



# HAYLEYS FABRIC PLC [MGT.N0000]

## MAINTAIN BUY

### “THREADING THROUGH PRESSURE AS RECOVERY MOMENTUM BUILDS...”

**Fair Value: FY27E - LKR 37.0 [+16%]**

Total Return with DPS: FY27E - 19% [AER 22%]

**Fair Value: FY28E - LKR 46.0[+44%]**

Total Return with DPS: FY28E - 48% [AER 24%]

MGT reported earnings of LKR 98.7Mn for 4QFY26, which stands 77.6% lower on a YoY basis, due to continued pressure on operating profitability amidst elevated administrative expenses and weaker margins reflected due to macro-driven softness in global apparel demand. Nevertheless, earnings recorded a strong sequential recovery on a QoQ basis, supported by a significant rebound in GP margins, aided by a growing topline. For FY26, earnings declined sharply by 69.8%YoY to LKR 641.9Mn as weaker demand conditions and margin compression weighed heavily on profitability throughout the year. EBIT declined by 55.5%YoY amidst elevated operating expenditure driven by higher oil prices leading to increased fuel and electricity prices, persistent inflationary pressures and a challenging macroeconomic backdrop, which collectively weighed on operating margins. The ongoing global geopolitical uncertainty alongside the depreciation of the LKR continued to exert pressure on input costs and operational expenditure, while benefiting dollar denominated revenue of the company amidst the already subdued global apparel demand environment. However, structurally, MGT remains well-positioned, supported by its strong relationships with global brands such as Nike and PVH and continued customer diversification initiatives with its recent acquisition of UNIQLO, positioning itself within the Japanese market. Going forward, we expect the topline to reach LKR 42.4Bn and LKR 48.3Bn in FY27E and FY28E, respectively. This allows MGT's bottom line to expand and recover from the current subdued levels, reaching LKR 1.4Bn and LKR 2.0Bn in FY27E and FY28E, respectively. FCR derives target prices of LKR 37.0 for FY27E and LKR 46.0 for FY28E, implying AER's of 22.4% and 23.6%, respectively. This reinforces our BUY recommendation at the current level of LKR 32.0.

LKR (Mn)	4QFY25	4QFY26	YoY	FY25	FY26	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	9,233	9,815	+6%	44,129	38,265	-13%
Gross profit	1,494	1,539	+3%	7,824	5,699	-27%
EBIT	840	374	-55%	4,238	1,784	-58%
PBT	663	188	-72%	3,116	1,045	-66%
Net Profit	440	99	-78%	2,126	642	-70%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	11,346	12,430	+10%	11,346	12,430	+10%
Borrowings	11,839	11,142	-6%	11,839	11,142	-6%
NAVPS	27.3	29.9	+10%	27.3	29.9	+10%

#### Despite subdued YoY earnings in 4QFY26, recovery momentum remained intact amidst visible sequential improvement in topline and margins

MGT reported earnings of LKR 98.7Mn for 4QFY26, reflecting a sharp decline of 77.6%YoY amidst elevated operating costs, margin compression and macro-driven softness in global apparel demand. EBIT declined by 55.5%YoY to LKR 373.9Mn as higher administrative expenses, rising oil prices and inflationary pressures weighed on profitability, resulting in PBT declining by 71.7%YoY to LKR 187.7Mn. Nevertheless, recovery momentum remained visible on a QoQ basis, with revenue growing by 16.3%QoQ to LKR 9.8Bn whilst gross profit rebounded strongly by 41.0%QoQ to LKR 1.5Bn, indicating improving order flows and gradual normalization in demand conditions. Consequently, MGT witnessed a robust improvement in margins during the quarter with GP margin increasing 275bps QoQ and EBIT margin increasing 154bps QoQ, signaling early signs of stabilization in operating performance heading into FY27E.

