

Neurasense Report

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Summary

Ceylon Tobacco Company PLC is a leading tobacco company based in Colombo, Sri Lanka. The company is primarily engaged in the manufacturing, marketing, and sale of cigarettes. It is a part of the British American Tobacco Group, one of the world's most international businesses with brands sold in more than 200 markets around the world.

Ceylon Tobacco Company operates in a highly regulated and competitive market. The company's product portfolio includes a wide range of cigarettes that cater to various consumer preferences. The company's financial statements for the year ended 31 December 2022 show a significant increase in turnover and profit, indicating a strong market position.

The company's strategy is focused on stimulating the senses of new adult generations and targeting high growth segments. It leverages its unique and data-driven adult consumer insight platform, PRISM, to focus on product categories and consumer segments that have the best potential for long-term sustainable growth. The company also prioritizes remarkable innovation, leveraging its global network of digital hubs, innovation super centres, and world-class R&D laboratories to stay ahead of the curve.

Ceylon Tobacco Company is committed to reducing the health impact of its business. It is focused on providing consumer choice and adhering to standards and regulations. The company's financial statements are audited by KPMG Chartered Accountants, ensuring transparency and compliance with financial reporting standards.

In terms of governance, the company has an Audit Committee that oversees the financial reporting process. The Directors are responsible for ensuring that the company maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the company.

Overall, Ceylon Tobacco Company PLC is a well-established player in the tobacco industry, with a strong market presence and a commitment to innovation and sustainability. However, like all businesses in this sector, it faces ongoing challenges related to health impacts, regulatory changes, and societal shifts in attitudes towards smoking.

Risks

1. Macro-economic volatility in transactional foreign exchange rate: This risk refers to the potential impact of fluctuations in foreign exchange rates on the company's financial performance. For instance, a significant depreciation of the local currency could increase the cost of imported raw materials, thereby affecting the company's profitability.
2. Competition from illicit trade: The company faces the risk of losing market share to illegal trade, particularly in the tobacco industry. This could be due to factors such as price disparity between legal and smuggled cigarettes, which could fuel the growth of the illicit market.
3. Unfavourable and unplanned excise and taxes: Changes in tax laws or increases in excise duties could significantly impact the company's financial performance. For example, an unexpected increase in excise duty could lead to a rise in the price of the company's products, potentially affecting sales and profitability.
4. Impact of price increases on consumer affordability: If the company is forced to increase its prices due to factors such as higher raw material costs or increased taxes, this could affect consumer affordability and potentially lead to a decrease in sales volume.
5. Difficulties in recruiting/retaining talent: The company's success largely depends on its ability to attract and retain skilled employees. If the company is unable to do so, this could affect its operational efficiency and overall performance.
6. Business disruptions stemming from COVID-19: The ongoing COVID-19 pandemic poses significant operational risks, including potential disruptions to the company's supply chain, workforce availability,

and overall business operations.

7. Regulatory compliance: The company operates in a highly regulated industry and must comply with a wide range of laws and regulations. Non-compliance could result in penalties, damage to the company's reputation, and potential loss of business.
8. Human rights issues across the supply chain: The company could face reputational and legal risks if human rights abuses are found within its supply chain. This includes issues such as child labour, forced labour, and discrimination.
9. Harm reduction: As a tobacco company, CTC faces the risk of potential health impacts of its products. The company needs to consider harm reduction strategies to mitigate this risk.
10. Risk management: The company needs to effectively manage its financial, social, and environmental risks to ensure commercial sustainability and maintain its social license to operate. Failure to do so could result in financial losses, reputational damage, and potential legal issues.

