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**Flash Note**

## Equity Research | Retail

# Singer (Sri Lanka) PLC (SINS.N)

Faster than expected recovery in discretionary spending plus higher margins seen driving earnings in the near term; fairly valued, however further upside is possible on market rerating.

**SINS reported revenue growth of 43% Y/Y (5% Q/Q) and EPS growth of 211% Y/Y to LKR 0.62 in Q2 FY25 (see here and Exhibit 16), buoyed by a faster than expected recovery in discretionary spending since Q3 FY24.** The share seems fairly valued at current levels as per our base case forecast. However, its possible that the counter will see further gains if consumer spending momentum continues to surprise to the upside and comes in higher than our expectations. We maintain SINS at **"Hold"** and **raise our 12M price target** to **LKR 26.50** per share on generally bullish sentiment/ momentum in the consumer discretionary/ retail sectors, market valuation rerating and distinct possibility that consumer spending may continue to surprise to the upside.

Key macro growth drivers for SINS include low inflation, strengthening remittance inflows, rising wages, easing interest rates and sizeable output gaps in the economy, which can all be expected to contribute to improved economic activity going forward and a faster recovery in consumer spending to pre-crisis levels in real terms. Furthermore, LKR appreciation against the USD is expected to enhance product affordability and support margin stability/ expansion in the retail space. With these factors in play, we expect SINS to continue to benefit from the improving economic environment in the near term and stabilize thereafter.

**Sri Lanka's GDP growth print is expected at >4% in 2024 and to stabilize at >3% in 2025.** GDP growth came in at 4.7% in 2Q 2024 (see Exhibit 4) marking the fourth consecutive quarter of growth since 3Q2023, following on from six quarters of negative growth during the economic crisis starting in early 2022. Growth was underpinned by low inflation, falling interest rates and a stable exchange rate. Easing import restrictions since 2023, higher liquidity/ credit growth and strong external sector adjustment with higher tourism earnings and remittance inflows supported the recovery.

Exhibit 4: Sri Lanka Quarterly GDP

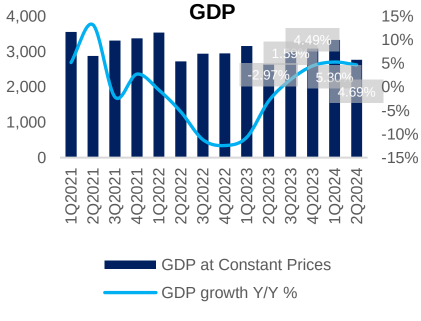
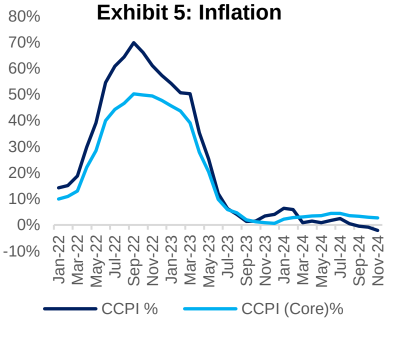



Exhibit 5: Inflation




**Disinflation coupled with higher worker remittances a potential boon for discretionary spending.** Sri Lanka is seeing a rapid normalization in price levels, with headline inflation dropping from a peak of 69.8% in September 2022 to deflation of -0.8% in October 2024 (see Exhibit 5). The decline in both headline and core inflation, is expected to boost both consumer confidence and purchasing power of consumers as income growth gradually catches up with the spike in inflation during the crisis.

Exhibit 6: Sri Lanka Foreign Remittances

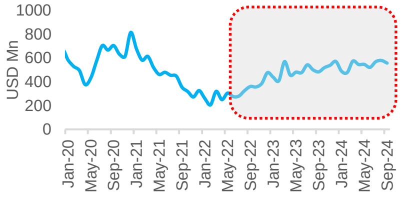
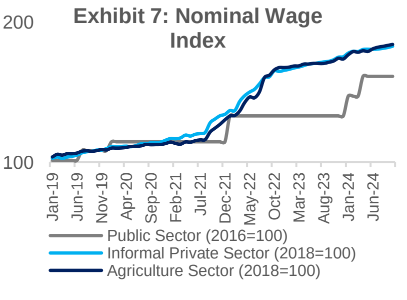