#### Higher operating costs weigh on profitability for FY26, amidst softer demand conditions

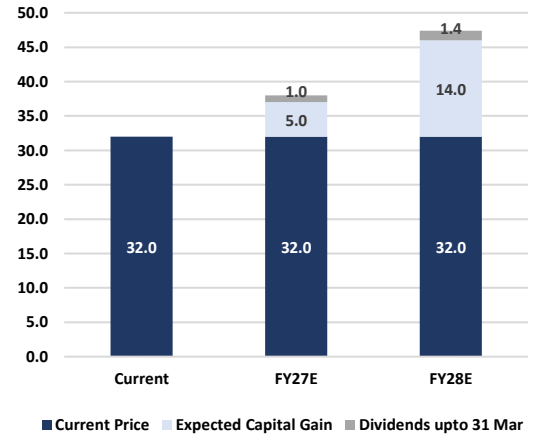
Operating profitability remained under pressure during the quarter, with EBIT declining sharply by 55.5%YoY to LKR 373.9Mn as administrative expenses increased by 36.4%YoY, coupled with increased distribution expenses. Consequently, PBT declined by 71.7%YoY to LKR 187.7Mn as finance costs increased during the quarter. For FY26, earnings contracted significantly by 69.8%YoY to LKR 641.9Mn amidst continued weakness in global apparel demand, margin compression and subdued operating conditions across key export markets.

#### Premium synthetic mix and innovation-led strategy to sustain superior margin profile, going forward

MGT's margin profile remains a key investment driver, underpinned by its c.60% exposure to synthetic fabrics, though rising oil prices could partially offset this advantage through higher input costs. Despite near-term margin compression due to operating leverage and higher costs resulting in a sharp 57.9%YoY downturn in EBIT for FY26, MGT's focus on innovation-led, value-added fabrics through the INNO brand and premium pricing strategy is expected to sustain margins above its peers, starting from 2QFY27E. We expect gross margins to expand by 21bps and 20bps and operating margins to amplify further, by 150bps and 97bps in FY27E and FY28E, respectively supported continuous innovation in existing portfolio. Furthermore, the depreciation of the LKR bodes well for MGT as its topline is dollar denominated whereas c.39.0% of raw materials are sourced locally, allowing the company to benefit from a weakening rupee and absorb short term cost pressures from the ongoing geopolitical situation.

#### Structural margin strength and global brand positioning propel earnings growth, resulting in an AER of 23.6% for FY28E

FCR maintains its BUY stance on MGT, supported by its structurally superior margin profile due to its product portfolio, innovation, strong ESG positioning, new client acquisitions and relationships with global brands, which provide long-term earnings visibility. While near-term earnings volatility persists, the company's ability to generate consistent cash flows and maintain premium pricing justifies a valuation premium. Additionally, MGT's leadership in sustainability (e.g., SBTi-validated net-zero targets) enhances its attractiveness to global brands increasingly focused on emission reduction. FCR derives target prices of LKR 37.0 for FY27E and LKR 46.0 for FY28E, implying AER's of 22.4% and 23.6%, respectively. This reinforces our BUY recommendation at the current level of LKR 32.0.



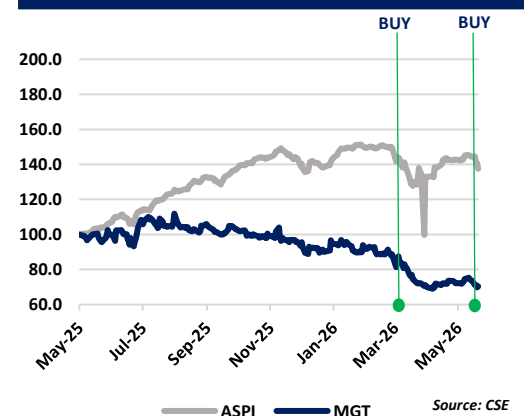
## FIRST CAPITAL RESEARCH

Salaama Sanoon

+94 11 263 9866

[salaama@firstcapital.lk](mailto:salaama@firstcapital.lk)

#### Price movement of MGT vs ASPI (Indexed and Rebased to 100)



#### Minimum Return for BUY:

**Buy Below FY28E - [AER of 18% with DPS]: LKR 34.9**  
MGT categorized as 'Grade B' counter

#### Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of MGT during the five trading days prior to the issuance of this document.

