



# HAYLEYS FABRIC PLC [MGT.N0000]

**MAINTAIN HOLD**

## “SAT ACQUISITION TO WEIGH ON EARNINGS”

**Fair Value: FY22E - LKR 19.0 [+3%]**

Total Return with DPS: FY21E - 6% [AER 7%]

**FY23E - LKR 21.0 [+14%]**

FY23E - 17% [AER 9%]

MGT's earnings improved by 198%YoY in 4QFY21 to LKR 166.0Mn led by the increase in revenue by 66%YoY to LKR 3.7Bn and improvement in GP margins by 818bps to 13.3% relative to 4QFY20 in which performance was significantly impacted due to the closure of factories due to COVID-19. In the event update report published on 23<sup>rd</sup> Apr 2021 we expected a short-term gloomy outlook on MGT, as post acquisition profitability is likely to get affected due to possible decline in margins and increase in finance costs in the combined entity. We continue to maintain the same stance, assuming that earnings in FY22E to get impacted due to the rise in finance cost amidst the funding of acquisition and short-term integration issues although a recovery in earnings is expected from FY23E onwards. Accordingly, we have estimated earnings of LKR 682.0Mn (-7%YoY) FY22E and LKR 822.0Mn for FY23E (21%YoY). **MAINTAIN HOLD**

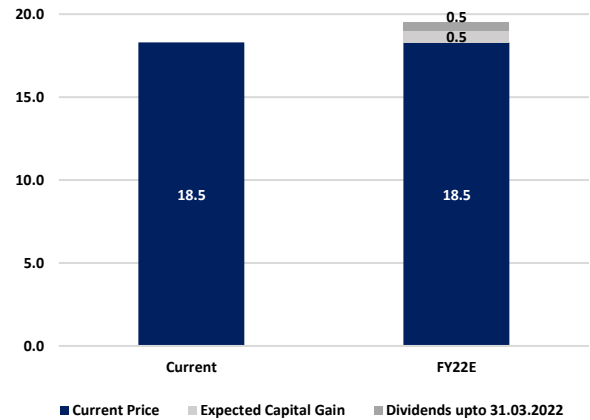
LKR (Mn)	4QFY20	4QFY21	YoY	FY20	FY21	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	2,235	3,719	+66%	12,225	14,769	+21%
Gross profit	114	494	+334%	1,585	2,019	+27%
EBIT	-153	151	+198%	450	890	+98%
PBT	-170	146	+186%	304	731	+140%
Net Profit	-169	166	+198%	231	736	+218%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	3,543	4,226	+19%	3,543	4,226	+19%
Borrowings	3,055	3,323	+9%	3,055	3,323	+9%
NAVPS	8.5	10.2	+20%	8.5	10.2	+20%

### Earnings surged by 198%YoY with the uptick in revenue relative to a loss incurred in the corresponding quarter

MGT's bottom line improved by 198%YoY led by the surge in revenue and margins relative to 4QFY20 which incurred a loss of LKR 169.0Mn due to unexpected impact from COVID-19. Relative to 4QFY20, finance cost also saw a decline by 130%YoY, resulting in a net finance income of LKR 5.0Mn vs finance cost of LKR 16.8Mn in the corresponding period. However, relative to 3QFY21, performance of 4QFY21 remained moderated as revenue as well as margins recorded a decline on a QoQ basis.

### Topline to record a nearly two-fold growth in FY22E with the acquisition of SAT

SAT is capable of producing 25MT/day, predominantly in the cotton fabric segment. We expect the acquisition to satisfy the capacity requirement after certain equipment changes to enable the plant to enter the synthetic fabric segment. With the acquisition, MGT will be the largest fabric manufacturer in SL with a capacity of 57MT/day relative to Ocean Lanka and TJL which is assumed to have a capacity of 40MT/day. Accordingly, we expect MGT to benefit from the boost to its production capacity. Moreover, First Capital Research expect an overall depreciation of c.12% for 2021E for the rupee assuming that LKR would reach 205.0-215.0 by end of the year providing a significant gain for MGT where almost 100% of revenue is generated in foreign currency terms. Accordingly, we expect revenue to record growth of 23% in FY22E with enhanced capacity utilization from SAT while also benefitting from the currency depreciation. Moreover, we expect potential withdrawal of GSP+ to have a lesser bearing as MGT supplies nearly 65% of sales to U.S and in case if country lose the GSP facility, MGT is confident of increasing volumes to other destinations.



