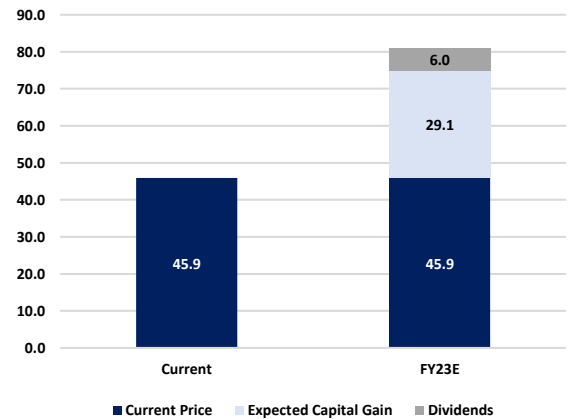


**TEEJAY LANKA PLC [TJL.N0000]****MAINTAIN BUY****STRONG ORDER BOOK TO NEGATE MARGIN HEADWINDS...****Fair Value: FY23E - LKR 75.0 [+63%]**

Total Return with DPS: FY23E - 76% [AER 66%]

TJL registered earnings of LKR 737.5Mn (-5.3%YoY) in 3QFY22, performing lower than our expectations as a result of an increase in commodity prices affecting yarn, energy, freight, dyes, and chemicals. However, topline enhanced by 53.2%YoY to LKR 13.1Bn amidst improved demand from the region and enhanced capacity as the impact of Covid was not as disruptive as the previous year. Considering the continuous rise in price of commodities amidst the macroeconomic uncertainties we downgraded FY22E earnings by 9.3% to LKR 2.5Bn while FY23E earnings were revised down by 7.5% to LKR 4.0Bn. However, we maintain the fair value at LKR 75.0 for FY23E as it captures the growth potential of the company amidst the strong order book and upcoming capacity expansions. Since our corporate update report, which was published in Dec 21, price appreciated gradually reaching all-time high price of LKR 57.9 on 19<sup>th</sup> Jan 22 providing a return of 39.2%. At current market price of LKR 45.9, TJL provides a capital gain of 63.0% for FY23E. **MAINTAIN BUY**

**FIRST CAPITAL RESEARCH**

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| LKR (Mn)                       | 3QFY21 | 3QFY22 | YoY  | 9MFY21 | 9MFY22 | YoY  |
|--------------------------------|--------|--------|------|--------|--------|------|
| <b>Earnings (LKR 'Mn)</b>      |        |        |      |        |        |      |
| Revenue                        | 8,559  | 13,113 | +53% | 22,082 | 36,192 | +64% |
| Gross profit                   | 1,286  | 1,304  | +1%  | 2,616  | 3,216  | +23% |
| EBIT                           | 920    | 849    | -8%  | 1,706  | 1,870  | +10% |
| PBT                            | 952    | 846    | -11% | 1,748  | 1,995  | +14% |
| Net Profit                     | 778    | 738    | -5%  | 1,378  | 1,692  | +23% |
| <b>Balance Sheet (LKR 'Mn)</b> |        |        |      |        |        |      |
| Shareholders' Equity           | 16,946 | 18,986 | +12% | 16,946 | 18,986 | +12% |
| Borrowings                     | 3,477  | 5,652  | +63% | 3,477  | 5,652  | +63% |
| NAVPS                          | 23.9   | 26.5   |      | 23.9   | 26.5   |      |

