First Capital
A Janashakthi Group Company

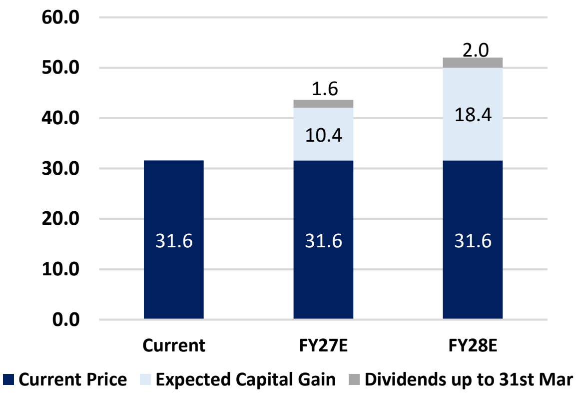
TEEJAY LANKA PLC [TJL.N0000]

MAINTAIN BUY

"STRUCTURAL STRENGTHS SUPPORT A SUSTAINABLE EARNINGS RECOVERY"

Fair Value: FY27E - LKR 42.0 [+33%]
Total Return with DPS: FY27E - 38% [AER 56%]

Fair Value: FY28E - LKR 50.0 [+58%]
Total Return with DPS: FY28E – 65% [AER 34%]



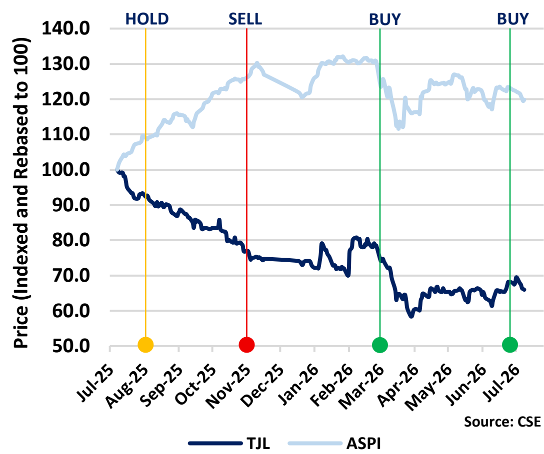
We maintain our BUY recommendation on TJL with unrevised fair value estimates of LKR 42.0/share for FY27E and LKR 50.0/share for FY28E, implying annualized expected returns (AER) of 56% and 34%, respectively. Although we expect near-term earnings to remain under pressure from subdued demand, elevated cotton and crude oil prices, and pricing headwinds through 1QFY27E, we continue to forecast a meaningful earnings recovery, supported by improving order momentum, higher capacity utilization, and operating leverage. We forecast revenue to grow by 10.6%YoY in FY27E and 21.6%YoY in FY28E, while earnings are expected to recover to LKR 1.9Bn and LKR 2.4Bn, respectively. We expect margin recovery to be driven by improved fixed-cost absorption as capacity utilization increases towards 80.0%, complemented by renewable energy integration, ongoing cost optimization initiatives, and lower breakeven utilization following recent restructuring. In our view, 1) improving capacity utilization and operating leverage, 2) structural cost efficiencies supported by renewable energy investments, 3) a diversified regional manufacturing footprint with exposure to favorable sourcing trends, and 4) strong ESG credentials as a leading sustainable fabric manufacturer position TJL as one of the most compelling recovery opportunities within the Sri Lanka's listed fabric manufacturing space. MAINTAIN BUY

FIRST CAPITAL RESEARCH

Manusha Kandanaarachchi +94 11 263 9866
manusha@firstcapital.lk

LKR (Mn)	4QFY25	4QFY26	YoY	FY25	FY26	YoY
Earnings (LKR 'Mn)						
Revenue	17,248	14,360	-17%	67,036	60,044	-10%
Gross profit	2,476	1,773	-28%	7,841	4,990	-36%
EBIT	1,456	202	-86%	4,551	442	-90%
PBT	1,365	316	-77%	4,047	321	-92%
Net Profit	900	202	-78%	2,793	53	-98%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	32,397	33,166	2%	32,397	33,166	2%
Borrowings	12,063	12,092	0%	12,063	12,092	0%
NAVPS	44.9	46.0		44.9	46.0	

