

SHARE VALUATION REPORT TO THE BOARD OF DIRECTORS OF ACME PRINTING AND PACKAGING PLC



14th June 2023
BDO Consulting (Pvt.) Ltd.





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Reg. No. PV 12978

14th June 2023.

The Board of Directors,
ACME Printing and Packaging PLC,
318, Gonamadiththa Road,
Piliyandala,
Sri Lanka.

Dear Board members,

PROVISION OF CONSULTANCY SERVICES ON CONDUCTING A SHARE VALUATION FOR ACME PRINTING AND PACKAGING PLC.

We are pleased to submit the final report on the share valuation of ACME Printing and Packaging PLC, in terms of the letter of engagement dated 18th April 2023.

Yours faithfully,

BDO Consulting (Pvt.) Ltd.

Sgd.

Director

LEGAL NOTICE

This report has been prepared by BDO Consulting (Pvt.) Limited (“BDO”) to assist the Board of Directors of ACME Printing & Packaging PLC (Here in after may be referred to as “APP”) in deciding the share value of APP.

This report relies upon the representations made at discussions we had with the management of APP, information, and documents compiled and provided to BDO by APP and its representatives. BDO has also relied on reported information such as audited financial statements, published quarterly financial statements, publicly available information on the Colombo Stock Exchange, and other information provided by the management of APP and information on APP that is publicly available.

This report is provided subject to the following understandings.

1. APP has made available to BDO all material information, and all information so provided is up to date as of 31st March 2023.
2. All reports and financial documentation and other information are correct and accurate in all material particulars.

BDO has not undertaken any independent enquiries or audits to verify that the information provided is correct and has not carried out any type of audit of APP records to verify that all material documentation has been provided.

The value recommendations made herein are valid as of the valuation date until 03 months from APP’s final circular to shareholders, subject to there being no material changes to the operating environment or business models of APP. The use of the value recommendation in this report after 03 months from APP’s final circular to shareholders is not recommended.

Neither BDO nor those involved in the preparation of this report has any material interest in APP. BDO does not have a significant interest or financial connection with the APP. BDO is remunerated for this report by way of a professional fee determined in accordance with BDO’s standard schedule of rates which is not contingent on the outcome of this report.

BDO possesses the resources with necessary skills and competencies to perform an independent evaluation of a company and make an appropriate fair value recommendation to the Board of Directors.

Definitions, Abbreviations and Glossary of Terms

Abbreviation	Meaning
BDO	BDO Consulting (Pvt.) Limited
APP	ACME Printing and Packaging PLC
APS	ACME Packaging Solutions (Pvt.) Ltd.
CBSL	Central Bank of Sri Lanka
CSE	Colombo Stock Exchange
Bn	Billion
Mn	Million
CF	Cash Flow
DCF	Discounted Cash Flow
DF	Discount Factor
PBIT	Profit Before Interest and Tax
EBIT	Earnings Before Interest and Taxes
FCFF	Free Cash Flow to Firm
TCF	Terminal Cash Flow
FY	Financial Year
FV	Fair Value
GDP	Gross Domestic Product
GP	Gross Profit
Ke	Cost of Equity
LKR	Sri Lankan Rupees
MT	Metric Ton

Abbreviation	Meaning
NAV	Net Asset Value
PV	Present Value
BV	Business Value
RG	Revenue Growth
TG	Terminal Growth
USD	United States Dollar
WACC	Weighted Average Cost of Capital

Executive Summary

The share valuation of APP was conducted as of 31st March 2023 using the following approaches to share valuation.

- Income approach

The share valuation of APP has been based on the following information sources.

- Audited financial statements for the financial years 2017, 2018, 2019, 2020, 2021, and 2022.
 - Published quarterly financial statements as of 31st March 2023.
 - Financial forecast provided by the management of APP for financial years from 2024 to 2026.
 - Assumptions given by the management of the APP.
 - Relevant industry publications, press releases, and publicly available information in the CSE.
- It should be noted that APP has a 100% owned subsidiary-APS which also conducts its business operations in the printing and packaging sector as APP.
- It should be noted that APS has had continuous uncertainty in going concern as mentioned in the auditor's report. As such, future forecast-based valuations considering implicit and explicit cash flows may not be appropriate to fair value APS for the as-is scenario.
- However, as per the management request, considering the dependency between APP and APS to conduct its business operations, we have considered APP group financial forecast including APS's

future forecast in arriving at the share valuation of APP using the income approach.

- Under the income approach, we have used the discounted cash flow method. The future cash flows were provided by the management, and we have applied discounting techniques thereon.
- The DCF share value set out herein is subject to the validity and appropriateness of the forecasts/assumptions made as set out in section 4.1.2 of this valuation report. It should be noted that BDO has not verified the forecast provided by the management.
- Net asset value of APP as per the 31st March 2023 balance sheet is given in section 4.2.
- It should be noted that market-based valuations were not performed on APP due to the non-availability of comparable peers to APP.

Share valuation results of APP as of 31st March 2023 is as follows.

Share valuation approach	Share value range (LKR)
Income approach	
Discounted cash flow	8.44 to 18.92

The base value of the above share value range is LKR 12.02. Please refer to section 04 for the detailed valuation computation.

The executive summary should be read in conjunction with the other sections of this report.

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Section 1

Scope and Process

1.1 Scope of Work

We performed the following procedures under this engagement to determine the share valuation of APP as of 31st March 2023. (“Valuation Date”).

Procedures that were performed in this engagement include the following.

1. Performed share valuation based on the following valuation methodologies:
 - Discounted Cash Flow.
2. Preparation of a share valuation report.