Exhibit 7: Nominal Wage Index





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| Maintains at Hold | |
|---|---|
| **12M Target Price** | **LKR 26.50** |
| Previous Price | N.A |
| **CMP** | **LKR 24.00** |
| Dividend | LKR 1.00 |
| **Upside/ Downside** | **14.58%** |

| | |
|---|---|
| Market Cap (LKR Bn) | 28.02 |
| No. of Shares (Mn) | 1,167.6 |
| 52w High \| Low (LKR) | 24.00 \| 11.40 |
| Beta \| Sharpe Ratio | 1.3 \| 0.8 |
| TTM P/E | 10.34 |
| TTM Dividend Yield | 0.00% |

Exhibit 1: Share Price (100 = Jan-2021)

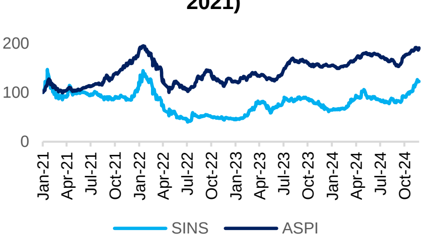



Exhibit 2: SINS Quarterly Revenue

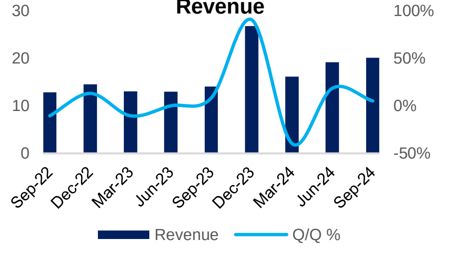
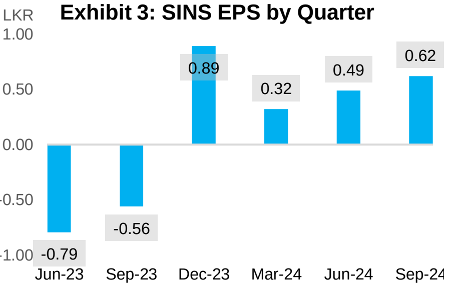



Exhibit 3: SINS EPS by Quarter



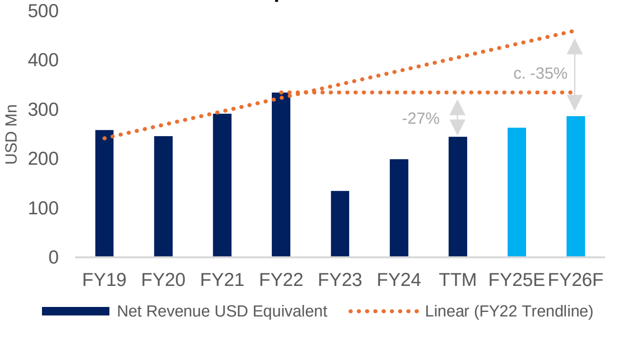

**For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.**

Furthermore, higher worker remittances, which grew 13.6% Y/Y to USD 588 Mn in October 2024 nearing pre-crisis levels, is expected to support discretionary spending. We believe that foreign remittances has played an important role in preserving disposable income levels of many households which rely on expatriate breadwinners (see Exhibit 6).

**Gradual increase in nominal wages expected to boost demand for consumer durables.** Wages are slowly catching up with inflation, although real income levels remain below pre-crisis thresholds. Nominal wages in Sri Lanka's agricultural sector, which was up 7.1% Y/Y in September 2024, will boost demand for agricultural machinery that comprises part of SINS product portfolio in addition to generating demand for consumer durables from the rural areas of the country. Nominal wages in the private sector are also seen to be growing at a steady clip whilst inflation remains subdued (see Exhibit 7).

**SINS net revenue in real terms remains below previous high; recovery to the pre-crisis trendline supports medium term revenue outlook.** If we use USD equivalent revenue as a proxy for real revenue to adjust for the significant price level and exchange rate distortion in 2022, SINS TTM net revenue of USD 244 Mn (from the consumer durables business) as at 2Q FY25 remains below the pre-crisis levels of c. USD 300 Mn. We believe this presents a potential upside for SINS's revenues in the medium term as the economic recovery gradually restores real purchasing power and consumer confidence. In the longer term we would expect revenues growth to stabilize and converge to its long term trendline under normalized economic conditions.

