



FABRIC MANUFACTURING SECTOR

EQUITY STRATEGY

Teejay Lanka PLC (TJL) and Hayleys Fabrics PLC (MGT)

Both counters outperform in terms of the operations

MGT and TJL both recorded remarkable earnings growth rates in FY21 and has invested significantly on the capacity expansions. Going forward, TJL's daily capacity is expected to increase from 75MT to 95MT by outsourcing capacity within Sri Lanka as well as by investing USD 26.0Mn to expand capacity in the Indian plant by the end of FY22E. TJL is also exploring potential new opportunities in Bangladesh and Africa. All these expansion plans follow TJL's goal of achieving a revenue of USD 300.0Mn by FY23E. MGT acquired the South Asia Textiles Limited (SAT) in Apr 2021 while bringing the total capacity to 58MT per day. Since both counters are mainly engaged in manufacturing and export of fabrics, depreciation of LKR is expected to aid in topline growth.

TJL has more upside while MGT is believed to be reasonably valued

Based on the available public information, we believe that growth potential of MGT post acquisition of SAT has been already reflected in the current share price. However, TJL has been underperforming in terms of the share price compared to MGT. With the gradual shift into synthetic products coupled with the full order book and consistent performance in the recent past, we believe that TJL has potential upside of 29% compared to the current share price with a fair value of LKR 56.0 estimated for FY23E. **MAINTAIN BUY FOR TJL AND BOOK PROFITS AND DISCONTINUE COVERAGE FOR MGT**

As at FY22E	TJL	MGT
Capacity	Current 75MT capacity will be enhanced by 20MT expansion in India	Following the SAT acquisition capacity will be enhanced to 58 MT
GP Margins	10.5%	14.2%
Gearing Ratio	18%	150%
EPS	4.0	2.9
Net Asset per share	26.4	12.6
PE Ratio	11.0x	12.2x
PBV Ratio	1.6x	2.9x
Div Yield	6.0%	1.4%
Fair value for FY23E (LKR)	56.0	35.0
Current Price (LKR)	43.4	36.0
Potential Upside for FY23E	29%	-3%

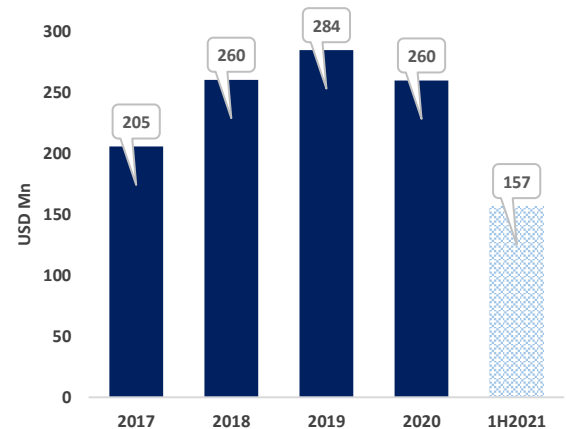
FIRST CAPITAL RESEARCH

Hiruni Perera

hiruni@firstcapital.lk

+94 11 263 9864

Textiles exports from Sri Lanka grew by 47.8% in 1H2021 relative to 1H2020



Source: CBSL

RISK

We expect ongoing waves of pandemic to pose a risk on the operations of both TJL and MGT while rise in yarn prices and crude oil prices (since oil prices and synthetic yarn have a positive correlation) can impact margins and the profitability of both counters.

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of TJL and MGT during the five trading days prior to the issuance of this document.



