

# **AGARAPATANA PLANTATIONS LIMITED**

## **Research Report**

**15 March 2023**

**Prepared by**



**CAPITAL ALLIANCE PARTNERS LIMITED**

Level 05, Millennium House, 46/58, Nawam Mawatha, Colombo 02,  
Sri Lanka

**We, Capital Alliance Partners Limited ("CAL") hereby declare that we possess the requisite expertise to perform reports of this nature involving a quoted company wherein, we expect the Company to be categorized under the GICS Sector Classification: Food, Beverage and Tobacco. We further declare that the Research Report has been prepared in conformity with the disclosures stated in the 'Guidance Note' pertaining to the preparation of a Valuation/Research report.**

The Board of Directors,

Agarapatana Plantations Limited,  
53 1/1, Sir Baron Jayatilaka Mawatha,  
Colombo 01,  
Sri Lanka

Dear Sir/Madam,

**Valuation Report to the Board of Directors and Shareholders of Agarapatana Plantations Limited  
on the proposed Initial Public Offering**

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We, Capital Alliance Partners Limited, in the capacity of Managers and Financial Advisors to the Initial Public Offering (IPO) of Agarapatana Plantations Limited (hereinafter referred to as “Managers to the Issue”), wish to submit the enclosed Research Report in accordance with Section 3.1.4 (c) of the Listing Rules of the Colombo Stock Exchange.

Please find enclosed herewith the detailed Research Report for your reference.

Thank you,

Yours faithfully,

**CAPITAL ALLIANCE PARTNERS LIMITED**

DocuSigned by:  
*Nishok Goonasekera*  
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**Nishok Goonasekera**  
Chief Executive Officer

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## Table of Contents

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Table of Contents .....	3
Glossary of Terms and Abbreviations .....	5
1.0 Introduction.....	6
1.1 Executive Summary.....	6
1.2 Objective of the Report.....	7
1.3 Valuation Summary and Recommended Reference Price.....	7
2.0 Overview - Agarapatana Plantations Limited .....	9
3.0 Industry Overview .....	10
3.1 Global Tea Industry .....	10
Global Tea consumption expected to increase by 2025 .....	10
3.2 Sri Lanka Tea Industry .....	11
4.0 Valuation Methodology.....	14
4.1 PER Relative Valuation .....	14
4.2 P/BV Relative .....	14
4.3 EV/Hectare Relative .....	15
5.0 Valuation Results .....	16
5.1 P/E Relative Result .....	18
5.2 P/BV Relative Result .....	19
5.3 EV/Hectare Relative Result .....	21
5.4 Discounted Cash flow analysis.....	23
5.5 Net Asset Value.....	23
6.0 Valuation Recommendation.....	24
7.0 Risks.....	25
8.0 CAL Team.....	27
9.0 Disclaimer .....	28

**TABLE OF FIGURES**

<i>Table 1-1 Valuation Methodology</i> .....	6
<i>Table 1-2 Fund Utilization</i> .....	7
<i>Table 1-3 Valuation Summary</i> .....	7
<i>Table 5-1 Group Revenue</i> .....	16
<i>Table 5-2 Comparable Peers</i> .....	16
<i>Table 5-3 Comparable Peer Ratios</i> .....	17
<i>Table 5-4 P/E Relative Comparable Peers</i> .....	18
<i>Table 5-5 P/E Relative</i> .....	18
<i>Table 5-6 P/E Relative Sensitivity Analysis</i> .....	19
<i>Table 5-7 P/BV Relative Comparable Peers</i> .....	19
<i>Table 5-8 P/BV Relative</i> .....	20
<i>Table 5-9 P/BV Relative Sensitivity Analysis</i> .....	20
<i>Table 5-10 EV/Hectare Relative Comparable Peers</i> .....	21
<i>Table 5-11 EV/Hectare Relative</i> .....	21
<i>Table 5-12 EV/Hectare Relative Sensitivity Analysis</i> .....	22

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**Glossary of Terms and Abbreviations**


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<b>Agarapatana/APL</b>	Agarapatana Plantations Limited
<b>C.</b>	Circa (Approximately)
<b>CAL</b>	Capital Alliance Partners Limited
<b>CBSL</b>	Central Bank of Sri Lanka
<b>CSE</b>	Colombo Stock Exchange
<b>EPS</b>	Earnings Per Share
<b>EV</b>	Enterprise Value = Market Capitalization + Interest Bearing Debt – Cash and Cash Equivalents
<b>FY</b>	Financial Year
<b>Ha</b>	Hectares
<b>Kg</b>	Kilogram
<b>Mn</b>	Million
<b>NAV</b>	Net Asset Value
<b>NSA</b>	Net Sales Average
<b>P/E</b>	Price to Earnings Ratio
<b>P/BV</b>	Price to Book Value Ratio
<b>Peers</b>	Comparable Peer Companies to Agarapatana Plantations Limited
<b>Rs/LKR</b>	Sri Lankan Rupee
<b>TTM</b>	Trailing Twelve Months
<b>Valuation Date</b>	31 <sup>st</sup> December 2022
<b>YoY</b>	Year on Year

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## 1.0 Introduction

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### 1.1 Executive Summary

CAL valued Agarapatana Plantations Limited ("APL"/ "Company") by utilizing three relative valuation methods: P/E Relative, EV/Hectare Relative and P/BV Relative to arrive at a value for the Company. We have concluded that APL's value per share is LKR 10.73 based on above mentioned valuation metrics: P/E Relative, EV/Hectare and P/BV.

We would also like to point out that the IPO offer price of LKR 9.00 has been priced at a 16% discount to our valuation price of LKR 10.73. This IPO discount is provided to investors to provide a potential upside on the investment.

*Table 1-1 Valuation Methodology*

Valuation Methodology	Price per Share (LKR) <sup>1</sup> – Average	Discount compared to the issue price
PER	12.10	25.62%
P/BV	7.90	(13.92)%
EV/Hectare	12.20	26.23%
<b>Average</b>	<b>10.73</b>	<b>16.15%</b>

<sup>1</sup>The price per shares are subject to the viability of the said forecasts/assumptions made in Section 5 of this Research Report.

