



HAYLEYS FABRIC PLC [MGT.N0000]

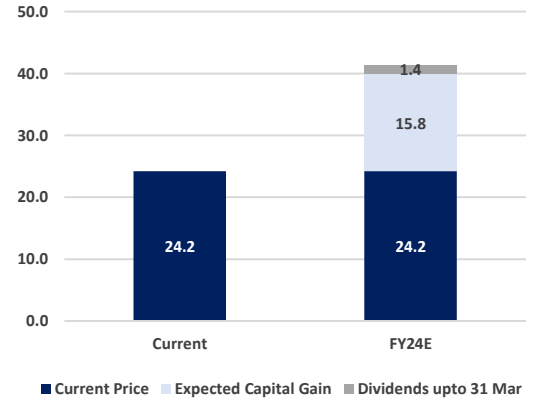
MAINTAIN BUY

“HOSTILE MACRO CONDITIONS DISTURB PROFITABILITY”

Fair Value: FY24E - LKR 40.0 [+65%]

Total Return with DPS: FY24E - 71% [AER 70%]

MGT reported a loss of LKR 1.8Bn for 3QFY23 with the increase in tax rate (from 14% to 30% w.e.f from 01st Oct-22) being the biggest drag on profitability where MGT recorded a one-off deferred tax component of LKR 2.2Bn (USD 5.9Mn recognized for the group as at 31st Dec-22). However, after adjusting for the one-off tax payment, MGT earnings was recorded at LKR 444.5Mn which is an uptick of 11.9%YoY although it has dipped by 11.4% quarterly. Meanwhile, topline continued to remain elevated on YoY terms as it climbed by 76.2% to LKR 15.0Bn (-11.0%QoQ) solely due to the devaluation in LKR while in dollar terms it was broadly stable. Moreover, GP margin improved on a quarter basis by 276bps as cost of sales declined during the quarter by 13.7%. PBT moderately inclined during the quarter recording an increase of 18.3% (-5.6%QoQ) to LKR 505.8Mn on the back of a strong topline. However, considering the global demand outlook and higher tax impact and cost pressures in the domestic environment, we have downgraded our earnings target for FY24E to LKR 2.7Bn (-34% from previous). Accordingly, fair value for FY24E is estimated at LKR 40.0 (previous - LKR 45.0). **MAINTAIN BUY.**



LKR (Mn)	3QFY22	3QFY23	YoY	9MFY22	9MFY23	YoY
Earnings (LKR 'Mn)						
Revenue	8,491	14,956	+76%	22,451	46,790	+108%
Gross profit	1,131	2,012	+78%	2,951	5,776	+96%
EBIT	576	1,042	+81%	1,452	3,009	+107%
PBT	428	506	+18%	1,176	3,047	+159%
Net Profit	397	(1,752)	-541%	1,091	360	-67%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	3,578	4,271	+19%	3,578	4,271	+19%
Borrowings	15,940	23,887	+50%	15,940	23,887	+50%
NAVPS	8.6	10.3	+19%	8.6	10.3	+19%

Dollar revenue remains stable amidst fluctuant global demand

Dollar denominated revenue of MGT for the 3QFY23 was recorded at USD 40.2Mn displaying a marginal downturn of 3.8% compared to USD 41.8Mn recorded in 3QFY22 in the midst of fluctuant demand in the global apparel industry. Consumers in the west have continued to invoke cost-saving measures in terms of apparel purchases amidst the high inflationary environment where the majority has resorted to resale platforms. Hence, local industry players were forced to operate below capacity as order books shrunk, as reflected by the dip in apparel exports in the country (-17.8%YoY in Jan-23). On that note, during Dec-22 and Jan-23 MGT was compelled to operate below capacity which caused a slight degrowth in the dollar denominated topline. However, the impact is considered to be minimal compared to peer companies which have been operating below capacity since 2QFY23 while MGT has managed to secure a solid orderbook for the coming quarters. Nevertheless, rupee revenue of MGT escalated steeply to LKR 15.0Bn (+76.2%YoY) solely due to the devaluation of the rupee. However, considering the slow moderation in terms of the global demand and the fluctuations in the LKR we have slightly lowered our revenue expectation for FY24E to LKR 70.3Bn (Previous - LKR 75.5Bn).