Key stats

Parameter	Year	Value (in Sri Lanka Rupees thousands)
Turnover	2021	134,368,528
Turnover	2022	167,194,283
Government levies	2021	(100,753,295)
Government levies	2022	(122,922,012)
Revenue	2021	33,615,233
Revenue	2022	44,272,271
Raw materials used	2021	(2,644,896)
Raw materials used	2022	(3,438,623)
Employee benefit expenses	2021	(1,518,591)
Employee benefit expenses	2022	(2,020,172)
Depreciation expenses	2021	(332,973)
Depreciation expenses	2022	(364,151)
Amortisation expenses	2021	(1,150)
Amortisation expenses	2022	(670)
Other operating expenses	2021	(3,023,050)
Other operating expenses	2022	(5,288,293)
Other operating income	2021	33,039
Other operating income	2022	36,079
Operating profit	2021	26,127,612
Operating profit	2022	33,196,441
Finance income	2021	538,716
Finance income	2022	1,221,109
Finance Cost	2021	(20,106)
Finance Cost	2022	(24,711)

Parameter	Year	Value (in Sri Lanka Rupees thousands)
Profit before income tax	2021	26,646,222
Profit before income tax	2022	34,392,839
Income tax expenses	2021	(10,499,737)
Income tax expenses	2022	(13,924,131)
Profit for the year	2021	16,146,485
Profit for the year	2022	20,468,708

Other parameters

Key Financial Parameters:

- **Turnover:** The company's turnover for the year 2022 was Rs. 167,194,283 thousand, which is an increase from Rs. 134,368,528 thousand in 2021. This indicates a positive growth in the company's business operations.
- **Government Levies:** The company paid Rs. 122,922,012 thousand in government levies in 2022, up from Rs. 100,753,295 thousand in 2021. This increase could be due to changes in government policies or an increase in the company's taxable income.
- **Revenue:** The company's revenue for 2022 was Rs. 44,272,271 thousand, a significant increase from Rs. 33,615,233 thousand in 2021. This suggests that the company has been successful in increasing its sales and generating higher income.
- **Profit for the year:** The company's profit for the year 2022 was Rs. 20,468,708 thousand, up from Rs. 16,146,485 thousand in 2021. This indicates that the company has been successful in managing its costs and improving its profitability.
- **Total Comprehensive Income:** The company's total comprehensive income for 2022 was Rs. 20,238,225 thousand, up from Rs. 16,383,293 thousand in 2021. This suggests that the company has been successful in generating income from its various business activities.
- **Earnings per share:** The company's earnings per share (both basic and diluted) for 2022 was Rs. 109.27, up from Rs. 86.20 in 2021. This indicates that the company has been successful in generating higher profits per share for its shareholders.

Risks:

The company's financial statements indicate a significant increase in government levies, which could impact the company's profitability if it continues to rise. Additionally, the company's increased turnover and revenue also come with increased operational and financial risks. The company needs to manage these risks effectively to ensure its continued growth and profitability.

Key Financial Parameters:

1. **Turnover:** The turnover for the year 2021 was 134,368,528 and for the year 2022, it was 167,194,283. The unit of price is in Sri Lanka Rupees thousands.
2. **Government Levies:** The government levies for the year 2021 were 100,753,295 and for the year 2022, they were 122,922,012. The unit of price is in Sri Lanka Rupees thousands.
3. **Revenue:** The revenue for the year 2021 was 33,615,233 and for the year 2022, it was 44,272,271. The unit of price is in Sri Lanka Rupees thousands.
4. **Profit for the year:** The profit for the year 2021 was 16,146,485 and for the year 2022, it was 20,468,708. The unit of price is in Sri Lanka Rupees thousands.
5. **Total Comprehensive Income:** The total comprehensive income for the year 2021 was 16,383,293 and for the year 2022, it was 20,238,225. The unit of price is in Sri Lanka Rupees thousands.
6. **Earnings per share:** The basic and diluted earnings per share for the year 2021 were 86.20 and for the year 2022, they were 109.27.

Risks:

1. **Market Risk:** The company is exposed to market risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the company's income or the value of its holdings of financial instruments.

2. Credit Risk: The company is exposed to credit risk which is the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers.

3. Liquidity Risk: The company is exposed to liquidity risk which is the risk that the company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Financial Risk Management

The company has exposure to the following risks from financial instruments:

- Market risk
- Credit risk
- Liquidity risk

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Financial risk factors

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign exchange risk

The company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar (USD), Euro (EUR) and the Great Britain Pound (GBP). Foreign exchange risk arises from future commercial transactions of recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. Management complies with the treasury policy to manage foreign exchange risk against their functional currency.