The Market Based Valuation methods set out herein of the company, is dependent upon the relative size of the peer entities identified under section 5 of the Research Report, in comparison to the company.

We considered three methods to provide an intrinsic value for APL's ordinary voting shares and concluded that all three methods were appropriate and therefore have assigned an equal weighting due to the following reasons:

- a. PER: There are direct competitors for APL listed on the CSE with a readily available market value. For the peer comparison, we have considered several factors (see Section 5 for more details) such as crop grown and elevation in order to shortlist the most suitable tea plantation companies. As such, given they have a readily established market value, driven by demand and supply, we deemed this valuation methodology to be appropriate.
- b. P/BV: Given that, the biological assets of the company are the main assets of the business and is a function of what drives revenue. As such, we have used comparable peer multiples and deem this valuation metric to be appropriate as well.

- c. EV/ Hectare: The EV/Hectare method is the final method that we considered. This metric reflects the value derived from the total mature extent of the grown crop for a plantation company which in effect is the revenue driver for a plantation company (No of Hectares \* Yield per hectare \* NSA = Revenue). Hence, we deemed it to be appropriate. Additionally, this metric normalizes the valuation across land extent in addition to considering earnings.

Considering the above, we used an equal weightage for all three methodologies for the purpose of arriving at the fair value of Ordinary Voting Shares of APL.

## 1.2 Objective of the Report

In accordance with the 'Guidance Note', CAL has prepared this research report to provide the basis behind the reference price for the listing of the ordinary voting shares of the Company. APL is a tea plantation company specialising in only High Grown tea. The Board of Directors of this company hope to publicly list its shares by way of an IPO to raise a total of LKR 747,630,999 of which LKR 672,630,999 of the funds will be utilized to purchase Plant & Machinery and the remaining will be utilized to repay high-cost debt of LKR 75,000,000.

*Table 1-2 Fund Utilization*

Description	Fund Utilization (LKR)	Expected Utilization Timeline
Plant & Machinery	672,630,999	FY 2023/24 & FY 2024/25
High-Cost Debt Repayment	75,000,000	FY 2023/24
<b>Total Funds Raised</b>	<b>747,630,999</b>	

## 1.3 Valuation Summary and Recommended Reference Price

The table below sets out the findings from the valuation methodologies mentioned above. Please refer Section 5.0 – Valuation Results for a more detailed discussion.

*Table 1-3 Valuation Summary*

Method	Weightage	Average	
		Intrinsic Value of Equity (LKR)	Value Per Share (LKR) <sup>1</sup>
P/E Relative	33%	5,055,257,572	12.10
P/BV Relative	33%	3,273,402,648	7.90
EV/Hectare Relative	33%	5,066,205,023	12.20

<b>Value Per Share</b>	<b>10.73</b>
<b>Discount</b>	<b>16%</b>
<b>Reference Price</b>	<b>9.00</b>

<sup>1</sup>Based on the pre-IPO number of ordinary voting shares in issue of the company and rounded up or down to the nearest 10 cents.

Based on the Company's business operations, the industry and the trading multiples of peer companies, CAL concludes that APL shares would have Average price per share of c. LKR 10.73 and hence recommends **LKR 9.00 per share as the reference price.**

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## **2.0 Overview - Agarapatana Plantations Limited**

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Incorporated in 1992, Agarapatana Plantations Limited is a mono-crop, tea only plantation and is one of the largest plantation companies in Sri Lanka with 21 tea estates spread across the high grown region of Agras Valley located in the Dimbula District of Nuwara Eliya and in the Uva District of Haputale. The Company has a land extent of c. 10,000 hectares with a mature extent of over 6,000 hectares for the cultivation of tea.

The two agro-climatic regions in which APL's estates are located are ideal for producing high quality tea which offers the distinctive flavours and aromas of tea grown in a variety of elevations across agro-climatic zones. The Company has over 14 fully equipped factories which manufactures and handles the entire production process of Tea. Additionally, there are 3 factories that process refuse tea.

### **Vision of the Company**

"To be the foremost producer of high-quality Tea in full conformity with desired quality requirement."

### **Mission of the Company**

"To produce the highest quality tea whilst protecting and preserving the environment and safeguarding the interest of the community with whom we work with, improving our asset base, developing our employee base and providing value to our shareholders."

### **Values**

APL follows the 3 fundamental values:

- Integrity
- Courage
- Commitment

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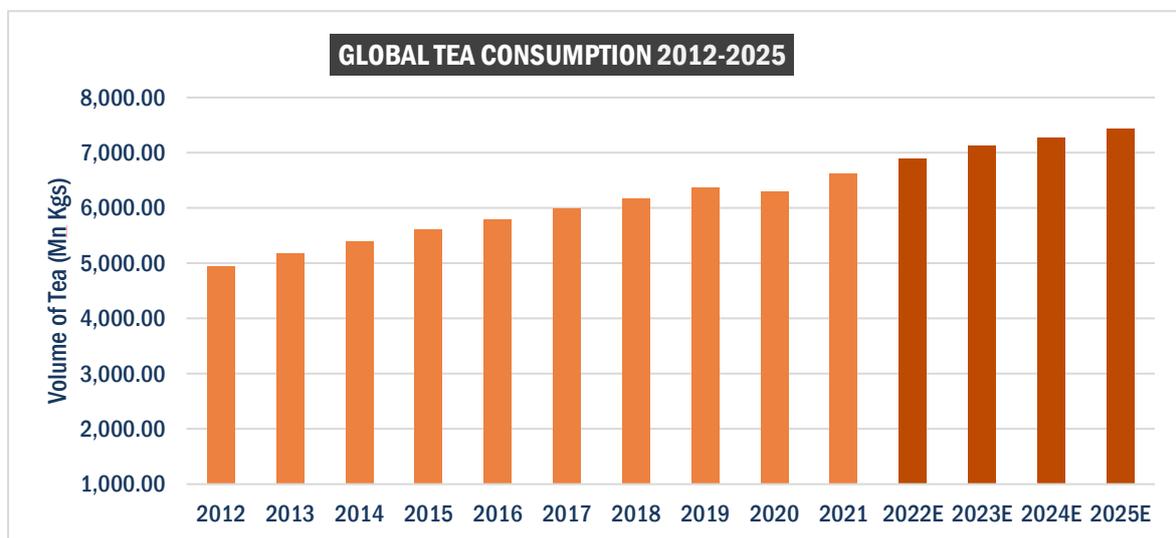
## 3.0 Industry Overview