#### Key risks associated with our recommendation

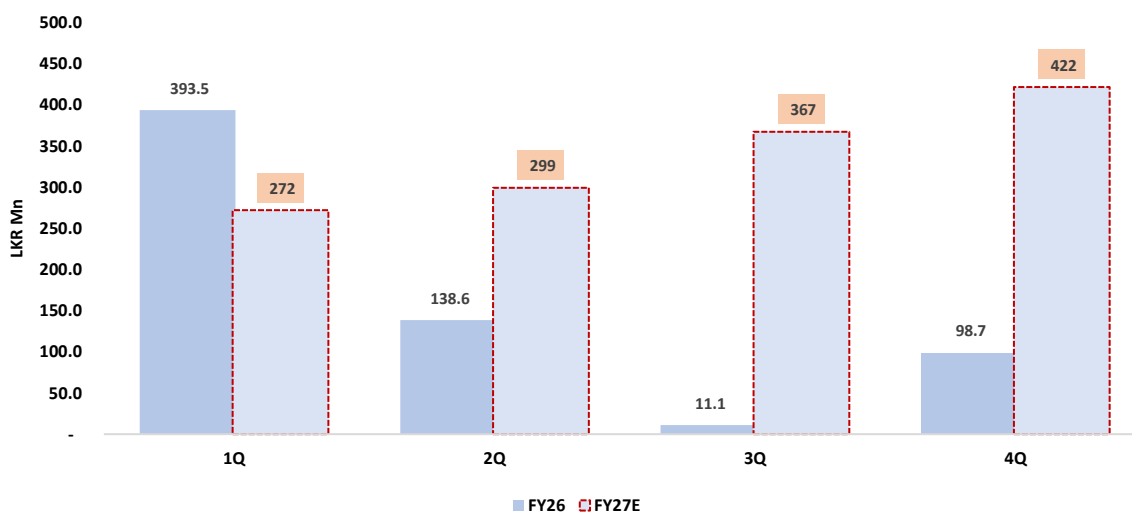
##### Downside risks

- Exchange rate risk (appreciation may lead to LKR topline reduction and depreciation may lead to increase of raw material costs)
- Risk of export market inflation levels
- Greater than expected global economic slowdown
- Increasing crude oil and yarn prices may lead to margin contraction
- Customer concentration risk due to heavy reliance on U.S. market

##### Upside risks

- Exchange rate risk (appreciation may lead to reduction of raw material costs and depreciation may lead to LKR topline increase)
- Operating leverage from improved capacity utilization levels

## Quarterly Earnings



## Estimate Revision

In LKR Mn	FY27E - O	FY27E - R	% Change	FY28E - O	FY28E - R	% Change
<b>Earnings Estimate</b>						
Revenue	42,417	42,417	0.0%	48,347	48,347	0.0%
Gross profit	6,405	6,405	0.0%	7,397	7,397	0.0%
EBIT	2,613	2,613	0.0%	3,448	3,448	0.0%
Profit before tax	1,943	1,943	0.0%	2,779	2,779	0.0%
Net Profit	1,360	1,360	0.0%	1,945	1,945	0.0%
EPS	3.3	3.3		4.7	4.7	
Growth YoY	111.9%	111.9%		43.1%	43.1%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	13,382	13,382	0.0%	14,744	14,744	0.0%
Borrowings	12,548	12,548	0.0%	12,539	12,539	0.0%
<b>NAVPS</b>	<b>29.9</b>	<b>29.9</b>		<b>32.2</b>	<b>32.2</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>10.2%</b>	<b>10.2%</b>		<b>13.2%</b>	<b>13.2%</b>	
<b>PER (x)</b>	<b>9.4</b>	<b>9.8</b>		<b>6.6</b>	<b>6.8</b>	
<b>PBV (x)</b>	<b>1.0</b>	<b>1.0</b>		<b>0.9</b>	<b>0.9</b>	

## Valuation Table

P/E 31 March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
<b>Estimates (LKR 'Mn)</b>							
Revenue	60,949	50,253	44,129	38,265	42,417	48,347	52,737
Gross Profit	7,826	9,440	7,824	5,699	6,405	7,397	8,227
EBIT	4,199	5,780	4,238	1,784	2,613	3,448	3,986
<b>Net Profit</b>	<b>414</b>	<b>2,544</b>	<b>2,126</b>	<b>642</b>	<b>1,360</b>	<b>1,945</b>	<b>2,323</b>
Adjusted EPS (LKR)	1.0	6.1	5.1	1.5	3.3	4.7	5.6
YoY Growth (%)	-84.6%	513.9%	-16.4%	-69.8%	111.9%	43.1%	19.4%
<b>Valuations</b>							
PER (x)	32.1x	5.2x	6.3x	20.7x	9.8x	6.8x	5.7x
PBV (x)	1.4x	1.3x	1.2x	1.1x	1.0x	0.9x	0.8x
DY (%)	7.8%	7.8%	5.8%	2.0%	3.1%	4.4%	5.2%
NAVPS	22.8	24.1	27.3	29.9	32.2	35.5	39.4
DPS	2.5	2.5	1.9	0.7	1.0	1.4	1.7
Dividend Payout	250.6%	40.8%	36.2%	42.1%	30.0%	30.0%	30.0%



