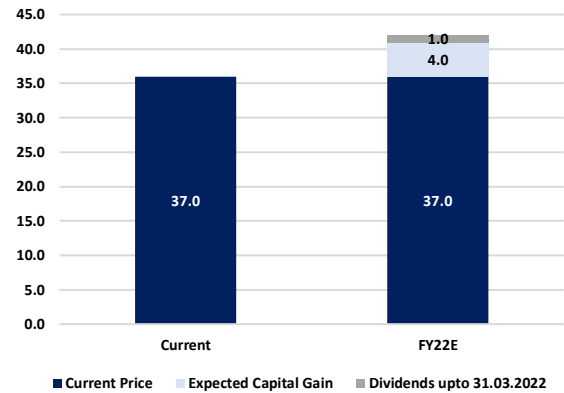


**TEEJAY LANKA PLC [TJL.N0000]****MAINTAIN HOLD****HURT BY COVID, BUT BUSINESS ON RIGHT COURSE...****Fair Value: FY22E - LKR 41.0 [+11%]**

Total Return with DPS: FY22E - 14% [AER 10%]

TJL recorded earnings of LKR 631Mn (-19%YoY) in 2QFY21, performing better than our expectations and indicating a recovery from the loss of LKR 32Mn posted in 1QFY21. Performance of 2Q was mainly supported by the recovery in revenue, streamlining of operating expenses and increase in net finance income. Although we recommended a BUY for the share with the report released in Nov 2019, we downgraded to HOLD in Jul 2020, amidst the uncertainty for global branded apparel demand arising from the impact of COVID-19 pandemic. However, considering the better than expected recovery in operations in TJL, we upgrade the earnings forecast for FY21E to LKR 1.8Bn, FY22E earnings to LKR 2.3Bn and FY22E TP to LKR 41.0 from previous target price of LKR 35.0. At current market price of LKR 37.0, TJL provides an annualised return of 10% for FY22E. **MAINTAIN HOLD**

**FIRST CAPITAL RESEARCH**

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LKR (Mn)	2QFY20	2QFY21	YoY	6MFY21	6MFY22	YoY
Earnings (LKR 'Mn)						
Revenue	9,317	8,790	-6%	17,442	13,523	-22%
Gross profit	1,339	1,074	-20%	2,305	1,330	-42%
EBIT	937	772	-18%	1,514	787	-48%
PBT	936	782	-16%	1,518	796	-48%
Net Profit	783	631	-19%	1,237	600	-52%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	15,876	14,859	-6%	15,876	14,859	-6%
Borrowings	3,932	3,859	-2%	3,932	3,859	-2%
NAVPS	22.6	21.2		22.6	21.2	

TJL's revenue dropped by 6%YoY still lagging behind compared to the previous year

TJL's revenue declined by 6%YoY to LKR 8.8Bn mainly due the reduction in loading capacity specifically in India although a substantial increase in sales was witnessed by TJL compared to the previous quarter. Recovery in sales was led by the resurgence in retail brands around the world as they began to embrace the new normal. TJL's 6 strategic brands continued to play a significant role in stabilising the orderbook in 2QFY21 while Nike and Uniqlo generated a considerable volume of orders. With the Indian operations recovering as normal and with the return of orders from its key clients we upgrade the revenue to LKR 31.3Bn in FY21E and to LKR 38.8Bn in FY22E.

GP and OP margin records a decline on a YoY basis

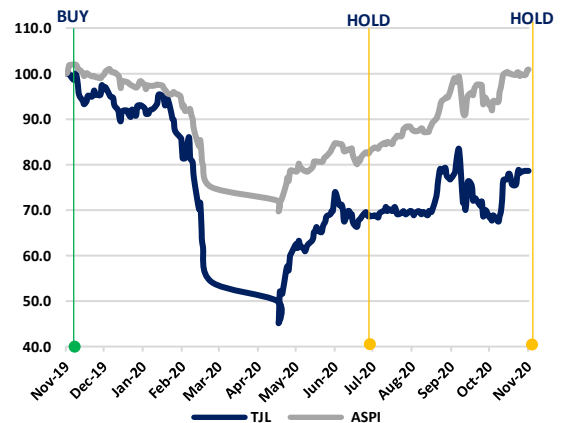
TJL's GP margins declined to 11% relative to 13.7% recorded in 2QFY20 as TJL had to compete for orders, and has been facing growing price pressures as well as raw material price fluctuations as a result of trade disputes within the strategic sourcing models of retailers. Considering the possible pressure on margin we estimate GP margins for FY21E at 11.40% and FY22E at 11.65%.