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### 3.1 Global Tea Industry

#### Global Tea consumption expected to increase by 2025

Discovered around 2,700BC, tea is considered to be one of the oldest beverages in the world. Tea currently represents one of the most consumed beverages in the world, after water. According to Statista, global consumption of tea amounted to 6.3 billion kilograms in 2020 and is forecasted to reach to approximately 7.4 billion kilograms by 2025 due to the increasing popularity<sup>1</sup>.



Source: <https://www.statista.com/statistics/940102/global-tea-consumption/> (Accessed on 9th January 2023)

#### 3.1.1 Key Trends Driving Tea Demand

Several market drivers have helped boost the consumption of tea such as rise in the disposable income of consumers, the availability of diverse flavors of tea and the awareness of health benefits of regular tea consumption. The COVID-19 pandemic accelerated a number of existing trends in the tea industry and has influenced the buying patterns of the consumers.

##### Affordability

Tea is perceived as an inexpensive beverage which makes it affordable to all socio-economic groups especially in developing markets such as India as most consumers belong to low-

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<sup>1</sup> <https://www.statista.com/statistics/940102/global-tea-consumption/> (Accessed on 9th January 2023)

income group. In addition, due to its strong customer acceptance, tea is consumed on a daily basis in the Asia and Europe region.

### **Health Benefits**

The shift towards the improvement of health is the most pressing trend. The COVID-19 pandemic accelerated attention towards the improvement of health during the last two years. Many awareness campaigns were initiated globally to highlight the health benefits of consuming natural food and beverages and increasing health risks of consuming caffeine. The health benefits of tea were among the main focused areas of these campaigns.

### **Move from Ordinary Tea to Premium Tea**

With the effects of the COVID-19 pandemic, tea consumers have started to explore new flavours in the tea market. This is due to their intention to look for healthy and luxury beverages. Consumers are increasingly demanding organic ingredients, and diversified blends and flavours. There is also growing interest in higher-quality specialty teas, with green teas and fruit teas gaining popularity, especially in Europe, owing to perceived health benefits. As a result, demand for premium flavours is on the rise as there is a tendency to try out new flavours.

## **3.2 Sri Lanka Tea Industry**

Tea was first cultivated and manufactured during the British era. Today, the tea industry in Sri Lanka plays a vital role in the economy and over the years, 'Ceylon Tea' has also gained recognition as one of the finest teas that is produced in the world. Sri Lanka is the 4<sup>th</sup> biggest tea producing country globally and has a production share of 10% in the international sphere and constitutes c. 19%<sup>2</sup> of the global demand. Tea is one of the largest foreign exchange earners in the country, accounting for c. 10.6%<sup>3</sup> of the country total exports in 2021 and 48%<sup>3</sup> of the total agriculture exports in the country. The agriculture sector provides employment to c. 27%<sup>4</sup> of the total employed population of Sri Lanka and the tea industry in particular provides labour to nearly 1<sup>5</sup> million people in Sri Lanka (c. 13%<sup>4</sup> of the total employed population of Sri Lanka).

Sri Lanka mainly produces orthodox teas and its tea is renowned for its high quality, aroma and taste. The country has been in the forefront of tea exports to the world market and has maintaining this position over the years. Tea cultivation takes place in three major geographical zones: High Country (1,200m), Mid Country (600m-1,200m) and Low country

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<sup>2</sup> Industry Capability Report (Prepared by Export Development Board), 2022

CBSL Annual Report (Prepared by Central Bank of Sri Lanka), 2021

<sup>3</sup> CBSL External Sector Performance (Prepared by Central Bank of Sri Lanka), November 2022

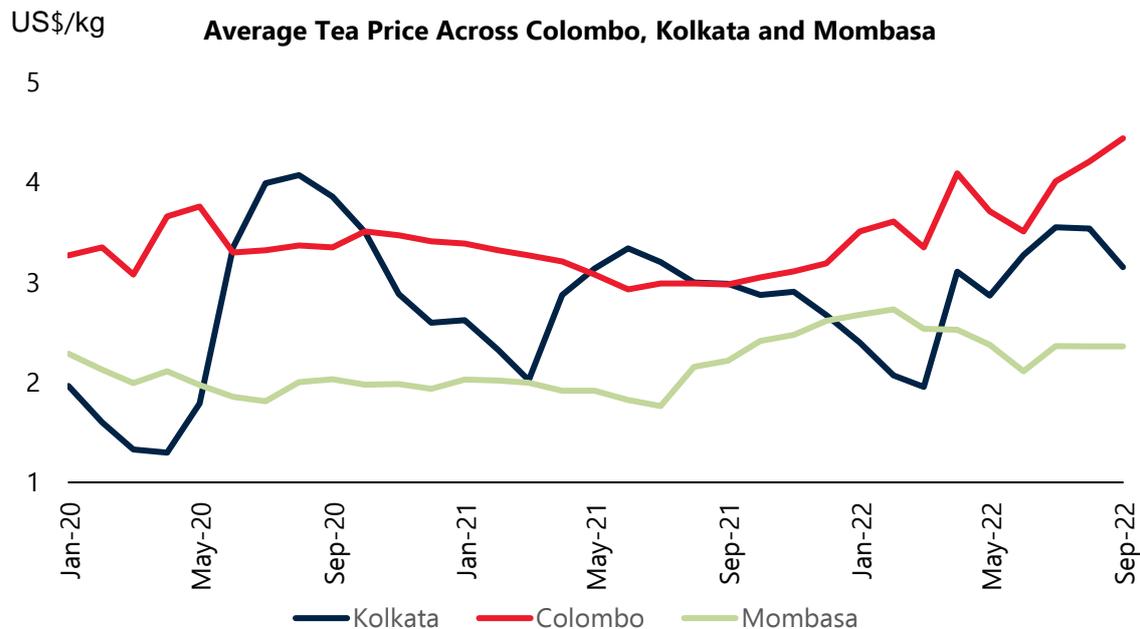
<sup>4</sup> Sri Lanka Labour Force Survey (Prepared by Department of Census & Statistics), Third Quarter 2022