Price Movement of TJL vs ASPI (Indexed and rebased to 100)



Source: CSE

4QFY26 earning declines 77.6%YoY; however well above our expectations

TJL reported 4QFY26 earnings of LKR 201.9Mn, down 77.6%YoY but up 140.0%QoQ, significantly exceeding our expectations, with earnings more than 100% above our 4QFY26 forecast. The earnings beat was primarily driven by a 200.8%YoY increase in finance income. However, revenue declined 14.7%YoY to LKR 14.4Bn, while the EBIT margin contracted by 538bps, reflecting continued pressure on core operations due to heightened distribution cost and lower fixed cost absorption due to lower capacity utilization level. Consequently, TJL remained profitable for FY26, reporting full-year earnings of LKR 53.1Mn, compared with our forecast of a full-year loss.

Margin recovery driven by operational efficiencies and energy cost savings

We forecast gross margins to expand by 69bps in FY28E, while operating margins are expected to improve by 9bps, following the sharp contraction in FY26. Margin recovery will be driven by capacity utilization improving from c.65–70% to 80.0%, supported by continued cost optimization. While pricing pressure from elevated cotton and crude oil prices, together with subdued demand, is expected to weigh on earnings through 1QFY27E, expected decline in global cotton prices from 2HFY27E should benefit TJL's cotton-heavy product mix. In addition, tariff normalization, with a flat 15.0% reciprocal rate across sourcing countries, is expected to reduce pricing disparities and improve competitiveness. Additionally, renewable energy investments, including a 7MW solar plant and biomass expansion, together with recent cost restructuring, have lowered the breakeven utilization rate from 70.0% to 67.0%, supporting a sustained margin recovery.

Topline recovery supported by improving order momentum

We expect earnings to recover gradually over FY27E–28E, supported by improving demand conditions, higher capacity utilization, and TJL's structural scale advantages. We forecast revenue to grow to LKR 66.4Bn (+10.6%YoY) in FY27E and LKR 80.8Bn (+21.6%YoY) in FY28E, underpinned by an expected improvement in capacity utilization level, a gradual recovery in order flows, and inventory normalization at key global apparel brands. TJL's diversified manufacturing footprint across Sri Lanka, India, Egypt, and Indonesia provides proximity to both raw material sources and end markets, while ongoing China+1 sourcing trends continue to support order allocation. Accordingly, we forecast earnings to recover to LKR 1.9Bn in FY27E and LKR 2.4Bn in FY28E. We maintain our earnings forecasts unchanged from initiation, supported by improving operating leverage and TJL's strong positioning as a leading sustainable fabric manufacturer.

FCR maintains fair value target for FY28E at LKR 50.0; AER 34%

We reiterate our BUY recommendation on TJL, supported by its scale, diversified manufacturing footprint, and compelling earnings recovery potential. Although near-term profitability is likely to remain under pressure, we expect improving demand, higher capacity utilization, and operating leverage to drive a meaningful recovery in earnings over FY27E to FY28E. Furthermore, we believe TJL stands out from an ESG perspective, supported by its strengthening sustainability credentials. In our view, the company remains an under-recognized ESG investment, with the potential to attract incremental ESG-focused investor interest over the longer term as sustainable investing becomes more established in Sri Lanka. That may also help to sustain the existing clientele. We maintain our unrevised FY27E fair value target of LKR 42.0 and LKR 50.0 for FY28E, derived using an equally weighted blend of DCF and PER valuation methodologies, based on a forward PER of 15.0x for both years. Our valuation implies an annualized expected return (AER) of 56% for FY27E and 34% for FY28E, underpinned by earnings normalization, margin recovery, and a gradual improvement in global textile demand. MAINTAIN BUY

Minimum Return for BUY:

Buy Below for FY27E [AER of 18.0% with DPS]: *LKR 42.6*
TJL.N 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 TJL during the five trading days prior to the issuance of this document.

