



# HAYLEYS PLC [HAYL.N0000]

## INITIATING WITH A BUY

### “DEFENSIVE PLAYER IN TURBULENT TIMES...”

**Fair Value: FY23E - LKR 98.0 [+42%]**

Total Return with DPS: FY23E - 47% [AER 61%]

**FY24E - LKR 109.0 [+58%]**

FY24E - 68% [AER 33%]

HAYL registered earnings of LKR 8.8Bn (+146.9%YoY) in 4QFY22, while growth in profitability was mainly driven by significant rise in finance income by 980.2%YoY to LKR 13.4Bn and improvement in revenue by 38.0%YoY to LKR 95.7Bn despite the reduction in GP margin. Other segment (led by BPO and shared services, aluminium fabrications, Fentons Group and the Services) was the main contributor to the group profit growth in 4QFY22 (+89.4%YoY to LKR 3.8Bn) followed by Consumer & Retail segment which recorded a growth of 61.2%YoY to LKR 3.1Bn. Transportation & Logistics segment profits improved by 29.0%YoY to LKR 2.5Bn while both hand protection and purification segment recorded a decline in profits by 109.3%YoY and 35.8%YoY respectively. Supported by the strong performance in key foreign revenue generating segments, we expect FY23E earnings to record at LKR 18.6Bn (+1.8%YoY) while FY24E earnings are estimated to record at LKR 19.2Bn. At current market price of LKR 69.1, HAYL provides a capital gain of 42.0% for FY23E and 58.0% for FY24E. **INITIATE WITH A BUY**

LKR (Mn)	4QFY21	4QFY22	YoY	FY21	FY22	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	69,380	95,743	+38%	241,276	338,010	+40%
Gross profit	17,625	21,788	+24%	61,159	77,374	+27%
EBIT	8,674	9,133	+5%	25,954	33,594	+29%
PBT	7,719	16,255	+111%	19,234	35,717	+86%
Net Profit	3,550	8,764	+147%	7,637	18,257	+139%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	47,618	67,390	+42%	47,618	67,390	+42%
Borrowings	114,462	171,934	+50%	114,462	171,934	+50%
NAVPS	63.5	89.9		63.5	89.9	

### HAYL recorded more than two-fold growth in earnings during 4QFY22

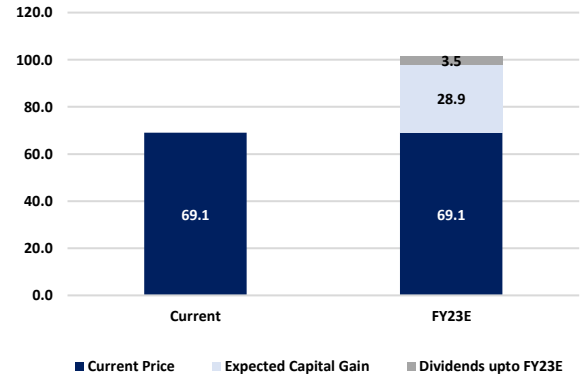
HAYL registered an earnings growth of 146.9%YoY to LKR 8.8Bn supported by the revenue increase of 38.0%YoY to LKR 95.7Bn in the midst of growth in key export-oriented segments. During 4QFY22, Consumer and Retail segment largely represented by Singer Sri Lanka PLC and Transportation & Logistics segments led by Hayleys Advantis PLC contributed nearly 44.4% of group EBIT while also registering a growth of 61.2%YoY to LKR 3.1Bn and 29.0%YoY to LKR 2.5Bn respectively. Significant depreciation of the LKR against USD, supported by higher freight rates and shipping activities resulted in a substantial surge in revenue for Transportation & Logistics segment. Moreover, sustained demand for electrical and electronic items and an increase in e-commerce activities, led improved performance in the Consumer & Retail segment. The bottom line was also boosted by finance income growth of 980.0%YoY to LKR 13.4Bn stemming from the steep devaluation of the rupee in Mar-22 while finance cost too surged by 187.3%YoY to LKR 6.5Bn, primarily due to an exchange loss stemming from the impact of the rupee depreciation on import reliance sectors such as Consumer & Retail.