**TJL's revenue expanded by 53.2%YoY in 3QFY22 on improvement in volumes, strong order book and LKR depreciation**

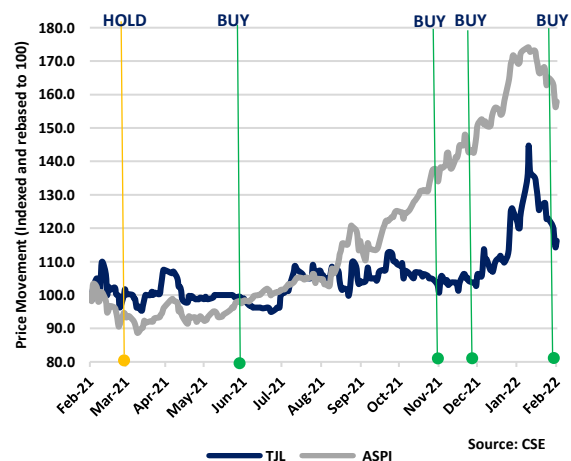
Improved demand from the region and enhanced capacity have helped TJL to post topline of LKR 13.1Bn which grew by 53.2%YoY in comparison to previous year corresponding period. The greater volumes were delivered with the larger capacity within the group inclusive of outsourced partners' support which amounted to 5.0% of the total revenue. Going forward, TJL's daily capacity is expected to increase by 25.0% from 75MT to 95MT as a result of USD 26.0Mn capacity expansion in the Indian plant which will commence from Feb 22 and fully load by Sep 2022. TJL is also exploring potential new opportunities in Bangladesh and Africa and 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 of LKR in 2022E, expecting it to hover in the range of LKR 240.0-270.0 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 maintain TJL's revenue at LKR 51.3Bn (61.1%YoY) for FY22E and at LKR 63.8Bn (24.3%YoY) in FY23E.

**Cost pressures crimp GP and OP margins on a YoY basis however improved on a QoQ basis**

TJL's GP margin declined to 9.9% in 3QFY22 relative to the same quarter in FY21 as a result of cost pressures that prevailed during the quarter and due to the fact that yarn prices being the lowest in the previous year while OP margin followed suit dipping by 427bps to 6.5% amidst increased overhead cost. However, GP margin improved relative to 2QFY22 amidst enhanced topline, price revisions being implemented and owing to operational excellence journey that has supported to improve productivity across the group. We expect the impact of rising yarn prices to affect GP margins in 4QFY22 as well. Accordingly, considering the persistent cost pressures we have downgraded our GP margins to 9.9% for FY22E while earnings were downgraded to LKR 2.5Bn. However, we expect yarn prices to gradually stabilize during FY23E while increasing focus towards the high margin synthetic fabric by TJL and enhanced market share through increased volumes to cushion the negative impact stemming from cost pressures in FY23E to a certain extent. Accordingly, in FY23E GP margin were estimated at 11.5% while earnings were anticipated at LKR 4.0Bn.

**TP for FY23E maintained at LKR 75.0**

Despite a downgrade in earnings of TJL, we maintain fair value for FY23E at LKR 75.0 considering the strong order book and the upcoming capacity expansions and is expected to provide an annualised return of 66.0% at the current market price. **MAINTAIN BUY**

**Price Movement of TJL vs ASPI (Indexed and rebased to 100)****Minimum Return for BUY:**

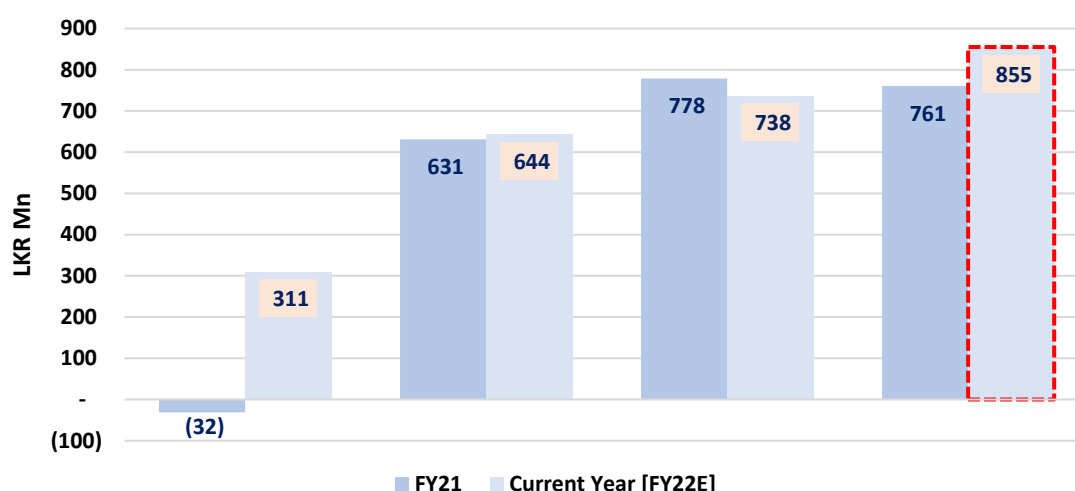
**Buy Below for FY23E [AER of 15.0% with DPS]: LKR 69.2**  
TJL.N categorized as 'Grade A' counter

