

**TEEJAY LANKA PLC [TJL.N0000]****UPGRADE TO BUY****KNITTING A GROWTH STORY...**

Fair Value: FY22E - LKR 45.0 [+17%] **FY23E - LKR 56.0 [+45%]**
Total Return with DPS: FY22E - 24% [AER 33%] **FY23E - 61% [AER 31%]**

TJL recorded earnings of LKR 761.0Mn (+80%YoY) in 4QFY21, performing better than our expectations. Performance of 4QFY21 was mainly driven by the rise in revenue by 40.1%YoY to LKR 9.8Bn and increase in GP margins by 61bps to 11.8% due to stronger volumes and higher capacity. In our previous report published on 04th Dec 2020, we recommended to HOLD the share amidst the uncertainty for global branded apparel demand arising from the impact of COVID-19 pandemic. Since then the price remained volatile, underperforming relative to the market. Considering the better-than-expected recovery in operations in TJL, we upgrade the earnings forecast for FY22E to LKR 2.9Bn and FY23E to LKR 3.8Bn while TPs for FY22E and FY23E are upgraded to LKR 45.0 (from 41.0) and to LKR 56.0 respectively. At current market price of LKR 38.5, TJL provides an annualised return of 33% for FY22E and 31% for FY23E. **UPGRADE TO BUY**

LKR (Mn)	4QFY20	4QFY21	YoY	FY20	FY21	YoY
Earnings (LKR 'Mn)						
Revenue	6,973	9,770	+40%	33,277	31,853	-4%
Gross profit	778	1,150	+48%	4,229	3,766	-11%
EBIT	450	781	+74%	2,728	2,487	-9%
PBT	542	903	+67%	2,812	2,651	-6%
Net Profit	422	761	+80%	2,384	2,139	-10%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	15,649	17,702	+13%	15,649	17,702	+13%
Borrowings	3,914	3,306	-16%	3,914	3,306	-16%
NAVPS	22.3	25.0		22.3	25.0	

TJL's revenue expanded by 40%YoY in 4QFY21 followed by four consecutive quarters of revenue drops

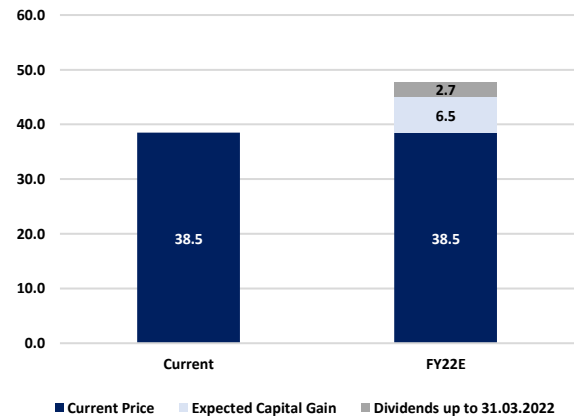
TJL's revenue grew by 40%YoY to LKR 9.8Bn in comparison to previous year corresponding period which was heavily impacted by the pandemic. It continued to witness a recovery in sales led by the resurgence of retail brands around the world amidst the vaccination rollout and as they began to embrace the new normal. In addition, all three plants of TJL are expected to continue production despite the challenging environment. Going forward, TJL expects to increase the current daily capacity of 75MT to 105MT by outsourcing capacity via a plant within Sri Lanka as well as by investing USD 26.0Mn to expand 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 2023E. Moreover, First Capital Research expects an overall LKR depreciation of c.12% for 2021E against USD assuming that LKR would reach 205.0-215.0 by end of the year providing a considerable gain for TJL where significant portion of revenue is generated in foreign currency. We don't expect a major impact to TJL by the withdrawal of GSP+ as TJL is capable of handling orders through India which may continue to enjoy GSP duty concessions. In light of above factors, we upgrade TJL's revenue to LKR 43.5Bn (37%YoY) in FY22E and to LKR 54.1Bn (24%YoY) in FY23E.