This report was prepared to determine the share value of APP and has been prepared solely for the use of the addressee of the document. For the avoidance of doubt, our services are only for use by the addressee to this document and the disclosure of any BDO report to any third party or making representations to such parties with respect to the nature of work or role of BDO should only be with the written consent of BDO and where appropriate, return of a signed hold harmless letter to BDO.

Regardless of any consent given for the third-party release of the BDO report, it should be noted that BDO shall not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come. If any other third party chooses to rely upon any of the contents of this report, they may do so at their own risk. BDO expressly disclaims all liability for any loss or damage of whatsoever kind which may arise from any person acting on any information and opinions relating to the entity covered in this report.

1.2 Sources of Information

During our work, we have relied on data and information made available to us through different sources, including forecast financial information obtained from APP, sector-specific information obtained from the public domain, and financial & industry sources. The principal sources of information provided to us by management include:

- Financial forecast provided by the management of APP for financial years from 2024 to 2026 - BDO has not verified the assumptions given by the management.
- Audited financial statements for the financial years 2017, 2018, 2019, 2020, 2021, and 2022.
- Published quarterly financial statements as of 31st March 2023.
- Assumptions given by the management of APP.
- Relevant industry publications, press releases, and publicly available information in the CSE.

Where we have done the analytical procedures (section 04) based on the information supplied to us and should be regarded as illustrative, such analysis is necessarily subjective. Further, we wish to note other limitations of our work undertaken as stated below:

- In carrying out this assignment, we have performed reasonable analysis and assessments that were possible and practical within the time available and as at the date of this report.
- Neither BDO nor any of its employees have a financial interest in the entity being appraised.
- The fee for the preparation of this report is not contingent upon the results reported.
- No investigations of the titles of the properties have been made and the owner's claims to the properties have been assumed valid. No consideration has been given to lines or encumbrances, which may be against the properties. Therefore, no responsibility is assumed for matters of a legal nature.

1.3 Share Valuation Methodology

Approach to value

Income approach to value

Discounted Cash Flow Methodology

The discounted cash flow method estimates entity value based on expected future cash flows discounted at a rate commensurate with the underlying risks associated with such cashflows.

$$\text{DCF} = \frac{\text{CF}_1}{(1+r)^1} + \frac{\text{CF}_2}{(1+r)^2} + \dots + \frac{\text{CF}_n}{(1+r)^n}$$



Section 2

Economic Analysis and Industrial Analysis



2.1 Economic Analysis - Sri Lanka

USD 77.1 Bn

Sri Lanka GDP at current market price amounted to USD as of year ended FY 2022

Source:

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2022/en/6_Chapter_02.pdf

Date :17/05/2023

(7.8%)

Real GDP growth FY 2022

Source:

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2022/en/6_Chapter_02.pdf

Date :17/05/2023

50.3%

YoY% CCPI Inflation rate for March 2023

Source :

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/pr/press_20230331_inflation_in_march_2023_ccpi_e_0.pdf

Date: 17/04/2023

Country Credit Rating

FITCH: RD

Moody's: Ca

S&P Global: SD

Source : <https://tradingeconomics.com/country-list/rating> Date :17/04/2023

USD 3,474

GDP Per Capita at current market price FY 2022

Source:

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2022/en/6_Chapter_02.pdf

Date :17/05/2023

4.7%

Unemployment rate

in FY 2022

Source :

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2022/en/6_Chapter_02.pdf

Date :17/05/2023

Buy:318.28

Sell:336.01

Exchange Rate at 31/03/2023

Source:

<https://www.cbsl.gov.lk/en/rates-and-indicators/ex> Date :17/04/2023

- The inflation rate in Sri Lanka, measured by the Colombo Consumer Price Index, reached a peak of 69.8% year-on-year in September 2022, but then decelerated to 50.3% by March 2023. The increase in inflation in 2022 was caused by partial monetization of the fiscal deficit, currency depreciation, the implementation of a fuel pricing formula, and the prohibition of chemical fertilizers in 2021, which led to inflationary pressures on domestic food prices.
- Following a growth of 3.5 % year-on-year in 2021, the key sectors experienced a contraction in 2022, particularly during the third and fourth quarters, with a year-on-year decline of 11.5 % and 12.4 %, respectively. The shortage of inputs, which resulted from the abrupt imposition of a ban on inorganic fertilizers and other chemical inputs in the latter half of 2021, had a significant impact on agricultural output, leading to a substantial reduction in 2022. Additionally, the manufacturing sector was severely affected by supply chain disruptions and input shortages.
- In the second half of 2022, there was a significant decrease in cement consumption by 52.8% (year-over-year) due to a slowdown in construction activity. The industrial sector also experienced a decline of 17% (year-over-year) in electricity sales due to subdued demand and power cuts. However, the export sector maintained its positive performance, with strong demand for Sri Lanka's textiles and exporters able to use their earnings to procure inputs. The purchasing managers' indices showed ongoing strain.

Source:

<https://www.worldbank.org/en/country/srilanka/publication/sri-lanka-development-update-2023> Date: 17/05/2023

2.2 Economic Analysis - Global

USD 103.86 Trillion

GDP at current prices
FY 2022-Global GDP

2.9%

Real GDP growth
FY 2022 -Global GDP growth

USD 12.88 Thousand

GDP per capita at current prices
FY 2022 -Global GDP per capita

Source:

<https://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWO/RLD?year=2022> Date: 12/05/2023

5.77%

Unemployment rate
FY 2022 - Global unemployment rate
Source:

<https://www.statista.com/statistics/279777/global-unemployment-rate/>
Date: 17/05/2023

8.3%

Inflation at CPI
YoY % - FY 2022 Global Inflation
Source:

<https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG>
Date: 17/05/2023

- The initial projection predicts a decrease in global GDP growth, starting at 3.4 % in 2022 and declining to 2.8 % in 2023. However, it is expected to gradually recover and stabilize at 3.0 % over the next five years. A significant deceleration is projected for advanced economies, with growth expected to decline from 2.7 % in 2022 to 1.3 % in 2023. In an alternative scenario, global growth declines to 2.5 % in 2023, with advanced economy growth falling below 1%.
- The expected decline in global headline inflation from 8.7 % in 2022 to 7.0 % in 2023 can be attributed to decreased commodity prices. However, the rate at which underlying (core) inflation decreases is anticipated to be slower. This is primarily because of the necessary strict policy measures to combat inflation, worsening financial conditions, the ongoing conflict in Ukraine, and the prevalence of geo-economic fragmentation.
- Despite the decline in inflation due to the efforts of central banks to increase interest rates and the decrease in food and energy prices, the underlying price pressures remain resistant to change. Additionally, labor markets in several economies remain tight, exacerbating the situation. These circumstances have resulted in side effects such as vulnerabilities in the banking sector and concerns about the potential spread of these issues to nonbank financial institutions and the wider financial sector.

Source:

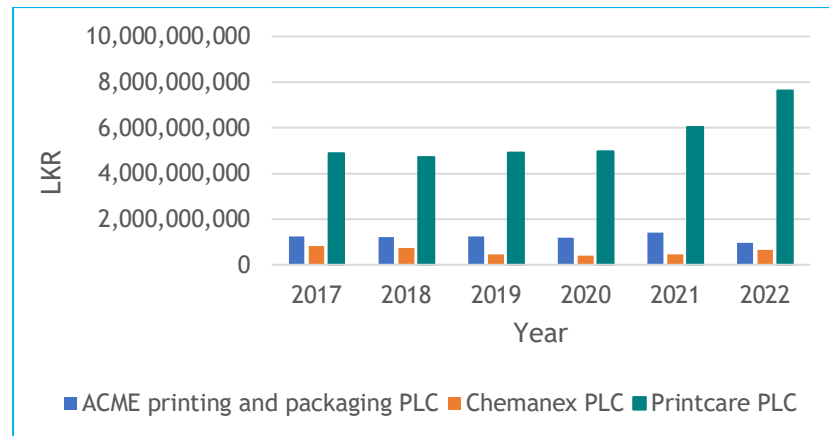
<https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023> Date: 17/05/2023

2.3 Industry Analysis

The worldwide packaging industry has experienced strong growth during the past decade due to new entrants to the market and shifts in consumer preferences. Operations of the packaging market have been reshaped because of recent trends such as digital printing, minimalist product packaging, sustainable packaging, vibrant colors, and gradients. Some of the Sri Lankan packaging companies are known as the best packaging solutions in the world due to their experience in service, expertise, affordable price, and world-class service standards.

Recently, Sri Lanka has been promoting organic and sustainable products and supplies to customers and various industries. Companies in operation have taken measures to ban hazardous products, such as single-use plastics.

Analysis of a few printing and packaging companies in the local market.



The above graph shows the revenue generation of printing and packaging companies including APP. It is visible that APP has recorded revenue from Chimanex PLC from FY 2017 to FY 2022. Print Care PLC has recorded the highest revenue of all three printing and packaging companies.

While APP recorded a decline of 33% in revenue from FY 2021 to 2022, the other two competitors Chemanex PLC and Printcare PLC have recorded revenue growth of 45% and 27% respectively.

Top 10 printing and packaging companies in Sri Lanka.

1. Packages Lanka (Pvt.) Ltd.
2. Star Packaging (Pvt.) Ltd.
3. Abdulla Industries
4. Pack World (Pvt.) Ltd.
5. Varuna Limited
6. Ceylon Beverage Can (Pvt.) Ltd.
7. Wimro packaging Industries
8. Econopack Industries (Pvt.) Ltd.
9. Lanka Plastic Industries Ltd.
10. Poly Creations (Pvt.) Ltd.



Trends of printing and packaging industry of Sri Lanka.

As per the EDB (Export Development Board of Sri Lanka), the printing and packaging sector is known as one of the key contributors to the export market directly and indirectly.

2.3 Industry Analysis (Contd.)

Trends of the printing and packaging industry of Sri Lanka (Contd.)

Green printing and sustainability are known as key areas in which the Sri Lankan printing industry is interested, in addition to regularly printed exports. Top printers have taken measures in sustainability to protect the environment and offer green printing processes at the highest attractive rates to the export market adhering to the highest world-class quality standards.

Effect of Covid-19 pandemic.

Since the packaging industry is highly incorporated in trade and business, it faced direct complications due to the pandemic. The most significant problems faced by the sector are issues in the supply of raw materials by international importers, restrictions implied on local manufacturing processes, and fluctuations in pricing.



As a solution for the supply of raw materials, producers have also begun considering ways to manufacture them within our borders. Some experts have reviewed this as a time-consuming and long-term project but that can be considered as a beneficial project.



Due to the global pandemic, this industry faced several negative impacts. Since the pandemic has affected globally, many shipments of raw materials and other imported goods required have been delayed or halted.

However, the industry has managed to overcome those negative effects by recovering the loss encountered. Even though there was no shortage of labor, labor costs were high, which

caused an increase in production costs. As a result, the prices of the products rose.

During the past year, an increase in paper prices of approximately 15-20% was recorded worldwide. This was mainly due to a shortage of imported pulp. Many restrictions were imposed, challenging daily production and supply and that disturbed in carrying out operations at full capacity. It was noted that production capacity was limited to approximately 60% - 70% while adhering to health and safety guidelines in the manufacturing process.

Utilization of automated machinery was taken into action in order to increase production, through that to reduce the cost of production per piece.

