



# HAYLEYS FABRIC PLC [MGT.N0000]

## MAINTAIN BUY

### “WEAVING GROWTH AMIDST DOMESTIC HINDRANCES”

**Fair Value: FY23E - LKR 60.0 [+69%]**

Total Return with DPS: FY23E - 74% [AER 134%]

**FY24E - LKR 75.0 [+111%]**

FY24E - 125% [AER 63%]

MGT marked yet another earnings rich performance in 1QFY23 mainly driven by the growth in top-line despite a marginal dip in GP margin. Accordingly, earnings substantially expanded by 438.9%YoY to LKR 1.6Bn compared to LKR 0.3Bn in 1QFY22. Revenue grew by 158.7%YoY to LKR 15.0Bn reflected by the overall expansion in Sri Lankan apparel exports during the quarter, which was further boosted by the sharp depreciation in LKR. However, GP margins contracted by 133bps owing to the elevated raw material prices and the heightened currency cost on import bills. With the gradual downtrend in commodity prices, we expect MGT to strengthen its margins in FY23E. Considering the higher than expected results and availability of further growth avenues for MGT, we substantially increased our earnings target for FY23E to LKR 5.1Bn (+302.0% from previous) and FY24E to LKR 5.5Bn (+229.0% from previous), thereby advancing the fair value target for FY23E at LKR 60.0 (previous – LKR 50.0) and fair value for FY24E was estimated at LKR 75.0. **MAINTAIN BUY**

LKR (Mn)	1QFY22	1QFY23	YoY	FY21	FY22	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	5,814	15,039	+159%	14,769	31,653	+114%
Gross profit	830	1,948	+135%	2,019	4,122	+104%
EBIT	339	1,019	+200%	890	1,756	+97%
PBT	303	2,005	+561%	731	3,156	+332%
Net Profit	299	1,610	+439%	736	2,692	+266%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	4,524	12,259	+171%	4,226	9,107	+116%
Borrowings	8,787	15,497	+76%	3,346	12,901	+286%
NAVPS	10.9	29.5	+171%	10.2	21.9	+116%

#### Revenue shot up by 158.7%YoY on strong dollar earnings

MGT recorded a substantial top-line growth of 158.7%YoY to LKR 15.0Bn for the quarter compared to LKR 5.8Bn recorded in 1QFY22. Revenue generated in USD terms reported a growth of 43.4%YoY to USD 41.3Mn supported by the improved performance driven by the capacity enhancements and developed synergies over time since the acquisition of SAT. The overall apparel exports in the country during the quarter recorded a growth of 31.0%YoY over the same period last year justifying the boost in performance of MGT. Additionally, steep depreciation in LKR during the period also stimulated the rupee earnings of MGT. Although there could be some tail-off in orders during FY24E with the looming global recessionary fears, MGT has the capacity to capture the benefit of gradual shifting of US orders from China towards other destinations including South Asia. Moreover, even if recession hits, we expect MGT to restore its volume growth as soon as the recovery begins. Therefore, considering the outstanding performance delivered in the quarter along with the strong growth foundation, we advanced the revenue projections of MGT to LKR 66.2Bn (+139.0% from previous) for FY23E and LKR 76.1Bn (+120.0% from previous) for FY24E.

#### GP margin slipped to 13.0% in 1QFY23 from 14.3% in 1QFY22 amidst cost pressures

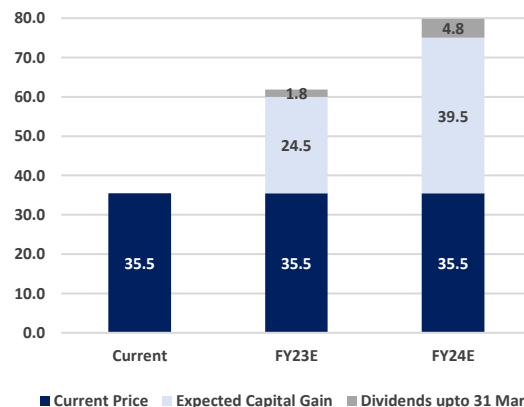
Despite strong top-line growth, GP margin contracted by 133bps to 13.0% in 1QFY23 amidst the rise in input costs. Cotton prices elevated to a 11-year high of USD 1.55/ lb in May-22 and the average cotton prices for 1QFY23 were 64.0% higher than 1QFY22 tripling the effect on cost given the forex rate depreciation. Moreover, synthetic yarn has also risen during the period given the rise in global crude oil prices. Domestic operational disruptions and increase in other direct costs may also have inflated the COS. However, as recession hints, cotton prices plunged by 35.0% since its peak and the crude oil prices fell 29.0% since its peak in Mar-22, thereby easing pressure on COS. Accordingly, we believe MGT to gradually improve its margins in the upcoming quarters.