<sup>5</sup> <https://www.srilankabusiness.com/tea/about-tea/industry-capability.html> (Accessed on 20<sup>th</sup> January 2023)

(600m). The high grown tea is widely used in many quality blends in Germany and Japan, the medium grown tea is popular in Australia, Europe, Japan and North America, whereas the low grown tea is popular in Western Asia, Middle Eastern countries and CIS and BRICS countries.

**The Colombo tea auction showed elevated prices for tea in 2022 compared to 2021 and the pre pandemic levels. The prices are expected to stabilize with improved production globally and in Sri Lanka in the coming year.**

A significant increase of almost 9%<sup>6</sup> was observed in international tea prices during the third quarter of 2022 reflecting large increases at the Colombo and Kolkata auctions (12 and 11 percent, respectively). The price strength reflects declining global tea supplies by major producers and exporters. Sri Lanka continues to fetch the highest prices across the three main tea auctions with a price of USD 4.49<sup>7</sup> per kg in September 2022 which was markedly higher than the prices fetched at tea auctions in Kolkata and Mombasa due to the premium that 'Ceylon tea' commands that has led to an increase in demand.



Source: Commodity Markets Outlook (Prepared by World Bank), October 2022

### Tea Industry to have a strong growth in 2023 amidst political turbulence

The tea production in 2021 recorded an overall growth of 7.5%<sup>8</sup> and the production of high, medium and low grown tea expanded by 4.5%, 8.9% and 8.0% in 2021. The cumulative tea production during January-December 2022 totaled to 251<sup>8</sup> million Kgs<sup>5</sup>, recording a significant decrease of 47.84 million Kgs compared to 2021, due to the banning of chemical fertilizers

<sup>6</sup> Commodity Markets Outlook (Prepared by World Bank), October 2022

<sup>7</sup> World Bank Commodity Prices Data (The Pink Sheet – Monthly Data) (Prepared by World Bank), 2022

<sup>8</sup> <https://web.forbestea.com/statistics/sri-lankan-statistics/65-sri-lanka-tea-production> (Accessed on 25th February 2023)

and the economic crisis. Amidst the recessionary conditions of the country, relatively inelastic demand patterns and strong export volumes are evident, anticipating that the tea industry would remain strong in the coming years despite the Ukraine -Russia conflict.

International buyers are starting to pay higher prices for the Sri Lankan tea for their blend<sup>9</sup>. Additionally, given that the wage revision of tea planters took place in 2021 and the significant rupee depreciation, it is predicted that the industry would further benefit in the year 2023 due to expected hike in production accompanied with the high tea prices at tea auctions, thus reducing the strain on the plantations margins<sup>10</sup>.

### **Government measures that were undertaken to strengthen the tea industry**

The Colombo tea auction is the single largest tea auction in the world. Amidst the covid pandemic the government introduced an e-Auction system which was a major stepping stone in the tea industry that strengthened the tea trade. This ensures the continuity of supply and demand and cash flow and allows brokers and sellers to catalogue their teas electronically allowing buyers to bid online<sup>11</sup>.

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<sup>9</sup> <https://economictimes.indiatimes.com/small-biz/trade/exports/insights/sri-lankan-economic-crisis-may-provide-opportunities-for-indian-tea-exporters-experts/articleshow/90655170.cms> (Accessed on 9th January 2023)

<sup>10</sup> Plantation Sector: Positive Outlook (Prepared by CAL Research Team\*), 2022

\*The report is published on the CAL Portal which is limited to registered users. Their latest outlook on the plantation sector was prepared in July 2022 and as such we have used that information.

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## 4.0 Valuation Methodology

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CAL considered the following valuation methodologies in order to arrive at a fair value for APL's shares based on the relevance and appropriateness of the respective valuation methodology for a plantation company.

- PER Relative Valuation
- P/BV Relative Valuation
- EV/Hectare Relative Valuation

### 4.1 PER Relative Valuation

The price-to-earnings ratio (P/E ratio) measures a company's current share price relative to its Earnings Per Share (EPS). The price-to-earnings ratio or P/E is one of the most widely used stock analysis tools by investors and analysts for determining a share's valuation.

The relative value for APL's shares using a PER would be calculated as follows:

$$\text{Implicit Value of APL} = \left( \text{Earnings of APL} * \frac{P}{E} \text{Multiple} \right)$$

Where:

P/E Multiple: Average of the Peer Group P/E Multiple

Earnings = Profit Attributable to Equity Holders of APL

### 4.2 P/BV Relative

A P/BV ratio measures a company's market value to its book value. The book or liquidation value is based on balance sheet accounting values. A company's price per share is determined by applying the P/BV ratio of its nearest peer or comparable peer group to the company's book value.