Admin and distribution expenses decline boosting earnings

Supported by the Operational Excellence initiatives launched throughout the Group, TJL continued to focus on cost control mechanisms resulting in TJL's admin and distribution expenses declining by 23%YoY and 12%YoY respectively.

TP for FY22E upgraded to LKR 41.0

With the better than expected recovery in earnings we upgrade TJL's FY21E and FY22E earnings to LKR 1.8Bn and LKR 2.3Bn while FY22E TP upgraded to LKR 41.0 from the previous TP of LKR 35.0. With an annualised return of 10% for FY22E, we **MAINTAIN HOLD**.

Price Movement of TJL vs ASPI and past Recommendations

Source: CSE

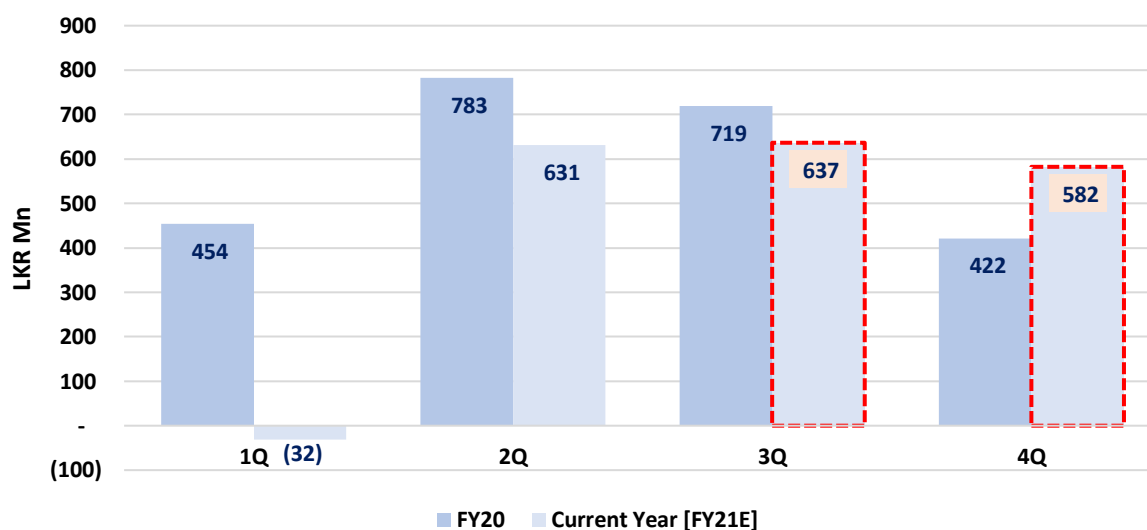
Minimum Return for BUY:

Buy Below for FY22E [AER of 9.9% with DPS]: LKR 35.5
 TJL categorized as 'Grade A' counter

Disclosure on Shareholding:

First Capital Group do not hold shares in TJL and will not trade in this share for three trading days following the issue of this document.

Quarterly Earnings



Estimate Revision

In LKR Mn	FY21E - O	FY21E - R	% Change	FY22E - O	FY22E - R	% Change
Earnings Estimate						
Revenue	26,643	31,380	+18%	30,319	38,837	+28%
Gross profit	2,931	3,577	+22%	3,638	4,525	+24%
EBIT	1,750	2,187	+25%	2,265	2,765	+22%
Profit before tax	1,678	2,115	+26%	2,188	2,688	+23%
Net Profit	1,443	1,819	+26%	1,882	2,312	+23%
EPS	2.06	2.59		2.68	3.29	
Growth YoY	-39%	-23%		30%	27%	
Balance Sheet Estimate						
Shareholders' Equity	17,085	17,461	+2%	17,729	18,252	+3%
Borrowings	4,110	4,110	0%	4,315	4,315	0%
NAVPS	24.3	24.9		25.3	26.0	
Ratio Estimate						
ROE (%)	14.5%	14.4%		10.8%	12.9%	
PER (x)	14.5	14.3		11.2	11.2	
PBV (x)	1.2	1.5		1.2	1.4	

