



# HAYLEYS PLC [HAYL.N0000]

## TRADING BUY

### PRIMED FOR NEXT LEAP...

P/E 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Estimates (LKR 'Mn)</b>							
Revenue	163,249	219,182	210,307	241,276	277,467	305,214	335,735
Gross Profit	35,848	48,975	50,153	61,159	69,367	77,366	83,934
EBIT	11,403	15,989	16,473	25,954	29,847	32,832	36,115
<b>Net Profit</b>	<b>1,024</b>	<b>265</b>	<b>372</b>	<b>7,637</b>	<b>9,375</b>	<b>10,748</b>	<b>12,343</b>
Adjusted EPS (LKR)	1.4	0.4	0.5	10.2	12.5	14.3	16.5
YoY Growth (%)	-63%	-74%	40%	1951%	23%	15%	15%
<b>Valuations</b>							
PER (x)	54.9x	212.0x	151.0x	7.4x	6.0x	5.2x	4.6x
PBV (x)	1.4x	1.4x	1.4x	1.2x	1.1x	0.9x	0.8x
DY (%)	6.7%	6.7%	0.0%	5.3%	6.7%	6.7%	6.7%

#### Depreciation of LKR; a blessing in disguise for HAYL's key export segments

We expect that anticipated depreciation in USD: LKR, to positively impact on earnings of export-oriented companies in FY22E. First Capital Research expect an overall depreciation of c.12% for 2021E for the rupee assuming that LKR would reach LKR 196.0-202.0 by Jun 2021E and LKR 205.0- 215.0 by end 2021E providing a significant gain for HAYL where it is estimated that over c.50% of revenue is in foreign currency. Accordingly, key export segments such as hand protection, purification, logistics and textiles are expected to benefit from the currency depreciation.

#### Hand Protection and Purification segments: A growth story ahead

We believe that HAYC is likely to have a secured demand from water & air purification industry and gold mining. Further, value added products which are in the 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. For the Hand Protection sector led by DIPD, a positive impact is likely to come in the form of pricing where we expect global glove prices to remain at current levels due to the ban of Top Glove, a world's leading rubber gloves manufacturing company, by U.S. We expect this move to favour DIPD enabling to gain a benefit from expanded margins until 2HFY22E. With the short-term surge in prices we expect strong earnings to continue until FY22E.

#### Textiles sector outlook negative for short term; but positive for 3-5-year horizon while Agriculture sector to boost from Govt.'s initiatives

Post-acquisition of SAT, MGT will be the largest fabric manufacturer in SL. Despite the higher revenue amidst the currency depreciation, profitability in the short term is likely to get affected due to integration issues and increase in finance costs in the combined entity. Nevertheless, profitability is expected to boost from at least FY23E onwards due to the extended capacity and possible cost savings of the combined entity. In the agriculture sector, with the current Govt.'s initiative to boost local agricultural output, we can expect HAYL to post significant growth in this segment.

#### Net Finance Cost to be settled from profits in making

In FY21, HAYL settled nearly LKR 9.0Bn from its debt resulting in 61%YoY reduction in finance cost for 4QFY21. Despite the fact that we expect interest rates to see an upward pressure from 2H2021, HAYL's finance cost can be expected to reduce with the ongoing settlement of borrowings with the boost in profitability. We expect HAYL to settle nearly LKR 10.0Bn-LKR 12.0Bn of its debt per annum resulting in a finance cost saving of nearly LKR 500.0Mn per annum even in the midst of a possible 50bps increase in AWPR during the 2H2021.

#### Under valued at current price levels

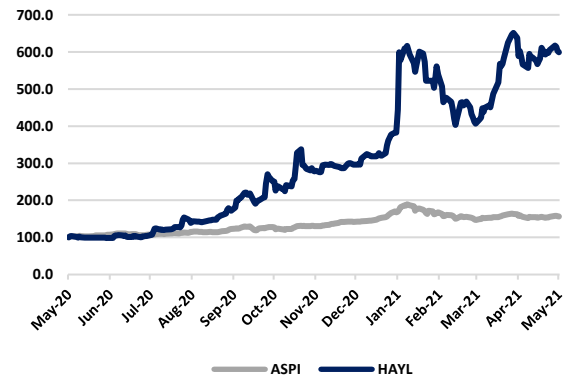
In FY22E, we expect HAYL to record a profit of LKR 9.4Bn (23%YoY) while FY23E net profit is expected to record at LKR 10.7Bn (15%YoY). Moreover, recent stock spilt is expected to provide more value to the share with improved liquidity. At the current price level of LKR 75.0 HAYL is trading at a forward PER of 6.0x and trading at Trailing PER of 7.4x with a hefty discount to the Capital Goods sector PER of 32.0x and market PER of 14.1x. **TRADING BUY**

#### FIRST CAPITAL RESEARCH

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Price Performance (%)	1 mth	3 mths	12mths
HAYL	2%	11%	499%
ASPI	-1%	-6%	57%

#### Price Movement of HAYL vs ASPI



Source: CSE

#### Disclosure on Shareholding:

First Capital Group do not hold shares in HAYL and has not traded in this share for one trading day prior to the issue of this document.



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