

**TEEJAY LANKA PLC [TJL.N0000]****MAINTAIN BUY****MARGIN HEADWINDS PERSIST: CAPACITY EXPANSION TO LEAD THE WAY...****Fair Value: FY23E - LKR 55.0 [+38%]****FY24E - LKR 79.0 [+98%]**

Total Return with DPS: FY23E - 46% [AER 56%]

FY24E - 118% [AER 53%]

TJL registered earnings of LKR 826.1Mn (+8.6%YoY) in 4QFY22, performing broadly in line with our earnings expectations, although earnings growth was mainly driven by the improvement in finance income by 68.9%YoY to LKR 247.4Mn led by depreciation of the rupee and reduction in income taxes by 53.3%YoY to LKR 66.3Mn. Despite the surge in revenue by 37.8%YoY to LKR 13.5Bn, GP margin declined by 365bps to 8.1%, and was impacted due to upsurge in commodity price increases inclusive of cotton, oil, freight, dyes, chemicals, and auxiliaries. Considering the escalation in commodity prices and resultant impact to margins, we have downgraded earnings for FY23E to LKR 3.6Bn while FY24E is estimated at LKR 5.7Bn. On the backdrop of the marginal decline in earnings and higher risk-free rate applicable for valuations in the midst of rising interest environment, we have downgraded the fair value of TJL to LKR 55.0 for FY23E from previous LKR 65.0 while FY24E value is estimated at LKR 79.0. At current market price of LKR 40.0, TJL provides a capital gain of 38.0% for FY23E and 98.0% for FY24E. **MAINTAIN BUY**

LKR (Mn)	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Earnings (LKR 'Mn)						
Revenue	9,770	13,465	+38%	31,780	49,657	+56%
Gross profit	1,150	1,093	-5%	3,790	4,309	+14%
EBIT	781	716	-8%	2,441	2,587	+6%
PBT	903	892	-1%	2,599	2,887	+11%
Net Profit	761	826	+9%	2,140	2,518	+18%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	17,764	28,214	+59%	17,764	28,214	+59%
Borrowings	3,306	11,481	+247%	3,306	11,481	+247%
NAVPS	24.8	39.4		24.8	39.4	

TJL's revenue expanded by 37.8%YoY in 4QFY22 led by increase in ASP, volume growth and currency depreciation

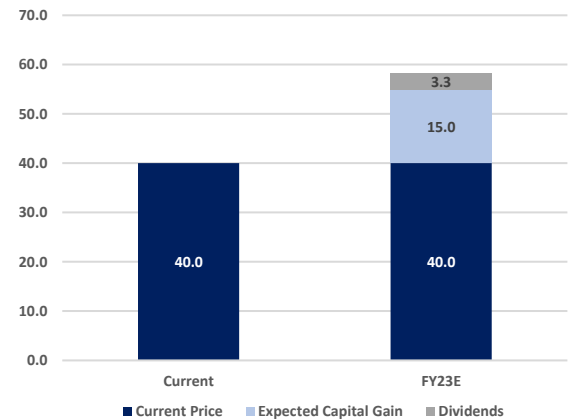
Improved demand from the region and increase in Average Selling Prices (ASP) and currency depreciation enabled TJL to post topline of LKR 13.5Bn which grew by 37.8%YoY in comparison to the previous year corresponding period. The greater volumes were delivered with the larger capacity within the group inclusive of outsourced partners' support which amounted to nearly 9.0% 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 completion of USD 26.0Mn capacity expansion in the Indian plant. Accordingly, capacity addition is expected to occur from 1QFY23E and fully load by 3QFY23E. 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 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. Above average value for USD throughout FY23E is expected to be a boon for TJL's topline as its significant portion of revenue is generated in foreign currency. Considering the strong order book, recent capacity expansion and higher value for the currency, we upgrade TJL's revenue to LKR 64.6Bn (30.0%YoY) for FY23E and to LKR 80.9Bn (25.3%YoY) in FY24E.