### FIRST CAPITAL RESEARCH

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### Price Movement of MGT vs ASPI and Past Recommendations



#### Minimum Return for BUY:

Buy Below for FY22E [AER of 13.1% with DPS]: LKR 17.7  
 MGT categorized as 'Grade B' counter

#### 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.

**Rebound of commodity prices to squeeze margins**

Although we expect currency depreciation to positively impact MGT, rebound of commodity prices including cotton, polyester, yarn and fuel which comprises of significant portion of Cost of Sales can result in squeeze in margins. Moreover, rising oil prices can further affect synthetic yarn which currently accounts for 62% of fabric produced. We also expect initial integration issues to remain a concern as SAT is established in a different location and also due to the fact that SAT is currently incurring losses possibly due to high-cost structure. Accordingly, we expect GP margin to decline by 107bps to 12.6% in FY22E impacting the bottom line of MGT.

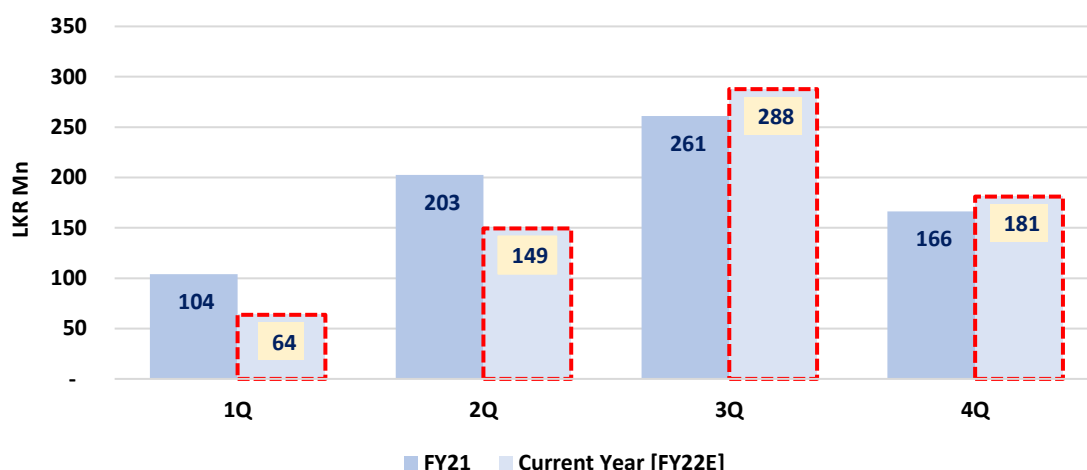
**Finance cost to rise with increased borrowings**

MGT's net assets amount to LKR 4.2Bn (FY21) while SAT Fair Value in GREG's financials amounts to LKR 4.6Bn as at FY20 for 97.67% stake. We have assumed the acquisition (LKR 4.0Bn) would have been fully funded through LKR dominated debt resulting in debt being higher with a debt-to-equity ratio of 1.7x. With the assumption of a 7% interest rate, nearly LKR 280.0Mn will be added to the finance cost only from the SAT acquisition. Accordingly, we expect finance cost to rise up to LKR 549.0Mn and LKR 726.0Mn by FY21E and FY22E respectively, impacting the bottom line.