## Ratio Analysis

		FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
<b>Growth</b>	Revenue	92.6%	-17.5%	-12.2%	-13.3%	10.8%	14.0%	9.1%
	Gross Profit	89.9%	20.6%	-17.1%	-27.1%	12.4%	15.5%	11.2%
	EBIT	139.1%	37.6%	-26.7%	-57.9%	46.5%	31.9%	15.6%
	Net Profit	-84.6%	513.9%	-16.4%	-69.8%	111.9%	43.1%	19.4%
<b>Profitability</b>	GP Margin	12.8%	18.8%	17.7%	14.9%	15.1%	15.3%	15.6%
	EBIT Margin	6.9%	11.5%	9.6%	4.7%	6.2%	7.1%	7.6%
	NP Margin	0.7%	5.1%	4.8%	1.7%	3.2%	4.0%	4.4%
	Return on Equity	4.4%	25.4%	18.7%	5.2%	10.2%	13.2%	14.2%
<b>Liquidity</b>	Current Ratio	1.0x	1.1x	1.1x	1.0x	1.1x	1.2x	1.2x
	Quick Ratio	0.4x	0.6x	0.5x	0.5x	0.5x	0.5x	0.5x
<b>Activity</b>	Inventory Days	84.6	83.0	93.6	94.3	81.4	81.4	81.4
	Accounts Payable Days	62.8	69.1	72.1	95.0	76.7	76.7	76.7
	Accounts Receivable Days	41.6	43.5	51.0	75.9	38.7	34.5	34.6
<b>Gearing</b>	Debt/Equity	1.5x	1.2x	1.0x	0.9x	0.6x	0.6x	0.5x
	Debt/Debt+Equity	0.6x	0.5x	0.5x	0.5x	0.4x	0.4x	0.3x
	Debt/Total assets	0.4x	0.3x	0.3x	0.3x	0.2x	0.2x	0.2x

## Valuation Summary

Expected MGT Price	FY27E	FY28E
PER Based Target Price	32.7	46.8
DCF Based Target Price	39.8	44.9
Average Target Price	36.2	45.9
Target Price after Rounding Off	37.0	46.0

Return	FY27E	FY28E
Target Price	37.0	46.0
Current Price	32.0	32.0
Capital Gain (LKR)	5.0	14.0
Dividend upto 31 Mar (LKR)	1.0	1.4
Capital Gain %	16%	44%
Dividend Yield %	3%	4%
<b>Total Return %</b>	<b>19%</b>	<b>48%</b>
<b>Annualized Return %</b>	<b>22%</b>	<b>24%</b>

## Discounted Cash flow Valuation

DCF Based Valuation	FY27E	FY28E
Enterprise Value	24,162	25,711
Debt (-)	(7,451)	(7,432)
Cash (+)	1,226	1,804
Retirement Benefit (-)	(1,419)	(1,419)
Total Value of Equity	16,517	18,663
No. of Shares (Mn)	415	415
Target Price	39.8	44.9

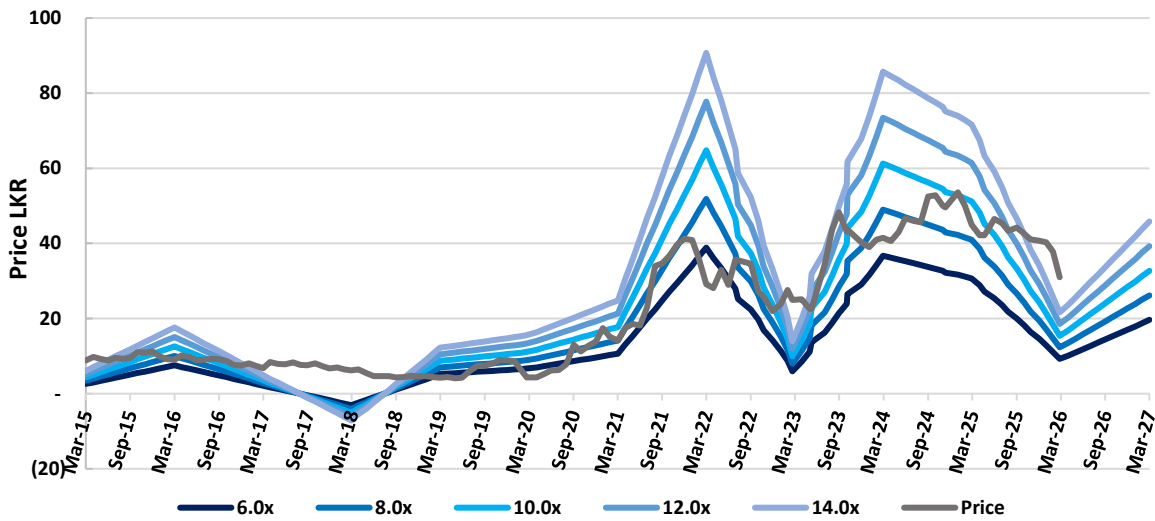
COE	FY27E	FY28E
Rf	10%	10%
Rm	18%	18%
Growth %	3%	3%
$\beta$	1.1	1.1
$Ke = Rf + \beta(Rm - Rf)$	19%	19%