GP and OP margins face headwinds from cost pressures

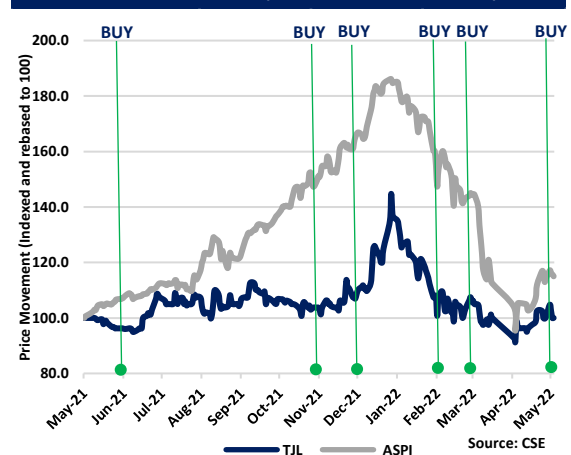
TJL's GP margin declined to 8.1% in 4QFY22 relative to the same quarter in FY21 as a result of cost pressures that prevailed during the quarter and due to the fact that yarn prices being the lowest in the previous year while OP margin followed suit dipping by 270bps to 5.3% amidst increased overhead cost. Moreover, outsourced orders which amounted to 9.0% of the topline caused margins to diminish as it generates GP margins in the range of 3.0%-4.0%. Distribution costs registered an increase of 68.5%YoY to LKR 67.8Mn attributable to the increase in volumes as reflected in topline growth and due to the lower base effect prevailed in FY21 as a result of controlled cost environment. We expect the impact of rising yarn prices to affect GP margins in FY23E as well. Accordingly, considering the persistent cost pressures we have estimated GP margins at 10.5% for FY23E while earnings were estimated at LKR 3.6Bn. However, we expect yarn prices to gradually stabilize by the beginning of FY24E while increased 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. Accordingly, in FY24E GP margin was estimated at 11.0% while earnings were anticipated at LKR 5.7Bn.

TP for FY23E downgraded to LKR 55.0 and is estimated at LKR 79.0 for FY24E

With the downgrade in earnings and considering the impact of higher risk-free rate applicable for valuations, we have downgraded the fair value for FY23E to LKR 55.0 and estimated FY24E fair value at LKR 79.0. At the current market price of LKR 40.0, TJL is expected to provide an annualized return of 56.0% for FY23E and 53.0% for FY24E. **MAINTAIN BUY**

**FIRST CAPITAL RESEARCH**

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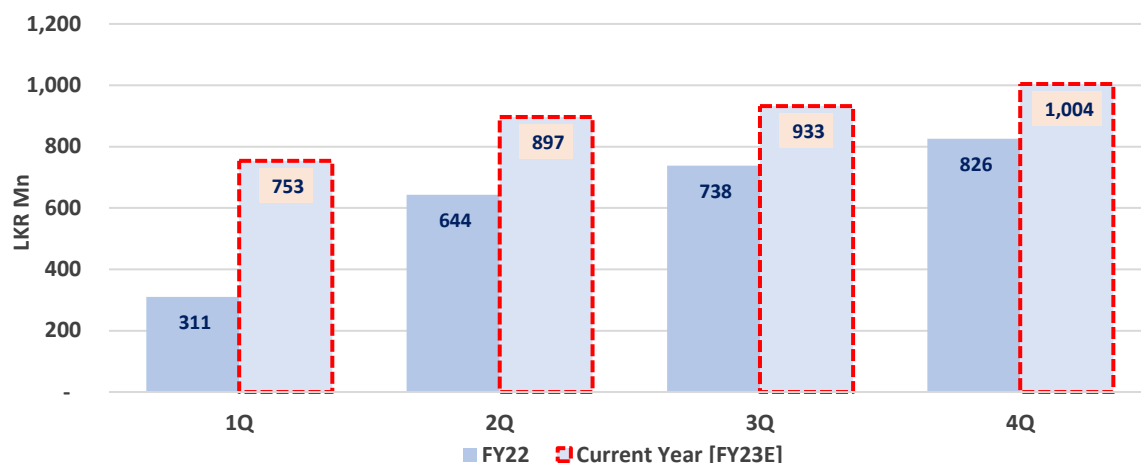
hiruni@firstcapital.lk**Price Movement of TJL vs ASPI (Indexed and rebased to 100)****Minimum Return for BUY:**

Buy Below for FY23E [AER of 20.0% with DPS]: LKR 49.9
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



Estimate Revision

In LKR Mn	FY23E - O	FY23E - R	% Change	FY24E - O	FY24E - R	% Change
Earnings Estimate						
Revenue	63,803	64,550	+1%	76,317	80,899	+6%
Gross profit	7,337	6,778	-8%	9,158	8,899	-3%
EBIT	4,766	4,591	-4%	6,082	6,158	+1%
Profit before tax	4,744	4,171	-12%	6,154	6,577	+7%
Net Profit	3,909	3,587	-8%	5,071	5,656	+12%
EPS	5.5	5.0		7.1	7.9	
Growth YoY	53%	42%			58%	
Balance Sheet Estimate						
Shareholders' Equity	20,005	29,469	+47%	21,835	31,449	+44%
Borrowings	5,587	10,659	+91%	5,542	8,254	+49%
NAVPS	27.9	41.1		30.5	43.9	
Ratio Estimate						
ROE (%)	20.2%	12.4%		19.8%	18.6%	
PER (x)	7.3	8.0		5.7	5.1	
PBV (x)	1.4	1.0		1.3	0.9	

Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	31,747	33,277	31,853	49,657	64,550	80,899	98,049
Gross profit	3,686	4,229	3,766	4,309	6,778	8,899	11,766
EBIT	2,345	2,728	2,487	2,587	4,591	6,158	8,444
Net Profit	1,859	2,384	2,139	2,518	3,587	5,656	7,598
Adjusted EPS (LKR)	2.6	3.3	3.0	3.5	5.0	7.9	10.6
YoY Growth (%)	16%	28%	-10%	18%	42%	58%	34%
Valuations							
PER (x)	15.4x	12.0x	13.4x	11.4x	8.0x	5.1x	3.8x
PBV (x)	2.1x	1.8x	1.6x	1.0x	1.0x	0.9x	0.8x
DY (%)	4.9%	3.3%	7.0%	2.1%	8.1%	12.8%	17.2%
NAVPS	19.4	21.8	24.8	39.4	41.1	43.9	47.6
DPS (LKR)	2.0	1.3	2.8	0.9	3.3	5.1	6.9
Dividend Payout	75%	39%	94%	24%	65%	65%	65%

Valuation Summary

Expected TJL price	FY23E	FY24E
PER Valuation based target price	55.1	75.0
DCF Valuation based target price	55.0	84.7
Average Target Price	55.0	79.8
Target Price after Rounding off	55.0	79.0

Return	FY23E	FY24E
Target Price	55.0	79.0
Current Price	40.0	40.0
Capital Gain (LKR)	15.0	39.0
Dividends upto 31st March	3.3	8.4
Capital Gain %	38%	98%
Dividend Yield %	8%	21%
Total Return %	46%	118%
Annualized Return %	56%	53%

Discounted Cash flow Valuation

DCF based Valuation	FY23E	FY24E
Enterprise Value	49,486	59,377
(-) Debt	(10,659)	(8,254)
(+) Cash	582	9,562
Total Value of Equity	39,409	60,686
No. of Shares (Mn)	717	717
Target Price	55.0	84.7

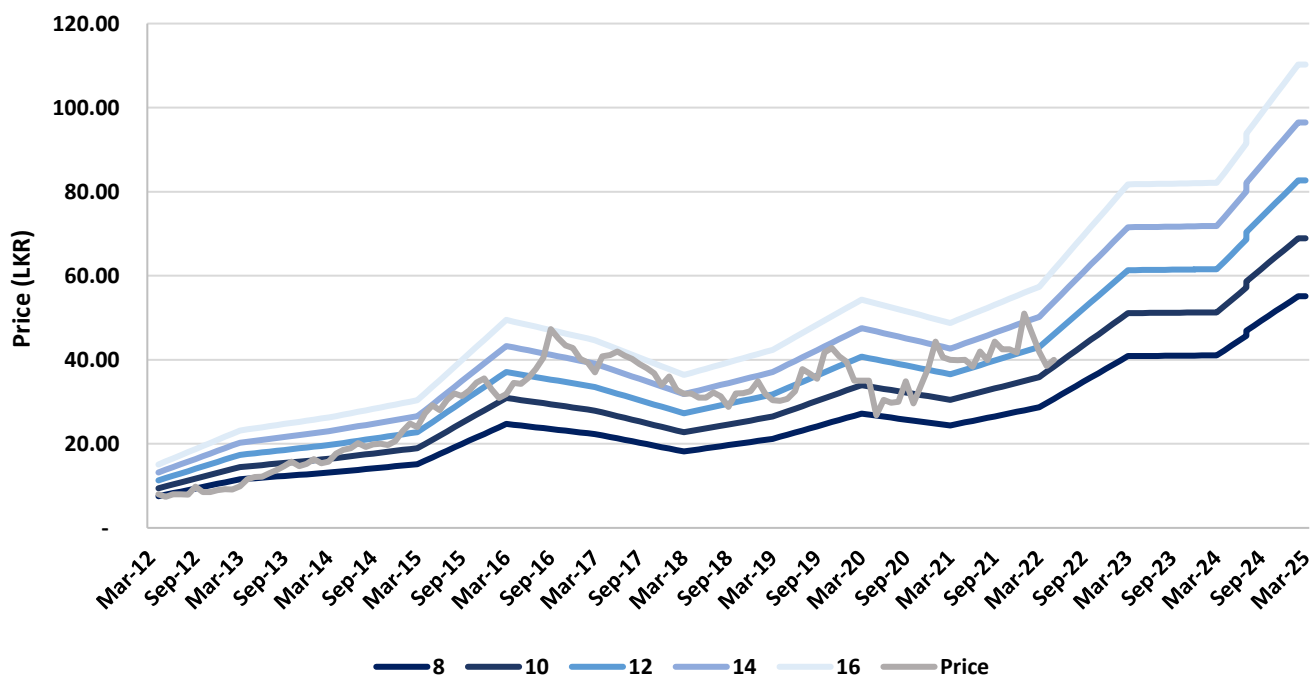
COE	FY23E	FY24E
Rf	15.0%	15.0%
Rm	23.0%	23.0%
Growth %	3.0%	3.0%
β	0.50	0.50
Ke = Rf + β(Rm-Rf)	19.0%	19.0%