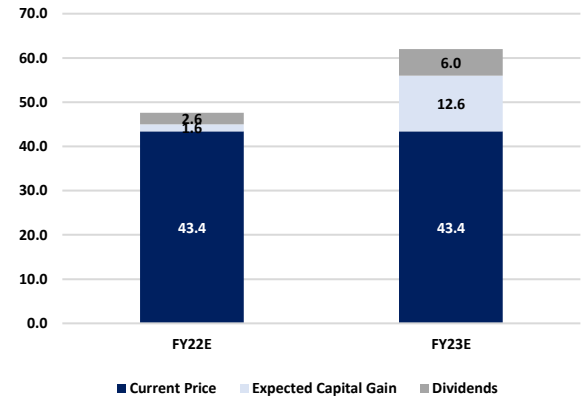
TEEJAY LANKA PLC [TJL.N0000]

MAINTAIN BUY

STRONG ORDER BOOK TO BOLSTER SUPPRESSED MARGINS...

Fair Value: FY22E - LKR 45.0 [+4%] FY23E - LKR 56.0 [+29%]
Total Return with DPS: FY22E - 10% [AER 18%] FY23E - 43% [AER 26%]

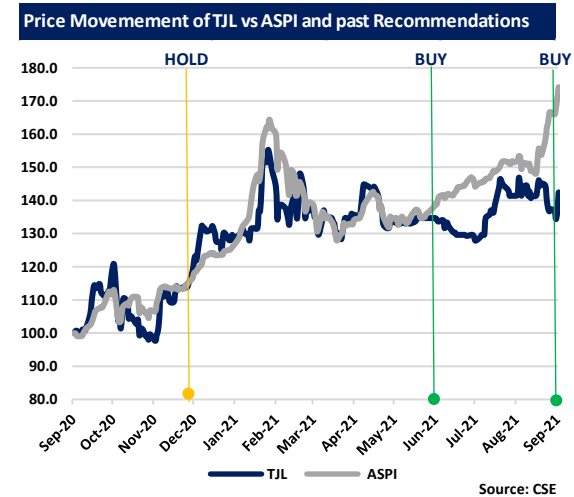
TJL recorded earnings of LKR 311.0Mn (+1,086%YoY) in 1QFY22, performing marginally lower than our expectations while earnings of 1QFY22 was mainly driven by the rise in revenue by 119%YoY to LKR 10.4Bn and increase in GP margins by 199bps to 7.4%. However, margins recorded a decline on a QoQ basis attributable to multiple factors. In our previous report published on 29th Jun 2021, we upgraded the share to BUY considering the strong order book and the upcoming capacity expansions. Since then, the share price gained by 12.7% closing at LKR 43.4 on 6th Sep 2021. We broadly maintain the earnings forecast for FY22E at LKR 2.8Bn and FY23E at LKR 3.7Bn while TPs for FY22E and FY23E are also maintained at LKR 45.0 and LKR 56.0 respectively. At current market price of LKR 43.4, TJL provides an annualised return of 18% for FY22E and 26% for FY23E. **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

Hiruni Perera +94 11 263 9864
hiruni@firstcapital.lk

LKR (Mn)	1QFY21	1QFY22	YoY	FY20	FY21	YoY
Earnings (LKR 'Mn)						
Revenue	4,733	10,385	+119%	33,277	31,853	-4%
Gross profit	256	769	+200%	4,229	3,766	-11%
EBIT	15	343	+2158%	2,728	2,487	-9%
PBT	14	385	+2652%	2,812	2,651	-6%
Net Profit	(32)	311	+1086%	2,384	2,139	-10%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	15,321	18,244	+19%	15,649	17,702	+13%
Borrowings	4,166	3,072	-26%	3,914	3,306	-16%
NAVPS	21.5	25.6		22.3	25.0	



TJL's revenue expanded by 119%YoY in 1QFY22 on improvement in volumes, strong order book and LKR depreciation