The relative value for APL's shares using a P/BV ratio would be calculated as follows:

$$\text{Implicit Value of APL} = \left( \text{NAV Per Share of APL} * \frac{P}{BV} \text{Multiple} \right)$$

Where:

P/BV Multiple: Average of the Peer Group P/BV Multiple

NAV Per Share = Net Asset Value Per Share of APL

### 4.3 EV/Hectare Relative

EV/Hectare is a valuation metric commonly used to value plantation companies. It reflects the value derived from the total mature extent of the grown crop (tea, in this case). The relative value for APL's shares using an EV/Hectare ratio would be calculated as follows:

$$\text{Implicit Value of APL} = \left( \text{Number of Hectares of APL} * \frac{\text{EV}}{\text{Hectare}} \text{Multiple} \right) - (\text{Net Debt})$$

Where:

EV/Hectare Multiple = Weighted Average of the Peer Group EV/Hectare Multiple

Net Debt = Interest Bearing Debt – Cash and Cash Equivalents

**Enterprise Value (EV)** is defined as the sum of "market capitalization of listed shares, *plus* market value of debt *less* market value of cash and securities. EV is a measure of the productive capacity of an entire firm irrespective of its indebtedness or cash holdings. Companies having similar market capitalizations or shareholder values ("SV") may have very different enterprise values.

## 5.0 Valuation Results

This section details out the assumptions used for the valuation and results based on the valuation methods described in Section 4.0 – Valuation Methodology.

The group company consists of Waverly Power (Pvt) Ltd and Agarapatana Plantations Limited. Waverly Power (Pvt) Ltd was acquired in September 2022 to engage in hydro power production generating over 1 megawatt of power that is supplied to the main electricity board as part of their renewable energy strategy. However, the revenue of Waverly Power (Pvt) Ltd represents only c.1.0% of the combined revenue for the past 3 years (See Table below). As such, we have not carried out a separate valuation. However, the performance has been included as a result taking into consideration Group numbers.

Table 5-1 Group Revenue

<b>As at 31<sup>st</sup> March</b>	<b>Revenue (LKR'000)</b>		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
<b>Group Companies</b>			
Waverly Power (Pvt) Ltd	48,601	35,495	30,314
Agarapatana Plantations Limited	4,486,527	4,291,538	3,187,556
Waverly Power (Pvt) Ltd Revenue as a % of Agarapatana Plantation + Waverly revenue combined	1.07%	0.82%	0.94%

CAL used the following Comparable Peers for the relative valuation of APL. The peer group for APL was selected based off the companies listed under the plantation sector on the CSE. Due to differences in the crops produce by plantation companies, CAL chose the following companies based on the peer's being primarily tea producing plantations with most of the estates located in the high grown region.

We would also like to bring to the reader's attention that the IPO price of LKR 9.00 per Share is at a 16% discount to our reference Point Valuation, based on Average of LKR 10.73 for all three methods. This IPO discount is provided to investors in order to provide a potential upside on the investment.

Table 5-2 Comparable Peers

<b>#</b>	<b>Comparable Peers</b>
1.	Hatton Plantations PLC
2.	Bogawantalawa Tea Estates PLC
3.	Maskeliya Plantations PLC
4.	Udapussellawa Plantations PLC
5.	Talawakelle Tea Estates PLC
6.	Kelani Valley Plantations PLC
7.	Balangoda Plantations PLC

The table below includes the comparable ratio analysis for APL. These ratios represent rule of thumb calculations, with the values varying daily according to the closing price of a given counter. Therefore, CAL advises investors not to place much emphasis on single ratio measures, particularly outliers and anomalies.

Table 5-3 Comparable Peer Ratios

Comparable Peer	P/E <sup>2</sup>	P/BV <sup>2</sup>	EV/Hectare (LKR'000's) <sup>3</sup>	Market Capitalization (LKR'000's) <sup>1</sup>
Hatton Plantations PLC	3.75	1.46	1810	5,703,667
Bogawantalawa Tea Estates PLC	3.20	1.53	1743	4,020,000
Maskeliya Plantations PLC	2.03	1.21	626	2,212,093
Udapussellawa Plantations PLC	1.72	0.70	611	1,807,973
Talawakelle Tea Estates PLC	2.11	0.83	303	4,227,500
Kelani Valley Plantations PLC	1.84	0.71	1038	4,991,200
Balangoda Plantations PLC	3.39	0.78	805	3,304,364
<b>Average</b>	<b>2.58x</b>	<b>1.03x</b>	<b>991</b>	

Source: Based on Audited Financial Statements of the aforesaid companies for the year ended 31st March 2022 published on the CSE Website and Interim Financial Statements for the period ended 31st December 2022 and 2021 published on the CSE Website, Based on the Interim Financial Statements of the aforesaid companies for the period ended 31st December 2022 published on the Capital IQ (Market Intelligence Platform - limited to registered users only)

<sup>1</sup>Market Capitalization as at 27<sup>th</sup> February 2023 which has been sourced from Capital IQ (Market Intelligence Platform - limited to registered users only)

<sup>2</sup>Closing price as at 27<sup>th</sup> February 2023, Earnings per share is based off the financial statements for the trailing 12 months ended 31st December 2022, The book value and net debt positions are based off the financial statements as at 31st December 2022

<sup>3</sup>Mature/ revenue generating extent as at 31<sup>st</sup> March 2022 has been used in the calculation of the EV/Hectare

Where the data provided were incomplete, we have used reasonable judgment and we take responsibility for the same.

### Assumptions identified by CAL in relation to the Valuation

Suitable peers were those plantation Companies, listed on the CSE, which predominantly grow tea with most of the estates located at an elevation of over 1,200m above mean sea level (i.e. High Grown Tea). This has been referred to from the audited financial statements of the aforesaid companies for the year ended 31st March 2022 published on the CSE Website. The cultivated extent of APL and the peer Companies is also assumed to have remained unchanged from the date of their last respective annual report.

When arriving at the Average multiples of the three valuation methodologies, CAL has excluded companies that has less than 85% of their plantations growing tea.