### Transportation & logistics segment to be the key contributor to the EBIT in FY23E

Operating profit of Transportation segment is expected to record at LKR 13.9Bn (65.0%YoY) mainly led by increase in global trade volumes, strong freight rates which is expected to remain above pre pandemic levels (amidst supply chains disruptions) and led by above average value for USD throughout FY23E (First Capital Research expects LKR to hover in the range of 380.0-300.0 by Jun-22 and to stabilize in the range of LKR 320.0-290.0 by Dec-22 against USD). Moreover, expansion in distribution centre in Kotugoda, Ja-Ela (under phase 2) is expected to increase its warehousing capacity by 30.0% enabling them to consolidate operations and increase efficiency. The sector also intends to establish regional warehouses, thereby driving increased regional penetration.

### Consumer & Retail segments to witness short term headwinds, optimistic on the mid to long term

Despite being another major contributor to operating profits, Consumer & Retail segment is expected to run into fresh challenges in FY23E, due to tightened import restrictions and increased duties on electrical items. Moreover, since SINS imports around 70.0% of the finished products it sells and the inability to import the required quantities in a timely manner is expected to affect its scale and market position although its local manufacturing capabilities which accounts for 25.0% of revenue is expected to provide buffer against import restrictions. Accordingly, after considering the above headwinds, Consumer & Retail segment operating profit is expected to decline by 16.4%YoY to LKR 7.1Bn in FY23E. However, an improvement in revenue is anticipated from FY24E over the medium-to-long term driven by recovery in consumer demand and low penetration levels in certain product categories.



### FIRST CAPITAL RESEARCH

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### Price Movement of HAYL vs ASPI and past Recommendations



### Minimum Return for BUY:

**Buy Below for FY23E [AER of 20.0% with DPS]: LKR 91.0**  
 HAYL.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 HAYL during the five trading days prior to the issuance of this document.

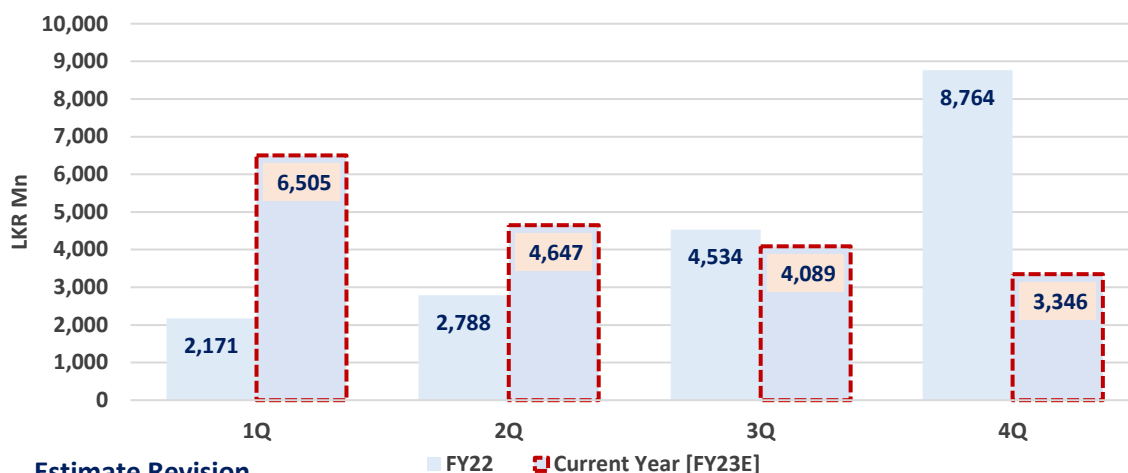
**Plantation and Agriculture segments to get energized from rupee depreciation and with govt.’s initiatives of enhancing local cultivation**

Plantation segment of HAYL recorded a growth of 47.7%YoY to LKR 1.2Bn while Agriculture segment noted a growth of 68.6%YoY to LKR 737.9Mn. Stronger prices for tea and rubber together with higher value for rupee is expected to remain favorable for HAYL in FY23E. Moreover, HAYL’s crop diversification into coconut, cinnamon, spices and strawberry cultivation is expected to curtail short term challenges in the Tea and Rubber segments. HAYL’s agriculture sector is anticipated to benefit from gradual recovery with the Govt demonstrating its commitment to support the sector through continued imports of fertilizer as the company provides with a diverse portfolio of agri solutions ranging from seed and planting materials to fertiliser, crop protection products, land preparatory and harvesting machines, and veterinary and animal health products for the pet and livestock segments. Moreover, as the largest exporter of processed fruits and vegetables in Sri Lanka, HAYL is expected to benefit from govt’s enhanced initiative of improving export of locally manufactured crops.

