



Textured Jersey Lanka PLC [TJL.N0000]

Downgrade to HOLD

May 2016

Current Price – LKR 34.7

Fair Value – LKR 39.0

4QFY16 Earnings ↑ 62%YoY

KEY DATA

Share Price (LKR)	34.70		
52w High/Low (LKR)	27.4/36.0		
Average Daily Volume (Shares)	580,538		
Average Daily Turnover	18,299,919		
Issued Share Capital (Shares mn)			
Market Capitalisation (LKR mn)	24,149		
Price Performance (%)	1 mth	3 mths	12mths
TJL	3.9%	12.9%	18.7%
ASPI	3.8%	6.5%	-8.8%
Major Shareholders as at 31st March 2016			
Brandix Lanka Ltd-Number 1 Account	33.4%		
Pacific Textured Jersey Holdings Limited	28.2%		
HSBC Intl Nom Ltd-National Westminster Bank Plc	7.1%		
Citibank Newyork S/A Norges Bank Account 2	2.4%		
Deutsche Bank Ag Singapore-Dss A/C Navis Yield Fund	2.2%		
Public Holdings	38.1%		

P/E 31 March

	FY15	FY16	FY17E	FY18E	FY19E
Revenue (LKR mn)	13,678	17,830	20,923	22,464	24,101
Net Profit (LKR Mn)	1,332	2,172	2,149	2,591	3,247
EPS (LKR)	1.9	3.1	3.1	3.7	4.7
YoY % Growth	16%	63%	-1%	21%	25%
Valuations					
PER (X)	18.1	11.1	11.2	9.3	7.4
PBV (X)	10.1	14.6	16.1	18.0	20.1
Dividend Yield (%)	3.7%	3.7%	4.5%	5.4%	7.4%
NAVPS	10.1	14.6	16.1	18.0	20.1
DPS (LKR)	1.3	1.3	1.5	1.9	2.6
Payout Ratio	68%	42%	50%	50%	55%

Earnings Performance

Earnings growth 62% YoY: TJL's 4QFY16 earnings saw an impressive 62%YoY growth to LKR 825Mn despite the acceleration in Selling, Distribution and Administrative expenses while the full year FY16 earnings grew by 63%YoY to LKR 2.2Bn opposed to LKR 1.3Bn recorded in FY15.

Improved GP Margin: GP Margin for 4QFY16 was recorded at 20%, improved YoY from 15% in 4QFY15 and 18% in 3QFY16 amidst the increased efficiency of the multi-fuel boiler leading to a saving in energy costs. FY16 overall GP Margin improved to 17% on the back of falling cotton prices and reduction in energy prices coupled with the cost savings deriving from the multi-fuel boiler.

	4QFY16	4QFY15	YoY	3QFY16	QoQ
Revenue	5,480	3,776	45% ↑	5,576	-2% ↓
Gross Profit	1,089	583	87% ↑	977	11% ↑
EBIT	811	516	57% ↑	690	18% ↑
Net Profit	825	510	62% ↑	672	23% ↑

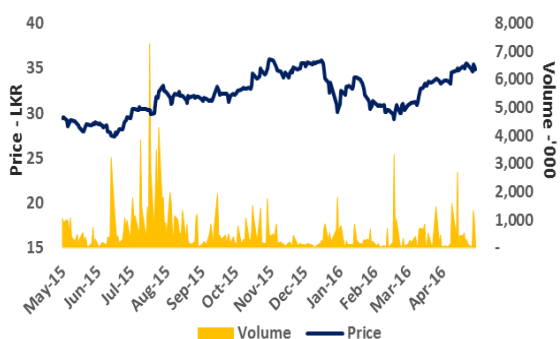
Marginally improved EBIT margins: EBIT margins for 4QFY16 registered at 15% in 4QFY16 with a slight improvement opposed to 14% in 4QFY15 despite the loss of income due to non-renewal of its operational technical service agreement with Ocean India. Selling, Distribution and Administration expenses together grew by 156%YoY recording at LKR 292mn in 4QFY16 against LKR 114mn in previous comparative quarter amidst the bigger combined entity with the acquisition of Ocean India and Quenby Lanka. For FY16 it was recorded at LKR 2.2Bn, a growth 67% YoY (LKR 1.3Bn in FY15). EBIT for 4QFY16 was registered at LKR 811Mn during (57%YoY and 18%QoQ) while for the 4QFY15 it stood at LKR 516Mn.