TJL's revenue grew by 119%YoY to LKR 10.4Bn in comparison to previous year corresponding period which was heavily impacted by the pandemic. Revenue growth was led by the continuous operations of all three plants amidst the pandemic while ensuring minimum impacts to the business by generating additional revenue from outsourced operations in Sri Lanka. Accordingly, outsourced business amounted to 10% of the total revenue. TJL continued to witness a recovery in sales led by the resurgence of retail brands around the world amidst the vaccination rollout. Going forward, TJL's daily capacity is expected to increase from 75MT to 95MT by outsourcing capacity via a plant within Sri Lanka as well as by investing USD 26.0Mn to expand the capacity in the Indian plant by the end of FY22E. TJL is also exploring potential new opportunities in Bangladesh and Africa. All these expansion plans follow TJL's goal of achieving a revenue of USD 300.0Mn by FY23E. Moreover, First Capital Research expects a significant depreciation for 2021E for LKR expecting it to hover in the range of LKR 218.0-224.0 against USD providing a considerable gain for TJL where significant portion of revenue is generated in foreign currency. Considering the strong order book, expansions in pipeline and better than expected depreciation of the currency, we have upgraded TJL's revenue to LKR 53.0Bn (66%YoY) in FY22E and to LKR 66.2Bn (25%YoY) in FY23E.

GP and OP margins improved on a YoY basis however declined on a QoQ basis

TJL's GP margin improved to 7.4% in 1QFY22 relative to a depressed quarter in FY21, however declined relative to 4QFY21 due to the rise in yarn prices and outsourced volumes. We expect the impact of rising cotton prices to impact GP margins in 1HFY22 as well and then to stabilize during the latter half of the year. However, increased focus towards the high margin synthetic fabric by TJL and increased capacity utilisation in plants is expected to cushion the margins to a certain extent. Accordingly, on a conservative note, we have revised downwards our GP margins to 10.5% for FY22E and expected to gradually improve to 11.0% in FY23E amidst expansions and stabilised cotton prices. However, amidst the robust topline growth led by strong order book and rupee depreciation earnings were broadly maintained at same levels.

TP for FY22E maintained at LKR 45.0 and FY23E at LKR 56.0

Considering the strong order book and the upcoming capacity expansions, we maintain TJL's earnings for FY22E and FY23E at LKR 2.8Bn and LKR 3.7Bn while TPs for FY22E and FY23E are also maintained at LKR 45.0 and LKR 56.0 respectively. **MAINTAIN BUY**

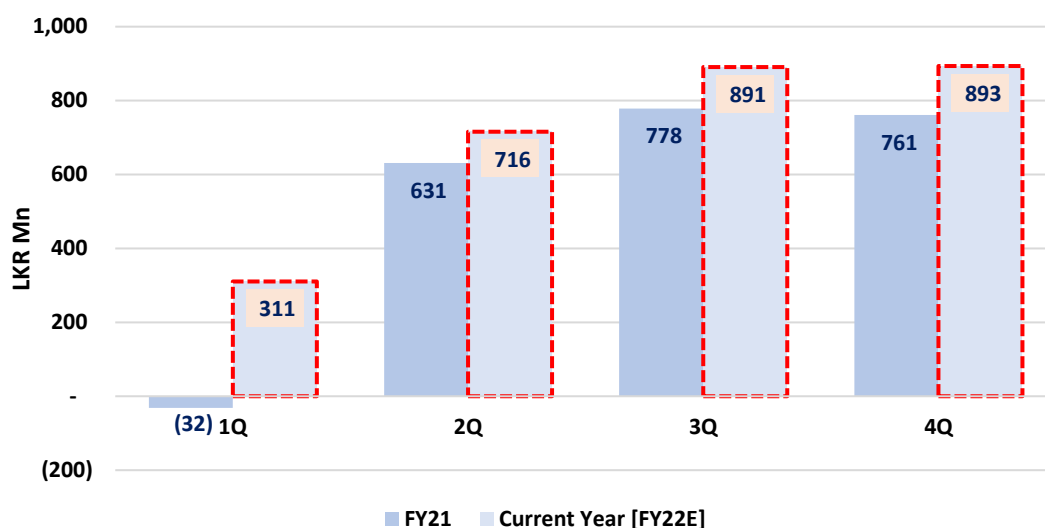
Minimum Return for BUY:

Buy Below for FY22E [AER of 12.1% with DPS]: LKR 44.6
 TJL.N categorized as 'Grade A' 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.