**TPs for FY23E and FY24E are estimated at LKR 98.0 and LKR 109.0**

In the midst of strong performance in major foreign revenue generating segments, we anticipate HAYL to record a profit of LKR 18.6Bn (+1.8%YoY) for FY23E while FY24E net profit is expected to record at LKR 19.2Bn (+3.3%YoY). At the current price level of LKR 69.1 HAYL is trading at a forward and trailing PER of 2.8x with a hefty discount to the Capital Goods sector PER of 4.5x and market PER of 5.2x. **INITIATE WITH A BUY**

## Quarterly Earnings



## Estimate Revision

In LKR Mn	FY23E - O	FY23E - R	% Change	FY24E - O	FY24E - R	% Change
<b>Earnings Estimate</b>						
Revenue	353,532	426,327	+21%	403,208	480,512	+19%
Gross profit	89,338	100,187	+12%	101,608	112,920	+11%
EBIT	35,990	45,355	+26%	39,173	46,924	+20%
Profit before tax	29,237	38,054	+30%	32,932	39,398	+20%
Net Profit	11,489	18,586	+62%	12,941	19,200	+48%
EPS	15.3	24.8		17.3	25.6	
<i>Growth YoY</i>						
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	66,298	83,374	+26%	77,586	99,886	+29%
Borrowings	94,600	118,540	+25%	82,696	105,958	+28%
<b>NAVPS</b>	<b>88.4</b>	<b>111.2</b>		<b>103.5</b>	<b>133.2</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>18.7%</b>	<b>24.7%</b>		<b>18.0%</b>	<b>21.0%</b>	
<b>PER (x)</b>	<b>4.5</b>	<b>2.8</b>		<b>4.0</b>	<b>2.7</b>	
<b>PBV (x)</b>	<b>0.8</b>	<b>0.6</b>		<b>0.7</b>	<b>0.5</b>	

## Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Estimates (LKR 'Mn)</b>							
Revenue	219,182	210,307	241,276	338,010	426,327	480,512	530,125
Gross Profit	48,975	50,153	61,159	77,374	100,187	112,920	121,929
EBIT	15,989	16,473	25,954	33,594	45,355	46,924	49,551
<b>Net Profit</b>	<b>265</b>	<b>372</b>	<b>7,637</b>	<b>18,257</b>	<b>18,586</b>	<b>19,200</b>	<b>20,730</b>
Adjusted EPS (LKR)	0.4	0.5	10.2	24.3	24.8	25.6	27.6
YoY Growth (%)	-74%	40%	1951%	139%	2%	3%	8%
<b>Valuations</b>							
PER (x)	195.3x	139.2x	6.8x	2.8x	2.8x	2.7x	2.5x
PBV (x)	1.3x	1.3x	1.1x	0.8x	0.6x	0.5x	0.4x
DY (%)	0.7%	0.0%	1.9%	5.8%	5.0%	5.2%	5.6%
NAVPS	53.7	52.9	63.5	89.9	111.2	133.2	157.0
DPS (LKR)	0.5	0.0	1.3	4.0	3.5	3.6	3.9
Dividend Payout	141%	0%	13%	16%	14%	14%	14%

## Valuation Summary

Expected HAYL price	FY23E	FY24E	Return	FY23E	FY24E
PER Valuation based target price	99.1	102.4	Target Price	98.0	109.0
SOTP based target price	98.5	116.5	Current Price	69.1	69.1
<b>Average Target Price</b>	<b>98.8</b>	<b>109.4</b>	Capital Gain (LKR)	28.9	39.9
<b>Target Price after Rounding off</b>	<b>98.0</b>	<b>109.0</b>	Dividends (LKR)	3.5	7.1
			Capital Gain %	42%	58%
			Dividend Yield %	5%	10%
			<b>Total Return %</b>	<b>47%</b>	<b>68%</b>
			<b>Annualized Return %</b>	<b>61%</b>	<b>33%</b>