#### Gain on translation of rupee borrowing added further cushion on bottom-line

Net Financing Income of MGT posted a sizeable growth up to LKR 986.5Mn in 1QFY23 compared to a Net Financing Cost of LKR 36.2Mn recorded in 1QFY22. This book profit is assumed to have mainly arisen from the gain on the translation effect of MGT's rupee borrowings to its reporting currency of USD.

#### FV revised upwards to LKR 60.0 for FY23E and estimated at LKR 75.0 for FY24E - MAINTAIN BUY

Considering the higher earnings prospects, we have revised upwards the MGT's fair value target to LKR 60.0 for FY23E (previous estimate – LKR 50.0) and LKR 75.0 for FY24E with a substantial upside potential to the current price level. **MAINTAIN BUY**



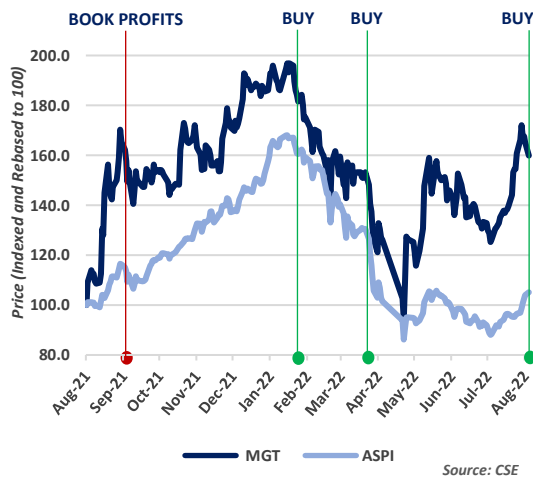
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#### Price movement of MGT vs ASPI (Indexed and Rebased to 100)



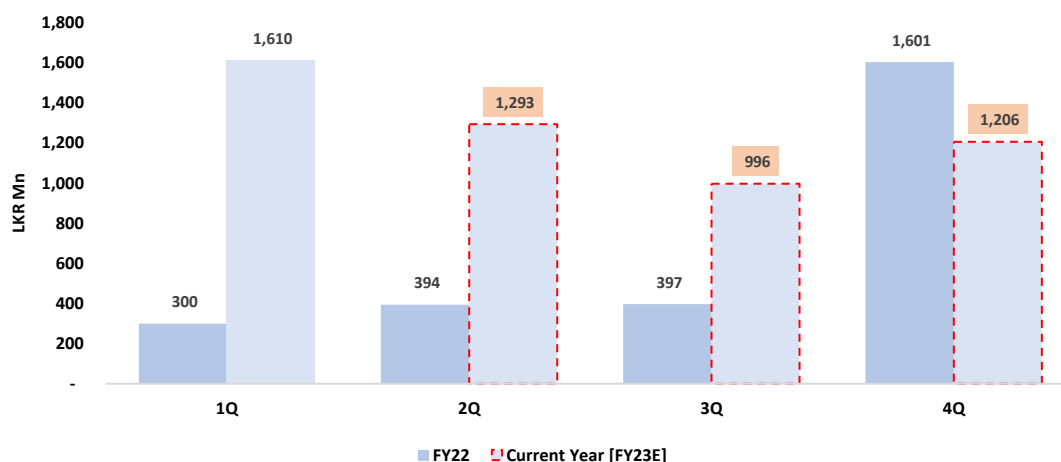
#### Minimum Return for BUY:

**Buy Below FY23E - [AER of 23% with DPS]: LKR 44.0**  
MGT categorized as 'Grade B' counter

#### Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of MGT 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
<b>Earnings Estimate</b>						
Revenue	27,666	66,186	+139%	34,583	76,135	+120%
Gross profit	3,984	9,266	+133%	5,360	9,898	+85%
EBIT	1,868	4,817	+158%	2,540	5,746	+126%
Profit before tax	1,475	5,935	+302%	1,941	6,390	+229%
Net Profit	1,269	5,105	+302%	1,670	5,495	+229%
EPS	3.1	12.3		4.0	13.2	
Growth YoY	72%	90%		32%	8%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	4,993	12,935	+159%	6,003	17,221	+187%
Borrowings	7,846	13,979	+78%	8,546	12,882	+51%
<b>NAVPS</b>	<b>12.0</b>	<b>31.1</b>		<b>14.4</b>	<b>41.4</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>25.4%</b>	<b>39.5%</b>		<b>27.8%</b>	<b>31.9%</b>	
<b>PER (x)</b>	<b>11.0</b>	<b>2.9</b>		<b>8.4</b>	<b>2.7</b>	
<b>PBV (x)</b>	<b>2.8</b>	<b>1.1</b>		<b>2.3</b>	<b>0.9</b>	

## Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Estimates (LKR 'Mn)</b>							
Revenue	11,983	12,225	14,769	31,653	66,186	76,135	91,134
Gross Profit	1,429	1,585	2,019	4,122	9,266	9,898	12,759
EBIT	470	450	890	1,756	4,817	5,746	7,926
<b>Net Profit</b>	<b>181</b>	<b>231</b>	<b>736</b>	<b>2,692</b>	<b>5,105</b>	<b>5,495</b>	<b>6,581</b>
Adjusted EPS (LKR)	0.4	0.6	1.8	6.5	12.3	13.2	15.8
YoY Growth (%)	272%	28%	218%	266%	90%	8%	20%
<b>Valuations</b>							
<b>PER (x)</b>	<b>81.3x</b>	<b>63.7x</b>	<b>20.0x</b>	<b>5.5x</b>	<b>2.9x</b>	<b>2.7x</b>	<b>2.2x</b>
<b>PBV (x)</b>	<b>4.6x</b>	<b>4.2x</b>	<b>3.5x</b>	<b>1.6x</b>	<b>1.1x</b>	<b>0.9x</b>	<b>0.7x</b>
<b>DY (%)</b>	<b>0%</b>	<b>2%</b>	<b>3%</b>	<b>6%</b>	<b>9%</b>	<b>8%</b>	<b>13%</b>
<b>NAVPS</b>	<b>7.7</b>	<b>8.5</b>	<b>10.2</b>	<b>21.9</b>	<b>31.1</b>	<b>41.4</b>	<b>52.5</b>
<b>DPS</b>	<b>-</b>	<b>0.6</b>	<b>1.1</b>	<b>2.1</b>	<b>3.1</b>	<b>2.9</b>	<b>4.8</b>
<b>Dividend Payout</b>	<b>0.0%</b>	<b>107.7%</b>	<b>59.3%</b>	<b>32.4%</b>	<b>25%</b>	<b>22%</b>	<b>30%</b>



## Valuation Summary

Expected MGT Price	FY23E	FY24E
PER Based Target Price	61.4	79.4
DCF Based Target Price	56.6	74.2
Average Target Price	59.0	76.8
Target Price after Rounding Off	60.0	75.0

Return	FY23E	FY24E
Target Price	60.0	75.0
Current Price	35.5	35.5
Capital Gain (LKR)	24.5	39.5
Dividend upto 31 Mar (LKR)	1.8	4.8
Capital Gain %	69%	111%
Dividend Yield %	5%	14%
<b>Total Return %</b>	<b>74%</b>	<b>125%</b>
Annualized Return %	134%	63%

## Discounted Cash flow Valuation

DCF Based Valuation	FY23E	FY24E
Enterprise Value	33,935	38,937
Debt (-)	(13,979)	(12,882)
Cash (+)	3,554	4,760
Total Value of Equity	23,510	30,815
No. of Shares (Mn)	415	415
Target Price	56.6	74.2