GP and OP margins improved on a YoY basis and declined on a QoQ basis

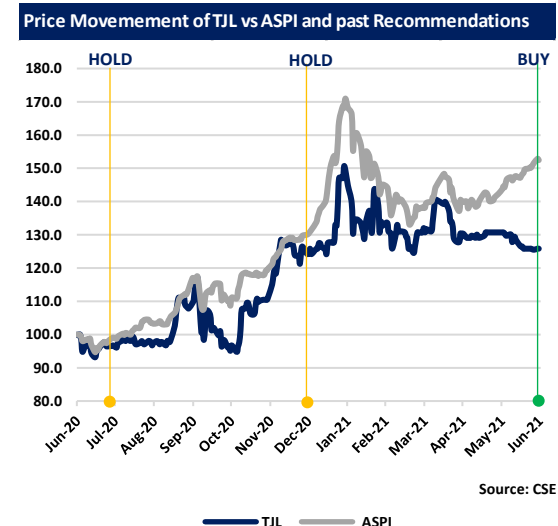
TJL's GP margin improved to 11.8% in 4QFY21 relative to a weak quarter in FY20, however declined relative to 3QFY21 due to the rise in yarn prices that continued to prevail during 1QFY22 as well, impacting margins. We expect increased focus towards the high margin synthetic fabric by TJL and increased capacity utilization in plants to preserve margins in FY22E. Accordingly, we estimate GP margins to sustain at current levels of 12.5% for FY22E and improve to 12.8% in FY23E amidst expansion.

TP for FY22E upgraded to LKR 45.0 and FY23E to LKR 56.0

Considering the better-than-expected recovery in earnings and the upcoming capacity expansions, we upgrade TJL's earnings for FY22E and FY23E to LKR 2.9Bn and LKR 3.8Bn while TPs for FY22E and FY23E are upgraded to LKR 45.0 and LKR 56.0 respectively. **UPGRADE TO BUY**

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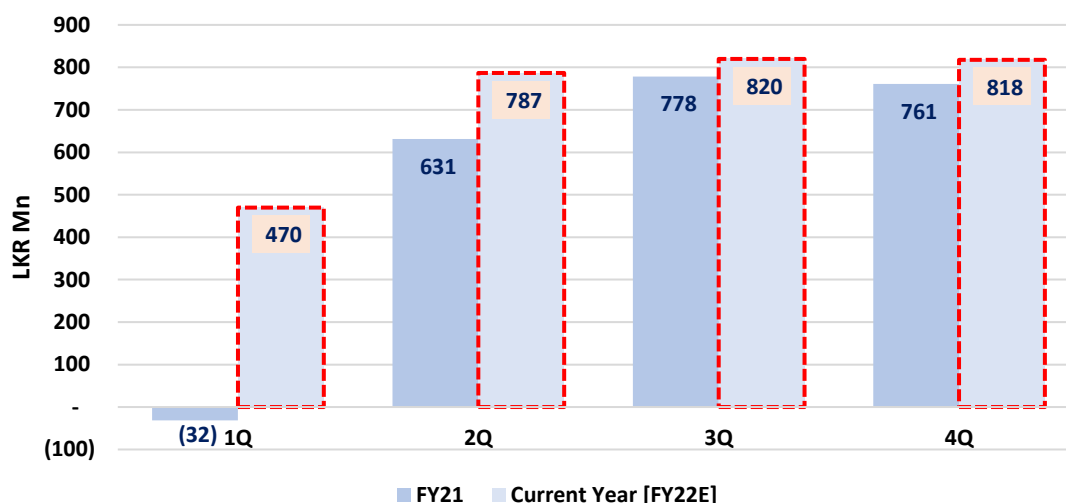
**Minimum Return for BUY:**

Buy Below for FY22E [AER of 10.1% with DPS]: LKR 44.3
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.N during the five trading days prior to the issuance of this document.

Quarterly Earnings



Estimate Revision

In LKR Mn	FY22E - O	FY22E - R	% Change	FY23E - O	FY23E - R	% Change
Earnings Estimate						
Revenue	38,837	43,493	+12%	42,721	54,132	+27%
Gross profit	4,525	5,437	+20%	5,127	6,929	+35%
EBIT	2,765	3,423	+24%	3,191	4,423	+39%
Profit before tax	2,688	3,365	+25%	3,110	4,361	+40%
Net Profit	2,312	2,894	+25%	2,674	3,751	+40%
EPS	3.29	4.08		3.83	5.29	
Growth YoY	27%	35%		16%	30%	
Balance Sheet Estimate						
Shareholders' Equity	18,252	18,694	+2%	19,188	20,006	+4%
Borrowings	4,315	3,461	-20%	4,531	3,625	-20%
NAVPS	26.0	26.4		27.3	28.2	
Ratio Estimate						
ROE (%)	12.9%	15.9%		14.3%	19.4%	
PER (x)	11.2	9.4		9.7	7.3	
PBV (x)	1.4	1.5		1.4	1.4	

