



DIPPED PRODUCTS PLC [DIPD.N0000]

MAINTAIN BUY

“GLOVE SEGMENT’S CAPACITY-LED GROWTH REMAINS ON TRACK”

Fair Value: FY27E - LKR 70.0 [+19%]

FY28E - LKR 80.0 [+36%]

Total Return with DPS: FY27E - 23% [AER 51%]

FY28E - 40% [AER 25%]

We re-iterate our BUY recommendation on DIPD with FY27E and FY28E fair value estimates of LKR 70.0/share and LKR 80.0/share, respectively, implying annualised total returns of 50.7% and 25.2% from current levels. DIPD reported 1QFY27 earnings of LKR 1.2Bn, up 40.4%YoY and 87.3%QoQ, exceeding our forecast by 23.4%, driven by a 12.4%YoY increase in group revenue and a 162bps YoY expansion in gross margin. Higher volumes following the commencement of new plants, selected price increases, favourable product mix and continued factory automation supported the strong earnings performance. Hand Protection EBIT increased 34.5%YoY, offsetting a 10.2%YoY decline in Plantation EBIT amid higher costs and weaker revenue. We expect Hand Protection to remain the key growth driver, entering a multi-year capacity-led growth phase supported by expansions at Kottawa and Hanwella and the upcoming Katunayake greenfield facility. We forecast Hand Protection revenue growth of 23.3%YoY in FY27E and 14.7%YoY in FY28E, with capacity utilisation sustained within the 80%-90% range and the segment's contribution to consolidated revenue reaching c.70% by FY28E. We have upgraded FY27E and FY28E earnings by 13.0% and 6.5%, respectively, to LKR 4.9Bn and LKR 5.5Bn, supported by stronger Hand Protection margins, product mix improvements and ongoing automation. While higher fertilizer costs, adverse weather conditions and softer Plantation demand remain near-term headwinds, we expect these pressures to be increasingly offset by the structural growth of Hand Protection. In our view: (1) capacity expansion and a favourable product mix shift; (2) LKR depreciation supporting USD-denominated revenue; and (3) continued factory automation driving cost efficiencies and margin expansion, remain the key catalysts for DIPD's medium-term earnings growth as we believe market hasn't captured the potential. **MAINTAIN BUY**

LKR (Mn)	1QFY26	1QFY27	YoY	FY25	FY26	YoY
Earnings (LKR 'Mn)						
Revenue	22,270	25,025	+12%	79,289	82,044	+3%
Gross Profit	4,240	5,170	+22%	16,564	17,979	+9%
Operating Profit	1,496	1,759	+18%	6,802	6,807	+0%
PBT	1,516	1,943	+28%	6,466	6,834	+6%
Earnings	879	1,233	+40%	3,568	3,521	-1%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	32,971	35,822	+9%	32,971	35,822	+9%
Borrowings	14,466	20,179	+39%	14,466	20,179	+39%
NAVPS	55.1	59.8		55.1	59.8	

DIPD's bottom-line increased 40.4%YoY during 1QFY27, exceeding our forecast

DIPD reported earnings of LKR 1.2Bn, representing a 40.4%YoY and 87.3%QoQ increase, exceeding our forecast by 23.4%. The strong earnings performance was primarily driven by a 12.4%YoY increase in group revenue, alongside a 162bps YoY expansion in gross margin. Revenue growth was supported by higher volumes following the commencement of operations at new plants, while price increases across selected products helped offset higher raw material costs. The 31bps YoY expansion in operating margin was driven by ongoing efforts to enhance factory automation and improve operational efficiency. Meanwhile, the expansion in gross margin was driven by exchange rate depreciation and a favorable shift in product mix from lower-value to higher-value products. On a segmental basis, the glove segment recorded a 34.5%YoY increase in EBIT, offsetting the 10.2%YoY decline in EBIT from the plantation segment, which was impacted primarily by cost pressures and lower revenue.