Key risks associated with our recommendation

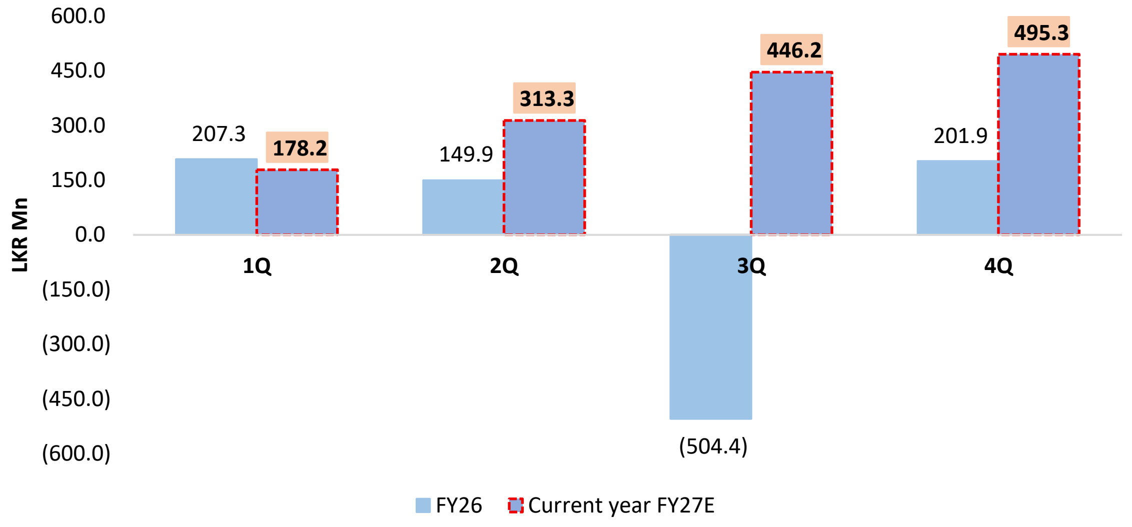
Downside risks

- 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 yarn prices may lead to margin contraction
- Elevated crude oil and raw material prices due to war situation

Upside risks

- Exchange rate risk (appreciation may lead to reduction of raw material costs and depreciation may lead to LKR topline increase)
- De-escalation and US-Iran peace deal

Quarterly Earnings



Estimate Revision

In LKR Mn	FY27E-O	FY27-R	% Change	FY28E-O	FY28E-R	% Change
Earnings Estimate						
Revenue	66,419.9	66,419.9	0.0%	80,777.5	80,777.5	0.0%
Gross Profit	5,439.1	5,439.1	0.0%	7,175.4	7,175.4	0.0%
EBIT	3,247.2	3,247.2	0.0%	4,025.1	4,025.1	0.0%
Profit before Tax	2,746.2	2,746.2	0.0%	3,483.2	3,483.2	0.0%
Net Profit	1,922.3	1,922.3	0.0%	2,438.2	2,438.2	0.0%
Adjusted EPS	2.7	2.7	0.0%	3.4	3.4	0.0%
Growth YoY	3520.5%	3520.5%		26.8%	26.8%	
Balance Sheet Estimate						
Shareholders' Equity	33,165.7	33,165.7	0.0%	34,141.0	34,141.0	0.0%
Borrowings	8,765.5	8,765.5	0.0%	8,571.5	8,571.5	0.0%
Adjusted NAVPS	**46.0**	**46.0**	0.0%	**47.3**	**47.3**	**0.0%**
Ratio Estimate						
ROE (%)	***5.8%***	***5.8%***		***7.1%***	***7.1%***	
PER (x)	***10.5x***	***11.9x***		***8.3x***	***9.4x***	
PBV (x)	***0.6x***	***0.7x***		***0.6x***	***0.7x***	
DY (%)	***5.7%***	***5.1%***		***7.2%***	***6.4%***	