**Fair Value is estimated at LKR 19.0 for FY22E and LKR 21.0 for FY23E-MAINTAIN HOLD**

We expect a short-term negative impact on MGT with a 7%YoY decline in earnings in FY22E primarily due to possible integration issues with SAT, impact on finance cost amidst the funding of acquisition coupled with other unfavorable external factors. In FY23E earnings are expected to record a growth of 21%YoY to LKR 822.0Mn. Accordingly, in line with above earnings, we estimate MGT's fair value to be at LKR 19.0 for FY22E and LKR 21.0 for FY23E. **MAINTAIN HOLD**

### Quarterly Earnings



### Estimate Revision

In LKR Mn	FY22E - O	FY22E - R	% Change	FY23E - O	FY23E - R	% Change
<b>Earnings Estimate</b>						
Revenue	18,778	27,666	47%	21,032	34,029	+62%
Gross profit	2,347	3,486	49%	2,734	4,492	+64%
EBIT	1,150	1,342	17%	1,340	1,682	+26%
Profit before tax	988	793	-20%	1,199	956	-20%
Net Profit	850	682	-20%	1,031	822	-20%
EPS	2.0	1.6		2.5	2.0	
Growth YoY	24%	-7%		21%	21%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	4,248	4,700	11%	4,863	5,314	9%
Borrowings	2,315	7,846	239%	2,038	8,546	319%
<b>NAVPS</b>	<b>9.2</b>	<b>11.3</b>		<b>11.7</b>	<b>12.8</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>20.0%</b>	<b>14.5%</b>		<b>21.2%</b>	<b>15.5%</b>	
<b>PER (x)</b>	<b>7.6</b>	<b>11.2</b>		<b>6.2</b>	<b>9.2</b>	
<b>PBV (x)</b>	<b>1.7</b>	<b>1.6</b>		<b>1.3</b>	<b>1.4</b>	

Note-Financials in FY22E-O and FY23E-O comprises the financial figures estimated before the SAT acquisition.

### Valuation Table

P/E 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Estimates (LKR 'Mn)</b>							
Revenue	8,965	11,983	12,225	14,769	27,666	34,029	42,196
Gross Profit	944	1,429	1,585	2,019	3,486	4,492	5,696
EBIT	144	470	450	890	1,342	1,682	2,209
<b>Net Profit</b>	<b>-106</b>	<b>181</b>	<b>231</b>	<b>736</b>	<b>682</b>	<b>822</b>	<b>1,101</b>
Adjusted EPS (LKR)	-0.3	0.4	0.6	1.8	1.6	2.0	2.7
YoY Growth (%)	-244%	272%	28%	218%	-7%	21%	34%
<b>Valuations</b>							
PER (x)	N/A	41.9x	32.9x	10.3x	11.2x	9.2x	6.9x
PBV (x)	2.8x	2.4x	2.1x	1.8x	1.6x	1.4x	1.2x
DY (%)	-	-	3.3%	3.3%	2.7%	2.7%	2.7%

### Valuation Summary

Expected MGT price	FY22E	FY23E
DCF Valuation based target price	20.7	20.0
PER Valuation based target price	18.1	21.8
<b>Average Target Price</b>	<b>19.4</b>	<b>20.9</b>
<b>Target Price after Rounding off</b>	<b>19.0</b>	<b>21.0</b>

Return	FY22E	FY23E
Target Price	19.0	21.0
Current Price	18.5	18.5
Capital Gain (LKR)	0.5	2.5
Dividends upto 31.03.2021 (LKR)	0.5	0.5
Capital Gain %	3%	14%
Dividend Yield %	3%	3%
<b>Total Return %</b>	<b>6%</b>	<b>17%</b>
Annualized Return %	7%	9%

### Discounted Cash flow Valuation

DCF based Valuation	FY22E	FY23E
Enterprise Value	16,242	16,399
(-) Debt	7,846	8,546
(+) Cash	205	452
Total Value of Equity	8,601	8,305
No. of shares	415	415
<b>Target Price</b>	<b>20.7</b>	<b>20.0</b>