Valuation Table

P/E 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Estimates (LKR 'Mn)							
Revenue	22,138	24,647	31,747	33,304	31,380	38,837	42,721
Gross profit	3,076	2,911	3,686	4,299	3,577	4,525	5,127
EBIT	1,992	1,811	2,345	2,788	2,187	2,765	3,191
Net Profit	1,959	1,596	1,859	2,377	1,819	2,312	2,674
Adjusted EPS (LKR)	2.8	2.3	2.6	3.4	2.6	3.3	3.8
YoY Growth (%)	-10%	-19%	16%	28%	-23%	27%	16%
Valuations							
PER (x)	13.3x	16.3x	14.0x	10.9x	14.3x	11.2x	9.7x
PBV (x)	2.3x	2.2x	1.9x	1.7x	1.5x	1.4x	1.4x
DY (%)	6.1%	4.3%	5.3%	3.5%	0.0%	5.9%	6.7%

Valuation Summary

Expected TJL price for FY22E	
PER Valuation based target price	39.5
DCF Valuation based target price	40.8
Average Target Price	40.1
Target Price after Rounding off	41.0

Return	FY22E
Target Price	41.0
Current Price	37.0
Capital Gain (LKR)	4.0
Dividends upto 31.03.2022 (LKR)	1.0
Capital Gain %	11%
Dividend Yield %	3%
Total Return %	14%
Annualized Return %	10%

DCF based Valuation	
Enterprise Value	26,596
(-) Debt	(4,315)
(+) Cash	6,333
Total Value of Equity	28,614
No. of Shares (Mn)	702
Target Price	40.8

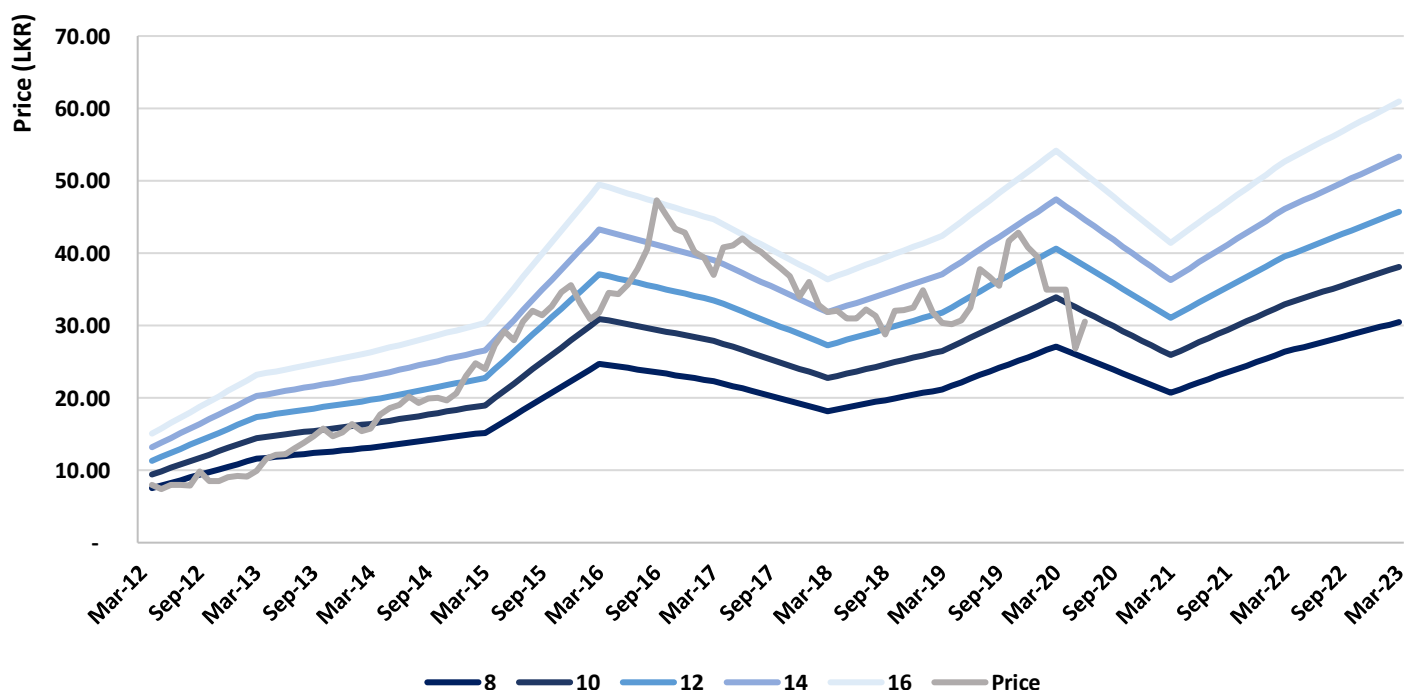
COE	
Rf	4.9%
Rm	16.9%
Growth %	3.0%
β	0.97
$K_e = R_f + \beta(R_m - R_f)$	16.5%