Valuation Table

P/E 31 March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Estimates (LKR 'Mn)							
Revenue	84,037	60,734	67,036	60,044	66,420	80,777	86,313
Gross profit	6,843	5,057	7,841	4,990	5,439	7,175	7,353
EBIT	3,295	2,213	4,551	442	3,247	4,025	4,504
Net Profit	**2,127**	**1,110**	**2,793**	**53**	**1,922**	**2,438**	**2,752**
Adjusted EPS (LKR)	2.9	1.5	3.9	0.1	2.7	3.4	3.8
YoY Growth (%)	-16.0%	-47.8%	151.7%	-98.1%	>100.0%	26.8%	12.9%
DPS (LKR)	1.5	0.8	2.4	-	1.6	2.0	2.3
Valuations							
PER (x)	*10.7x*	*20.5x*	*8.2x*	*429.4x*	*11.9x*	*9.4x*	*8.3x*
PBV (x)	*0.7x*	*0.8x*	*0.7x*	*0.7x*	*0.7x*	*0.7x*	*0.6x*
DY (%)	*4.7%*	*2.4%*	*7.4%*	*0.0%*	*5.1%*	*6.4%*	*7.2%*
Adjusted NAVPS	*44.4*	*41.8*	*43.7*	*44.9*	*46.0*	*47.3*	*48.8*
Dividend Payout	*51%*	*49%*	*61%*	*0%*	*60%*	*60%*	*60%*
	1.50	0.75	2.35	-	1.60	2.03	2.29

Ratio Analysis

		FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Growth	Revenue	69.5%	-27.7%	10.4%	-10.4%	10.6%	21.6%	6.9%
	Gross Profit	49.5%	-26.1%	55.1%	-36.4%	9.0%	31.9%	2.5%
	EBIT	8.8%	-49.5%	157.4%	-92.1%	-755.4%	26.8%	12.9%
	Net Profit	-16.0%	-47.8%	151.7%	-98.1%	>100.0%	26.8%	12.9%
Profitability	GP Margin	8.1%	8.3%	11.7%	8.3%	8.2%	8.9%	8.5%
	EBIT Margin	3.9%	3.6%	6.8%	0.7%	4.9%	5.0%	5.2%
	NP Margin	2.5%	1.8%	4.2%	0.1%	2.9%	3.0%	3.2%
	Return on Equity	7.1%	3.6%	9.1%	0.2%	5.9%	7.2%	7.9%
Liquidity	Current Ratio	194.8%	188.1%	194.2%	189.0%	213.0%	193.4%	193.8%
	Quick Ratio	118.4%	117.3%	128.6%	122.1%	130.4%	123.4%	117.6%
Activity	Inventory Days	7030.7%	8204.0%	7084.1%	7816.3%	7561.3%	6632.9%	6764.8%
	Accounts Payable Days	6662.0%	7021.8%	7069.5%	8514.4%	7361.4%	6371.7%	6961.1%
	Accounts Receivable Days	4752.6%	5649.0%	5906.1%	7642.4%	6736.0%	5562.3%	5738.1%
Gearing	Debt/Equity	43.8%	35.4%	27.8%	27.2%	26.4%	25.1%	24.2%
	Debt/Debt+Equity	30.5%	26.1%	21.8%	21.4%	20.9%	20.1%	19.5%
	Debt/Total assets	23.4%	19.4%	15.7%	15.0%	15.4%	13.9%	13.5%

Valuation Summary

Expected TJL price	FY27E	FY28E
DCF based target price	44.5	51.3
PER based Valuation	40.0	50.7
Average Target Price	42.2	51.0
Target Price after Rounding off	42.0	50.0