## PER Based Valuation

PER Based Valuation	FY27E	FY28E
Earnings (LKR 'Mn)	1,360	1,945
No. of Shares ('Mn)	415	415
EPS	3.3	4.7
Expected Average PER	10.0x	10.0x
Target Price	32.7	46.8

WACC	FY27E	FY28E
Ke	18%	18%
Kd	13%	13%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3%	3%
<b>WACC</b>	<b>16%</b>	<b>16%</b>

### PER Chart



### Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	15.00%	11.00%	11.00%
Grade B	Rest of the Companies	18.00%	13.00%	13.00%
Grade C	Companies less than LKR 1Bn Market Cap	21.00%	16.00%	16.00%



## Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
<b>As at 31st March</b>							
Revenue from Contracts with Customers	60,949	50,253	44,129	38,265	42,417	48,347	52,737
Cost of Sales	(53,123)	(40,813)	(36,306)	(32,566)	(36,012)	(40,950)	(44,510)
<b>Gross Profit</b>	<b>7,826</b>	<b>9,440</b>	<b>7,824</b>	<b>5,699</b>	<b>6,405</b>	<b>7,397</b>	<b>8,227</b>
Other Operating Income	258	234	277	221	239	258	279
Administrative Expenses	(3,407)	(3,683)	(3,565)	(3,891)	(3,691)	(3,821)	(3,992)
Distribution Expenses	(463)	(188)	(288)	(245)	(339)	(387)	(527)
Other Expenses	(16)	(22)	(9)	-	-	-	-
<b>EBIT</b>	<b>4,199</b>	<b>5,780</b>	<b>4,238</b>	<b>1,784</b>	<b>2,613</b>	<b>3,448</b>	<b>3,986</b>
Net Financing Income/(Expense)	(1,133)	(1,979)	(1,121)	(739)	(671)	(669)	(667)
<b>Profit Before Tax</b>	<b>3,066</b>	<b>3,801</b>	<b>3,116</b>	<b>1,045</b>	<b>1,943</b>	<b>2,779</b>	<b>3,319</b>
Tax	(2,652)	(1,257)	(990)	(403)	(583)	(834)	(996)
<b>Profit After Tax</b>	<b>414</b>	<b>2,544</b>	<b>2,126</b>	<b>642</b>	<b>1,360</b>	<b>1,945</b>	<b>2,323</b>
Adjusted EPS	1.0	6.1	5.1	1.5	3.3	4.7	5.6

## Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
<b>As at 31st March</b>							
<b>ASSETS</b>							
Property, Plant and Equipment	14,979	13,584	13,954	14,708	15,725	16,393	17,000
Goodwill	3,502	3,188	3,138	3,326	3,326	3,326	3,326
Inventories	12,315	9,286	9,314	8,411	8,031	9,132	9,926
Trade Receivables	6,048	4,869	5,078	6,775	3,818	3,868	4,219
Other Assets	1,523	1,201	999	1,031	1,042	1,035	1,029
Cash and Cash Equivalents	1,530	3,372	3,158	2,034	1,226	1,804	2,619
<b>Total Assets</b>	<b>39,897</b>	<b>35,500</b>	<b>35,694</b>	<b>36,353</b>	<b>33,167</b>	<b>35,558</b>	<b>38,119</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Capital and Reserves</b>							
Stated Capital	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Revaluation Reserve	173	157	281	298	298	298	298
Retained Earnings	2,089	3,549	4,913	5,306	6,258	7,619	9,246
Exchange Fluctuation Reserve	5,262	4,343	4,183	4,858	4,858	4,858	4,858
<b>Total Equity</b>	<b>9,492</b>	<b>10,018</b>	<b>11,346</b>	<b>12,430</b>	<b>13,382</b>	<b>14,744</b>	<b>16,370</b>
<b>Liabilities</b>							
Interest Bearing Loans and Borrowings	13,286	11,095	11,207	10,362	7,505	7,487	7,469
Retirement benefit obligations	1,017	1,180	1,304	1,419	1,419	1,419	1,419
Trade and Other Payables	9,146	7,721	7,167	8,474	7,346	8,395	9,347
Bank Overdraft	1,116	617	626	773	773	773	773
Other Financial Liabilities	5,840	4,869	4,045	2,741	2,741	2,741	2,741
<b>Total Equity and Liabilities</b>	<b>39,897</b>	<b>35,500</b>	<b>35,694</b>	<b>36,353</b>	<b>33,167</b>	<b>35,558</b>	<b>38,119</b>
Adjusted NAVPS	22.8	24.1	27.3	29.9	32.2	35.5	39.4