## 5.1 P/E Relative Result

CAL used the trailing 12 Month earnings as at 31<sup>st</sup> December 2022 of APL combined with the Average P/E ratios of comparable peers (See Table 5-4). Based on the 31<sup>st</sup> December 2022 (of peers) TTM Earnings and the 27th February 2023 closing share price, the Peer Average Multiple is 2.58x.

Table 5-4 P/E Relative Comparable Peers

Comparable Peer	Market Capitalization (LKR'000's) <sup>1</sup>	TTM PAT <sup>2</sup>	P/E
Hatton Plantations PLC	5,703,667	1,521,015	3.75
Bogawantalawa Tea Estates PLC	4,020,000	1,255,675	3.20
Maskeliya Plantations PLC	2,212,093	1,088,154	2.03
Udapussellawa Plantations PLC	1,807,973	1,048,800	1.72
Talawakelle Tea Estates PLC	4,227,500	2,007,673	2.11
Kelani Valley Plantations PLC	4,991,200	2,709,357	1.84
Balangoda Plantations PLC	3,304,364	975,452	3.39
<b>Average</b>			<b>2.58x</b>

Source: Based on Audited Financial Statements of the aforesaid companies for the year ended 31st March 2022 published on the CSE Website and Interim Financial Statements for the period ended 31st December 2022 and 2021 published on the CSE Website, Based on the Interim Financial Statements of the aforesaid companies for the period ended 31st December 2022 published on the Capital IQ (Market Intelligence Platform - limited to registered users only)

<sup>1</sup>Market Capitalization as at 27th February 2023

<sup>2</sup>Profit after tax is based off the unaudited financial statements for the trailing 12 months ended 31st December 2022.

Applying this ratio (comparable peer P/E) to APL's 31<sup>st</sup> December 2022 TTM profit of LKR 1,961,192,894 generates a share price of LKR 12.10 based on Peer Average Multiple.

Table 5-5 P/E Relative

PAT for nine months ended 31 <sup>st</sup> December 2021	: LKR (44) Mn
PAT for the year ended 31 <sup>st</sup> March 2022	: LKR 28 Mn
PAT for nine months ended 31 <sup>st</sup> December 2022	: LKR 1,881 Mn
APL TTM PAT (Without Waverly Power (Pvt) Ltd) <sup>1</sup>	: LKR 1,953 Mn
PAT for nine months ended 31 <sup>st</sup> December 2021	: LKR 4 Mn
PAT for the year ended 31 <sup>st</sup> March 2022	: LKR 9 Mn

PAT for nine months ended 31 <sup>st</sup> December 2022	: LKR 3 Mn
Waverly Power (Pvt) Ltd TTM PAT <sup>2</sup>	: LKR 8 Mn
APL TTM PAT (With Waverly Power (Pvt) Ltd) <sup>3</sup>	: LKR 1,961 Mn
Number of shares (Pre IPO)	: 416,929,889
Peer Average P/E	: 2.58x
<b>Equity Value Per Share based on Peer Average Multiple</b>	<b>: LKR 12.10 Per Share</b>

Source: Based on Audited Financial Statements of APL for the year ended 31st March 2022 and Consolidated Financial Statements for the period ended 31st December 2022 (Limited review) and Interim Financial Statements for the period ended 31st December 2021

<sup>1</sup>Unaudited TTM PAT as at 31<sup>st</sup> December 2022 (excluding TTM PAT of Waverly Power (Pvt) Ltd). This has been calculated by adding the PAT for nine months ended 31st December 2022 and PAT for the year ended 31st March 2022 and thereafter subtracting the PAT for nine months ended 31st December 2021.

<sup>2</sup>Unaudited TTM PAT of Waverly Power (Pvt) Ltd as at 31<sup>st</sup> December 2022. This has been calculated by adding the PAT for nine months ended 31st December 2022 and PAT for the year ended 31st March 2022 and thereafter subtracting the PAT for nine months ended 31st December 2021.

<sup>3</sup>Unaudited TTM PAT as at 31<sup>st</sup> December 2022 (including TTM PAT of Waverly Power (Pvt) Ltd). We have used the TTM PAT for the company and added the TTM for Waverly Power (Pvt) Ltd, given it will continue as a subsidiary going forward.

Table 5-6 P/E Relative Sensitivity Analysis

Peer Average P/E	Value per share
PER + 20%	14.60
PER + 15%	14.00
PER + 10%	13.30
Base Case	12.10
PER - 10%	10.90
PER - 15%	10.30
PER - 20%	9.70

## 5.2 P/BV Relative Result

CAL compared the Adjusted Book value of APL (Refer Table 5-8) to that of Average P/BV metric of comparable peers (See Table 5-7). Based on the 31<sup>st</sup> December 2022 Equity Value and the 27th February 2023 Market Capitalization, the Peer Average Multiple is 1.03x.

Table 5-7 P/BV Relative Comparable Peers

Comparable Peer	Equity Value (LKR'000's) <sup>1</sup>	Market Capitalization (LKR'000's) <sup>2</sup>	P/BV
Hatton Plantations PLC	3,915,376	5,703,667	1.46
Bogawantalawa Tea Estates PLC	2,632,124	4,020,000	1.53

Comparable Peer	Equity Value (LKR'000's) <sup>1</sup>	Market Capitalization (LKR'000's) <sup>2</sup>	P/BV
Maskeliya Plantations PLC	1,828,106	2,212,093	1.21
Udapussellawa Plantations PLC	2,581,867	1,807,973	0.70
Talawakelle Tea Estates PLC	5,068,518	4,227,500	0.83
Kelani Valley Plantations PLC	7,063,597	4,991,200	0.71
Balangoda Plantations PLC	4,223,095	3,304,364	0.78
<b>Average</b>			<b>1.03x</b>

Source: Based on Audited Financial Statements of the aforesaid companies for the year ended 31st March 2022 published on the CSE Website and Interim Financial Statements for the period ended 31st December 2022 and 2021 published on the CSE Website, Based on the Interim Financial Statements of the aforesaid companies for the period ended 31st December 2022 published on the Capital IQ (Market Intelligence Platform)

<sup>1</sup>Equity Value as at 31st December 2022 based on the Unaudited Interim Financial Statements

<sup>2</sup>Market Capitalization as at 27th February 2023

Applying this ratio (comparable peer P/BV) to APL's 31<sup>st</sup> December 2022 Adjusted NAV per share of LKR 7.61 per share generates a share price of LKR 7.90 based on Peer Average Multiple of 1.03x.