Capacity expansion to drive Hand Protection to c.70% of revenue by FY28E

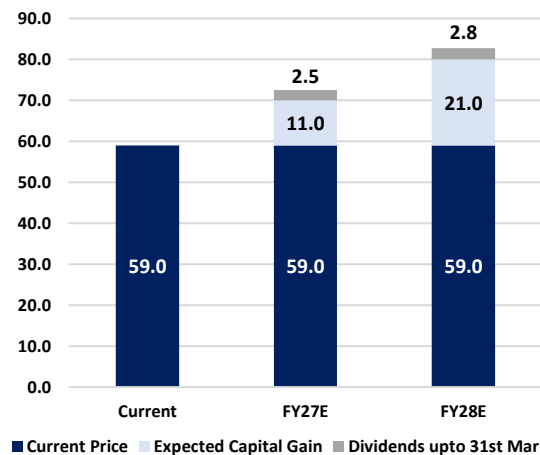
As we mentioned in our last update, we see DIPD's Hand Protection segment entering a multi-year, capacity-driven volume growth phase, supported by expansions at Kottawa and Hanwella, as well as the upcoming Katunayake greenfield facility. These capacity additions underpin our revenue growth estimates of 23.3%YoY in FY27E and 14.7%YoY in FY28E. An expected 5% LKR depreciation should provide a positive translation impact on reported revenue, while we expect capacity utilization to remain within the 80%-90% range. In addition, the ongoing shift in product mix towards higher-value products, together with price increases implemented across selected products, should provide further support to revenue growth and margins. Meanwhile, we expect adverse weather conditions associated with El Niño, aging plantation assets and softer demand from the Middle East to weigh on the Plantation segment's growth. Accordingly, we expect the segment's contribution to consolidated revenue to decline to c.30% by FY28E as the Hand Protection segment increasingly becomes the primary growth driver.

Margin expansion in Hand Protection segment supports earnings upgrade in DIPD

We have revised our earnings forecasts upward by 13.0% and 6.5% for FY27E and FY28E, respectively, to LKR 4.9Bn and LKR 5.5Bn, driven by ongoing factory automation, product mix improvements and price increases. We expect continued automation to alleviate margin pressures in Plantation segment and enhance operational efficiency, as demonstrated by the company's FY26 performance. With latex accounting for c.40%-50% of total cost of sales and c.60% of raw materials for the Hand Protection segment sourced locally, we expect margin pressure to remain relatively contained despite potential increases in distribution costs and synthetic latex prices amid higher crude oil prices. However, the doubling of fertilizer costs is expected to weigh on Plantation segment profitability, which we have conservatively incorporated into our FY27E and FY28E estimates.

We maintain our FY27E and FY28E fair values at LKR 70.0 and LKR 80.0, respectively

Given our revised earnings estimates and the prevailing macroeconomic uncertainty, we retain an implied PER of 9.0x for DIPD. Accordingly, we retain our FY27E and FY28E fair value targets at LKR 70.0 and LKR 80.0, respectively, implying annualized total returns of 50.7% and 25.2% from current levels. While near-term headwinds remain, our medium-term outlook is supported by three key catalysts: (1) capacity expansion and a favorable product mix shift in the Hand Protection segment; (2) LKR depreciation providing a structural tailwind to USD-denominated revenue; and (3) continued factory automation supporting cost efficiencies and margin improvement. **MAINTAIN BUY**

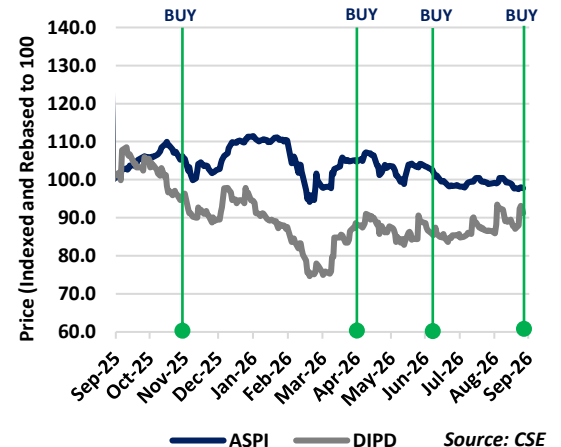


FIRST CAPITAL RESEARCH

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



Minimum Return for BUY:

Buy Below for FY28E [AER of 18.0% with DPS]: LKR 64.5
DIPD 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 DIPD during the five trading days prior to the issuance of this document.