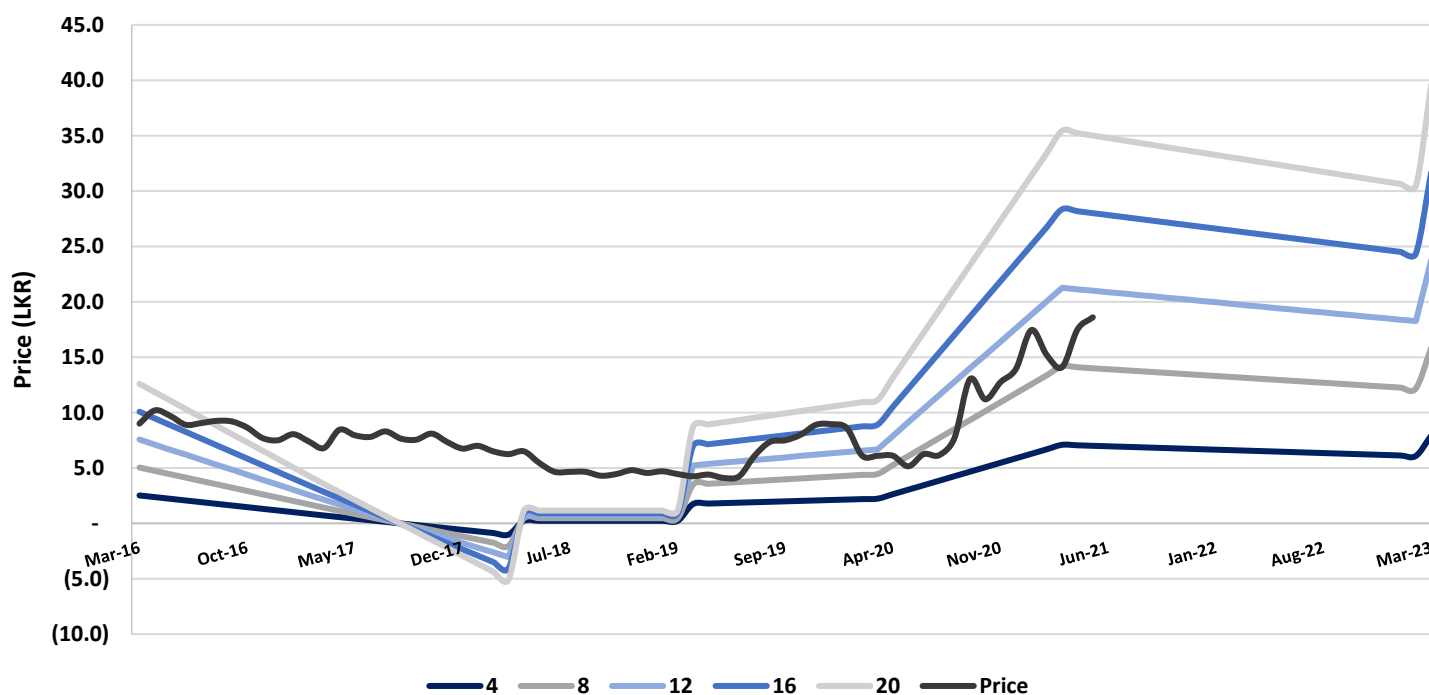
COE	FY22E	FY23E
Rf	7.0%	7.5%
Rm	18.0%	18.5%
Growth %	3.0%	3.0%
$\beta$	1.80	1.80
<b>Ke = Rf + <math>\beta</math>(Rm-Rf)</b>	<b>26.8%</b>	<b>27.3%</b>

### PER Valuation

PER based Valuation	FY22E	FY23E
Earnings (LKR 'Mn)	682	822
No. of Shares ('Mn)	415	415
EPS	1.6	2.0
Expected PER	11x	11x
<b>Price at 11x Earnings</b>	<b>18.1</b>	<b>21.8</b>

WACC	FY22E	FY23E
Ke	26.8%	27.3%
Kd	7%	9%
D/E Assumption	63/37	62/38
Terminal Growth (%)	3.0%	3.0%
<b>WACC</b>	<b>14%</b>	<b>15%</b>