Quarterly Earnings



In LKR Mn	FY22E - O	FY22E - R	% Change	FY23E - O	FY23E - R	% Change
Earnings Estimate						
Revenue	43,493	53,019	+22%	54,132	66,161	+22%
Gross profit	5,437	5,567	+2%	6,929	7,278	+5%
EBIT	3,423	3,324	-3%	4,423	4,479	+1%
Profit before tax	3,365	3,411	+1%	4,361	4,525	+4%
Net Profit	2,894	2,810	-3%	3,751	3,729	-1%
EPS	4.08	3.96		5.29	5.26	
Growth YoY	35%	31%		30%	33%	
Balance Sheet Estimate						
Shareholders' Equity	18,694	18,727	+0%	20,006	20,032	+0%
Borrowings	3,461	3,461	0%	3,625	3,625	0%
NAVPS	26.4	26.4		28.2	28.2	
Ratio Estimate						
ROE (%)	15.9%	15.4%		19.4%	19.2%	
PER (x)	9.4	11.0		7.3	8.3	
PBV (x)	1.5	1.6		1.4	1.5	

Valuation Table

P/E 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Estimates (LKR 'Mn)							
Revenue	24,647	31,747	33,277	31,853	53,019	66,161	82,567
Gross profit	2,911	3,686	4,229	3,766	5,567	7,278	9,330
EBIT	1,811	2,345	2,728	2,487	3,324	4,479	5,837
Net Profit	1,596	1,859	2,384	2,139	2,810	3,729	4,843
Adjusted EPS (LKR)	2.3	2.6	3.4	3.0	4.0	5.3	6.8
YoY Growth (%)	-19%	16%	28%	-10%	31%	33%	30%
Valuations							
PER (x)	19.3x	16.6x	12.9x	14.4x	11.0x	8.3x	6.4x
PBV (x)	2.6x	2.2x	2.0x	1.7x	1.6x	1.5x	1.4x
DY (%)	3.7%	4.5%	3.0%	6.5%	6.0%	7.9%	10.1%

Valuation Summary

Expected TJL price	FY22E	FY23E
PER Valuation based target price	43.6	57.8
DCF Valuation based target price	48.1	53.6
Average Target Price	45.8	55.7
Target Price after Rounding off	45.0	56.0

Return	FY22E	FY23E
Target Price	45.0	56.0
Current Price	43.4	43.4
Capital Gain (LKR)	1.6	12.6
Dividends upto 31.03.2022 and 31.03.2023	2.6	6.0
Capital Gain %	4%	29%
Dividend Yield %	6%	14%
Total Return %	10%	43%
Annualized Return %	18%	26%

DCF based Valuation	FY22E	FY23E
Enterprise Value	36,903	41,477
(-) Debt	(3,461)	(3,625)
(+) Cash	685	156
Total Value of Equity	34,127	38,008
No. of Shares (Mn)	709	709
Target Price	48.1	53.6