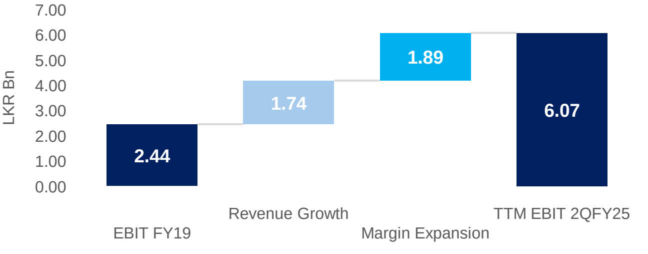
**Exhibit 8: SINS Net Revenue (Company) in USD Equivalent**




**Profitability driven by both revenue growth and margin expansion.** Excluding the consumer lending business of its subsidiary Singer Finance PLC ("SFIN"), SINS has seen a notable improvement in EBIT at company level (consumer durables business), growing from LKR 2.44 Bn in FY19 to LKR 6.06 Bn on a TTM basis. The significant growth in profitability is attributable to both higher revenue and margin expansion.

Exhibit 9 depicts the EBIT bridge for SINS from FY19 to the latest quarter. Out of the incremental EBIT of LKR 3.8 Bn over the period, c. LKR 1.7 Bn (45%) was contributed by topline growth, whilst the balance c. LKR 2 Bn (55%) accrued from margin expansion. Whilst topline revenue can be expected to converge to the pre-crisis trendline as discussed elsewhere herein, continued margin strength will have a significant impact on the earnings outlook for SINS going forward.

**Exhibit 9: SINS EBIT Bridge**




**Margins currently slightly above historical median.** SINS has seen significant margin dispersion and an improvement in EBIT margins across its portfolio since FY2019 (see Exhibit 11). The financial services segment led with the highest margins, peaking at 23.1% in 2Q FY25, 260bps above the 6-year average. The home appliances segment saw margins expanding from 4.9% in FY19 to 9.6% in 2QFY25, 90 bps above the historical average. Consumer electronics maintained stable margins near 10%. Overall, these improvements reflect both SINS's success in optimizing operations and profitability in a challenging business environment from 2019 onwards and tailwinds for the retail sector from the economic recovery since 2H 2023. Currently both blended EBIT margins at company level and at individual segment level for most business verticals are slightly above the historical median.

**Exhibit 10: USD/LKR index (base year = 2018)**

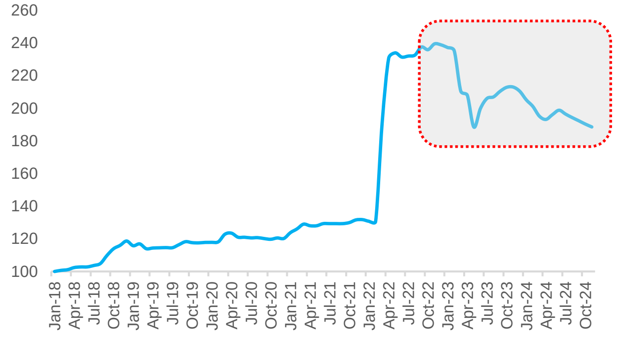
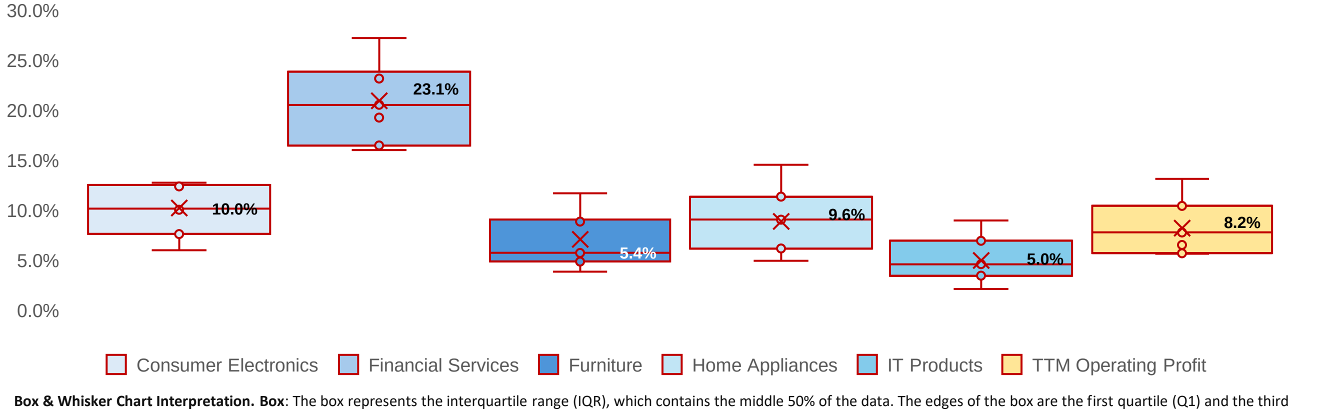