### PER Chart



**Appendix I: Statement of Income and Expenses**

Income Statement (LKR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>P/E 31st March</b>							
Revenue	8,965	11,983	12,225	14,769	27,666	34,029	42,196
Cost of sales	-8,020	-10,554	10,641	12,750	-24,180	-29,537	-36,500
<b>Gross Profit</b>	<b>944</b>	<b>1,429</b>	<b>1,585</b>	<b>2,019</b>	<b>3,486</b>	<b>4,492</b>	<b>5,696</b>
Other operating income	9	11	11	12	14	15	15
Administrative expenses	-734	-819	-915	-960	-1,798	-2,382	-2,954
Distribution expenses	-76	-134	-150	-182	-360	-442	-549
Other expenses	0	-18	-81	0	0	0	0
<b>Operating Income</b>	<b>144</b>	<b>470</b>	<b>450</b>	<b>890</b>	<b>1,342</b>	<b>1,682</b>	<b>2,209</b>
Net financing costs	-151	-153	-146	-159	-549	-726	-929
<b>Profit before tax</b>	<b>-8</b>	<b>317</b>	<b>304</b>	<b>731</b>	<b>793</b>	<b>956</b>	<b>1,280</b>
Income tax expense	-98	-135	-73	6	-111	-134	-179
<b>Profit for the year</b>	<b>-106</b>	<b>181</b>	<b>231</b>	<b>736</b>	<b>682</b>	<b>822</b>	<b>1,101</b>
EPS	-0.3	0.4	0.6	1.8	1.6	2.0	2.7

**Appendix II: Statement of Financial Position**

Balance Sheet (LKR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>As at 31st March</b>							
<b>Non-Current Assets</b>							
Property, plant and equipment	3,940	4,418	4,891	5,799	9,335	9,488	9,629
Intangible assets	24	11	23	15	14	13	12
	<b>3,964</b>	<b>4,430</b>	<b>4,914</b>	<b>5,814</b>	<b>9,349</b>	<b>9,501</b>	<b>9,641</b>
<b>Current Assets</b>							
Inventories	1,815	2,368	2,938	3,346	6,346	7,752	9,579
Trade receivables	1,244	1,494	1,213	1,590	2,978	3,662	4,541
Other receivables	182	133	253	267	267	267	267
Cash and cash equivalents	54	51	103	646	205	452	327
	<b>3,295</b>	<b>4,046</b>	<b>4,507</b>	<b>5,849</b>	<b>9,795</b>	<b>12,133</b>	<b>14,714</b>
<b>Total Assets</b>	<b>7,259</b>	<b>8,475</b>	<b>9,420</b>	<b>11,701</b>	<b>19,183</b>	<b>21,672</b>	<b>24,393</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Stated capital	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Other Reserves	774	1,159	1,300	1,501	1,501	1,501	1,501
Retained earnings	-59	52	275	757	1,231	1,845	2,739
<b>Total Equity</b>	<b>2,683</b>	<b>3,179</b>	<b>3,543</b>	<b>4,226</b>	<b>4,700</b>	<b>5,314</b>	<b>6,207</b>
<b>Non-Current Liabilities</b>							
Interest bearing loans and borrowings	518	188	135	687	5,146	7,246	7,646
Other Liabilities	534	766	944	1,030	1,030	1,030	1,030
	<b>1,052</b>	<b>954</b>	<b>1,079</b>	<b>1,716</b>	<b>6,175</b>	<b>8,275</b>	<b>8,675</b>
<b>Current Liabilities</b>							
Trade and other payables	1,293	1,104	1,429	2,797	5,305	6,480	8,007
Interest bearing loans and borrowings	2,114	2,515	3,094	2,659	2,700	1,300	1,200
Other Liabilities	116	273	275	303	303	303	303
	<b>3,523</b>	<b>3,893</b>	<b>4,798</b>	<b>5,759</b>	<b>8,307</b>	<b>8,083</b>	<b>9,510</b>
<b>Total Liabilities</b>	<b>4,575</b>	<b>4,847</b>	<b>5,877</b>	<b>7,475</b>	<b>14,483</b>	<b>16,358</b>	<b>18,186</b>
<b>Total Equity and Liabilities</b>	<b>7,259</b>	<b>8,475</b>	<b>9,420</b>	<b>11,701</b>	<b>19,183</b>	<b>21,672</b>	<b>24,393</b>
NAVPS	6.5	7.7	8.5	10.2	11.3	12.8	14.9



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