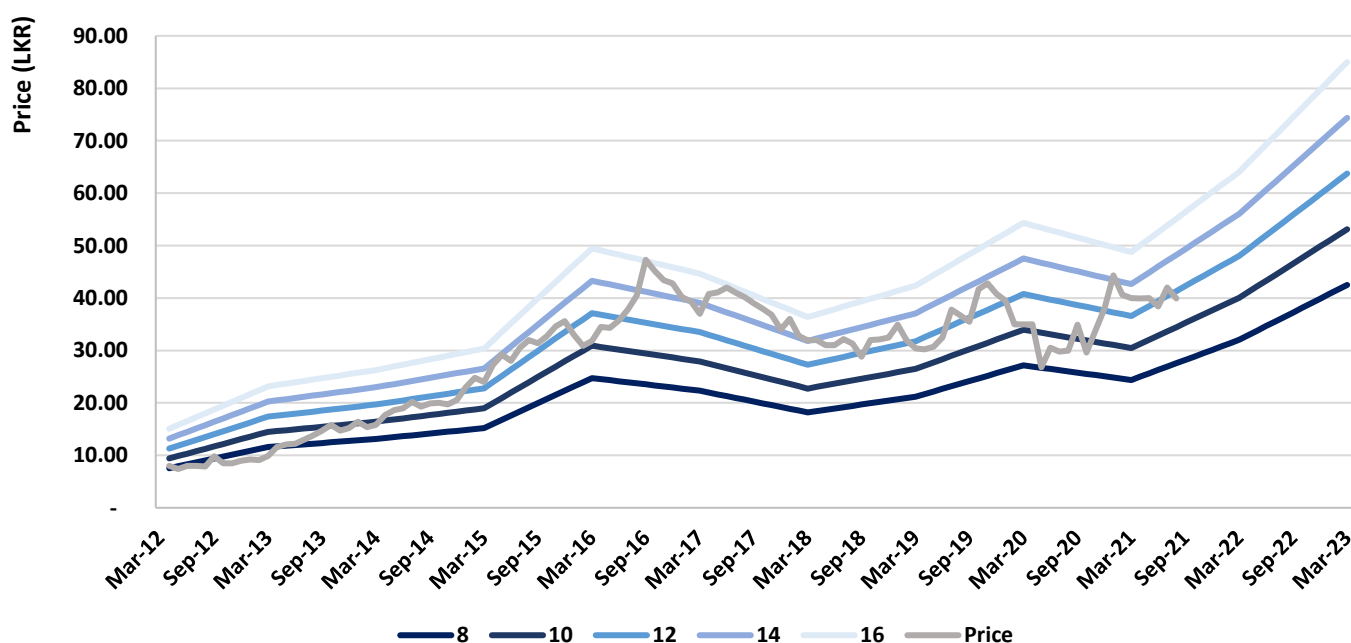
COE	FY22E	FY23E
Rf	7.0%	8.0%
Rm	15.0%	16.0%
Growth %	3.0%	3.0%
β	1.00	1.00
$Ke = Rf + \beta(Rm - Rf)$	15.0%	16.0%

PER Valuation

PER based Valuation	FY22E	FY23E
Earnings (LKR 'Mn)	2,810	3,729
No. of Shares ('Mn)	709	709
EPS	4.0	5.3
Expected PER	11.0x	11.0x
Price at 11.0x Earnings	43.6	57.8

WACC	FY22E	FY23E
Ke	15.0%	16.0%
Kd	8.8%	8.8%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3.0%	3.0%
WACC	12.5%	13.1%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
P/E 31st March							
Revenue	24,647	31,747	33,277	31,853	53,019	66,161	82,567
Cost of sales	-21,736	-28,061	-29,048	-28,087	-47,452	-58,884	-73,237
Gross profit	2,911	3,686	4,229	3,766	5,567	7,278	9,330
Other income	238	246	173	190	302	377	471
Selling, Distribution & Admin expenses	-1,338	-1,587	-1,673	-1,469	-2,545	-3,176	-3,963
Operating profit	1,811	2,345	2,728	2,487	3,324	4,479	5,837
Non operating income	0	0	0	0	0	0	0
EBIT	1,811	2,345	2,728	2,487	3,324	4,479	5,837
Finance Income	106	102	244	276	252	252	252
Less : Finance Cost	-99	-189	-160	-113	-165	-206	-212
Net finance income	7	-88	84	163	87	46	40
Profit before tax	1,818	2,257	2,812	2,651	3,411	4,525	5,878
Income tax expense	-222	-398	-428	-512	-600	-796	-1,034
Profit for the Year	1,596	1,859	2,384	2,139	2,810	3,729	4,843
EPS	2.3	2.6	3.4	3.0	4.0	5.3	6.8