Key risks associated with our recommendation

Downside risks

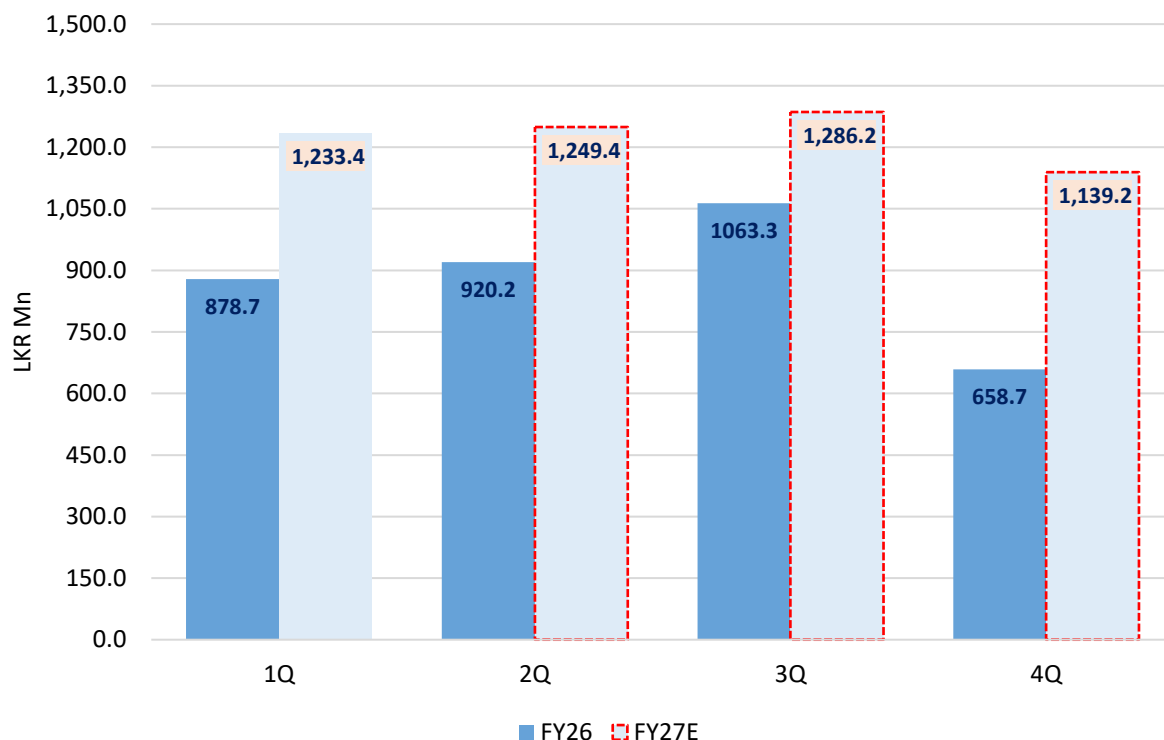
- Severe competition from ASEAN glove manufacturers
- Volatile latex prices
- Depreciation of ASEAN currencies against USD and other major currencies
- Subdued performance of the plantation segment and increased wages of plantation sector workers
- U.S tariffs and GSP+ concerns
- Rising crude oil prices
- Extension of US-Iran war

Upside risks

- Appreciation of ASEAN currencies against USD and other major currencies
- Rapid growth of the key export markets