Return	FY27E	FY28E
Target Price	42.0	50.0
Current Price	31.6	31.6
Capital Gain (LKR)	10.4	18.4
Dividends up to 31st March	1.6	2.0
Capital Gain %	33%	58%
Dividend Yield %	5%	6%
Total Return %	38%	65%
Annualized Return %	56.1%	33.5%

Discounted Cash flow Valuation

DCF based Valuation	FY27E	FY28E
Enterprise Value	38,588	41,719
(-) Debt	(8,765)	(8,571)
(+) Cash	3,678	5,267
(-) Retirement benefit obligations	(1,402)	(1,402)
Total Value of Equity	32,098	37,012
No. of Shares (Mn)	721	721
Target Price	44.5	51.3

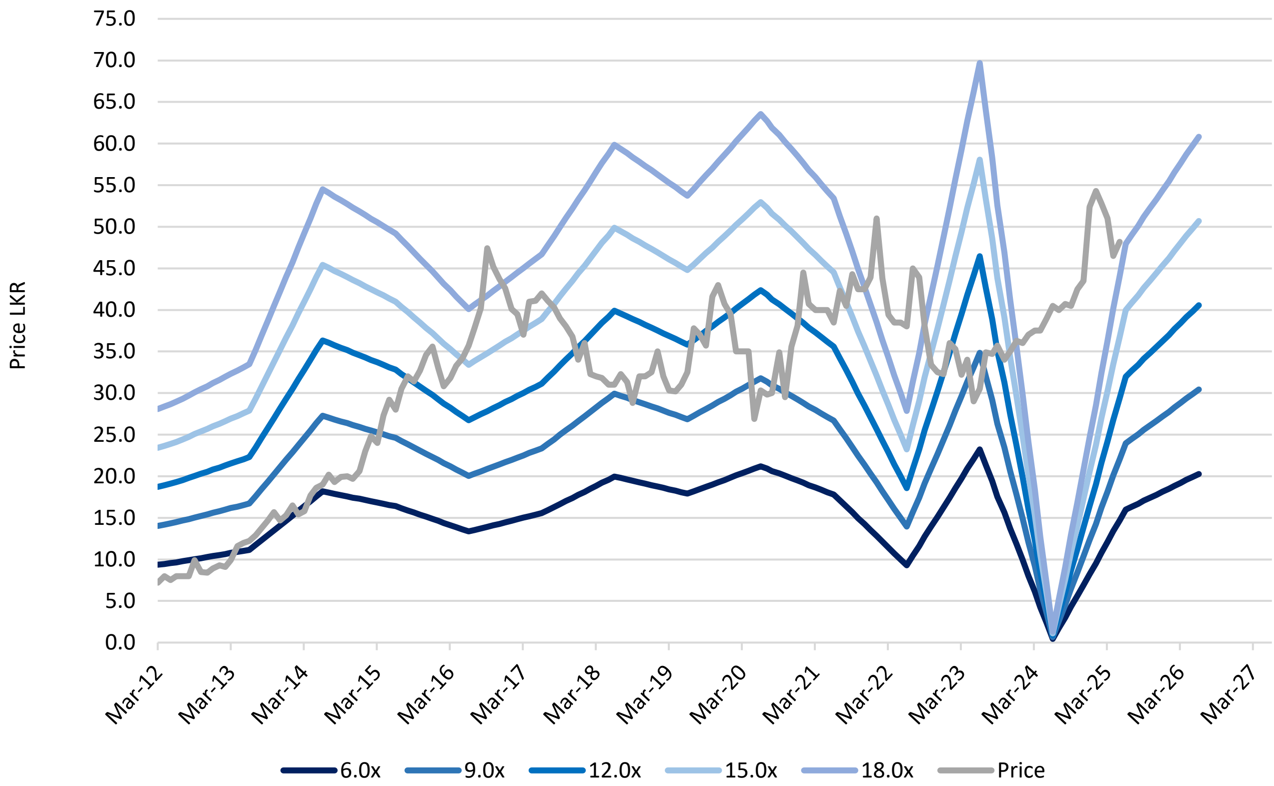
WACC	FY27E	FY28E
Ke	14%	14%
Kd	6%	6%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3%	3%
WACC	11%	11%