Table 5-8 P/BV Relative

APL NAV <sup>2</sup>	: LKR 3,516 Mn
Goodwill of Waverly Power (Pvt) Ltd	: LKR 341 Mn
APL Adjusted NAV <sup>3</sup>	: LKR 3,175 Mn
Number of shares	: 416,929,889
Adjusted NAV per share	: LKR 7.61
Peer Average P/BV <sup>1</sup>	: 1.03x
<b>Equity Value Per Share based on Peer Average Multiple</b>	<b>: LKR 7.90 Per Share</b>

Source: Based on Consolidated Financial Statements for the period ended 31st December 2022 (Limited review)

<sup>1</sup> P/BV of Comparable Peers, Refer Table 5-7

<sup>2</sup> Based on the Group NAV as at 31<sup>st</sup> December 2022

<sup>3</sup> The goodwill of LKR 341 Mn (Based on Consolidated Financial Statements for the period ended 31st December 2022) (Limited review) has been deducted from the NAV of LKR 3,516 Mn, as goodwill is an intangible asset and it is prudent to not include goodwill in the NAV (Assumption made by CAL).

Table 5-9 P/BV Relative Sensitivity Analysis

Peer Average P/BV	Value per share
P/BV + 20%	9.40
P/BV + 15%	9.00
P/BV + 10%	8.60
Base Case	7.80
P/BV - 10%	7.10

P/BV - 15%	6.70
P/BV - 20%	6.30

### 5.3 EV/Hectare Relative Result

CAL compared the Hectarage of APL to that of the Average EV/ Hectare multiple of comparable peers (See Table 5-10). Based on the latest available hectarage figures, the Peer Average EV/ Hectare is LKR 990,724

Table 5-10 EV/Hectare Relative Comparable Peers

Comparable Peer	Enterprise Value <sup>1</sup> (LKR'000's)	Tea Area <sup>2</sup> (Hectares)	EV/Hectare (LKR'000's)
Hatton Plantations PLC	6,341,349	3,504.0	1810
Bogawantalawa Tea Estates PLC	5,813,906	3,336.3	1743
Maskeliya Plantations PLC	3,372,147	5,385.4	626
Udapussellawa Plantations PLC	1,979,822	3,238.9	611
Talawakelle Tea Estates PLC	1,253,875	4,139.0	303
Kelani Valley Plantations PLC	6,507,298	6,271.0	1038
Balangoda Plantations PLC	4,804,035	5,970.4	805
<b>Average</b>			<b>991</b>

Source: Based on Audited Financial Statements of the aforesaid companies for the year ended 31st March 2022 published on the CSE Website and Interim Financial Statements for the period ended 31st December 2022 and 2021 published on the CSE Website, Based on the Interim Financial Statements of the aforesaid companies for the period ended 31st December 2022 published on the Capital IQ (Market Intelligence Platform)

<sup>1</sup>Net Debt as at 31st December 2022 and Market Capitalisation as at 27th February 2023

<sup>2</sup>Only Tea & rubber mature extent has been used in the calculation of the EV/Hectare (A minimum of 85% of the peer plantations grow tea, therefore we have included the rubber mature extent as well to cover for completion as it constitutes c.100% contribution to revenue combined. The other crops were insignificant to the tea and rubber mature extent.)

Applying this ratio (comparable peer EV/Hectare) to APL's hectarage of 6,416 Ha and deducting the Net Debt of APL generates a share price of LKR 12.20

Table 5-11 EV/Hectare Relative

Number of Hectares of APL <sup>1</sup>	: 6,416 Hectares
APL Debt <sup>2</sup>	: LKR 1,113 Mn
APL Bank Overdraft	: LKR 285 Mn
APL Cash	: LKR 107 Mn
APL Net Debt <sup>3</sup>	: LKR 1,290 Mn
Peer Average EV/Hectare <sup>4</sup>	: LKR 990,724
(Peer Average EV/Hectare) *	: LKR 6,356 Mn
Number of Hectares of APL	

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((Peer Average EV/Hectare) \*

Number of Hectares of APL) - : LKR 5,066 Mn

APL Net Debt

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**Equity Value Per Share based  
on Peer Average : LKR 12.20 Per Share**

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*Source: Based on Consolidated Financial Statements for the period ended 31st December 2022 (Limited review)*

<sup>1</sup> Based on APL's mature tea extent of 6,416 Ha as at 31<sup>st</sup> December 2022

<sup>2</sup> Includes the non-current and current interest-bearing borrowings and lease liabilities of the group

<sup>3</sup> Net Debt is calculated by deducting the cash from the total of debt and bank overdraft of the group

<sup>4</sup> Average EV/Hectare of Comparable Peers, Refer Table 5-10

*Table 5-12 EV/Hectare Relative Sensitivity Analysis*

<b>Peer Average EV/Hectare</b>	<b>Value per share</b>
EV/Hectare + 20%	15.20
EV/Hectare + 15%	14.40
EV/Hectare + 10%	13.70
Base Case	12.20
EV/Hectare - 10%	10.60
EV/Hectare - 15%	9.90
EV/Hectare - 20%	9.10

#### **5.4 Discounted Cash flow analysis**

Given the increasing and volatile interest rate environment over the last year, we felt that the WACC assumptions, i.e. The cost of equity, debt will be overly elevated due to high-risk free rates as a result of the country's economic crisis, which will change over the coming years. Additionally, using 2022 prices as a base price may lead to inaccurate results as tea prices have increased significantly due to the LKR depreciation which was an exceptional circumstance. Therefore, we felt the discounted cash flow analysis methodology was not appropriate and therefore we have not considered income-based valuation methodology.