**Exhibit 11: Historical EBIT Margin Dispersion by Segment (FY19 to TTM Q2 FY25)**




**Box & Whisker Chart Interpretation. Box**: The box represents the interquartile range (IQR), which contains the middle 50% of the data. The edges of the box are the first quartile (Q1) and the third quartile (Q3). **Median**: The line inside the box marks the median (Q2), which is the middle value of the dataset. **Whiskers**: The lines extending from the box (whiskers) show the range of the data, excluding outliers. The whiskers typically extend to the smallest and largest values within 1.5 times the IQR from the quartiles. **Values:** The numerical values are the values for the most recent period.

**LKR appreciation will enhance product affordability, shore up margins and reduce discounting pressure.** The LKR has appreciated by approximately 20% from its peak of c. LKR 360 to the USD in 2H 2022 to c. LKR 290 in 2H 2024. The currency impact is significant for SINS which imports c. 80% of its products. The favorable exchange rate impact is expected to reduce import costs and steady margins enabling SINS to benefit from improved profitability and reduce the need for aggressive discounting in the short to medium term.

The REER for the LKR remains below 100 despite the recent appreciation. We expect that the currency will remain relatively stable in 2025 through 2026 supported by higher tourism and remittance inflows in particular which should offset higher expected import and foreign debt servicing expenditure.

**Import data points to the likelihood of continued strength in consumer durables sales in the coming quarters.** SINS reported record revenues in 3Q FY24 partly explained by consumers pre-empting higher VAT rates which took effect from January 2024. However, imports of consumer durables (see Exhibit 12) points to the possibility that revenues for SINS in the back half of FY25 will continue to come in at high levels notwithstanding the higher base off the corresponding period of the previous financial year.

**Exhibit 12: Consumer Durables Imports % growth Y/Y**

| | Aug 24 | Sept 24 | Oct 24 | YTD 24 |
|---|---|---|---|---|
| Home appliances | 85% | 61% | **73%** | 132% |
| Telecom devices | -13% | 73% | **46%** | 59% |

Source: CBSL

**Our forecast assumptions for SINS incorporates a base case and a bull case to account for the uncertainty in forecasting revenues in the context of an unprecedented economic crisis and the current recovery.** Our base case forecast assumes group revenues will grow 24% Y/Y in FY25E and 11% Y/Y in FY26E. Operating margins are expected to gradually taper down to 7% in the longer term for the consumer durables business. We have valued the finance company business of SFIN at book value. WACC for SINS is based on a cost of equity of c. 17.4% based on current risk-free rate and a beta of 0.9. Bull case forecast assumes a slightly higher revenue trajectory of 26% Y/Y in FY25E and 13% Y/Y in FY26E, whilst operating margins for the consumer durables business is expected to taper down to 7.5% in the longer term (see Exhibit 13).

**Exhibit 13: Forecast Assumptions**

| For the year ended 31-March (LKR Mn) | Actual | | | | Base Case Forecast | | Bull Case Forecast | |
|---|---|---|---|---|---|---|---|---|
| | FY2022 | FY2023 | FY2024 | TTM | FY2025E | FY2026E | FY2025E | FY2026E |
| Revenue (Group) | 76,848 | 54,767 | 69,973 | 82,136 | 86,944 | 96,919 | 88,274 | 100,076 |
| **Revenue Growth Y/Y (%)** | **14.0%** | **-28.7%** | **27.8%** | **50.4%** | **24.3%** | **11.5%** | **26.2%** | **13.4%** |
| EBIT | 8,237 | 6,688 | 3,138 | 6,551 | 6,944 | 7,420 | 6,980 | 7,431 |
| **EBIT Margin (%)** | **10.7%** | **12.2%** | **4.5%** | **8.0%** | **8.0%** | **7.7%** | **7.9%** | **7.4%** |
| Effective Tax Rate (%) | 25.8% | 44.9% | 126.7% | - | 28.0% | 28.0% | 28.0% | 28.0% |
| Capital Expenditure (Company) | - | - | - | 337.6 | 1,595 | 959 | 1,820 | 1,007 |
| **WACC**(%) | - | - | - | - | 10.39% | 10.39% | 10.39% | 10.39% |

