



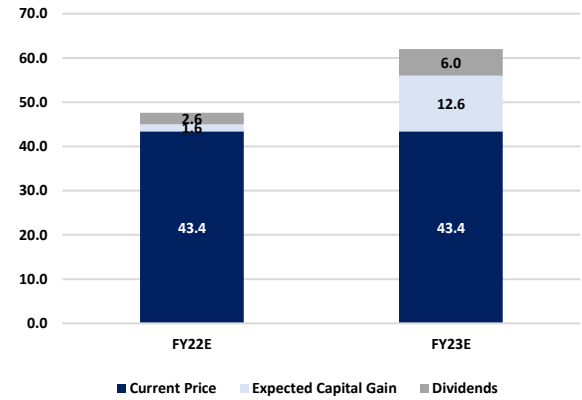
TEEJAY LANKA PLC [TJL.N0000]

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**



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

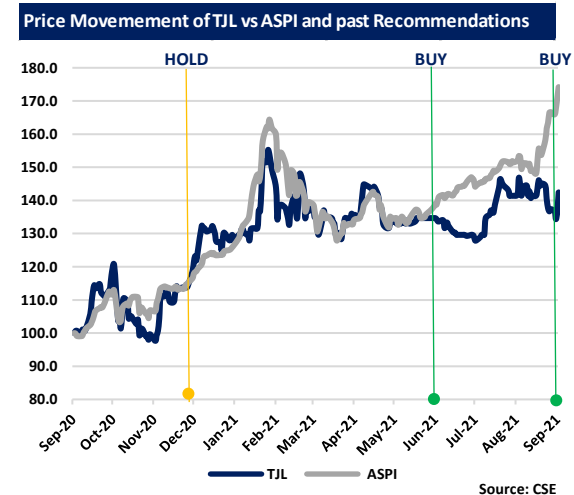
TJL's GP margin improved to 7.4% in 1QFY22 relative to a depressed quarter in FY21, however declined relative to 4QFY21 due to the rise in yarn prices and outsourced volumes. We expect the impact of rising cotton prices to impact GP margins in 1HFY22 as well and then to stabilize during the latter half 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**

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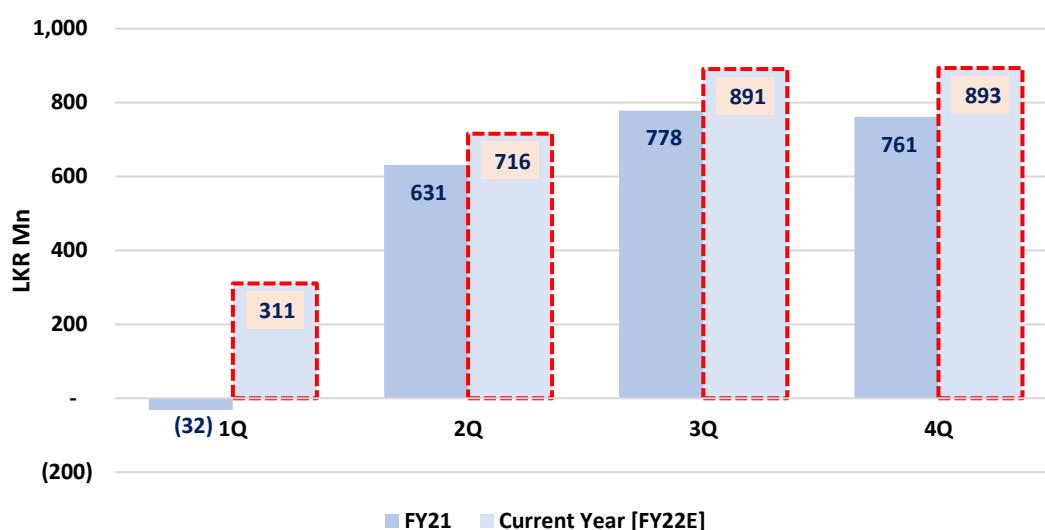
Minimum Return for BUY:

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

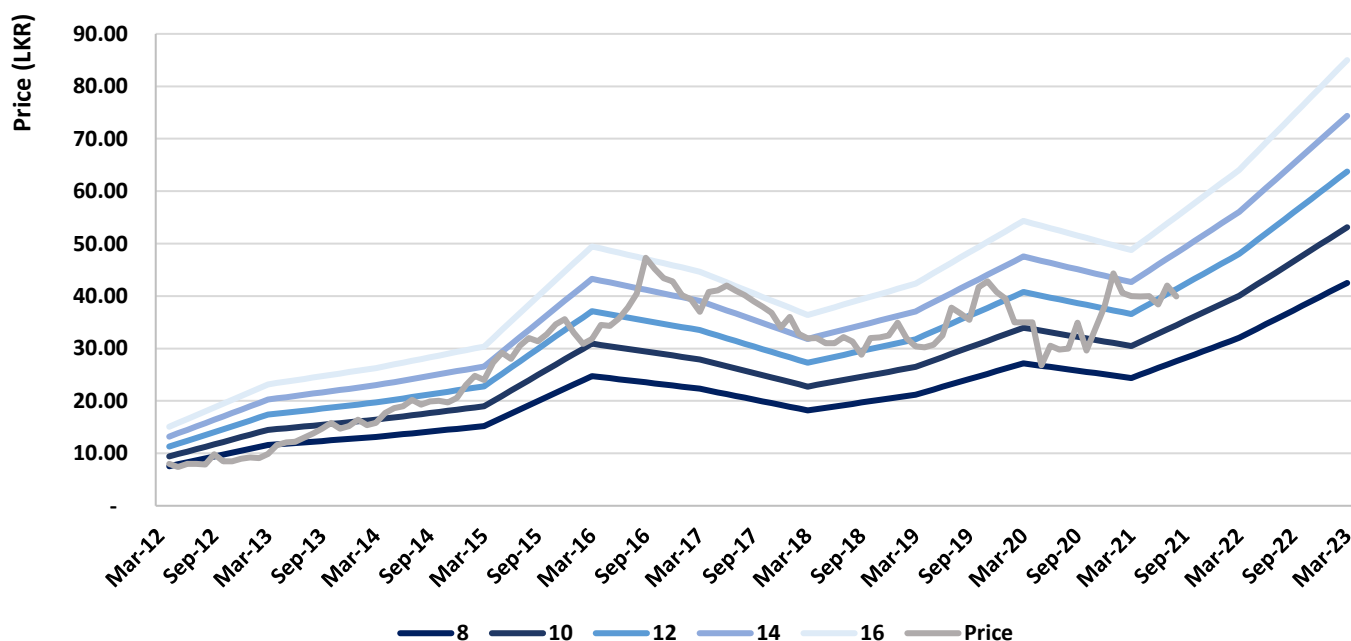
COE	FY22E	FY23E
Rf	7.0%	8.0%
Rm	15.0%	16.0%
Growth %	3.0%	3.0%
β	1.00	1.00
$Ke = Rf + \beta(Rm - Rf)$	15.0%	16.0%

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



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