Challenges faced by the packaging industry.

Paper pulp is the main raw material required to produce Kraft paper. Usually, Sri Lanka imports this from countries such as Canada, the USA, Sweden, Switzerland, and also from Asia and the Middle East.

Sources:

The morning newspaper (Aruna) - <https://www.themorning.lk/packaging-industry-facing-many-challenges/> Date: 17/08/2022

Export Development Board - <https://www.srilankabusiness.com/printing-and-stationery/exporter-information/industry-trends.html> Date: 17/08/2022

economynext.com - <https://economynext.com/dollar-crisis-poses-existential-threat-to-sri-lankas-publishing-industry-authors-90441/> Date: 17/08/2022

digitalmarketingdeals.com - <https://digitalmarketingdeal.com/blog/packaging-companies-in-sri-lanka/> Date: 17/08/2022



Section 3

About the Company



3.1 Background to the company

ACME Printing & Packaging PLC is a publicly listed company in Sri Lanka that engages in manufacturing flexible packaging for both local and international markets for about 73 years. The company currently holds ISO: 9001-2015, ISO 22000-2018, FSMS, Q.M.S, and FSSC-22000 version 5.1 certifications. The company with its subsidiary ACME Packaging Solutions (Pvt.) Ltd. operates two factories located in Piliyandala and Pannala respectively supplies a range of packaging materials spanning from printed pouches, sheets, and lids to the packaging of a vast variety of confectionary, milk powder, biscuits, chocolates, etc.

Legal Form	Publicly Listed Company
Incorporated On	20 th December 1949
Company Registration No.	PQ 196
Registered Office	No.18, Sangaraja Mawatha, Colombo 10
Auditors	KPMG
Company Secretary	S S P Corporate Services (Pvt.) Ltd.

3.2 Ownership Structure - Top 20 shareholders of the company

Name	Number of Shares	%
Amana Bank PLC / E B Creasy & Company PLC	46,800,000	49.26%
Lankem Ceylon PLC	23,846,993	25.10%
E B Creasy & Company PLC	3,586,811	3.78%
Clovis Company Limited	2,364,295	2.49%
Commercial Bank of Ceylon PLC / Andaradeniya Estate (Pvt.) Ltd., Com. Banking Unit	1,153,211	1.21%
Mrs. Vasudevan Saraswathi	912,650	0.96%
Mr. M.L.K.C. Peiris	782,790	0.82%
Mr. C. N. Pakinathan	681,535	0.72%
Dr. H.S.D. Soysa / / Joint holder: Mrs. G. Soysa	598,150	0.63%
Union Commodities (Pvt.) Ltd.	584,754	0.62%
Mr. M.H.A. Kamil	494,416	0.52%
Mr. S. Paramanathan	431,000	0.45%
Mr. S.D.R. Arudpragasam	400,000	0.42%
Hatton National Bank PLC / Mr. S.D.R. Arudpragasam	400,000	0.42%
PMF Finance PLC/H.K.J.S. Hettigoda	400,000	0.42%
Mr. K.H.B. Jayaratne	369,860	0.39%
Ms. J. Tharshana	300,000	0.32%
Acuity Partners (Pvt.) Limited / Mr. Subramaniam Vasudevan	270,000	0.28%
Mr. A.K. Wimalaratna	254,415	0.27%
Mr. D.P. Navaratnam	252,050	0.27%

3.3 Financial Highlights

(27%)

Average ROE is calculated based on average equity and average net profit of APP as of 31st March 2023.

1.2 Bn

Debt

APP has LKR 1,197,899,000 debt as of 31st March 2023.

381 Mn

Net Asset Value

This is as per the balance sheet of APP as of 31st March 2023 (LKR).

32:68

Debt to Equity

This is as per the balance sheet of APP as of 31st March 2023.

(4%)

Average ROA is calculated based on average assets and average net profit of APP as of 31st March 2023.

5.8 Mn

Profit after Tax

This is year ended profit after tax of APP (LKR) as of 31st March 2023.

32%

Gross Profit Margin

This is the year ended gross profit margin as of 31st March 2023 of APP.

22%

Operating Profit Margin

This is the year ended operating profit margin as of 31st March 2023 of APP.

1%

Net Profit Margin

This is year ended net profit margin as of 31st March 2023.



Section 4

Share Valuation Results



4.1 Discounted Cash Flow Approach to Value

The table below depicts the share valuation of APP based on discounted future cash flows as at 31st March 2023. The assumptions used in this computation are given in section 4.1.2-key assumptions of this report.

LKR		FY 2024	FY 2025	FY 2026	TCF
EBIT		503,757,956	673,969,159	909,595,820	909,595,820
Less: Tax on EBIT	30%	-	(127,659,169)	(198,347,167)	(272,878,746)
Add: Depreciation		80,725,714	87,306,940	103,075,387	
Investment in working capital		97,605,240	(163,600,575)	(231,165,178)	(231,165,178)
Investment in fixed capital		(32,918,600)	(102,000,000)	(502,000,000)	(32,918,600)
FCFF		649,170,310	368,016,356	81,158,862	372,633,296
Terminal value	0.50%				2,156,872,491
DF for the year		0.92	0.84	0.84	
Cumulative PV of FCFF		594,208,721	282,233,289	52,403,422	
PV of explicit cash flows		928,845,431			
PV of terminal value		1,392,669,830			
Value of Operations		2,321,515,261			
(Existing long-term debt)		(1,197,899,000)			
Add- Non operating assets					
Cash		33,650,000			
Financial Investments - FVTOCI		25,000			
Less-Non operating liabilities					
Retirement benefit obligations		(15,523,000)			
Business value		1,141,768,261			
Number of shares		95,000,000			
Per share value		12.02			

4.1 Discounted Cash Flow Approach to Value (Contd.)

4.1.1 Sensitivity Analysis

We have performed a sensitivity analysis between the terminal weighted average cost of capital (Terminal WACC) and the terminal growth (TG) rate used in the valuation. Please refer to page 25 for a weighted average cost of capital and the terminal growth rate.