| Exhibit 14: Summarized DCF Valuation (Base Case) | | | | | | Bull Case |
|---|---|---|---|---|---|---|
| LKR Mn | +12 months | +24 months | + 36 months | + 48 months | + 60 months | |
| EBIT (Company) | 6,650 | 6,871 | 7,044 | 7,393 | 7,759 | |
| FCFF (Company) | 1,540 | 2,950 | 3,688 | 4,733 | 5,003 | |
| Discounted FCFF (WACC @ 10.4%) | 1,395 | 2,421 | 2,741 | 3,187 | 3,052 | |
| PV of 10 Year Cash FCFF | | | | | 25,990 | 27,715 |
| PV of Terminal Value | | | | | 25,509 | 29,338 |
| SFIN value to SINS (79.9% Share Holding) | | | | | 4,408 | 4,408 |
| **Enterprise Value/ Sum of PV** | | | | | 55,907 | 61,461 |
| Net Debt | | | | | 27,769 | 27,769 |
| Equity Value | | | | | **28,138** | **33,692** |
| Equity Value (net of NCI) | | | | | **28,138** | **33,692** |
| # of shares (Mn) | | | | | 1,168 | 1,168 |
| **DCF based Intrinsic Value (LKR) per share** | | | | | **24.10** | **28.86** |
| **12M Target Price based on PER of 10.0x on estimated TTM EPS of LKR 2.64 in Sep 2025** | | | | | **26.50** | |
| CMP as of 05 Dec 2024 (LKR) | | | | | 24.00 | |
| Potential Upside / (downside) to 12M Target Price | | | | | 10.42% | |

**We value SINS at LKR 24.1 per share under our base case and LKR 28.9 under our bull base and maintain the stock at "HOLD".**
Based on our DCF valuations and expected market trading multiples, we assign a **12M forward price target** of **LKR 26.50 per share** for SINS which is a 10.4% upside to CMP (LKR 24.0 as of 05 Dec 2024), while we estimate a DPS of LKR 1.00 per share for FY25E resulting in a total return of c. 14.6%. The share is currently trading at 10.3x of TTM EPS of LKR 2.32 and 9.5x of FY25E forward EPS of LKR 2.54 (base case).

Our 12m forward price target is based on the share trading at c. 10.0x of estimated EPS (TTM) in 2Q FY26E of LKR 2.64. We believe the expected trading multiple is warranted by overall market rerating and lower expected interest rates going forward.

| Exhibit 15: Summarised P&L Forecast (Group) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Years ended 31 March | Actual | | | | | Base Case | | Bull Case | |
| (In LKR Mn) | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E | FY25E | FY26E |
| **Revenue** | **54,751** | **67,412** | **76,848** | **54,767** | **69,973** | **86,944** | **96,919** | **88,274** | **100,076** |
| COGS | (38,367) | (48,901) | (54,656) | (35,895) | (52,075) | (61,730) | (69,782) | (62,674) | (72,055) |
| Gross Profit | 16,384 | 18,511 | 22,192 | 18,872 | 17,899 | 25,214 | 27,137 | 25,599 | 28,021 |
| **EBIT** | **4,122** | **5,384** | **8,237** | **6,688** | **3,138** | **6,944** | **7,420** | **6,980** | **7,431** |
| Net Interest Cost | (3,200) | (1,272) | (2,320) | (6,119) | (2,402) | (1,960) | (2,008) | (1,922) | (1,905) |
| **PBT** | **611** | **3,819** | **5,535** | **174** | **339** | **4,290** | **4,669** | **4,360** | **4,783** |
| Tax | (183) | (1,210) | (1,426) | (78) | (430) | (1,201) | (1,307) | (1,221) | (1,339) |
| **Recurring Net Profit** | **427** | **2,609** | **4,109** | **96** | **(91)** | **3,089** | **3,362** | **3,139** | **3,444** |
| **Earnings per share (LKR)** | **0.24** | **2.10** | **3.39** | **0.01** | **(0.14)** | **2.54** | **2.74** | **2.58** | **2.80** |
| Dividend per share (LKR) | 0.08 | 1.55 | 1.10 | 0.00 | 0.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Dividend Yield (%) | 0.88% | 11.70% | 5.96% | 0.0% | 0.0% | 4.17% | 4.17% | 4.17% | 4.17% |
| **Price/ Earnings Ratio (X) *** | **39.18** | **6.31** | **5.4** | **1,790.5** | **N/A** | **9.12** | **8.50** | **9.30** | **8.57** |

### Exhibit 16: SINS.N 2QFY25 Income Statement