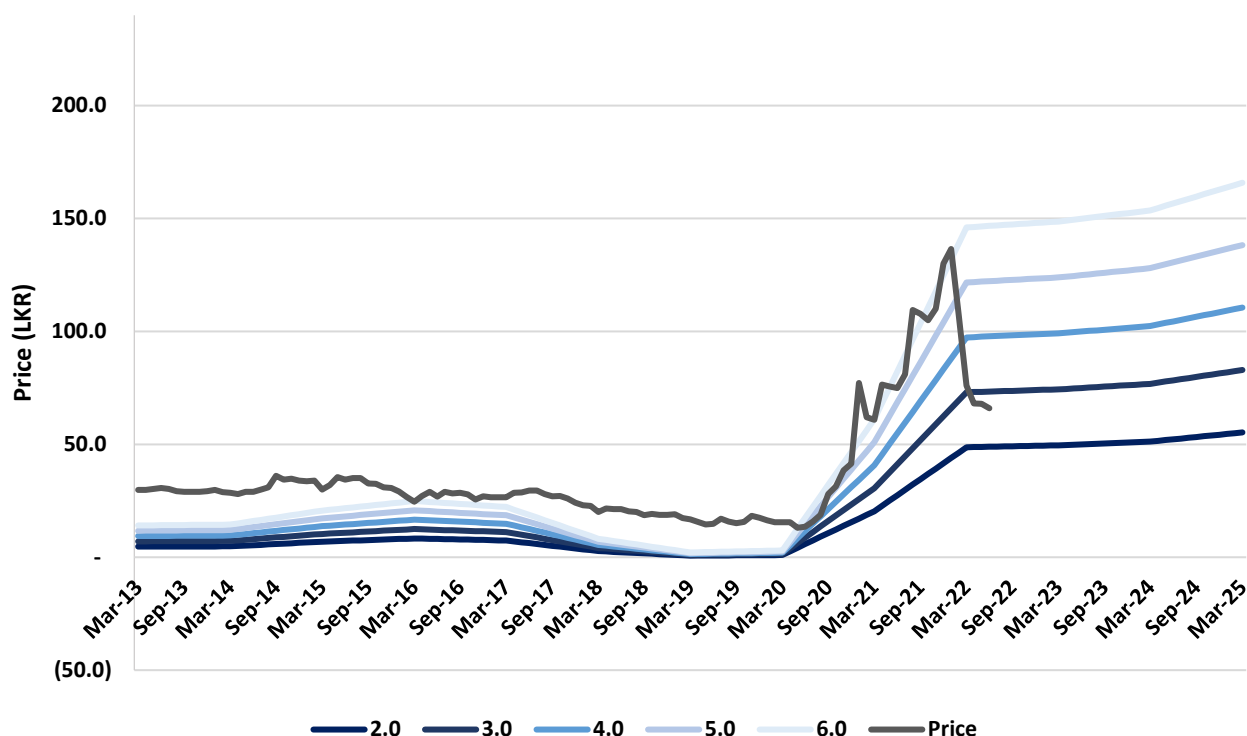
## SOTP Valuation

Segment	Valuation method	Valuation assumptions				Value in LKR Mn		Value per share	% of total
		Debt Ratio	CoE	WACC	Growth	Firm value	% of ownership		
Eco Solutions	DCF	7.9%	26.0%	24.5%	3.0%	2,331.5	65%	3.11	1%
Hand Protection	DCF	9.6%	26.0%	24.2%	3.0%	2,676.9	42%	3.57	2%
Purification Products	DCF	2.7%	26.0%	25.5%	3.0%	10,108.5	68%	13.48	6%
Textiles	DCF	21.9%	26.0%	21.8%	5.0%	7,039.4	59%	9.39	4%
Construction Materials	DCF	20.9%	26.0%	21.9%	3.0%	4,380.6	53%	5.84	3%
Agriculture	DCF	7.2%	26.0%	24.6%	3.0%	17,657.2	98%	23.54	10%
Plantations	DCF	6.5%	26.0%	24.8%	3.0%	9,470.5	70%	12.63	6%
Transportation & Logistics	DCF	25.5%	26.0%	21.1%	3.0%	48,471.3	90%	64.63	28%
Consumer & Retail	DCF	37.9%	26.0%	18.6%	4.0%	18,458.7	70%	24.61	11%
Industry Inputs	DCF	13.1%	26.0%	23.5%	3.0%	2,850.8	100%	3.80	2%
Power & Energy	DCF	16.2%	26.0%	22.9%	5.0%	1,245.6	30%	1.66	1%
Leisure	DCF	100.0%	26.0%	6.9%	3.0%	2,549.3	43%	3.40	1%
Others	DCF	45.0%	26.0%	16.8%	3.0%	44,718.1	95%	59.62	26%
Fair Value								<b>229.3</b>	<b>100%</b>
Debt								158.1	
Cash								27.29	
Fair value								<b>98.5</b>	
Fair value (Round up)								<b>98.5</b>	

## PER Valuation

PER based Valuation	FY23E	FY24E
Earnings (LKR 'Mn)	18,586	19,200
No. of Shares ('Mn)	750.0	750.0
EPS	24.8	25.6
Expected PER	4.0x	4.0x
Price at x Earnings	99.1	102.4

### PER Chart



### Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>P/E 31st Mar</b>							
Revenue	219,182	210,307	241,276	338,010	426,327	480,512	530,125
Cost of sales	-168,942	-158,325	-178,245	-258,715	-317,188	-357,501	-394,413
Direct interest cost	-1,265	-1,829	-1,872	-1,920	-8,953	-10,091	-13,783