		Terminal WACC		
LKR		12.86%	17.86%	22.86%
T G	0.00%	17.05	11.54	8.44
	0.50%	17.95	12.02	8.74
	1.00%	18.92	12.53	9.06

As per the sensitivity analysis between the Terminal WACC and the TG as of 31st March 2023, value per share of APP under discounted cash flow method is in the range of LKR 8.44 to LKR 18.92.

4.1 Discounted Cash Flow Approach to Value (Contd.)

4.1.2 Key Assumptions

APP's Business model and going concern.

APP's main business is supplying packaging materials made from aluminum foil, nylon, polyester, and paper for a wide range of products such as confectionery, milk powder, biscuits, snacks, etc. 80% of the direct material purchases used for the production are imported materials. However, when considering the revenue of the APP, total revenue consists mostly of local sales and a small percentage of exports.

It should be highlighted that, due to the high dependency on imports and lower revenue generated from exports in APP's business model, APP needs to borrow foreign exchange from Sri Lankan Banks.

This can be identified as a risk for going concern basis of APP.

To this valuation, it was assumed that APP will be able to continue its business model with no limitations to borrow foreign currency from local banks till infinity hence the reason to consider the terminal value for APP.

The valuation has been performed based on the following information provided by the management.

- Audited financial statements for the financial years 2017, 2018, 2019, 2020, 2021, and 2022.
- Published quarterly financial statements as of 31st March 2023.
- Financial forecast provided by the management of APP for financial years from 2024 to 2026.
- Assumptions given by the management of the APP.
- Relevant industry publications, press releases, and publicly available information in the CSE.

The assumptions considered in the valuation of APP are as follows.

Revenue

As per the audited financials of APP, the historical revenue growth of APP had been as follows.

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue growth	2%	(5%)	18%	(33%)	14%

As per the management forecast, revenue growth in the forecasted period is as follows.

	FY 2024	FY 2025	FY 2026
Revenue growth	103%	32%	34%

Sales quantity growth and selling price growth in the forecasted period are as follows.

	FY 2024	FY 2025	FY 2026
Sales quantity growth	N/A	20%	22%
Sales quantity (MT)	937	1,125	1,368
Selling price growth	N/A	10%	10%

Cost of sales

As per the management, 80% of the direct material purchases are imported.

As per the management forecast, cost of sales for the forecasted period for APP is as follows.

	FY 2024 (LKR)	FY 2025 (LKR)	FY 2026 (LKR)
Cost of sales	1,459,806,623	1,938,430,367	2,647,328,361

4.1 Discounted Cash Flow Approach to Value (Contd.)

4.1.2 Key Assumptions (Contd.)

Gross profit margin

As per the audited financials, the historical gross profit margin of APP is as follows.

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GP margin	9%	6%	10%	(4%)	32%

According to the forecast provided by the management, the gross profit margin in the forecasted period is as follows.

	FY 2024	FY 2025	FY 2026
GP margin	33%	33%	32%

Administration expenses

As per the audited financials of APP, the historical growth of administrative expenses of APP had been as follows.

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Administrative expenses growth	13%	-23%	5%	2%	15%

Management has considered the following growth rates for the administration expenses.

	FY 2024	FY 2025	FY 2026
Administration expenses growth	12%	34%	11%

Personal cost

Employee composition of APP is as follows.

Company	APP
Permanent employees	158
Total of the employee cadre	158

As per the management, all the employees mentioned above are permanent employees.

Selling and distribution expenses

According to the audited financials of APP, historical selling and distribution cost as a percentage of revenue is as follows.

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Selling & distribution expenses	1%	1%	2%	2%	1%

Selling and distribution costs as a % of the revenue in the management forecast is as follows.

	FY 2024	FY 2025	FY 2026
Selling & distribution expenses	2%	1%	1%

Operating profit margin

According to the forecast provided by the management, the operating profit (OP) margin in the forecasted period is as follows.

	FY 2024	FY 2025	FY 2026
OP margin	23%	23%	23%

As per the audited financials, the historical operating profit margin of APP is as follows.

4.1 Discounted Cash Flow Approach to Value (Contd.)

4.1.2 Key Assumptions (Contd.)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OP margin	2%	(3%)	2%	(15%)	22%

Working capital cycle days

As per the management discussions and historical working capital cycle of APP, it is assumed that trade receivable days and trade payables days are to be 75 days and 60 days respectively, and inventory days to be 75 days.

Capital expenditure

As per the management forecast, the expected capex for the forecasted years for APP is as follows.

	FY 2024 (LKR)	FY 2025 (LKR)	FY 2026 (LKR)	Terminal Year
Capex	32,918,600	102,000,000	502,000,000	32,918,600

As per the audited financials, average maintenance capex for the past 5 years of APP was LKR 32,918,600.

Depreciation rates applicable for APP are as follows.

Building	2%
Plant & Machinery	5%
Computers	10%
Cylinders	10%
Motor Vehicles	20%
Furniture & Fittings	20%

Tax rate

We have considered a 30% tax rate as per the applicable tax laws of Sri Lanka as of the valuation date.

As per the management request, the following brought forward tax losses were considered in computing income tax in the forecasted period.

	FY 2024 (LKR)	FY 2025 (LKR)	FY 2026 (LKR)
B/F Tax losses	284,120,136	74,531,579	74,531,579

Net profit margin

According to the forecast provided by the management, the net profit (NP) margin in the forecasted period is as follows.