COE	FY27E	FY28E
Rf	10%	10%
Rm	18%	18%
Growth %	3%	3%
β	0.5	0.5
Ke = Rf + β(Rm-Rf)	14%	14%

PER Valuation

PER based Valuation	FY27E	FY28E
Earnings (LKR 'Mn)	1,922	2,438
No. of Shares ('Mn)	721	721
EPS	2.7	3.4
Expected PER	15.0x	15.0x
Target Price	40.0	50.7

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) As at 31st March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Revenue	84,037	60,734	67,036	60,044	66,420	80,777	86,313
Cost of sales	(77,194)	(55,677)	(59,195)	(55,054)	(60,981)	(73,602)	(78,960)
Gross profit	**6,843**	**5,057**	**7,841**	**4,990**	**5,439**	**7,175**	**7,353**
Other income	532	203	527	580	399	485	518
Selling, Distribution & Admin expenses	(4,079)	(3,047)	(3,817)	(5,128)	(2,590)	(3,635)	(3,366)
Operating profit	**3,295**	**2,213**	**4,551**	**442**	**3,247**	**4,025**	**4,504**
Finance Income	811	455	390	620	315	286	283
Less : Finance Cost	(990)	(1,096)	(894)	(741)	(816)	(828)	(855)
Net Finance Income/(Costs)	(179)	(641)	(503)	(121)	(501)	(542)	(572)
Profit before tax	**3,116**	**1,572**	**4,047**	**321**	**2,746**	**3,483**	**3,932**
Income tax expense	(990)	(463)	(1,254)	(268)	(824)	(1,045)	(1,180)
Profit for the Year	**2,127**	**1,110**	**2,793**	**53**	**1,922**	**2,438**	**2,752**
EPS	**3.0**	**1.5**	**3.9**	**0.1**	**2.7**	**3.4**	**3.8**

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn) As at 31st March	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E	
ASSETS								
Non-Current Assets								
Property, plant and equipment	20,259	18,142	17,270	17,498	16,998	17,276	17,533	17,830
Capital work-in-progress	1,836	703	317	830	581	562	498	307
Other assets	15,555	14,767	15,015	15,131	15,105	16,621	15,885	15,107
Inventories	13,383	11,646	11,332	12,247	13,018	13,732	15,536	16,997
Trade and other receivables	9,026	9,774	11,921	13,224	11,291	13,328	13,810	16,053
Total Assets	**60,058**	**55,033**	**55,855**	**58,930**	**56,994**	**61,519**	**63,262**	**66,295**
EQUITY AND LIABILITIES								
Capital and Reserves								
Stated capital	4,442	4,442	4,583	4,583	4,583	4,583	4,583	4,583
Exchange equalisation reserve	18,048	15,752	187	187	187	187	187	187
Retained earnings	9,400	9,754	15,394	10,173	10,942	11,918	13,019	14,584
Share option scheme	153	182	11,366	17,454	17,454	17,454	17,454	17,454
Total Equity	**32,043**	**30,130**	**31,529**	**32,397**	**33,166**	**34,141**	**35,242**	**36,807**
LIABILITIES								
Borrowings	16,969	13,755	12,048	12,781	12,720	12,526	12,491	12,464
Trade and other payables	10,556	10,866	12,064	13,621	10,977	14,720	15,397	16,892
Current tax liability	490	282	213	132	132	132	132	132
Total Equity & Liabilities	**60,058**	**55,033**	**55,855**	**58,930**	**56,994**	**61,519**	**63,262**	**66,295**
Adjusted NAVPS	**44.4**	**41.8**	**43.7**	**44.9**	**46.0**	**47.3**	**48.8**	**51.0**

First Capital Holdings PLC

First Capital
A Janashakthi Group Company

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

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

UNIT TRUST SALES

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

BRANCHES

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

Disclaimer:

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.