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	43,493	54,132	67,396
Gross profit	2,911	3,686	4,229	3,766	5,437	6,929	8,627
EBIT	1,811	2,345	2,728	2,487	3,423	4,423	5,506
Net Profit	1,596	1,859	2,384	2,139	2,894	3,751	4,679
Adjusted EPS (LKR)	2.3	2.6	3.4	3.0	4.1	5.3	6.6
YoY Growth (%)	-19%	16%	28%	-10%	35%	30%	25%
Valuations							
PER (x)	17.1x	14.7x	11.5x	12.8x	9.4x	7.3x	5.8x
PBV (x)	2.3x	2.0x	1.7x	1.5x	1.5x	1.4x	1.3x
DY (%)	4.2%	5.1%	3.4%	4.3%	7.0%	8.9%	10.9%

Valuation Summary

Expected TJL price	FY22E	FY23E
PER Valuation based target price	44.9	58.2
DCF Valuation based target price	45.7	54.1
Average Target Price	45.3	56.2
Target Price after Rounding off	45.0	56.0

Return	FY22E	FY23E
Target Price	45.0	56.0
Current Price	38.5	38.5
Capital Gain (LKR)	6.5	17.5
Dividends upto 31.03.2022 and 31.03.2023	2.7	6.1
Capital Gain %	17%	45%
Dividend Yield %	7%	16%
Total Return %	24%	61%
Annualized Return %	33%	31%

DCF based Valuation	FY22E	FY23E
Enterprise Value	35,146	41,201
(-) Debt	(3,461)	(3,625)
(+) Cash	725	827
Total Value of Equity	32,410	38,404
No. of Shares (Mn)	709	709
Target Price	45.7	54.1

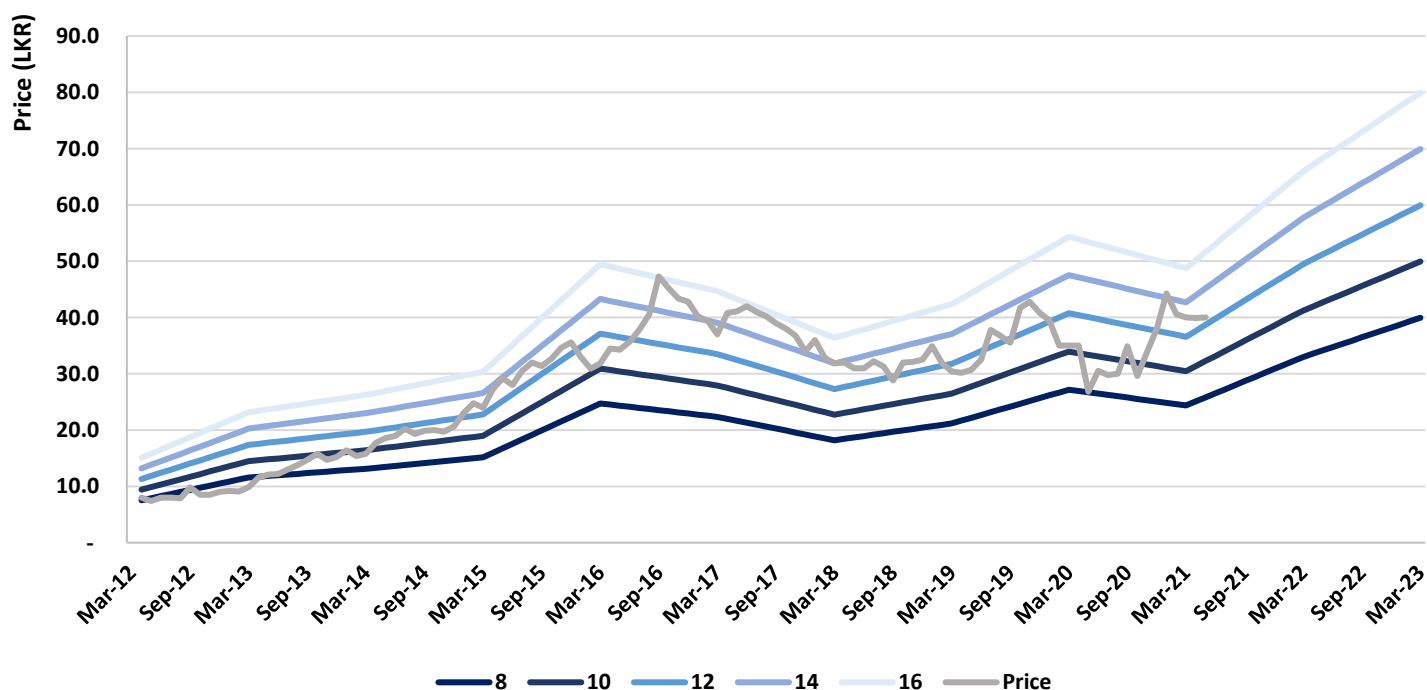
COE	FY22E	FY23E
Rf	7.0%	7.5%
Rm	16.0%	16.5%
Growth %	3.0%	3.0%
β	1.14	1.14
$Ke = Rf + \beta(Rm - Rf)$	17.3%	17.8%