	1QFY16	2QFY16	3QFY16	4QFY16
Revenue	2,762	4,011	5,576	5,480
Gross Profit	323	622	977	1,089
EBIT	208	462	690	811
Net Profit	206	468	672	825

NP Margin at 15%: Amidst the effective cost management strategies coupled with the ripening results of the strategic investments, TJL's NM Margins improved to 15% in 4QFY16 (14% in 4QFY15 and 12% in 3QFY16) while for FY16 it was registered at 12% opposed to 10% the previous year.

	FY16	FY15	YoY
Revenue	17,830	13,678	30% ↑
Gross Profit	3,011	1,621	86% ↑
EBIT	2,172	1,304	67% ↑
Net Profit	2,172	1,332	63% ↑

Price-Volume Chart



Source: CSE



Future Outlook

Turnaround the consolidated entity in FY17E: TJL together with the two entities acquired during FY16 would successfully continue the turnaround process of the combined entity in FY17 enabling to meet the increased demand deriving from Europe with the possible regaining of GSP+ benefit. Further, TJL would have a greater presence in the value change allowing the company to manage cost more efficiently along with enjoying the benefits of economies of scale.

FY17E Earnings to improve marginally: Despite the c.17%YoY growth in FY17E in the topline TJL's earnings for the period is expected to decline marginally by c.1%YoY. Resultant to the completion of the 15 year tax exemption period with the expiry of the agreement with the BOI in September 2016, TJL's income tax expenses are expected to increase with an income tax of c.LKR 536Mn in FY17E opposed to LKR 47Mn in FY16.

TJL return to be at 17%: FC Research expect a marginal dip of c.1%YoY in TJL's bottom-line for FY17E with earnings of c.LKR 2.15Bn. We expect a fair value of LKR 39.0 [LKR 46.9 DCF based and LKR 30.9 PER based] providing a total return of +17% (capital gain of +12%) at current market price of LKR 34.9. **HOLD**

Income Statement (LKR 'Mn)	FY15	FY16E	FY17E	FY18E	FY19E
Y/E 31st March					
Revenue	13,678	17,830	20,923	22,464	24,101
Cost of sales	(12,057)	(14,818)	(17,201)	(17,738)	(18,372)
Gross Profit	1,621	3,011	3,722	4,726	5,729
Other income	27	85	-	-	-
Selling, Distribution & Admin expenses	(447)	(941)	(1,105)	(1,123)	(1,205)
Operating Profit	1,201	2,154	2,617	3,603	4,524
Non operating income	103	18	-	-	-
EBIT	1,304	2,172	2,617	3,603	4,524
Net finance income	58	47	70	(5)	(15)
PBT	1,362	2,219	2,687	3,598	4,509
Income tax expense	(29)	(47)	(537)	(1,007)	(1,263)
Profit for the year	1,332	2,172	2,149	2,591	3,247

Source: Company Annual Reports and FC Research Estimates

Disclaimer on Shareholding:

First Capital Equities (Pvt) Ltd and any of its affiliates do not hold shares in TJL and will not trade in this share for the seven trading days following the issue of this document.

Balance Sheet (LKR 'Mn)	FY15E	FY16E	FY17E	FY18E	FY19E
As at 31st March					
ASSETS					
Non-current assets					
Property, plant and equipment	3,273	6,059	5,720	5,421	5,151
Intangible assets & Goodwill	52	124	453	412	375
Other Assets	91	257	257	257	257
	3,416	6,440	6,430	6,090	5,782
Current assets					
Inventories	1,961	2,624	3,045	3,159	3,272
Trade and other receivables	1,454	2,745	3,221	3,385	3,632
Cash and cash equivalents	1,915	2,955	3,945	5,496	7,160
	5,330	8,323	10,211	12,040	14,064
Total assets	8,746	14,763	16,641	18,130	19,846
Equity and liabilities					
Capital and reserves					
Stated capital	2,850	3,853	3,853	3,853	3,853
Exchange equalisation reserve	1,240	2,088	2,088	2,088	2,088
Retained earnings	2,925	4,151	5,225	6,521	7,982
Share option scheme	19	41	41	41	41
	7,035	10,133	11,208	12,503	13,964
Non-current liabilities					
Borrowings	-	142	845	1,067	1,013
Deferred tax liabilities	114	150	150	150	150
Retirement benefit obligations	132	190	190	190	190
	246	481	1,185	1,407	1,353
Current liabilities					
Trade and other payables	1,442	3,342	3,879	3,645	3,775
Borrowings	23	807	100	120	150
	1,465	4,148	3,979	3,765	3,925
Total liabilities	1,711	4,629	5,164	5,172	5,278
Total equity and liabilities	8,746	14,762	16,641	18,130	19,846