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
As at 31st March							
Assets							
Property, plant and equipment	7,534	8,408	8,777	8,711	12,416	12,498	12,677
Capital work-in-progress	445	119	590	425	410	410	410
Intangible Assets	54	94	78	125	68	37	20
Deferred tax assets	125	111	256	273	273	273	273
Inventories	4,091	4,494	5,904	7,281	8,425	10,513	12,442
Trade and other receivables	3,494	4,013	4,137	7,181	7,263	9,063	10,179
Cash and cash equivalents	2,743	4,290	5,263	4,452	685	156	1,307
Other Assets	1,078	856	1,958	2,651	2,651	2,651	2,651
Total Assets	19,565	22,386	26,962	31,099	32,191	35,601	39,959
Shareholders Funds							
Stated capital	4,057	4,057	4,057	4,249	4,249	4,249	4,249
Exchange equalisation reserve	2,587	4,172	5,263	6,225	6,225	6,225	6,225
Retained earnings	4,972	5,600	6,232	7,137	8,099	9,404	11,153
Share option scheme	86	97	97	153	153	153	153
Shareholders Funds	11,701	13,925	15,649	17,764	18,727	20,032	21,780
Liabilities							
Trade and other payables	4,487	4,703	5,643	8,087	8,060	10,002	12,440
Borrowings	2,836	2,968	3,914	3,306	3,461	3,625	3,796
Tax liability	333	538	739	753	753	753	753
Retirement benefit obligations	208	252	378	520	520	520	520
Other			628	655	655	655	655
Total Liabilities	7,864	8,461	11,314	13,335	13,464	15,569	18,178
Total Liabilities & Shareholders' Funds	19,565	22,386	26,962	31,099	32,191	35,601	39,959
NAVPS	16.5	19.6	22.1	25.0	26.4	28.2	30.7

**HAYLEYS FABRIC PLC [MGT.N0000]****BOOK PROFITS & DISCONTINUE COVERAGE****“TIME TO BOOK PROFITS!!!”****Fair Value: FY22E - LKR 32.0 [-11%]**

Total Return with DPS: FY22E - 10% [AER -16%]

FY23E - LKR 35.0 [-3%]

FY23E -0% [AER 0%]

Previous Report in Jun 2021 – MAINTAIN HOLD

First Capital Research published an earnings update report on 22nd Feb 2021 downgrading the share to HOLD considering the fact that the counter has significantly outperformed the market and no significant adjustments in earnings were required. Following the acquisition of SAT, we expected a short-term gloomy outlook on MGT assuming profitability will get affected due to possible decline in margins considering the losses incurred by SAT during 1Q-3QFY21 and increase in finance costs in the combined entity. Accordingly, we placed the counter under review and maintained the fair value at previous level pending further details pertaining to the announcement.

MGT FY22E and FY23E TP ESTIMATED AT LKR 32.0 and LKR 35.0 – BOOK PROFITS & DISCONTINUE COVERAGE

Post COVID-19, MGT combined entity's earnings recorded at LKR 298.8Mn for 1QFY22 while the bottom line of the individual company recorded at LKR 182.9Mn (+76.1%YoY) compared to LKR 103.9Mn in 1QFY21. Profit growth of the individual company was mainly driven by the improvement in revenue by 39.2%YoY to LKR 4.2Bn amidst the full order book and reduction in Net Finance cost by 74.7%YoY to LKR 17.6Mn. However, GP margin recorded a decline of 146bps to 13.4% in 1QFY22 compared to 14.9% in 1QFY21 attributed to the upward trend in the cotton prices. GP margin of the combined entity recorded at 14.3% in 1QFY22 higher than the individual company GP margin of 13.4% due to the synergetic effect. Considering the strong order book of MGT and further depreciation in LKR, we expect revenue to grow by 87%YoY in FY22E and 25% by FY23E. GP margin is estimated at 14.2% for FY22E and 15.2% for FY23E amidst the higher capacity utilisation which will negate the rise in cotton prices.

