

**HAYCARB PLC [HAYC.N0000]****“THE BLACK DIAMOND”****VALUATION NOTE****Fair Value [FY22E]: LKR 130.0 [Range of LKR 120.0-140.0]****Unaffected demand despite the disruptions to global supply**

The COVID-19 outbreak has negatively impacted the supply of global activated carbon market due to its adverse effect on production and capacity utilizations. However, demand was not affected to a great extent for activated carbon due to its application for essential natured industries such as water purification and air purification. HAYC, a leading manufacturer of activated carbon, quickly returned to normalcy within a matter of weeks, allowing the company to capture the market share during the period. HAYC's continuous investments into new product developments and expansion of its value-added products paid off, enabling the company to achieve higher earnings in FY21E.

P/E 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Estimates (LKR 'Mn)							
Revenue	13,554	15,518	20,918	22,823	25,561	30,163	33,782
Gross Profit	3,163	3,094	4,039	5,390	7,157	9,049	9,459
EBIT	1,368	1,090	1,525	2,502	4,601	5,429	5,405
Net Profit	804	672	955	1,559	3,024	3,779	4,232
Adjusted EPS (LKR)	3.2	2.6	3.6	5.9	11.7	14.6	16.4
YoY Growth (%)	18%	-16%	42%	63%	94%	25%	12%
Valuations							
PER (x)	30.9x	37.5x	26.8x	16.4x	8.4x	6.7x	6.0x
PBV (x)	4.3x	3.9x	3.5x	3.1x	2.6x	2.1x	1.8x
DY (%)	0.6%	0.6%	0.8%	1.5%	4.1%	4.5%	4.9%

9MFY21E earnings bolstered on rapid recovery post COVID-19

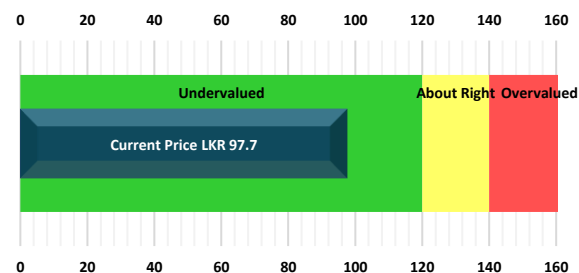
HAYC's 9MFY21 topline boosted by 7%YoY while profitability soared by 120%YoY compared to the previous year attributable to multiple reasons. In a global context, activated carbon sales volumes were unaffected due to the demand for water and air purification industries as a result of its essential nature. Thereby, HAYC's rapid recovery post lockdown enabled them to capture the market share from competitors as some of the countries were unable to supply during 1QFY21 amidst the lock down. In the midst of uncertainty, gold prices surged passed USD2000/Oz creating excessive demand for gold purification. Therefore, due to the unprecedented demand there was a major rise in volumes for HAYC's granular activated carbon used for extraction of gold, boosting prices and margins for the products.

Gradual change in volume mix towards high margin segments

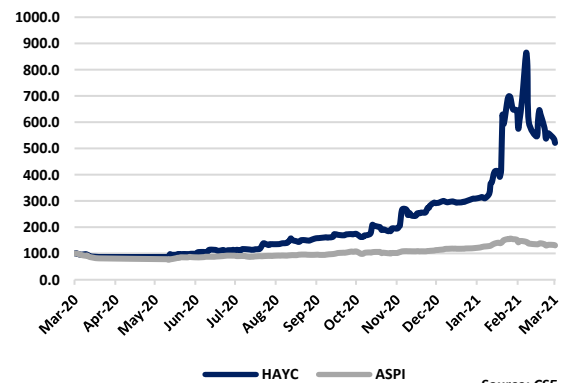
HAYC has over the last three years significantly invested on R&D enhancing its value-added high margin product range which includes the activated carbon used in EDLC (Electric double-layer capacitors), impregnated carbon, pelletised carbon and premium cabin air carbon. With the company increasing volume mix towards the value-added segment HAYC's earnings has grown over the past three years. We expect wider margins to continue amidst HAYC's continuous investment towards the research and development.

FIRST CAPITAL RESEARCH

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	1 mth	3 mths	12mths
HAYC	-19%	78%	414%
ASPI	-14%	16%	31%

Price Movement of HAYC vs ASPI

Source: CSE



Stabilised raw material prices and price adjustments enhanced margins

Certain price increases charged from customers was also made possible as a result of increased transportation cost and increased cost for personal protective equipment due to COVID-19 while during 9MFY21 prices of raw materials used in manufacturing activated carbon, mainly comprised of coconut shells and coconut shell charcoal remained reasonably stable enabling the company to source at competitive prices.

A growth story ahead with the exponential developments in value added product segments

HAYC is one of the largest activated carbon producers in the world owing to a market share of 16%. We believe that HAYC is likely to have a secured demand from water & air purification industry and gold mining. Further, value added segment products which are in high growth segment such as supercapacitors are expected to be led via HAYC's partnerships with Tesla, who is one of the pioneers in global electric vehicle manufacturing. Expansion into supercapacitors can boost the company's bottom line as it is considered to be one of the high margin products. Growing global demand for electric vehicles and high activated carbon requirement for the production of supercapacitors is likely to be a key revenue driver for HAYC. Further, Tesla's production expansion is expected to be a material benefit for HAYC, being one of the two suppliers of activated carbon for Tesla.