Quarterly Earnings



Estimate Revision

In LKR Mn	FY27E-O	FY27E-R	% Change	FY28E-O	FY28E-R	% Change
Earnings Estimate						
Revenue	93,682	93,682	0%	102,916	102,916	0%
Gross Profit	20,610	21,640	+5%	22,539	23,156	+3%
EBIT	8,525	9,556	+12%	9,900	10,518	+6%
Profit Before Tax	7,959	8,989	+13%	9,465	10,082	+7%
Adjusted Earnings	4,346	4,908	+13%	5,168	5,505	+7%
Adjusted EPS	7.3	8.2	+13%	8.6	9.2	+7%
Balance Sheet Estimate						
Shareholders' Equity	37,869	38,263	+1%	41,486	42,116	+2%
Borrowings	17,713	17,527	-1%	18,512	18,668	+1%
Adjusted NAVPS	63.3	63.9		69.3	70.4	
Ratio Estimate						
PER (x)	8.3x	7.3x		7.0x	6.5x	
PBV (x)	1.0x	0.9x		0.9x	0.9x	
DY (%)	4.1%	4.2%		4.6%	4.7%	



Valuation Table

P/E 31 Mar (LKR 'Mn)	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Revenue	80,099	73,942	79,289	82,044	93,682	102,916	111,814
Gross Profit	19,609	17,059	16,564	17,979	21,640	23,156	24,375
EBIT	9,628	7,729	6,802	6,807	9,556	10,518	11,204
Adjusted Net Profit	6,507	4,472	3,568	3,521	4,908	5,505	5,969
Adjusted EPS (LKR)	10.9	7.5	6.0	5.9	8.2	9.2	10.0
YoY Growth (%)	20.9%	-31.3%	-20.2%	-1.3%	39.4%	12.2%	8.4%
Valuations							
PER (x)	5.4x	7.9x	9.9x	10.0x	7.2x	6.4x	5.9x
PBV (x)	1.3x	1.2x	1.1x	1.0x	0.9x	0.8x	0.8x
DPS	3.0	2.3	1.9	2.1	2.5	2.8	3.0
DY (%)	5.1%	3.8%	3.2%	3.6%	4.2%	4.7%	5.1%
Dividend Payout (%)	27.6%	30.1%	31.9%	36.2%	30.0%	30.0%	30.0%
NAVPS	45.1	48.2	53.1	58.2	63.9	70.4	77.3

Ratio Analysis

		FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Growth	Revenue	44.9%	-7.7%	7.2%	3.5%	14.2%	9.9%	8.6%
	Gross Profit	82.7%	-13.0%	-2.9%	8.5%	20.4%	7.0%	5.3%
	EBIT	79.6%	-19.7%	-12.0%	0.1%	40.4%	10.1%	6.5%
	Net Profit	20.9%	-31.3%	-20.2%	-1.3%	39.4%	12.2%	8.4%
Profitability	GP Margin	24.5%	23.1%	20.9%	21.9%	23.1%	22.5%	21.8%
	EBIT Margin	12.0%	10.5%	8.6%	8.3%	10.2%	10.2%	10.0%
	NP Margin	10.6%	7.8%	5.9%	5.6%	6.7%	6.9%	6.8%
	Return on Equity	31.5%	20.0%	14.7%	13.3%	16.4%	16.8%	16.5%
Liquidity	Current Ratio	1.9x	2.2x	1.7x	1.6x	1.8x	1.9x	2.0x
	Quick Ratio	1.2x	1.3x	1.0x	0.9x	1.1x	1.2x	1.2x
Activity	Inventory Days	74.6	78.1	74.5	82.0	76.0	72.9	73.3
	Accounts Payable Days	54.1	63.8	69.9	81.8	70.4	62.5	64.6
	Accounts Receivable Days	6.3	7.8	7.7	12.2	10.6	6.6	6.7
Gearing	Debt/Equity	0.3x	0.3x	0.3x	0.2x	0.1x	0.1x	0.1x
	Debt/Debt+Equity	0.7x	0.8x	0.8x	0.8x	0.9x	0.9x	0.9x
	Debt/Total assets	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x