Exchange rates applied during the year:

Currency	Closing exchange rate 2021	Closing exchange rate 2022
US Dollar (USD)	202.79	368.50
Great Britain Pound (GBP)	274.66	455.57
Euro (EUR)	230.61	392.20

The significant increase in exchange rates, especially for the USD, indicates a potential risk of increased costs for the company if it has significant liabilities or expenses denominated in these currencies.

Statement of Financial Position

As at 31 December 2022 (all amounts in Sri Lanka Rupees thousands)

Non-current liabilities

Deferred tax liabilities: 1,463,141

Retirement benefit obligations: 1,121,315

Current liabilities

Trade and other payables: 9,216,849

Current tax liabilities: 964,973

Total liabilities: 12,766,278

The company has significant non-current liabilities related to deferred tax and retirement benefit obligations, which could impact its long-term financial stability. The high level of current liabilities, particularly trade and other payables, could pose a liquidity risk if the company does not have sufficient current assets to meet these obligations.

Key Financial Parameters	2021 (in Rs. thousands)	2022 (in Rs. thousands)
Turnover	134,368,528	167,194,283
Government Levies	100,753,295	122,922,012
Revenue	33,615,233	44,272,271
Profit for the year	16,146,485	20,468,708
Total Comprehensive Income	16,383,293	20,238,225
Earnings per share (both basic and diluted)	86.20	109.27

Currency	Closing exchange rate 2021	Closing exchange rate 2022
US Dollar (USD)	202.79	368.50
Great Britain Pound (GBP)	274.66	455.57
Euro (EUR)	230.61	392.20

Statement of Financial Position	As at 31 December 2022 (all amounts in Sri Lanka Rupees thousands)
Non-current liabilities - Deferred tax liabilities	1,463,141
Non-current liabilities - Retirement benefit obligations	1,121,315
Current liabilities - Trade and other payables	9,216,849
Current liabilities - Current tax liabilities	964,973
Total liabilities	12,766,278

Ratio	Formula	2021 Value	2022 Value
Gross Profit Margin	(Revenue - Cost of Goods Sold) / Revenue	0.77 or 77%	0.76 or 76%
Operating Profit Margin	Operating Profit / Revenue	0.78 or 78%	0.75 or 75%
Net Profit Margin	Profit for the Year / Revenue	0.48 or 48%	0.46 or 46%
Return on Sales	Profit before Income Tax / Revenue	0.79 or 79%	0.78 or 78%

Remarks

The financial stats of the company show a positive trend in terms of turnover, revenue, and profit for the year. However, there are several areas of potential credit risk that need to be highlighted:

- Increase in Government Levies:** The company's government levies have increased from 2021 to 2022. This could potentially impact the company's profitability and cash flow, which could increase its credit risk.
- Increase in Raw Materials Used:** The cost of raw materials used by the company has also increased from 2021 to 2022. This could potentially impact the company's gross profit margin and its ability to service its debts.
- Increase in Employee Benefit Expenses:** The company's employee benefit expenses have increased from 2021 to 2022. This could potentially impact the company's operating profit margin and its ability to service its debts.
- Increase in Other Operating Expenses:** The company's other operating expenses have increased significantly from 2021 to 2022. This could potentially impact the company's net profit margin and its ability to service its debts.
- Decrease in Profit Margins:** The company's gross profit margin, operating profit margin, net profit margin, and return on sales have all decreased from 2021 to 2022. This could potentially impact the company's profitability and its ability to service its debts.

6. **Increase in Finance Cost:** The company's finance cost has increased from 2021 to 2022. This could potentially impact the company's net profit margin and its ability to service its debts.
7. **Increase in Income Tax Expenses:** The company's income tax expenses have increased from 2021 to 2022. This could potentially impact the company's net profit margin and its ability to service its debts.