

**TEEJAY LANKA PLC [TJL.N0000]****MAINTAIN BUY****“GROWTH IN TOPLINE FOR THE 7TH CONSECUTIVE QUARTER”****Fair Value: FY23E - LKR 60.0 [+89%]****FY24E: LKR 75.0 [+136%]**

Total Return with DPS: FY23E - 100% [AER 565%]

FY24E - 162% [AER 102%]

TJL recorded earnings of LKR 1.1Bn (+69.9%YoY) in 2QFY23, performing beyond our expectations, supported by the notable increase in topline of 95.0%YoY to LKR 24.8Bn owing to the steep depreciation of LKR against USD and increase in ASP (+33%YoY) although overall volumes depicted a decline of 20.0%YoY amidst the economic slowdown. Synthetics registered a notable growth during the quarter where revenue from the segment has increased by 170.0%YoY on the back of spike in volume by over 100%YoY. However, inflated cost pressure (energy and utilities) dampened the margins on a YoY basis. Considering the degrowth in overall volumes amidst the higher inventory level held by the retailers due to changes in consumer patterns and the higher tax impact, we have downgraded the earnings for FY23E to LKR 4.1Bn and FY24E to 5.1Bn. Hence, in line with the revision of earnings, we have downgraded the FV to LKR 60.0 for FY23E from the previous LKR 67.0 and FV for FY24E revised to LKR 75.0 from the previous LKR 80.0. **MAINTAIN BUY**

LKR (Mn)	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Earnings (LKR 'Mn)						
Revenue	12,694	24,753	+95%	23,079	48,611	+111%
Gross profit	1,143	2,160	+89%	1,912	4,281	+124%
EBIT	679	1,265	+86%	1,021	2,380	+133%
PBT	764	1,221	+60%	1,148	2,727	+137%
Net Profit	644	1,094	+70%	954	2,340	+145%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	18,247	36,497	+100%	18,247	36,497	+100%
Borrowings	5,233	13,794	+164%	5,233	13,794	+164%
NAVPS	25.5	50.9		25.5	50.9	

TJL's topline registered the highest quarterly revenue of LKR 24.8Bn

TJL's 2QFY23 revenue of LKR 24.8Bn ranks among the highest quarterly figures reported by the company. (+95.0%YoY). The topline growth was mainly driven by the steep depreciation of LKR against USD by over 80.0%YoY, improved product mix and increase in ASP which contributed 33.0% to the topline. However, overall volume witnessed a drop of 20.0%YoY due to the global economic slowdown (Except for Nike and Uniqlo which reported growth in volume during the quarter) whereas synthetic sales volume has improved by 100.0%YoY in 2QFY23. Management noted that TJL plants operated at 73% capacity in 2QFY23 whilst 12% of the top-line was generated from synthetics. Going forward, we expect a challenging environment for TJL amidst the drop in order book on the back of decelerating volume due to the high inventory level maintained by the retailers. This was heavily led by the significant fall in demand due to changes in consumer patterns over inflation and Geopolitical turbulence. As a result, we estimate a QoQ degrowth in the topline in 2HFY23E while expecting a softness in demand considering the recessionary environment in the US and EU and adjustments in ASP amidst the fall in yarn prices. Hence, we downgraded TJL's revenue forecast to LKR 93.8Bn for FY23E.

