



## HAYLEYS FABRIC PLC [MGT.N0000]

### EVENT UPDATE

## “MGT TO ACQUIRE MAJORITY STAKE IN SOUTH ASIA TEXTILES LIMITED”

#### FIRST CAPITAL RESEARCH

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**Previous report in Feb 2021:** First Capital Research published an earnings update report on 22<sup>nd</sup> Feb 2021 downgrading the share to **HOLD** with a Fair Value of LKR 16.5 (post spilt) considering the fact that the counter has significantly outperformed the market and no significant adjustments in earnings were required.

**Hayleys Fabric PLC (MGT) to acquire South Asia Textiles Limited (SAT):** MGT has entered into an agreement with Ambeon Holdings PLC (GREG) on 22nd Apr to acquire the 4th largest manufacturer in Sri Lanka. Post-acquisition MGT is expected to become the largest fabric manufacturer on SL capacity.

**South Asia Textiles (SAT); fourth largest fabric manufacturer in Sri Lanka:** South Asia Textiles is a BOI certified company operating in Sri Lanka since 2004 and is specialized in producing weft knitted fabric for leading global brands such as L-Brands Victoria Secret PINK, Next, NIKE, Marks & Spencer, Tesco, PVH/Calvin Klein, Columbia Sportswear, Lidl, ASICS, George, Tommy Hilfiger, LEVI's, Helly Hansen, Hanes, Hugo Boss, Decathlon, and Adidas. As the 4<sup>th</sup> largest fabric manufacturer, SAT has the capacity to produce 800MT of fabrics per month. The company was acquired by GREG in 2011/12. The manufacturing facility of SAT is located in Pugoda, across 73 acres of land, which is under a 50-year lease agreement with the BOI, out of which 33 years still remain.

**Funding Options for acquisition:** MGT's net assets amounts to LKR 3.9Bn (3QFY21) while SAT Fair Value in GREG amounts to LKR 4.6Bn as at FY20 for 97.67% stake. For the 1Q-3QFY21, SAT has made a loss of LKR 417Mn compared to a profit of LKR 191Mn in 1Q-3QFY20. We estimate the acquisition to be funded either of three methods.

- Funding through a share swap agreement with Ambeon Holdings PLC.
- Funding through a combination of debt and equity and under this option, it is possible for MGT to borrow a part of the portion as debt and balance through equity as way of a right issue. MGT's gearing is at 0.68x as at 3QFY21.
- Funding the total amount through debt. This will affect the profitability through increased finance costs.

**Outlook negative for short term; but positive for 3–5-year horizon:** We expect a short-term gloomy outlook on MGT post acquisition as profitability is likely to get affected due to possible decline in margins and increase in finance costs in the combined entity. It is also noted that SAT is also under stress at the moment considering the losses incurred by the company during 1Q-3QFY21. Accordingly, we place the counter under review and maintain the Fair Value at previous level of LKR 16.5 pending further details pertaining to the announcement.



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