<b>Gross Profit</b>	<b>48,975</b>	<b>50,153</b>	<b>61,159</b>	<b>77,374</b>	<b>100,187</b>	<b>112,920</b>	<b>121,929</b>
Other income	2,496	1,673	1,468	1,998	1,012	1,696	2,260
Distribution expenses	-9,889	-10,688	-10,949	-12,515	-17,053	-24,026	-26,506
Administrative expenses	-25,188	-24,248	-25,561	-32,842	-38,369	-43,246	-47,711
Other expenses	-405	-418	-162	-421	-421	-421	-421
<b>Results From Operating Activities</b>	<b>15,989</b>	<b>16,473</b>	<b>25,954</b>	<b>33,594</b>	<b>45,355</b>	<b>46,924</b>	<b>49,551</b>
Finance income	2,566	2,038	3,176	16,832	6,345	4,479	1,970
Finance cost	-13,077	-13,047	-10,052	-14,883	-14,225	-12,609	-9,786
Net Finance Cost	-10,512	-11,009	-6,876	1,949	-7,880	-8,130	-7,817
Change in fair value of investment properties	114	87	196	329	329	329	329
Share of profit of equity accounted investees (net of tax)	176	264	253	227	249	274	302
<b>Profit Before Financial Taxes</b>	<b>5,768</b>	<b>5,815</b>	<b>19,526</b>	<b>36,098</b>	<b>38,054</b>	<b>39,398</b>	<b>42,365</b>
Value added tax on financial services	-292	-311	-292	-382	-1,903	-1,970	-2,118
<b>Profit Before Tax For The Period</b>	<b>5,476</b>	<b>5,504</b>	<b>19,234</b>	<b>35,717</b>	<b>36,151</b>	<b>37,428</b>	<b>40,246</b>
Tax expense	-2,726	-2,609	-5,188	-7,618	-7,557	-7,890	-8,354
<b>Profit for the period</b>	<b>3,272</b>	<b>2,895</b>	<b>14,046</b>	<b>28,099</b>	<b>28,594</b>	<b>29,538</b>	<b>31,892</b>
<b>Owners of the Parent</b>	<b>265</b>	<b>372</b>	<b>7,637</b>	<b>18,257</b>	<b>18,586</b>	<b>19,200</b>	<b>20,730</b>
Non-Controlling Interest	2,485	2,522	6,409	9,842	10,008	10,338	11,162
<b>EPS</b>	<b>0.4</b>	<b>0.5</b>	<b>10.2</b>	<b>24.3</b>	<b>24.8</b>	<b>25.6</b>	<b>27.6</b>