Source: Company Annual Reports and FC Research Estimates



Valuation

Expected TJL Price for FY17E		Return	
DCF Valuations based Target Price	46.9	Target Price	39.0
PER based Target Price	30.9	Current Price	34.7
Average Target Price	38.9	Capital Gain (LKR)	4.3
Target Price (Rounded Up)	39.0	Dividend FY17E (LKR)	1.5
		Capital Gain %	12%
		Dividend Yield %	4%
		Total Return %	17%

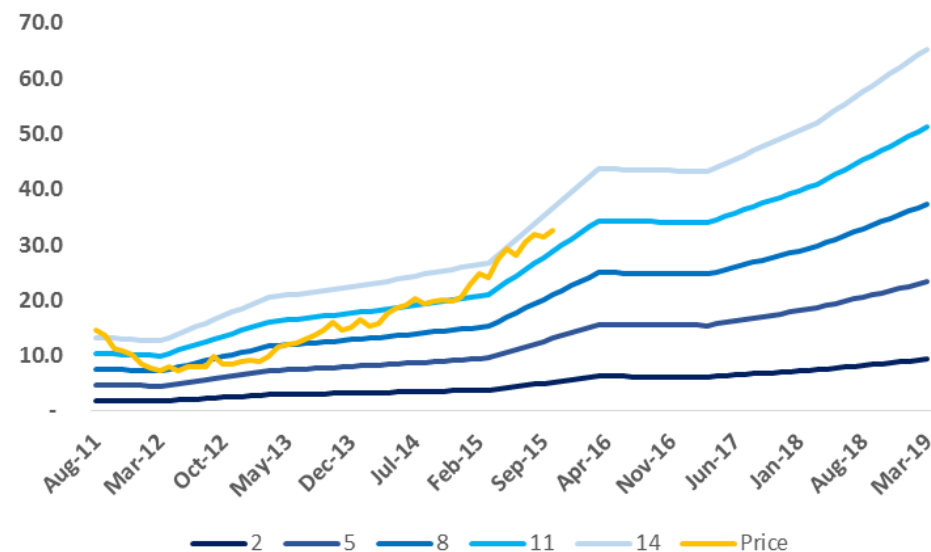
Discounted Cash flow Valuation

COE (K_e)		WACC	
R_f	10%	K_e	19%
R_m	17%	K_d	12%
β	1.27	D/E Assumption	40 / 60
$K_e = R_f + \beta (R_m - R_f)$	19%	Terminal Growth	3%
		WACC	16%

Valuations	FY17E
Enterprise Value	29,556
Debt (-)	-845.32
Cash (+)	3,945
Total Value of Equity	32,656
No. of Shares	696
Value of Equity p	46.92

		WACC				
		14%	15%	16%	17%	18%
Terminal Growth (%)	1%	48	45	43	40	38
	2%	51	48	45	42	40
	3%	54	50	47	44	42
	4%	58	53	50	46	43
	5%	63	57	53	49	46

PE Band Graph



PER based Valuation	
FY17E Earnings (LKR 'Mn)	2,149
No. of Shares ('Mn)	696
FY17E EPS	3.09
Expected Average PER	10.00
Price at 10.0x FY17E Earnings	30.88

Recommendation Criteria

Categorisation	Company Category	Strong Buy	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 10% & Above	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 13% & Above	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 16% & Above	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

*1 Year T Bill rate as of 18-05-2016 - 10.48%