**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.

Source: CSE

## Quarterly Earnings



## Estimate Revision

| In LKR Mn                     | FY22E - O    | FY22E - R    | % Change | FY23E - O    | FY23E - R    | % Change |
|-------------------------------|--------------|--------------|----------|--------------|--------------|----------|
| <b>Earnings Estimate</b>      |              |              |          |              |              |          |
| Revenue                       | 51,312       | 51,312       | 0%       | 63,803       | 63,803       | 0%       |
| Gross profit                  | 5,388        | 5,106        | -5%      | 7,656        | 7,337        | -4%      |
| EBIT                          | 3,320        | 3,038        | -9%      | 5,085        | 4,766        | -6%      |
| Profit before tax             | 3,406        | 3,091        | -9%      | 5,131        | 4,744        | -8%      |
| Net Profit                    | 2,807        | 2,547        | -9%      | 4,228        | 3,909        | -8%      |
| EPS                           | 3.92         | 3.55         |          | 5.90         | 5.45         |          |
| Growth YoY                    | 31%          | 19%          |          | 51%          | 53%          |          |
| <b>Balance Sheet Estimate</b> |              |              |          |              |              |          |
| Shareholders' Equity          | 18,726       | 18,637       | -0%      | 20,205       | 20,005       | +1%      |
| Borrowings                    | 3,461        | 5,664        | +64%     | 3,625        | 5,587        | +54%     |
| <b>NAVPS</b>                  | <b>26.1</b>  | <b>26.0</b>  |          | <b>28.2</b>  | <b>27.9</b>  |          |
| <b>Ratio Estimate</b>         |              |              |          |              |              |          |
| <b>ROE (%)</b>                | <b>15.4%</b> | <b>14.0%</b> |          | <b>21.7%</b> | <b>20.2%</b> |          |
| <b>PER (x)</b>                | <b>13.8</b>  | <b>12.9</b>  |          | <b>9.2</b>   | <b>8.4</b>   |          |
| <b>PBV (x)</b>                | <b>2.1</b>   | <b>1.8</b>   |          | <b>1.9</b>   | <b>1.6</b>   |          |