Inflated cost pressure trimmed down GP margin to 8.7% on a YoY and QoQ basis

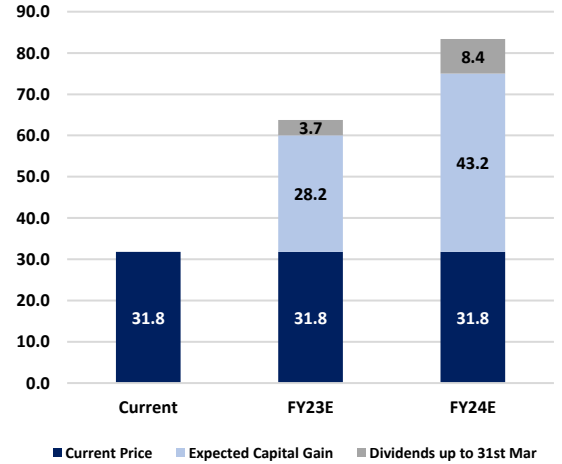
TJL's GP margin witnessed a marginal decline of 28bps on a YoY basis and 17bps on a QoQ basis to 8.7% in 2QFY23 amidst the volatility in the global energy prices, freight rates and increase in utility prices that have tripled on a YoY basis. Meanwhile, distribution and administrative expenses displayed a notable increase of 108.4%YoY amidst the increase in strategic activity costs incurred on R&D which weighed down the earnings growth. As the global yarn price has started to scale down and is expected to stabilize during the rest of the year, we expect the impact of raw material cost on GP margin to be lower in 2HFY23E while the utility prices are expected to remain higher. Accordingly, we have revised down the GP margins to single digit of 9.4% for FY23E and expect to gradually improve to 10.5% in FY24E, considering the increased focus towards high-margin synthetic fabric, stabilised cotton prices and increased capacity installation.

Going forward, synthetic orders to drive TJL's topline

Revenue from synthetics significantly rose by 17.0%YoY as TJL has been shifting focus towards synthetic and expecting to convert 20%-30% of the total production capacity to synthetic. In addition to that, the capacity expansion concluded in Teejay India adding 20MT of capacity to the Group's production capability may use to expand the Group's synthetic footprint. Moreover, TJL expanded their presence in Bangladesh which may remain as the hub for Teejay India considering the lead time and volatility in freight rates. Although we expect a slowdown in 2HFY23E due to the negative impact on order book amidst lower volume, with the China Plus One strategy, TJL may benefit from the clear shift in demand for apparel from China to the South Asian region which may partly offset the negative impact. Hence, we have downgraded TJL's top-line for FY23E to LKR 93.8Bn while upgraded FY24E to LKR 105.8Bn.

FV for FY23E revised down to LKR 60.0 and FY24E to LKR 75.0

Considering the volume degrowth and the tax impact, we have downgraded TJL's earnings for FY23E to LKR 4.1Bn and FY24E to 5.1Bn. Hence, in line with the revision of earnings, we have downgraded the fair value to LKR 60.0 for FY23E and LKR 75.0 for FY24E. At the current market price of LKR 31.8, TJL provides a capital gain of 89.0% for FY23E and 135.8% for FY24E. **MAINTAIN BUY**



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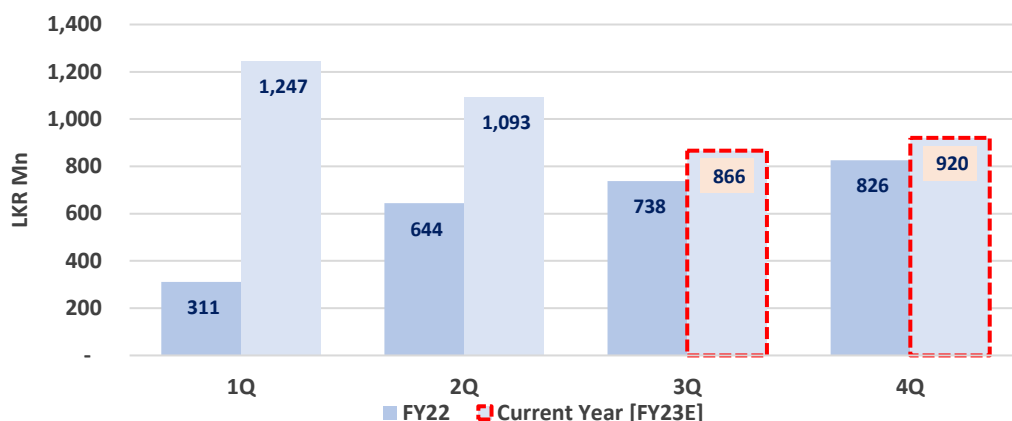
tharushaash@firstcapital.lk**Price Movement of TJL vs ASPI (Indexed and rebased to 100)****Minimum Return for BUY:**