	FY 2024	FY 2025	FY 2026
NP margin	9%	14%	16%

As per the audited financials, the historical net profit margin of APP is as follows.

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
NP margin	-9%	-15%	-8%	-28%	1%

Interest bearing borrowings

As per the management, it is assumed that the current gearing ratio will continue in perpetuity and APP will not further borrow any additional interest-bearing borrowings in the forecasted period and in perpetuity.

As such, based on the management information, we have considered an average cost of debt of 20.29% based on interest bearing borrowings of APP.

It should be noted that management has read and approved all the assumptions used in the valuation. BDO has not verified the assumptions given by the management.

4.1 Discounted Cash Flow Approach to Value (Contd.)

4.1.2 Key Assumptions (Contd.)

Discount rate - Cost of Capital

Cost of capital	FY 2024	FY 2025	FY 2026	TCF
Risk free rate	22.05%	22.05%	19.64%	15.87%
Unlevered beta	0.71	0.71	0.71	0.71
Levered Beta	2.27	2.27	2.27	2.27
Market risk premium	5.94%	5.94%	5.94%	5.94%
Cost of Equity	35.55%	35.55%	33.14%	29.37%
Cost of Debt	20.29%	20.29%	20.29%	20.29%
Kd (1-t)	14.20%	14.20%	14.20%	14.20%
Long Term Capital Structure	76:24	76:24	76:24	76:24
WACC	19.35%	19.35%	18.77%	17.86%

Sources- CBSL, Prof. Damodaran's databases, BDO analysis

Risk-Free Rate of Return (RF)

The risk-free rate represents the interest that an investor would expect from an absolutely risk-free investment over a specified period of time.

Considering the economic instability in Sri Lanka we have not considered an absolute risk-free rate in the forecasted period. It is assumed that at least the default risk Sri Lanka had in 2019 or prior where the country was relatively stable economically, will remain in the forecasted period. Please refer section 4.1.3-page 26 in this report.

We have considered an absolute risk-free rate in perpetuity beyond the forecasted period only.

Beta Factor (β)

This measures how much a company's share price moves against the market as a whole. A beta of one, for instance, indicates that the company moves in line with the market. If the beta is in excess of one, the share is amplifying the market's movements and less than one means the share is more stable.

We have sourced the Unlevered Beta factor from Prof. Damodaran's packaging and container sector.

Unlevered Beta was levered based on the long-term capital structure of APP.

Market Risk Premium (RM)

The equity market risk premium represents the returns investors expect, over and above the risk-free rate, to compensate them for taking an extra risk by investing in the stock market.

We have considered a risk premium of 5.94%, which is the equity risk premium of a default risk free country based on Prof. Damodaran's databases.

Terminal Growth Rate

We have only considered 0.50% as the terminal growth rate due to the uncertainty in going concern in APS and APP's high dependency on APS to conduct its business operations, even though the GDP growth for Sri Lanka is forecasted as 3% by the IMF.

Source: <https://www.elibrary.imf.org/view/journals/002/2023/116/002.2023.is sue-116-en.xml> (May)

4.1 Discounted Cash Flow Approach to Value (Contd.)

4.1.3 Country Credit Rating & Default Risk

Considering the volatility of Sri Lanka's economic situation, in determining the cost of capital of APP, we have considered post IMF bailout package and debt restructuring impact on the country's credit rating.

We have analyzed country credit ratings since 2005 for Sri Lanka as given below.

Year	Sri Lanka		
	Fitch	S&P	Moody's
2005	BB-	B+	
2006	BB-	B+	
2007		B+	
2008	B+	B	
2009	B+	B	
2010	B+	B+	B1
2011	BB-	B+	B1
2012		B+	
2013			B1
2014			
2015			
2016	B+	B+	B1
2017	B+	B+	
2018	B	B	B2
2019	B		
2020	CCC	CCC+	Caa1
2021	CC	CCC+	Caa2
2022	RD	SD	Ca
2023			

Source: <https://tradingeconomics.com/sri-lanka/rating> Date: 24/05/2023

As shown in the above table, from 2020 to 2023 period Sri Lanka's credit rating has had rapid volatility which resulted S&P country credit rating of Sri Lanka to drop from B to SD. This is due to the events took place in Sri Lanka such as easter attack, covid pandemic, political instability and worsening economic situation which led to defaulting of debt obligations of the country.

As such, we have assumed that in perpetuity, Sri Lanka will stabilize in B grade credit ratings. This is based on S&P economic research institute data on Sri Lanka.

"Our post-restructuring ratings tend to be in the 'CCC' or low 'B' categories, depending on the sovereign's new debt structure and capacity to support that debt."

Source: <https://economynext.com/sp-confirms-sri-lanka-sd-sovereign-rating-rupee-debt-outlook-negative-119025/> Date: 24/05/2023

Based on the above, it was assumed that Sri Lanka will not have an absolute risk free rate in the forecasted period, and will have an absolute risk free rate only in perpetuity.

We have considered respective treasury bond rate according to the cumulative tenure in the forecasted period and in computing terminal cash flow, we have considered the longest available treasury bond rate.

Description	FY 24	FY 25	FY 26	TC
Treasury bond rate	30.00%	30.00%	27.59%	22.60%
Current default rate	14.68%	14.68%	14.68%	N/A
B2 default rate	6.73%	6.73%	6.73%	6.73%
Risk free rate	22.05%	22.05%	19.64%	15.87%

Sources-CBSL, Prof Damodaran's databases

4.2 Asset Approach to Value

4.2.1 Asset Approach to Value - APP

Below table depicts the net asset value and net asset value per share computations of APP as per the published quarterly financial statements as of 31st March 2023.