PER Valuation

PER based Valuation	
FY22E Earnings (LKR 'Mn)	2,312
No. of Shares ('Mn)	702
FY22E EPS	3.3
Expected PER	12.0x
Price at 12.0x FY22E Earnings	39.5

WACC	
K_e	16.5%
K_d	8.8%
D/E Assumption	40/60
Terminal Growth (%)	3.0%
WACC	13.5%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
P/E 31st March							
Revenue	22,138	24,647	31,747	33,304	31,380	38,837	42,721
Cost of sales	-19,062	-21,736	-28,061	-29,005	-27,803	-34,313	-37,595
Gross profit	3,076	2,911	3,686	4,299	3,577	4,525	5,127
Other income	195	238	246	189	179	221	244
Selling, Distribution & Admin expenses	-1,278	-1,338	-1,587	-1,699	-1,569	-1,981	-2,179
Operating profit	1,992	1,811	2,345	2,788	2,187	2,765	3,191
Non operating income	0	0	0	0	0	0	0
EBIT	1,992	1,811	2,345	2,788	2,187	2,765	3,191
Finance Income	89	106	102	225	20	20	20
Less : Finance Cost	-70	-99	-189	-107	-92	-97	-102
Net finance income	19	7	-88	118	-72	-77	-82
Profit before tax	2,011	1,818	2,257	2,906	2,115	2,688	3,110
Income tax expense	-52	-222	-398	-529	-296	-376	-435
Profit for the Year	1,959	1,596	1,859	2,377	1,819	2,312	2,674
EPS	2.8	2.3	2.6	3.4	2.6	3.3	3.8

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
As at 31st March							
Assets							
Property, plant and equipment	6,961	7,534	8,408	8,777	9,657	10,245	10,456
Capital work-in-progress	338	445	119	410	410	410	410
Intangible Assets	66	54	94	78	50	32	21
Deferred tax assets	242	125	111	122	122	122	122
Inventories	2,878	4,091	4,494	5,925	7,738	6,171	6,789
Trade and other receivables	3,370	3,494	4,013	4,061	7,738	4,841	5,326
Cash and cash equivalents	1,494	2,743	4,290	5,263	1,802	6,333	6,732
Other Assets	1,531	1,078	856	1,727	1,727	1,727	1,727
Total Assets	16,879	19,565	22,386	26,363	29,243	29,881	31,582
Liabilities							
Trade and other payables	3,044	4,487	4,703	5,228	6,094	5,734	6,283
Borrowings	2,086	2,836	2,968	3,914	4,110	4,315	4,531
Tax liability	364	333	538	678	678	678	678
Retirement benefit obligations	208	208	252	378	378	378	378
Other				523	523	523	523
Total Liabilities	5,702	7,864	8,461	10,721	11,783	11,629	12,393
Shareholders Funds							
Stated capital	3,943	4,057	4,057	4,057	4,057	4,057	4,057
Exchange equalisation reserve	2,446	2,587	4,172	5,261	5,261	5,261	5,261
Retained earnings	4,725	4,972	5,600	6,227	8,046	8,838	9,774
Share option scheme	64	86	97	97	97	97	97
Shareholders Funds	11,177	11,701	13,925	15,642	17,461	18,252	19,188
Total Liabilities & Shareholders' Funds	16,879	19,565	22,386	26,363	29,243	29,881	31,582
NAVPS	15.9	16.7	19.8	22.3	24.9	26.0	27.3



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