## Valuation Table

| P/E 31 March               | FY18         | FY19         | FY20         | FY21         | FY22E        | FY23E        | FY24E        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Estimates (LKR 'Mn)</b> |              |              |              |              |              |              |              |
| Revenue                    | 24,647       | 31,747       | 33,277       | 31,853       | 51,312       | 63,803       | 76,317       |
| Gross profit               | 2,911        | 3,686        | 4,229        | 3,766        | 5,106        | 7,337        | 9,158        |
| EBIT                       | 1,811        | 2,345        | 2,728        | 2,487        | 3,038        | 4,766        | 6,082        |
| <b>Net Profit</b>          | <b>1,596</b> | <b>1,859</b> | <b>2,384</b> | <b>2,139</b> | <b>2,547</b> | <b>3,909</b> | <b>5,071</b> |
| Adjusted EPS (LKR)         | 2.2          | 2.6          | 3.3          | 3.0          | 3.6          | 5.5          | 7.1          |
| YoY Growth (%)             | -19%         | 16%          | 28%          | -10%         | 19%          | 53%          | 30%          |
| <b>Valuations</b>          |              |              |              |              |              |              |              |
| PER (x)                    | 20.6x        | 17.7x        | 13.8x        | 15.4x        | 12.9x        | 8.4x         | 6.5x         |
| PBV (x)                    | 2.8x         | 2.4x         | 2.1x         | 1.9x         | 1.8x         | 1.6x         | 1.5x         |
| DY (%)                     | 3.5%         | 4.2%         | 2.8%         | 6.1%         | 5.1%         | 7.7%         | 9.8%         |
| NAVPS                      | 16.3         | 19.4         | 21.8         | 24.8         | 26.0         | 27.9         | 30.5         |
| DPS (LKR)                  | 1.6          | 2.0          | 1.3          | 2.8          | 2.3          | 3.5          | 4.5          |
| Dividend Payout            | 72%          | 75%          | 39%          | 94%          | 66%          | 65%          | 64%          |

## Valuation Summary

| Expected TJL price                     | FY23E       |
|--|-------------|
| PER Valuation based target price       | 79.1        |
| DCF Valuation based target price       | 70.9        |
| <b>Average Target Price</b>            | <b>75.0</b> |
| <b>Target Price after Rounding off</b> | <b>75.0</b> |

| Return                    | FY23E      |
|---------------------------|------------|
| Target Price              | 75.0       |
| Current Price             | 45.9       |
| Capital Gain (LKR)        | 29.1       |
| Dividends upto 31.03.2023 | 5.9        |
| Capital Gain %            | 63%        |
| Dividend Yield %          | 13%        |
| <b>Total Return %</b>     | <b>76%</b> |
| Annualized Return %       | 66%        |

| DCF based Valuation          | FY23E         |
|------------------------------|---------------|
| Enterprise Value             | 54,606        |
| (-) Debt                     | (5,587)       |
| (+) Cash                     | 1,826         |
| <b>Total Value of Equity</b> | <b>50,845</b> |
| No. of Shares (Mn)           | 717           |
| <b>Target Price</b>          | <b>70.9</b>   |

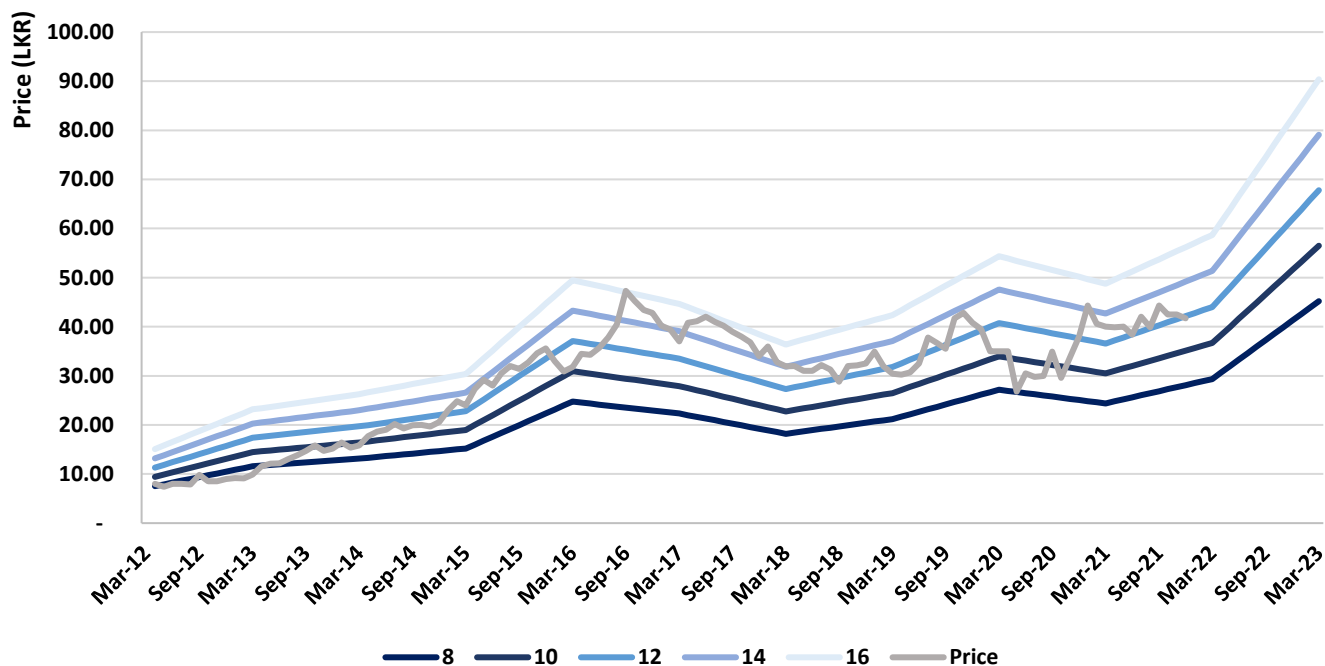
| COE  | FY23E        |
|--|--------------|
| Rf   | 10.0%        |
| Rm   | 18.0%        |
| Growth %                                   | 3.0%         |
| $\beta$                                    | 0.50         |
| <b>Ke = Rf + <math>\beta</math>(Rm-Rf)</b> | <b>14.0%</b> |