**First Capital**  
A Janashakthi Group Company

# First Capital Holdings PLC

No.2, Deal Place,  
Colombo 3

Tel: +94 11 2145 000  
Fax: +94 11 2145 050

## RESEARCH

Dimantha Mathew	+94 11 2639 853	Akna Tennakoon	+94 11 2639 866
Charith Gamage	+94 11 2639 863	Dilhari Dias	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Manusha Kandanaarachchi	+94 11 2639 866
Shahana Kanagaratnam	+94 11 2639 866	Salaama Sanoon	+94 11 2639 866

## GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Arun Kandasamy	+94 75 4861 506
Anushka Dissanayake	+94 77 2220 021		
Anushi Ranawaka	+94 77 3876 819		

## CORPORATE DEBT SALES

Tharusha Ekanayake	+ 94 77 7 809 154
--------------------	-------------------

## EQUITY SALES

<b>CEO</b>	Jaliya Wijeratne	+94 723 055 000	<b>Equity Branches</b>		
<b>Colombo</b>			<b>Negombo</b>	Priyanka Anuruddha	+94 77 4546 070
Isuru Jayawardana	+94 76 7084 953			Priyantha Wijesiri	+94 77 9065 779
Nishantha Mudalige	+94 77 3204 929		<b>Jaffna</b>	Gratian Nirmal	+94 77 4510 000
Anushka Buddhika	+94 71 4310 600		<b>Agents</b>		
Thushara Pathiraja	+94 77 0076 314		<b>Colombo</b>	Kithsiri Jayasinghe	+94 77 7790 657
Dayan Fernando	+94 77 7354 081		<b>Anuradhapura</b>	Amila Luwishewa	+94 71 0628 195
Anjelo LaBrooy	+94 77 7546 645		<b>Galle</b>	Nuwan Abeynayake	+94 77 7288 274
Dillon Lowe	+94 76 6160 647		<b>Kandy</b>	Ajith lhalawatta	+94 77 8477 530
Evelyn John	+94 77 779 2452		<b>Embilipitiya</b>	Ruwan Wanniarachchi	+94 77 3877 734
Yudheshan Kannadasan	+94 77 415 5809				
Yumeth Samarakoon	+94 72 4444 135				

## UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
---------------------	-----------------	-----------------------	-----------------

## BRANCHES

<b>Kandy</b>	<b>Kurunegala</b>	<b>Matara</b>	<b>Negombo</b>
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1 st Floor, E.H.Cooray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500.
<b>Manager: Salinda Samarakoon</b>	<b>Manager:</b>	<b>Manager: Rohana Jayakody</b>	<b>Manager:</b>
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 4937 072

## Disclaimer:

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or a connected person or associated person may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

## About us:

This report providing a snapshot of fixed income, equity and unit trust is composed and circulated by First Capital Holdings PLC an investment bank in Sri Lanka. The company operates in the capital market of Sri Lanka with operations in government securities - treasury bills and bonds, stock brokering and share market investments, asset management, private wealth management, retirement planning, personal financial planning, unit trust, margin trading, capital market research, trustee services, corporate finance advisory services including corporate debt structuring (debentures, trust certificates, commercial papers), valuations, restructuring, mergers and acquisitions, initial public offerings (IPOs) and project advisory. The First Capital Group consists of First Capital Treasuries PLC, First Capital Limited, First Capital Markets Limited, First Capital Asset Management Limited and First Capital Equities (Private) Limited covering Colombo, Negombo, Matara, Kandy and Kurunegala.