltd) made a strategic acquisition of 26.12% of the shareholding of Puttalam Salt Ltd that ensures the adequacy of inputs to RWSL.

## Objectives of the share issue

Project	Description	Fund Requirement
Development of Puttalam Vanathanilluwa new saltern	Land Extent : 325 acres Land is to be leased From GOSL under long term leasing Or Acquire two other lands in Puttalam Total cost is 25Mn for acquiring and 65Mn for Development	90 Mn
Completion of Puttalam Palavi salterns	To finance the final phase of Palavi salterns Land Extent : 110 acres	15Mn
Puttalam Salt refinery plant	To increase the capacity of the existing state of art salt refinery plant and to upgrade	15Mn
To Complete the final development phase of natural saltern in Bata-atha, Hambantota	Land has been leased from the GOSL in August 2004 under 30 years leasing agreement	27Mn
establishment of a modern salt refinery factory	Location - Bata Atha Industrial Zone	45Mn
To enhance company infrastructure	investment in company logistic transportation, IT, Research and Development	8Mn
<b>Total Investments</b>		<b>200Mn</b>

## **Future threats towards RWSL**

### **Poor weather conditions**

Salt production is sensitive towards the weather conditions therefore any unfavorable weather conditions will affect the production of the company in inverse manner.

### **RWSL is not a dominant player in the market**

The company owns around 10% of the market in the industry and therefore it is not in a position to make any influence on the market price of the product and there are no barriers for the new comers to the market.

### **High investments in debtors**

RWSL has invested Rs.135Mn in debtors as at 31<sup>st</sup> December 2009 and Rs.103Mn worth debtors have been generated from related companies.

## **Shareholding structure of RWSL**

<b>Shareholdings Structure</b>				
<b>Status</b>	<b>Before the IPO</b>	<b>%</b>	<b>After the IPO</b>	<b>%</b>
Raigam Marketing Services (pvt) Limited	101,103,660	50%	101,103,660	35.83%
Raigam Distributors (Pvt) Limited	101,103,660	50%	101,103,660	35.83%
General Public	-	-	80,000,000	28.35%
Total	202,207,320	100%	282,207,320	100.00%

## **Financial information**

<b>Year</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
<b>Revenue</b>	382,619,050	281,231,248	323,415,935	388,099,122	446,313,990
<b>Cost of Sales</b>	(179,320,879)	(148,502,485)	(170,777,857)	(204,933,429)	(235,673,443)
<b>Gross Profit</b>	203,298,171	132,728,763	152,638,078	183,165,693	210,640,547
<b>PBT</b>	172,053,821	83,458,979	95,977,825	115,173,390	132,449,399
<b>Net Profit</b>	172,053,821	83,458,979	95,977,825	115,173,390	132,449,399
<b>EPS (Adjusted)</b>	0.61	0.30	0.34	0.41	0.47

Considerable drop witnessed in the revenue of the company during the FY2010 owing to poor weather conditions that decreased the production levels of the company. RWSL is expected to generate a profit of Rs.83.4Mn for FY2010 that would generate an EPS of Rs.0.30 for the total outstanding shares after the issue.

## Earning based Valuation

Leading EPS (FY2011)	34cents
Sector PER	12 times
Market PER	16 times
<b>Forecasted Market Prices</b>	
Based on Sector PER	Rs.4.08
Based on Market PER	Rs.5.44

Further RWSL represent a net asset of Rs.2.02 per share before the IPO and with the IPO proceeds the NAV will increase to Rs.2.16 per share. Sectors Price to Book Value (PBV) ration is 3.5times, under a justified PBV of 1.5 times RWSL share can be valued at Rs.3.24. Accordingly we recommend this IPO as an attractive investment opportunity.

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