Buy Below for FY23E [AER of 20.0% with DPS]: LKR 59.6
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	99,058	93,844	-5%	94,105	105,845	+12%
Gross profit	9,510	8,821	-7%	10,163	11,114	+9%
EBIT	5,505	5,068	-8%	6,359	6,880	+8%
Profit before tax	5,493	5,158	-6%	6,713	7,089	+6%
Net Profit	4,724	4,127	-13%	5,773	5,104	-12%
EPS	6.6	5.8		8.1	7.1	
Growth YoY	87%	63%		22%	24%	
Balance Sheet Estimate						
Shareholders' Equity	35,304	35,095	-1%	37,325	36,882	+1%
Borrowings	12,907	13,498	+5%	9,607	10,139	+6%
NAVPS	49.3	49.0		52.1	51.5	
Ratio Estimate						
ROE (%)	14.9%	13.0%		15.9%	14.2%	
PER (x)	6.5	5.6		5.3	4.6	
PBV (x)	0.9	0.7		0.8	0.6	

Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	31,747	33,277	31,780	49,588	93,844	105,845	110,899
Gross profit	3,686	4,229	3,790	4,578	8,821	11,114	11,977
EBIT	2,345	2,728	2,441	2,573	5,068	6,880	7,541
Net Profit	1,859	2,384	2,140	2,531	4,127	5,104	5,726
Adjusted EPS (LKR)	2.6	3.3	3.0	3.5	5.8	7.1	8.0
YoY Growth (%)	16%	28%	-10%	18%	63%	24%	12%
Valuations							
PER (x)	12.3x	9.6x	10.7x	9.0x	5.5x	4.5x	4.0x
PBV (x)	1.6x	1.5x	1.3x	0.8x	0.6x	0.6x	0.6x
DY (%)	6.1%	4.1%	8.8%	7.4%	11.8%	14.6%	16.3%
NAVPS	19.4	21.8	24.8	39.4	49.0	51.5	54.3
DPS (LKR)	2.0	1.3	2.8	2.4	3.7	4.6	5.2
Dividend Payout	75%	39%	94%	67%	65%	65%	65%

Valuation Summary

Expected TJL price	FY23E	FY24E
PER Valuation based target price	57.6	71.2
DCF Valuation based target price	59.5	74.4
Average Target Price	58.5	72.8
Target Price after Rounding off	60.0	75.0

Return	FY23E	FY24E
Target Price	60.0	75.0
Current Price	31.8	31.8
Capital Gain (LKR)	28.2	43.2
Dividends upto 31st March	3.7	8.4
Capital Gain %	89%	136%
Dividend Yield %	12%	26%
Total Return %	100%	162%
Annualized Return %	565%	102%

Discounted Cash flow Valuation

DCF based Valuation	FY23E	FY24E
Enterprise Value	49,517	55,360
(-) Debt	(13,498)	(10,139)
(+) Cash	6,625	8,119
Total Value of Equity	42,644	53,340
No. of Shares (Mn)	717	717
Target Price	59.5	74.4

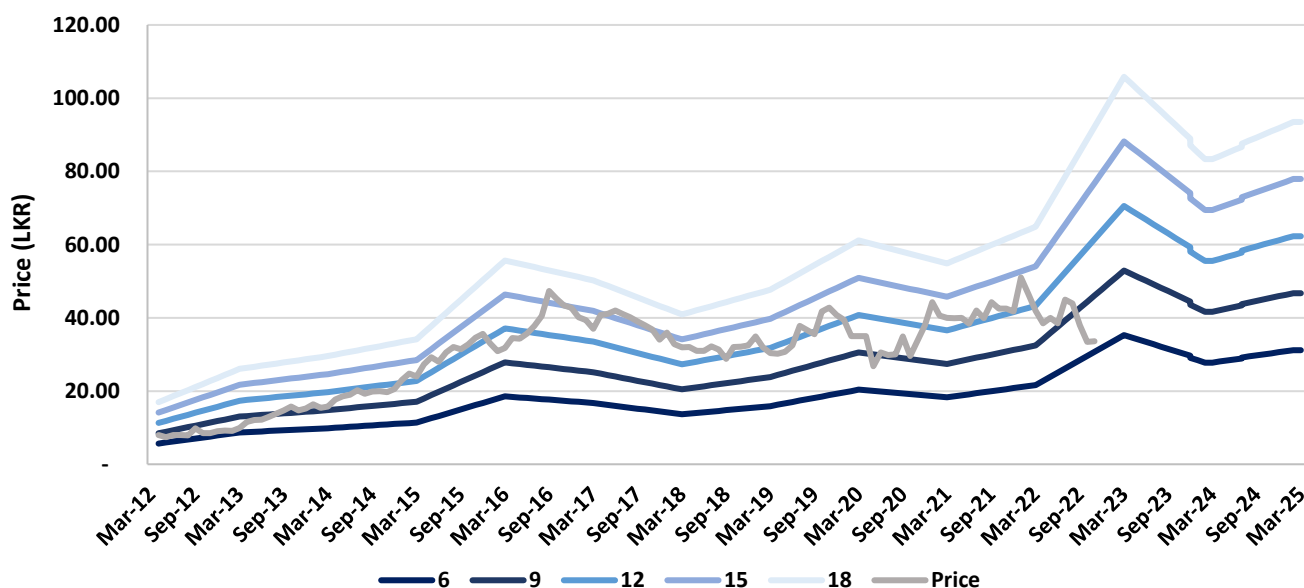
COE	FY23E	FY24E
Rf	15.0%	15.0%
Rm	23.0%	23.0%
Growth %	3.0%	3.0%
β	0.50	0.50
Ke = Rf + β(Rm-Rf)	19.0%	19.0%