Valuation Summary

Expected DIPD Price	FY27E	FY28E
PER Valuation based target price	73.8	82.8
DCF Valuation based target price	69.8	72.6
Average Target Price	71.8	77.7
Price after Rounding-off	70.0	80.0

Return	FY27E	FY28E
Target Price	70.0	80.0
Current Price	59.0	59.0
Capital Gain (LKR)	11.0	21.0
Dividends upto 31 Mar (LKR)	2.5	2.8
Capital Gain %	19%	36%
Dividend Yield %	4%	5%
Total Return %	23%	40%
Annualized Return %	51%	25%

Discounted Cash Flow Valuation

DCF based Valuation	FY27E	FY28E
Enterprise Value	58,112	58,870
Debt (-)	15,200	14,372
Cash (+)	14,010	15,609
Total Value of Equity	41,801	43,434
No. of Shares (Mn)	599	599
Target Price	69.8	72.6

COE	FY27E	FY28E
Rf	10%	10%
Rm	18%	18%
Growth %	3%	3%
Unlevered β	0.7	0.7
Ke = Rf + β (Rm-Rf)	15%	15%

WACC	FY27E	FY28E
Ke	15%	15%
Kd	11%	11%
D/E Assumption	60:40	60:40
Terminal Growth (%)	3%	3%
WACC	13%	13%

PER Valuation

PER based Valuation	FY27E	FY28E
Earnings (LKR 'Mn)	4,908	5,505
No. of Shares ('Mn)	599	599
EPS	8.2	9.2
Expected PER	9x	9x
Price at 9x Earnings	73.8	82.8