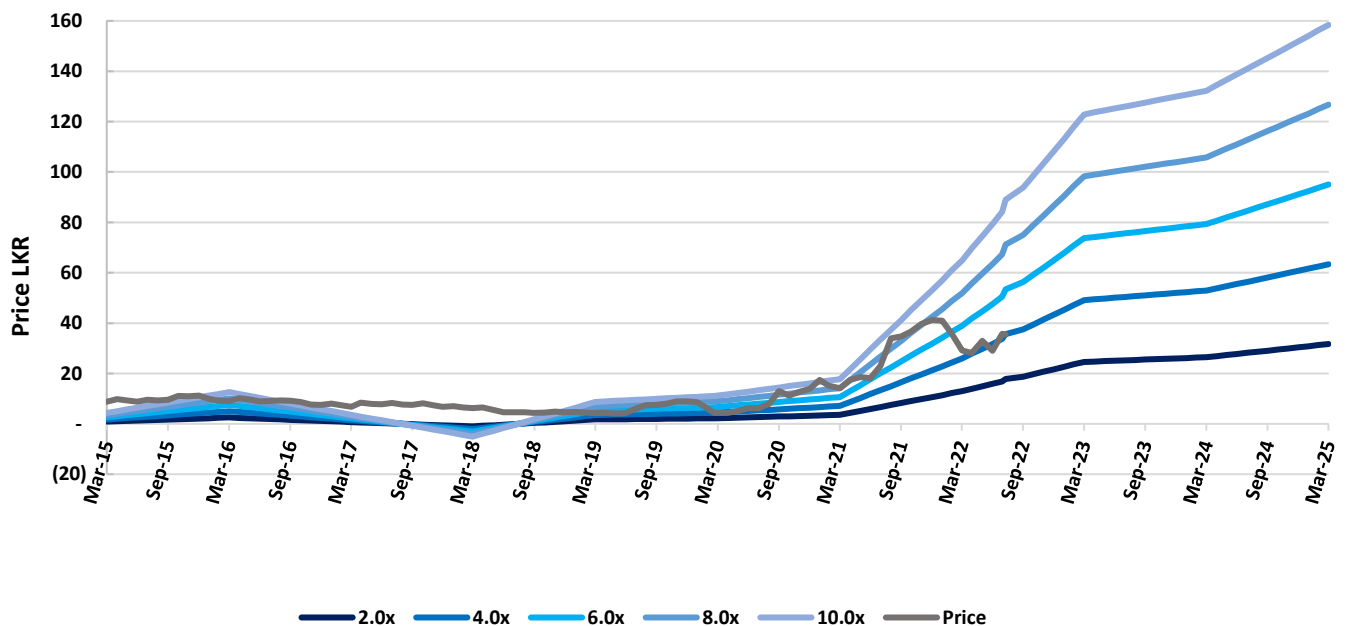
COE	FY23E	FY24E
Rf	15%	15%
Rm	23%	23%
Growth %	3%	3%
$\beta$	1.5	1.5
$Ke = Rf + \beta(Rm - Rf)$	27%	27%

## PER Valuation

PER Based Valuation	FY23E	FY24E
Earnings (LKR 'Mn)	5,105	5,495
No. of Shares ('Mn)	415	415
EPS	12.3	13.2
Expected Average PER	5.0x	6.0x
Target Price	61.4	79.4

WACC	FY23E	FY24E
Ke	27%	27%
Kd	18%	18%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3%	3%
<b>WACC</b>	<b>23%</b>	<b>23%</b>