PER Valuation

PER based Valuation	FY23E	FY23E
Earnings (LKR 'Mn)	4,127	5,104
No. of Shares ('Mn)	717	717
EPS	5.8	7.1
Expected PER	10.0x	10.0x
Target Price	57.6	71.2

WACC	FY23E	FY24E
Ke	19.0%	19.0%
Kd	17.0%	15.0%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3.0%	3.0%
WACC	16.7%	15.7%

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	31,780	49,588	93,844	105,845	110,899
Cost of sales	-28,061	-29,048	-27,990	-45,010	-85,023	-94,732	-98,922
Gross profit	3,686	4,229	3,790	4,578	8,821	11,114	11,977
Other income	246	173	186	151	469	529	554
Selling, Distribution & Admin expenses	-1,587	-1,673	-1,534	-2,156	-4,223	-4,763	-4,990
Operating profit	2,345	2,728	2,441	2,573	5,068	6,880	7,541
Finance Income	102	244	277	440	845	795	886
Less : Finance Cost	-189	-160	-119	-149	-754	-586	-475
Net finance income	-88	84	158	291	91	209	411
Profit before tax	2,257	2,812	2,599	2,864	5,158	7,089	7,952
Income tax expense	-398	-428	-460	-332	-1,032	-1,985	-2,227
Profit for the Year	1,859	2,384	2,140	2,531	4,127	5,104	5,726
EPS	2.6	3.3	3.0	3.5	5.8	7.1	8.0

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	14,715	24,667	22,112	19,966
Capital work-in-progress	119	590	425	5,269	484	434	384
Intangible Assets	94	78	125	143	145	148	151
Deferred tax assets	111	256	273	432	432	432	432
Inventories	4,494	5,904	7,281	16,356	25,711	26,099	27,345
Trade and other receivables	4,013	4,137	7,181	13,336	23,140	26,099	27,345
Cash and cash equivalents	4,290	5,263	4,452	6,383	6,625	8,119	9,254
Other Assets	856	1,958	2,651	3,260	3,250	3,241	3,234
Total Assets	22,386	26,962	31,099	59,894	84,453	86,684	88,111
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	15,220	21,720	21,720	21,720
Retained earnings	5,600	6,232	7,137	8,410	8,780	10,566	12,570
Share option scheme	97	97	153	153	153	153	153
Shareholders' Funds	13,925	15,649	17,764	28,226	35,095	36,882	38,886
Liabilities							
Trade and other payables	4,703	5,643	8,087	17,623	33,310	37,114	38,756
Borrowings	2,968	3,914	3,306	11,495	13,498	10,139	7,920
Tax liability	538	739	753	1,152	1,152	1,152	1,152
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	31,668	49,358	49,803	49,225
Total Liabilities & Shareholders' Funds	22,386	26,962	31,099	59,894	84,453	86,684	88,111
NAVPS	19.4	21.8	24.8	39.4	49.0	51.5	54.3



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