## PER Valuation

| PER based Valuation            | FY23E       |
|--------------------------------|-------------|
| Earnings (LKR 'Mn)             | 3,909       |
| No. of Shares ('Mn)            | 717         |
| EPS                            | 5.5         |
| Expected PER                   | 14.5x       |
| <b>Price at 14.5x Earnings</b> | <b>79.1</b> |

| WACC                | FY23E        |
|---------------------|--------------|
| Ke                  | 14.0%        |
| Kd                  | 8.8%         |
| D/E Assumption      | 40/60        |
| Terminal Growth (%) | 3.0%         |
| <b>WACC</b>         | <b>11.9%</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                                | 24,647       | 31,747       | 33,277       | 31,853       | 51,312       | 63,803       | 76,317       |
| Cost of sales                          | -21,736      | -28,061      | -29,048      | -28,087      | -46,206      | -56,466      | -67,159      |
| <b>Gross profit</b>                    | <b>2,911</b> | <b>3,686</b> | <b>4,229</b> | <b>3,766</b> | <b>5,106</b> | <b>7,337</b> | <b>9,158</b> |
| Other income                           | 238          | 246          | 173          | 190          | 292          | 364          | 435          |
| Selling, Distribution & Admin expenses | -1,338       | -1,587       | -1,673       | -1,469       | -2,360       | -2,935       | -3,511       |
| <b>Operating profit</b>                | <b>1,811</b> | <b>2,345</b> | <b>2,728</b> | <b>2,487</b> | <b>3,038</b> | <b>4,766</b> | <b>6,082</b> |
| Non operating income                   | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>EBIT</b>                            | <b>1,811</b> | <b>2,345</b> | <b>2,728</b> | <b>2,487</b> | <b>3,038</b> | <b>4,766</b> | <b>6,082</b> |
| Finance Income                         | 106          | 102          | 244          | 276          | 330          | 280          | 399          |
| Less : Finance Cost                    | -99          | -189         | -160         | -113         | -277         | -302         | -328         |
| Net finance income                     | 7            | -88          | 84           | 163          | 53           | -22          | 71           |
| <b>Profit before tax</b>               | <b>1,818</b> | <b>2,257</b> | <b>2,812</b> | <b>2,651</b> | <b>3,091</b> | <b>4,744</b> | <b>6,154</b> |
| Income tax expense                     | -222         | -398         | -428         | -512         | -544         | -835         | -1,083       |
| <b>Profit for the Year</b>             | <b>1,596</b> | <b>1,859</b> | <b>2,384</b> | <b>2,139</b> | <b>2,547</b> | <b>3,909</b> | <b>5,071</b> |
| EPS                                    | 2.2          | 2.6          | 3.3          | 3.0          | 3.6          | 5.5          | 7.1          |