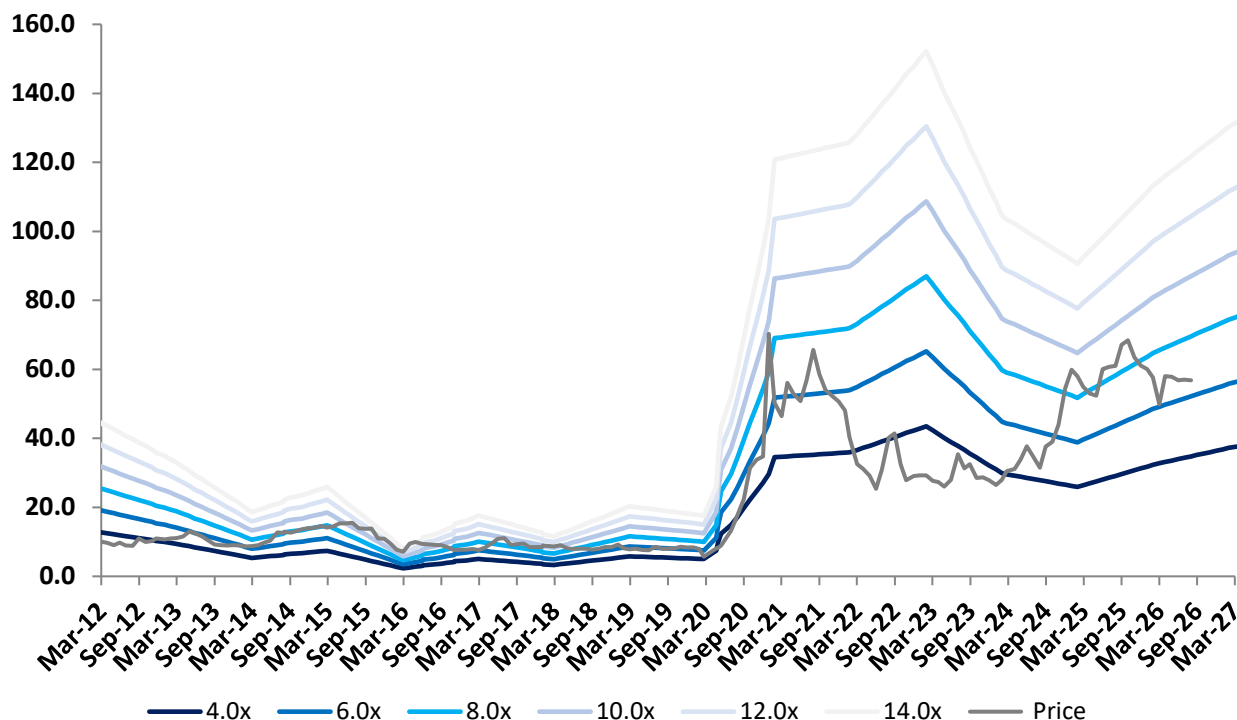
Recommendation Criteria

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%



PER Chart



Appendix I: Statement of Income and Expenses

Profit & loss statement Y/E 31 March (LKR 'Mn)	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Revenue	80,099	73,942	79,289	82,044	93,682	102,916	111,814
Cost of sales	(60,490)	(56,883)	(62,724)	(64,065)	(72,041)	(79,760)	(87,438)
Gross profit	19,609	17,059	16,564	17,979	21,640	23,156	24,375
Other operating income	767	820	933	959	1,124	1,307	1,420
Selling and distribution	(2,661)	(1,956)	(2,013)	(2,170)	(2,436)	(2,624)	(2,851)
Admin expenses	(8,087)	(8,193)	(8,683)	(9,961)	(10,773)	(11,321)	(11,740)
EBIT	9,628	7,729	6,802	6,807	9,556	10,518	11,204
Net finance income	1,591	(170)	(343)	7	(566)	(436)	(271)
Profit before tax	11,219	7,567	6,466	6,834	8,989	10,082	10,933
Taxation	(2,716)	(1,788)	(1,802)	(2,211)	(2,697)	(3,025)	(3,280)
Adjusted net profit for the period	8,502	5,779	4,663	4,623	6,293	7,058	7,653
Recurring net profit for the period	8,502	5,779	4,663	4,623	6,293	7,058	7,653
Profit for the period attributable to:							
Equity holders of the company	6,507	4,472	3,568	3,521	4,908	5,505	5,969
Minority interest	1,995	1,307	1,096	1,102	1,384	1,553	1,684
Adjusted EPS	10.9	7.5	6.0	5.9	8.2	9.2	10.0



Appendix II: Statement of Financial Position

Balance sheet							
As at 31 March (LKR 'Mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY28E
Assets							
Non current assets							
Property plant and equipment	21,977	23,971	30,107	35,657	33,521	34,953	35,999
Other non current assets	4,693	5,518	6,340	9,434	9,388	9,352	9,326
Current Assets							
Inventories	12,649	11,685	13,935	14,862	15,129	16,750	18,362
Receivables and prepayment	1,572	1,569	1,783	3,682	1,780	1,955	2,124
Cash and cash equivalents	9,660	8,976	9,099	5,976	11,166	12,765	16,293
Total Assets	62,681	63,913	74,616	86,012	86,909	93,270	101,112
Equity and Liabilities							
Stated capital	599	599	599	599	599	599	599
Retained earnings and foreign currency translation reserves	26,376	28,278	31,180	34,228	37,664	41,518	45,696
Equity attributable to equity holders of the parent	26,975	28,877	31,778	34,827	38,263	42,116	46,295
Non-controlling interest	6,540	7,203	7,853	8,685	10,070	11,622	13,306
Total equity	33,515	36,080	39,631	43,512	48,332	53,738	59,601
Non-current liabilities							
Interest bearing loans and borrowings	3,577	4,301	3,821	7,415	4,560	4,312	4,101
Other non-current liabilities	6,774	7,552	8,486	9,037	9,037	9,037	9,037
Current liabilities							
Trade and other payables	9,742	10,146	13,884	14,829	12,967	14,357	16,613
Other current liabilities	9,072	5,835	8,794	11,220	12,013	11,826	11,760
Total liabilities	29,166	27,833	34,984	42,500	38,577	39,531	41,511
Total equity & liabilities	62,681	63,913	74,616	86,012	86,909	93,270	101,112
Adjusted NAVPS	45.1	48.2	53.1	58.2	63.9	70.4	77.3



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