#### **5.5 Net Asset Value**

In almost every instance short of bankruptcy or its near equivalent, the going concern (business as usual) worth of a company is more than the book value. Book or liquidation value is based on balance sheet accounting values. This method ignores the market value of a share, and instead refers exclusively to balance sheet values (adjusted for known off balance sheet assets and liabilities). Given the NAV of the individual companies is not directly related to the earnings capacity of the respective entities based on the nature of operations, we have not considered asset-based valuation methodology.

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## **6.0 Valuation Recommendation**

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We summarise the rationale for our recommendation as follows:

- The PER Relative valuation indicates a price of LKR 12.10
- The P/BV relative valuation indicates a price of LKR 7.90
- The EV/Hectare valuation indicates a price of LKR 12.20

We conclude our valuation recommendation of LKR 9.00 for a share of APL has been priced at a 16% discount to the simple average of the PER, P/BV and EV/Hectare valuations.

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## **7.0 Risks**

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The future performance of APL is subject to a number of risks that may or may not be within the control of the Company. Should any of the risks highlighted here materialize, it could have an adverse effect on the performance of the Company and its ordinary share price. This section highlights the main sources (but not necessarily all) of the risks that could be faced by the Company.

### **Unpredictable weather/climate changes**

Most of the plantations are situated at 5,000 ft above sea level and is exposed to extreme weather conditions largely affected by global warming. Crop losses and reduction in yield due to adverse weather conditions can cause shortfalls in revenue which will hamper the overall profitability of the business. There is also a risk of the effects of natural disasters on the harvest such as droughts, landslides, flooding and other related natural disasters that may lead to destruction in the landscape of the plantations as well as the crops.

### **Tea price volatility**

The existing macro-economic conditions prevailing in the market such as the global supply of tea, export demand for tea, geopolitical uncertainties, free trade agreements and the changes in global consumer trends may have a significant effect on the prices of tea fetched at the auctions. Policies adopted by different governments and political stability in different geographies play a crucial role. Furthermore, inflation rates of a country will affect consumer spending power and indirectly impact the company's performance. Should the global commodity markets grow in the future, auction prices could improve which may improve the Company's profitability. A continuous increase in the output from Kenya and China may result in the Sri Lankan tea industry facing higher competition leading to reduced margins and ultimately lower profitability.

### **Rising labour costs and labour shortages**

The labour-intensive nature of the plantation sector results in labour costs contributing 60-70% to the cost of production of a kilogram of tea. Any significant increases in wages would raise the cost of production by a significant margin. Labour strikes and further ad-hoc wage increment demands can result in unrest leading to low productivity. Labour shortages as migration of workers continue, will disrupt the tea-plucking operations, and will have a detrimental impact on revenue.

### **Increase in Fertilizer prices/Unavailability of Fertilizers**

Fertilizer subsidies have a direct impact on the cost of production and overall profitability. Although the ban on fertilizers have been reversed, the scarcity of fertilizer and chemicals may

continue, as imports have been restricted due to the foreign exchange crisis. This may cause great difficulty in the progress of field practices with timely applications.

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## 8.0 CAL Team

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### **Nishok Goonasekera, BEng – CEO - Capital Alliance Limited Partners**

Having spent over 15 years in London, Singapore and Hong Kong at J.P. Morgan and Morgan Stanley in Global Fixed Income Markets, Mr. Goonasekera is CEO of CAL Partners, where he is focused on building the corporate finance business both locally and internationally. Most recently he was an Executive Director at Morgan Stanley's Hong Kong office, running a team advising on Asian foreign exchange, interest rates, and credit markets. His institutional clientele were multi-strategy hedge funds and asset managers who invest globally across emerging markets. He has a Bachelor's Degree in Computer Engineering from Imperial College, London.

### **Ashvanth Vijayaram, BBA, ACCA Affiliate – Vice President – Investment Banking**

Ashvanth joined CAL in early 2017 and has been involved in a number of M&A transactions since. He is an Affiliate of the Association of Chartered Certified Accountants (UK) and he holds a Bachelor's degree in Business Administration (Finance) from the University of Colombo. Prior to joining CAL Ashvanth lectured at the Mercury Institute of Management.

### **Mathurya Sowndararajan, BSc – Analyst - Investment Banking**

Mathurya has previous experience working as a financial analyst at Planlogic and a M&A Associate at Climb Advisors. Having joined CAL in October 2022, she has been involved with transactions related to Equity Capital Markets including IPOs and M&A transactions. Mathurya holds a Bachelor's degree in Accounting and Financial Management from Loughborough University and is also a Level III ACCA candidate.

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## **9.0 Disclaimer**

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CAL's analysis is based on information obtained from the audited financial and unaudited interim financial statements supplied by Agarapatana Plantations Limited. CAL relied primarily on the information provided by Agarapatana Plantations Limited and acted with due care, due diligence and consideration in preparing the report. CAL assumes no responsibility for errors or omissions in information furnished by Agarapatana Plantations Limited.

This report is for the purpose set out in Section 1.2 of this report and should not be used for any other purpose.

Neither all nor part of the contents of this report shall be disseminated to the public, through advertising, public relation, news, sales or any other public media without prior approval of Capital Alliance Partners Limited.

In carrying out this Assignment, analysis deemed appropriate and assessments that were possible and practical within the time available have been carried out. Financial information and market data from the CSE have also been used for this Assignment.

The value recommendations given in this report are valid as at 15 March 2023 and the validity of the Valuation report/Research report will be for a minimum period of 3 months from the date of issuance of the final Prospectus and/or where material changes have taken place in the Company's operating environment. A factor to be considered for this report is that the valuations carried out are done based on financial data provided by Agarapatana Plantations Limited. Where the data provided were incomplete, we have used reasonable judgment and we take responsibility for the same.