**Appendix II: Statement of Financial Position**

Statement of Financial Position (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>As at 31st Mar</b>							
<b>Assets</b>							
Property, plant & equipment	86,886	88,485	89,686	111,190	109,218	107,365	105,623
Other Non Current Assets	33,881	42,193	44,140	48,507	48,507	48,507	48,507
<b>Total Non-Current Assets</b>	<b>120,767</b>	<b>130,678</b>	<b>133,825</b>	<b>159,697</b>	<b>157,726</b>	<b>155,873</b>	<b>154,131</b>
Inventories	39,743	42,226	53,100	82,398	81,761	92,153	101,668
Trade and other receivables	55,138	59,116	67,226	107,083	116,802	131,647	145,240
Short term deposits	3,685	3,496	7,877	19,928	2,877	800	800
Cash in hand and at bank	8,971	8,411	12,912	27,410	17,592	21,597	15,616
Other current assets	3,443	4,382	4,443	6,561	6,561	6,561	6,561
<b>Total Current Assets</b>	<b>110,980</b>	<b>117,631</b>	<b>145,558</b>	<b>243,379</b>	<b>225,592</b>	<b>252,758</b>	<b>269,884</b>
<b>Total Assets</b>	<b>231,747</b>	<b>248,309</b>	<b>279,383</b>	<b>403,076</b>	<b>383,318</b>	<b>408,630</b>	<b>424,015</b>
<b>Equity and Liabilities</b>							
Stated capital	1,575	1,575	1,575	1,575	1,575	1,575	1,575
<b>Total Equity Attributable To Equity Holders</b>	<b>40,242</b>	<b>39,705</b>	<b>47,618</b>	<b>67,390</b>	<b>83,374</b>	<b>99,886</b>	<b>117,714</b>
<b>NCI</b>	<b>21,637</b>	<b>23,152</b>	<b>27,580</b>	<b>37,897</b>	<b>47,905</b>	<b>58,243</b>	<b>69,405</b>
<b>Total Equity</b>	<b>61,878</b>	<b>62,857</b>	<b>75,199</b>	<b>105,287</b>	<b>131,279</b>	<b>158,129</b>	<b>187,119</b>
<b>Non-Current Liabilities</b>							
Interest-bearing borrowings	39,662	52,240	51,504	63,540	40,958	19,239	14,671
Deferred tax liabilities	5,191	5,121	5,358	7,433	7,433	7,433	7,433
Other liabilities	12,919	15,132	15,737	17,464	17,464	17,464	17,464
	<b>57,772</b>	<b>72,493</b>	<b>72,599</b>	<b>88,438</b>	<b>65,855</b>	<b>44,137</b>	<b>39,568</b>
<b>Current Liabilities</b>							
Trade and other payables	28,540	32,020	52,984	79,257	86,901	97,945	108,058
Current portion of long term interest-bearing borrowings	25,812	26,775	24,678	27,569	22,582	21,719	4,569
Short-term interest-bearing borrowings	47,810	44,541	38,281	80,826	55,000	65,000	63,000
Other liabilities	9,934	9,625	15,644	21,701	21,701	21,701	21,701
<b>Total Current Liabilities</b>	<b>112,096</b>	<b>112,960</b>	<b>131,586</b>	<b>209,351</b>	<b>186,184</b>	<b>206,365</b>	<b>197,328</b>
<b>Total Liabilities</b>	<b>169,868</b>	<b>185,453</b>	<b>204,185</b>	<b>297,789</b>	<b>252,039</b>	<b>250,501</b>	<b>236,896</b>
<b>Total Equity and Liabilities</b>	<b>231,747</b>	<b>248,309</b>	<b>279,383</b>	<b>403,076</b>	<b>383,318</b>	<b>408,630</b>	<b>424,015</b>
NAVPS	53.7	52.9	63.5	89.9	111.2	133.2	157.0



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