PER Valuation

PER based Valuation	FY23E	FY23E
Earnings (LKR 'Mn)	3,587	5,656
No. of Shares ('Mn)	717	717
EPS	5.0	7.9
Expected PER	11.0x	9.5x
Price at x Earnings	55.1	75.0

WACC	FY23E	FY24E
Ke	19.0%	19.0%
Kd	8.8%	8.8%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3.0%	3.0%
WACC	14.9%	14.9%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
P/E 31st March							
Revenue	31,747	33,277	31,853	49,657	64,550	80,899	98,049
Cost of sales	-28,061	-29,048	-28,087	-45,347	-57,772	-72,000	-86,283
Gross profit	3,686	4,229	3,766	4,309	6,778	8,899	11,766
Other income	246	173	190	243	368	461	559
Selling, Distribution & Admin expenses	-1,587	-1,673	-1,469	-1,966	-2,555	-3,202	-3,881
Operating profit	2,345	2,728	2,487	2,587	4,591	6,158	8,444
Non operating income	0	0	0	0	0	0	0
EBIT	2,345	2,728	2,487	2,587	4,591	6,158	8,444
Finance Income	102	244	276	536	192	911	801
Less : Finance Cost	-189	-160	-113	-236	-612	-492	-410
Net finance income	-88	84	163	300	-420	419	391
Profit before tax	2,257	2,812	2,651	2,887	4,171	6,577	8,835
Income tax expense	-398	-428	-512	-369	-584	-921	-1,237
Profit for the Year	1,859	2,384	2,139	2,518	3,587	5,656	7,598
EPS	2.6	3.3	3.0	3.5	5.0	7.9	10.6

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
As at 31st March							
Assets							
Property, plant and equipment	8,408	8,777	8,711	14,696	19,622	18,807	18,222
Capital work-in-progress	119	590	425	4,689	410	410	410
Intangible Assets	94	78	125	163	88	47	26
Deferred tax assets	111	256	273	344	344	344	344
Inventories	4,494	5,904	7,281	16,388	10,257	12,190	15,043
Trade and other receivables	4,013	4,137	7,181	13,727	17,843	9,974	12,357
Cash and cash equivalents	4,290	5,263	4,452	5,975	582	9,562	8,193
Other Assets	856	1,958	2,651	3,258	3,258	3,258	3,258
Total Assets	22,386	26,962	31,099	59,238	52,404	54,592	57,852
Shareholders' Funds							
Stated capital	4,057	4,057	4,249	4,442	4,442	4,442	4,442
Exchange equalisation reserve	4,172	5,263	6,225	15,216	15,216	15,216	15,216
Retained earnings	5,600	6,232	7,137	8,402	9,658	11,637	14,297
Share option scheme	97	97	153	153	153	153	153
Shareholders' Funds	13,925	15,649	17,764	28,214	29,469	31,449	34,108
Liabilities							
Trade and other payables	4,703	5,643	8,087	17,081	9,813	12,427	14,656
Borrowings	2,968	3,914	3,306	11,481	10,659	8,254	6,625
Tax liability	538	739	753	1,064	1,064	1,064	1,064
Retirement benefit obligations	252	378	520	425	425	425	425
Other		640	668	973	973	973	973
Total Liabilities	8,461	11,314	13,335	31,024	22,935	23,143	23,743
Total Liabilities & Shareholders' Funds	22,386	26,962	31,099	59,238	52,404	54,592	57,852
NAVPS	19.4	21.8	24.8	39.4	41.1	43.9	47.6



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