**Appendix II: Statement of Financial Position**

| Balance Sheet (LKR Mn)                             | FY18          | FY19          | FY20          | FY21          | FY22E         | FY23E         | FY24E         |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>As at 31st March</b>                            |               |               |               |               |               |               |               |
| <b>Assets</b>                                      |               |               |               |               |               |               |               |
| Property, plant and equipment                      | 7,534         | 8,408         | 8,777         | 8,711         | 13,058        | 13,050        | 13,153        |
| 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         | 8,154         | 10,139        | 11,500        |
| Trade and other receivables                        | 3,494         | 4,013         | 4,137         | 7,181         | 7,029         | 8,740         | 9,409         |
| Cash and cash equivalents                          | 2,743         | 4,290         | 5,263         | 4,452         | 2,449         | 1,826         | 3,313         |
| Other Assets                                       | 1,078         | 856           | 1,958         | 2,651         | 2,651         | 2,651         | 2,651         |
| <b>Total Assets</b>                                | <b>19,565</b> | <b>22,386</b> | <b>26,962</b> | <b>31,099</b> | <b>34,091</b> | <b>37,125</b> | <b>40,727</b> |
| <b>Shareholders' Funds</b>                         |               |               |               |               |               |               |               |
| 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         | 8,009         | 9,377         | 11,208        |
| Share option scheme                                | 86            | 97            | 97            | 153           | 153           | 153           | 153           |
| <b>Shareholders' Funds</b>                         | <b>11,701</b> | <b>13,925</b> | <b>15,649</b> | <b>17,764</b> | <b>18,637</b> | <b>20,005</b> | <b>21,835</b> |
| <b>Liabilities</b>                                 |               |               |               |               |               |               |               |
| Trade and other payables                           | 4,487         | 4,703         | 5,643         | 8,087         | 7,849         | 9,591         | 11,408        |
| Borrowings   | 2,836         | 2,968         | 3,914         | 3,306         | 5,664         | 5,587         | 5,542         |
| Tax liability                                      | 333           | 538           | 739           | 753           | 753           | 753           | 753           |
| Retirement benefit obligations                     | 208           | 252           | 378           | 520           | 520           | 520           | 520           |
| Other  |               |               | 640           | 668           | 668           | 668           | 668           |
| <b>Total Liabilities</b>                           | <b>7,864</b>  | <b>8,461</b>  | <b>11,314</b> | <b>13,335</b> | <b>15,455</b> | <b>17,120</b> | <b>18,892</b> |
| <b>Total Liabilities &amp; Shareholders' Funds</b> | <b>19,565</b> | <b>22,386</b> | <b>26,962</b> | <b>31,099</b> | <b>34,091</b> | <b>37,125</b> | <b>40,727</b> |
| NAVPS  | 16.3          | 19.4          | 21.8          | 24.8          | 26.0          | 27.9          | 30.5          |



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## 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 |
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## CORPORATE DEBT SALES

|                    |                   |
|--------------------|-------------------|
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|--------------------|-------------------|

## EQUITY SALES

|                      |                  |                 |                    |                 |
|----------------------|------------------|-----------------|--------------------|-----------------|
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|                      |                  |                 | Priyanka Anuruddha | +94 70 2910 035 |
| <b>Colombo</b>       |                  |                 | 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

|                      |                 |                       |                 |
|----------------------|-----------------|-----------------------|-----------------|
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|----------------------|-----------------|-----------------------|-----------------|

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| <b>Manager: Salinda Samarakoon</b>                               | <b>Manager:</b>   | <b>Manager: Rohana Jayakody</b>  | <b>Manager:</b>   |
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