Description	(LKR)
Non-current assets	964,179,000
Current assets	764,524,000
Total assets	1,728,703,000
Non-current liabilities	359,554,000
Current liabilities	988,013,000
Total liabilities	1,347,567,000
Net asset value	381,136,000
Total number of shares	95,000,000
Per share value	4.01

- It should be noted that management did not provide the latest fair valuation reports as of the valuation date. As such, we did not adjusted the company's NAV as of 31st March 2023.

The share value of APP based on the net asset approach as of 31st March 2023 is LKR 4.01.

It should be noted that the NAV is more relevant for liquidation purposes. Even though APP has had a continuous uncertainty in going concern, the management informed that they have no intention to liquidate.

Also, the net asset value methodology is most applicable for businesses where the business value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies), which is not the case with APP.

As such, based on the management discussions the net asset value was not considered in valuing APP.

4.3 Price to Book Value (PBV)

Due to lack of peer companies listed in the CSE for the packaging sector, we have not considered PBV method for the valuation of APP.

4.4 Price to Earnings Value (PER)

Due to lack of peer companies listed in the CSE for the packaging sector, we have not considered PER method for the valuation of APP.



Section 5

Limitations

5.1 General Limitations

Our valuation study is based on various assumptions with respect to the APP, including its respective present and future financial condition, business strategies, and the environment in which it will operate in the future. These assumptions are based on the information that we have been provided with and our discussions with the management of the APP, and reflect current expectations and views regarding future events, and therefore necessarily involve known and unknown risks and uncertainties.

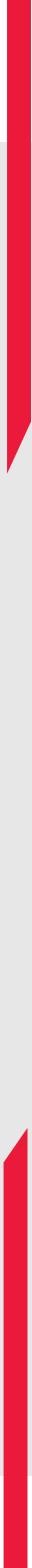
The estimates of earnings and cash flow data, to the extent they relate to the future, reflect the expectations of the management of the APP as to the business prospects of the APP and are solely for use in our valuation study and are not intended for use as forecasts or projections of future operations. Furthermore, there will usually be differences between estimated and actual results because events and circumstances may or often do not occur as expected and those differences may be material. To the extent that our conclusions are based on forecasts, we express no opinion on the achievability of these forecasts.

The value recommendations made herein are valid as of the valuation date and a period until 03 months from APP's final circular to shareholders, subject to there being no material changes to the operating environment or business model of APP. The use of the value recommendation in this report after 03 months from APP's final circular to shareholders is not recommended.

5.2 Other Matters

When forming our conclusion, we have placed reliance upon the following, which has a significant bearing on the results of the valuation exercise:

- The date of the valuation is 31st March 2023.
- APP will continue to operate on a going-concern basis.



Section 6

Annexures

Annexures 1 - Forecasted Income Statement - APP

LKR	FY 2024	FY 2025	FY 2026
Revenue	2,188,952,240	2,889,416,957	3,872,641,222
Cost of sales	(1,459,806,623)	(1,938,430,367)	(2,647,328,361)
Gross Profit	729,145,617	950,986,590	1,225,312,862
Selling & Distribution Expenses	(34,324,259)	(41,396,492)	(48,307,104)
Administration Expenses	(110,337,688)	(148,313,999)	(164,334,551)
Depreciation	(80,725,714)	(87,306,940)	(103,075,387)
Operating Profit / (Loss)	503,757,956	673,969,159	909,595,820
Finance Cost	(316,588,492)	(194,928,600)	(108,436,280)
Profit / (Loss) before Tax	187,169,464	479,040,559	801,159,540
Tax	-	(69,180,589)	(165,816,283)
Profit / (Loss) after Tax	187,169,464	409,859,971	635,343,257

Annexures 2 - Historical Income Statement - APP

Description	For the year ended 31/03/2018 (Audited)	For the year ended 31/03/2019 (Audited)	For the year ended 31/03/2020 (Audited)	For the year ended 31/03/2021 (Audited)	For the year ended 31/03/2022 (Audited)	For the year ended 31/03/2023 (Published)
Revenue	1,222,549	1,245,902	1,189,150	1,408,301	948,083	1,075,697
Cost of sales	(1,067,378)	(1,138,881)	(1,120,585)	(1,270,560)	(981,248)	(731,724)
Gross profit	155,171	107,021	68,565	137,741	(33,165)	343,973
Other income	15,923	34,666	(7,951)	15,268	(608)	10,170
Administrative expenses	(92,392)	(104,637)	(80,224)	(83,844)	(85,737)	(98,654)
Distribution expenses	(10,726)	(13,585)	(14,216)	(33,192)	(21,357)	(13,945)
Impairment reversal/(provision) of trade receivables	-	530	(3,836)	(1,706)	322	(4,085)
Profit from operations	67,976	23,995	(37,662)	34,267	(140,545)	237,459
Net finance expenses	(137,091)	(145,541)	(145,347)	(134,818)	(139,043)	(231,495)
Profit/(Loss) before taxation	(69,115)	(121,546)	(183,009)	(100,551)	(279,588)	5,964
Income tax reversal/(expense)	573	9,914	3,618	(18,470)	18,616	(254)
Profit/(Loss) for the year	(68,542)	(111,632)	(179,391)	(119,021)	(260,972)	5,710