PER Valuation

PER based Valuation	FY22E	FY23E
Earnings (LKR 'Mn)	2,894	3,751
No. of Shares ('Mn)	709	709
EPS	4.1	5.3
Expected PER	11.0x	11.0x
Price at 11.0x Earnings	44.9	58.2

WACC	FY22E	FY23E
Ke	17.3%	17.8%
Kd	8.8%	8.8%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3.0%	3.0%
WACC	13.9%	14.2%

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	43,493	54,132	67,396
Cost of sales	-21,736	-28,061	-29,048	-28,087	-38,056	-47,203	-58,770
Gross profit	2,911	3,686	4,229	3,766	5,437	6,929	8,627
Other income	238	246	173	190	248	309	384
Selling, Distribution & Admin expenses	-1,338	-1,587	-1,673	-1,469	-2,262	-2,815	-3,505
Operating profit	1,811	2,345	2,728	2,487	3,423	4,423	5,506
Non operating income	0	0	0	0	0	0	0
EBIT	1,811	2,345	2,728	2,487	3,423	4,423	5,506
Finance Income	106	102	244	276	20	20	20
Less : Finance Cost	-99	-189	-160	-113	-78	-82	-85
Net finance income	7	-88	84	163	-58	-61	-65
Profit before tax	1,818	2,257	2,812	2,651	3,365	4,361	5,441
Income tax expense	-222	-398	-428	-512	-471	-611	-762
Profit for the Year	1,596	1,859	2,384	2,139	2,894	3,751	4,679
EPS	2.3	2.6	3.4	3.0	4.1	5.3	6.6

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	8,762	13,567	13,378	13,318
Capital work-in-progress	445	119	590	330	410	410	410
Intangible Assets	54	94	78	125	68	37	20
Deferred tax assets	125	111	256	238	238	238	238
Inventories	4,091	4,494	5,904	7,638	6,911	8,602	10,156
Trade and other receivables	3,494	4,013	4,137	7,014	5,958	7,415	8,309
Cash and cash equivalents	2,743	4,290	5,263	4,577	725	827	2,283
Other Assets	1,078	856	1,958	2,651	2,651	2,651	2,651
Total Assets	19,565	22,386	26,962	31,335	30,528	33,557	37,383
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	6,221	6,221	6,221	6,221
Retained earnings	4,972	5,600	6,232	7,136	8,127	9,440	11,129
Share option scheme	86	97	97	97	97	97	97
Shareholders Funds	11,701	13,925	15,649	17,702	18,694	20,006	21,696
Liabilities							
Trade and other payables	4,487	4,703	5,643	8,418	6,464	8,018	9,983
Borrowings	2,836	2,968	3,914	3,306	3,461	3,625	3,796
Tax liability	333	538	739	719	719	719	719
Retirement benefit obligations	208	252	378	521	521	521	521
Other			628	655	655	655	655
Total Liabilities	7,864	8,461	11,314	13,632	11,834	13,551	15,687
Total Liabilities & Shareholders' Funds	19,565	22,386	26,962	31,335	30,528	33,557	37,383
NAVPS	16.5	19.6	22.1	25.0	26.4	28.2	30.6



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