Undervalued at current price levels

In FY21E, we expect HAYC to record a profit of LKR 3.0Bn (94%YoY) while FY22E net profit is expected to record at LKR 3.8Bn (25%YoY). We estimate the growth adjusted Fair value under a new normal for **FY22E** to be at **LKR 130.0** [range of LKR 120.0-140.0] and considering the dip in the current market price to LKR 97.7, we believe that stock is currently undervalued.

Valuation Summary

Expected HAYC price for FY22E	
DCF Valuation based target price	137.2
PER Valuation based target price	127.2
Average Target Price	132.2
Target Price after Rounding off	130.0

Return	FY22E
Target Price	130.0
Current Price	97.7
Capital Gain (LKR)	32.3
Dividends upto 31.03.2022 (LKR)	6.1
Capital Gain %	33%
Dividend Yield %	6%
Total Return %	39%
Annualized Return %	37%

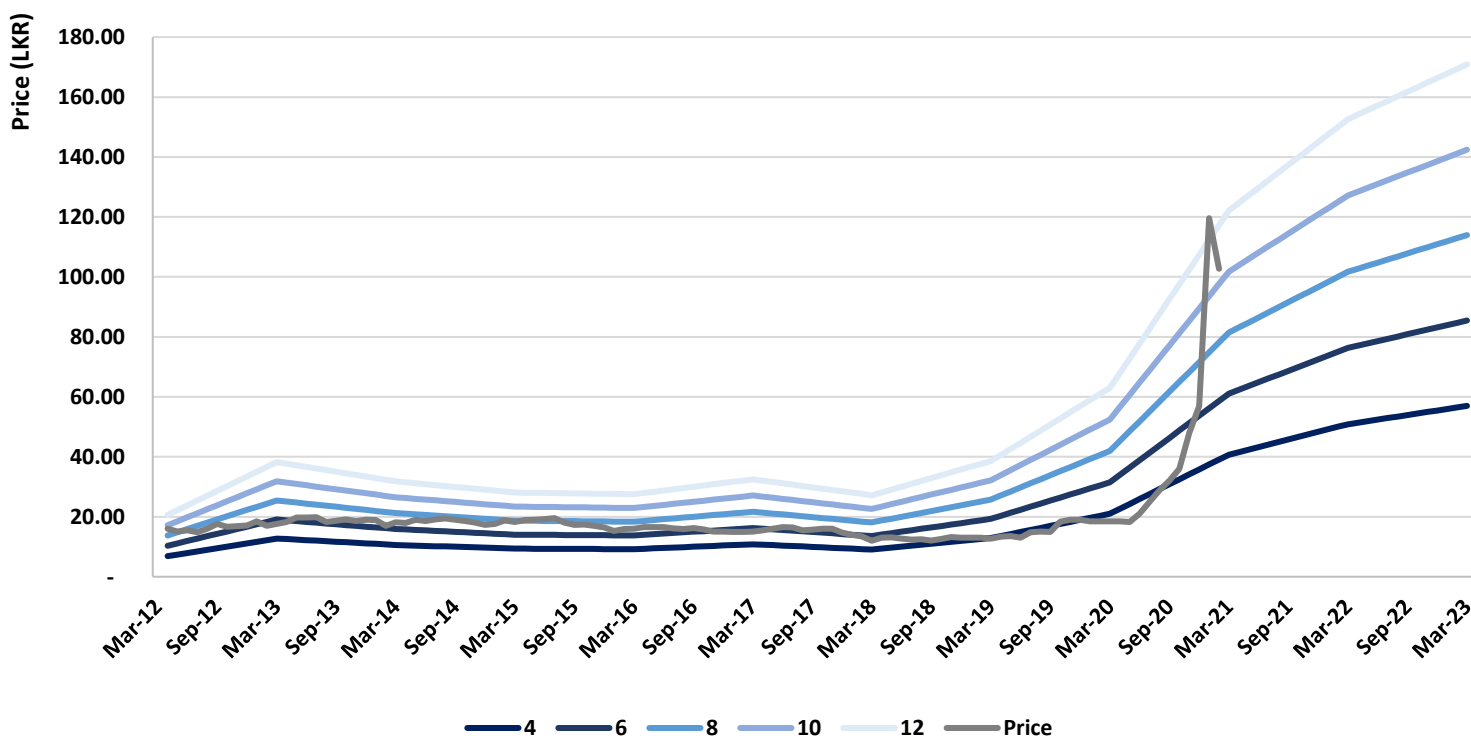
DCF based Valuation	FY22
Enterprise Value	41,455
(-) Debt	2,922
(+) Cash	2,224
Total Value of Equity	40,757
No. of shares	297
Target Price	137.2

COE	
Rf	7.0%
Rm	15.0%
Growth %	3.0%
β	2.10
Ke = Rf + β(Rm-Rf)	23.8%

PER based Valuation	
FY22E Earnings (LKR 'Mn)	3,778.8
No. of Shares ('Mn)	297.1
FY22E EPS	12.7
Expected PER	10.0
Price at 10.0x FY22E Earnings	127.2

WACC	
Ke	23.8%
Kd	5.1%
D/E Assumption	40/60
Terminal Growth (%)	3.0%
WACC	16.0%

PER Chart





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