Annexures 3 - Historical Statement of Financial Position - APP

Description	As at 31/03/2018 (Audited)	As at 31/03/2019 (Audited)	As at 31/03/2020 (Audited)	As at 31/03/2021 (Audited)	As at 31/03/2022 (Audited)	As at 31/03/2023 (Published)
Assets						
Non-current assets						
Property, plant & equipment	922,750	956,682	862,637	892,866	1,002,508	935,461
Right of use assets	-	-	6,711	21,646	19,785	18,041
Financial investments - Available for sale	25	-	-	-	-	-
Financial investments - FVTOCI	-	25	25	25	25	25
Defined benefit plan assets	6,593	7,630	8,706	9,551	10,107	10,652
Total non-current assets	929,368	964,337	878,079	924,088	1,032,425	964,179
Current assets						
Non-current assets - held for sale	63,162	-	-	-	-	-
Inventories	236,660	232,387	251,781	324,900	185,907	364,947
Trade and other receivables	329,277	326,841	344,346	329,023	101,400	365,588
Amounts due from related parties						339
Cash and cash equivalent	10,127	7,032	27,683	28,348	36,051	33,650
Total current assets	639,226	566,260	623,810	682,271	323,358	764,524
Total assets	1,568,594	1,530,597	1,501,889	1,606,359	1,355,783	1,728,703
Equity and liabilities						
Equity						
Stated Capital	592,813	592,813	592,813	592,813	592,813	835,085
Revaluation reserve	421,724	437,974	408,288	530,616	645,705	645,705
Accumulated profit/(losses)	(499,343)	(573,928)	(722,005)		(1,104,222)	(1,099,653)
Total equity	515,194	456,859	279,096	1,123,429	134,296	381,136
Non-current liabilities						
Interest bearing borrowings	23,743	76,616	66,050	53,548	25,540	323,904
Lease creditors	-	3,514	4,197	13,921	10,382	9,475
Deferred tax liability	54,619	52,976	37,368	-	-	-
Employee benefits	19,949	20,803	22,025	28,310	22,932	26,175
Total non-current liabilities	98,311	153,909	129,640	95,779	58,854	359,554
Current liabilities						
Trade and other payables	114,539	157,943	197,534	215,258	149,654	123,492
Amounts due to related parties	1,305	1,310	1,389	1,389	3,150	10,319
Interest bearing borrowings	754,526	692,449	849,782	959,300	941,105	794,889
Lease creditors	-	822	1,414	3,285	3,318	2,068
Current tax liability	1	-	-	-	-	-
Bank Overdraft	84,718	67,305	43,034	53,200	65,406	57,245
Total current liabilities	955,089	919,829	1,093,153	1,232,432	1,162,633	988,013
Total liabilities	1,053,400	1,073,738	1,222,793	1,328,211	1,221,487	1,347,567
Total equity and liabilities	1,568,594	1,530,597	1,501,889	2,451,640	1,355,783	1,728,703

Engagement Team

Nishan Fernando Managing Director



Nishan Fernando is the Managing Director of BDO Consulting (Pvt.) Ltd., and the chairman of First Capital Holdings PLC. He is also the chairman of the Asian Oceania Standard Setters Group (AOSSG) and first Sri Lankan to be elected as the chairman.

He has functioned as President, Vice President, and Council Member of the Institute of Chartered Accountants of Sri Lanka, as a Commission Member of the Securities & Exchange Commission of Sri Lanka, as a member of the Sri Lanka Accounting and Auditing Standards Monitoring Board, and from 2009 to 2013 had been functioning as Chairman of the Accounting Standards Committee and continues to be a member since then, which promulgates the Accounting Standards in Sri Lanka. Sri Lanka converged with IFRSs under his Chairmanship of the Accounting Standards Committee. He has also chaired the Center of Excellence for Standards and Quality and the Accounting Standards Committee of the South Asian Federation of Accountants. Nishan has also been a member of the International Accounting Education Standards Board of the International Federation of Accountants (IFAC) and is currently serving as a member of its Consultative Advisory Group. He also serves as a member of the Professional Accountant in the Business Committee of the South Asian Federation of Accountants (SAFA).

Mr. Fernando is an IFRS trainer certified by the Institute of Chartered Accountants of England and Wales (ICAEW) having attended its train the trainer programs on IFRS and on IFRS for SMEs. He has conducted many capacity building programs on IFRS in Sri Lanka. He has made country presentations at Regional Standards Setters Conferences of SAFA and of AOSSG.

Professional Affiliations

- Fellow Member - Institute of Chartered Accountants of Sri Lanka
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- Valuations & Due Diligence
- Mergers & Acquisitions
- IPO Management
- Internal Control & Corporate Governance
- Special Audit & Investigations

Engagement Team (Contd.)

Vidura De Silva
Manager



Vidura is a manager of BDO Consulting (Pvt.) Limited. He is a passed finalist of Chartered Institute of Management Accountants - UK with a diversified experience that extends for more than 5 years, in handling assignments with a corporate finance background. His experience includes dealing with a client base that has a wide variety and taking the lead in assignments that are of both small and large scale.

He has been the engagement manager for IPO valuations, mandatory offer valuations, CBSL consolidation due diligences and valuations, business restructures including listed conglomerates, brand valuations and several mergers and acquisition related assignments in his tenure at BDO Consulting (Pvt.) Ltd.

Vidura has been awarded the merit award for his exceptional performance being a President's Scout at Royal College, Colombo 07, in year 2016.

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- Mergers & Acquisitions
- Financial Modeling & Feasibility studies
- Business Restructures
- IFRS 9

Engagement Team (Contd.)**Sanjula Kuruwitage**
Executive

Sanjula is an executive of BDO Consulting (Pvt.) Limited. He has experience in Due diligence & Business Valuations. Sanjula holds BBA. (Hons.) Finance (Special) degree from the University of Colombo. He also holds the diploma in accounting and business from ACCA, UK. He is a registered student at ACCA, UK.

Apart from the academics he was a member of the Leo club of University of Colombo and has held the position of Treasurer of the project Survival 2.0.

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