Considering the better-than-expected performance in 1QFY22 and substantial depreciation in LKR benefitting MGT, we have upgraded our earnings targets for FY22E and for FY23E while fair values have been upgraded to LKR 32.0 and LKR 35.0 respectively. We believe that stock price may move further on the back of sentiment; however, growth potential of the company post acquisition has been already reflected in the share price. Accordingly, First Capital Research believes that counter has outperformed and is almost near to our upgraded fair values for FY22E and FY23E.

BOOK PROFITS & DISCONTINUE COVERAGE

P/E 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Estimates (LKR 'Mn)							
Revenue	8,965	11,983	12,225	14,769	27,666	34,583	41,499
Gross Profit	944	1,429	1,585	2,019	3,929	5,257	6,308
EBIT	144	470	450	890	1,812	2,436	2,920
Net Profit	-106	181	231	736	1,221	1,580	1,826
Adjusted EPS (LKR)	-0.3	0.4	0.6	1.8	2.9	3.8	4.4
YoY Growth (%)	-244%	272%	28%	218%	66%	29%	16%
Valuations							
PER (x)	N/A	82.5x	64.6x	20.3x	12.2x	9.5x	8.2x
PBV (x)	5.6x	4.7x	4.2x	3.5x	2.9x	2.3x	1.8x
DY (%)	-	-	1.7%	1.7%	1.4%	1.4%	1.4%

FIRST CAPITAL RESEARCH

Hiruni Perera +94 11 263 9864

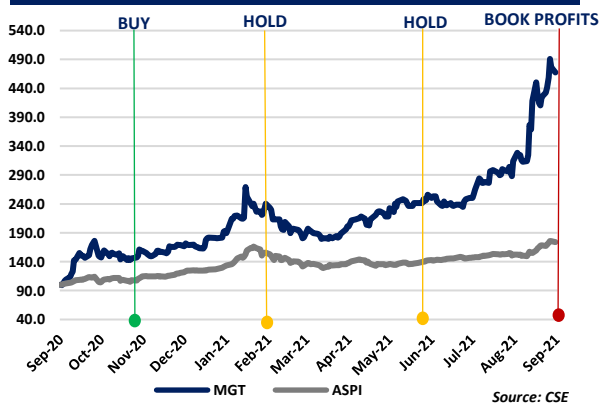
hiruni@firstcapital.lk**KEY DATA**

CSE Ticker	MGT.N0000
Bloomberg Ticker	MGT SL
Share Price (LKR)	36.0
52w High (LKR)	37.8
52w Low (LKR)	7.7
Avg. Daily Volume (Shares)*	2,202,891
Avg. Daily Turnover (LKR)*	54,502,439
Issued Share Capital (Shares 'Mn)	415.5
Market Cap (LKR 'Mn)	14,957
Market Cap (USD 'Mn)	72

*1 USD = LKR 207

*Please note that Average Daily Volume and Average Turnover has not been adjusted for the split.

Price Performance (%)	1 mth	3 mths	12mths
MGT	49%	85%	371%
ASPI	14%	22%	74%

Price Movement of MGT vs ASPI and Past Recommendations

Source: CSE

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of MGT during the five trading days prior to the issuance of this document.



First Capital

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Vidushika Perera	+94 11 2639 864
Atchuthan Srirangan	+94 11 2639 863		
Hiruni Perera	+94 11 2639 864		

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Nethalie De Mel	+94 11 2639 854
-----------------	-----------------

EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
Rasika Indra Kumara	+94 77 7072 698			
Isuru Jayawardena	+94 76 7084 953			
Nishantha Mudalige	+94 70 2910 041			
Ifadh Marikar	+94 77 9625 679			
Anushka Buddhika	+94 71 4310 600			
Thushara Pathiraja	+94 70 2910 037			
Chandika Jayawardana	+94 77 3940 070			

UNIT TRUST SALES

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

BRANCHES

Kandy	Kurunegala	Matara	Negombo
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagaraika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, 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 2233 299

Disclaimer:

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the correctness, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or its principal, their respective Directors, or Employees may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

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.