## PER Chart



## Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>As at 31st March</b>							
Revenue from Contracts with Customers	11,983	12,225	14,769	31,653	66,186	76,135	91,134
Cost of Sales	(10,554)	(10,641)	(12,750)	(27,531)	(56,920)	(66,238)	(78,375)
<b>Gross Profit</b>	<b>1,429</b>	<b>1,585</b>	<b>2,019</b>	<b>4,122</b>	<b>9,266</b>	<b>9,898</b>	<b>12,759</b>
Other Operating Income	11	11	12	395	427	461	498
Administrative Expenses	(819)	(915)	(960)	(2,316)	(3,971)	(3,807)	(4,557)
Distribution Expenses	(134)	(150)	(182)	(402)	(860)	(761)	(729)
Other Expenses	(18)	(81)	-	(44)	(44)	(45)	(45)
<b>EBIT</b>	<b>470</b>	<b>450</b>	<b>890</b>	<b>1,756</b>	<b>4,817</b>	<b>5,746</b>	<b>7,926</b>
Net Financing Income/(Expense)	(153)	(146)	(159)	1,400	1,118	644	(273)
<b>Profit Before Tax</b>	<b>317</b>	<b>304</b>	<b>731</b>	<b>3,156</b>	<b>5,935</b>	<b>6,390</b>	<b>7,653</b>
Tax	(135)	(73)	6	(463)	(831)	(895)	(1,071)
<b>Profit After Tax</b>	<b>181</b>	<b>231</b>	<b>736</b>	<b>2,692</b>	<b>5,105</b>	<b>5,495</b>	<b>6,581</b>
Adjusted EPS	0.4	0.6	1.8	6.5	12.3	13.2	15.8

## Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>As at 31st March</b>							
<b>ASSETS</b>							
<b>Non-Current Assets</b>							
Property, Plant and Equipment	4,418	4,891	5,799	13,132	15,104	15,326	16,325
Right of Use Assets	-	-	38	252	252	252	252
Intangible Assets	11	23	15	109	118	103	97
<b>Total Non-Current Assets</b>	<b>4,430</b>	<b>4,914</b>	<b>5,852</b>	<b>16,713</b>	<b>18,693</b>	<b>18,901</b>	<b>19,894</b>
<b>Current Assets</b>							
Inventories	2,368	2,938	3,346	11,002	17,076	18,547	21,945
Trade Receivables	1,494	1,213	1,590	4,831	9,266	10,659	9,113
Cash and Cash Equivalents	51	103	646	2,953	3,554	4,760	7,022
<b>Total Current Assets</b>	<b>4,046</b>	<b>4,507</b>	<b>5,849</b>	<b>19,778</b>	<b>30,888</b>	<b>34,958</b>	<b>39,073</b>
<b>Total Assets</b>	<b>8,475</b>	<b>9,420</b>	<b>11,701</b>	<b>36,491</b>	<b>49,581</b>	<b>53,858</b>	<b>58,967</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Capital and Reserves</b>							
Stated Capital	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Retained Earnings	52	275	633	2,836	6,664	10,950	15,557
<b>Total Equity</b>	<b>3,179</b>	<b>3,543</b>	<b>4,226</b>	<b>9,107</b>	<b>12,935</b>	<b>17,221</b>	<b>21,828</b>
<b>Non-Current Liabilities</b>							
Interest Bearing Loans and Borrowings	188	135	687	5,216	5,592	5,153	5,464
Deferred tax liabilities	315	416	420	1,257	1,257	1,257	1,257
Retirement benefit obligations	451	529	610	880	880	880	880
<b>Total Non-Current Liabilities</b>	<b>954</b>	<b>1,079</b>	<b>1,716</b>	<b>7,353</b>	<b>7,728</b>	<b>7,289</b>	<b>7,601</b>
<b>Current Liabilities</b>							
Trade and Other Payables	1,104	1,429	2,797	10,600	18,783	19,871	19,594
Interest Bearing Loans and Borrowings	2,515	3,094	2,659	7,684	8,388	7,729	8,197
Other Current Non Financial Liabilities	262	252	288	1,646	1,646	1,646	1,646
<b>Total Current Liabilities</b>	<b>4,342</b>	<b>4,798</b>	<b>5,759</b>	<b>20,031</b>	<b>28,918</b>	<b>29,347</b>	<b>29,537</b>
<b>Total Equity and Liabilities</b>	<b>8,475</b>	<b>9,420</b>	<b>11,701</b>	<b>36,491</b>	<b>49,581</b>	<b>53,858</b>	<b>58,967</b>
Adjusted NAVPS	7.7	8.5	10.2	21.9	31.1	41.4	52.5



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