Cost of sales surge over domestic inflationary pressures yet margins hold steady

Cost of sales of MGT for the 3QFY23 surged higher on a YoY basis to LKR 12.9Bn (+75.9%) as against the cost of LKR 7.4Bn in 3QFY22, following the significant increase in electricity tariffs during Aug-22 and Feb-23 where it was revised upwards by 75%-100% while the rupee devaluation further posed challenges. However, on a quarterly basis cost of sales declined by 13.7% as a result of the lower raw material costs incurred amidst sinking global commodity prices (Cotton and Crude Oil). Accordingly, GP margin was recorded at a healthy level as it improved by 277bps to 13.5% on a QoQ basis while it remained broadly steady on a YoY basis (+14bps) aided by the strong upturn in topline in rupee terms. Meanwhile, EBIT margin remained resilient at 7.0% (+18bps cf. 3QFY22) during the quarter as the impact from higher inflation has begun to subside while displaying a sizeable improvement of 132bps on a QoQ basis.

High interest rate environment continues to stir finance costs

MGT recorded a net finance expense of LKR 536.4Mn registering a significant increase of over 100%YoY as interest rates in the domestic environment continued to remain escalated. Higher working capital requirements in the company as a result of the depreciation in the rupee and decreasing supplier credits by foreign suppliers due to the further downgrade of country's credit rating by international credit rating agencies too caused finance cost to surge higher. Meanwhile, total borrowings of MGT scaled high by 49.9%YoY to LKR 23.9Bn with the debt-to-equity ratio recorded at 225.6% as at 31st Dec-22.

FV revised down to LKR 40.0 for FY24E - MAINTAIN BUY

Considering the slow moderation in the global apparel demand and headwinds to profitability following the tax hike and cost pressures in the domestic environment we have downgraded our earnings target for FY24E to LKR 2.7Bn (-34% from previous). Accordingly, fair value for FY24E is estimated at LKR 40.0 (previous - LKR 45.0) while at the current market price MGT provides an upside of 65% for FY24E. **MAINTAIN BUY**

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



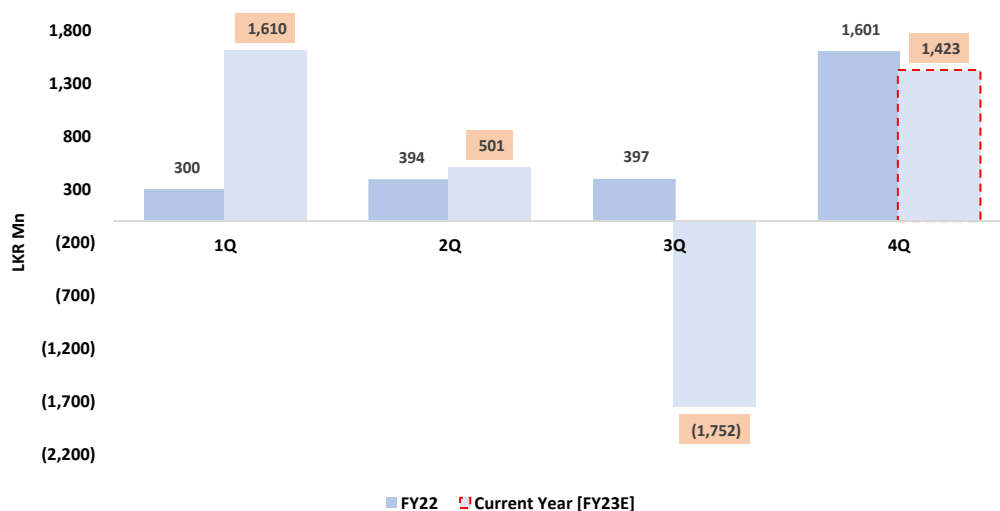
Minimum Return for BUY:

Buy Below FY24E - [AER of 23% with DPS]: LKR 31.0
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
Earnings Estimate						
Revenue	66,420	59,539	-10%	75,516	70,306	-7%
Gross profit	7,970	7,145	-10%	9,440	8,437	-11%
EBIT	3,504	2,689	-23%	5,325	3,551	-33%
Profit before tax	4,343	2,548	-41%	5,840	3,832	-34%
Net Profit	3,605	1,784	-51%	4,088	2,682	-34%
EPS	8.7	4.3		9.8	6.5	
Growth YoY	34%	-34%		13%	50%	
Balance Sheet Estimate						
Shareholders' Equity	11,810	10,444	-12%	14,999	12,537	+16%
Borrowings	13,979	14,083	+1%	12,882	14,048	+9%
NAVPS	28.4	25.1		36.1	30.2	
Ratio Estimate						
ROE (%)	30.5%	17.1%		27.3%	21.4%	
PER (x)	2.5	5.6		2.2	3.7	
PBV (x)	0.8	1.0		0.6	0.8	

Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	11,983	12,225	14,769	31,653	59,539	70,306	84,895
Gross Profit	1,429	1,585	2,019	4,122	7,145	8,437	10,867
EBIT	470	450	890	1,756	2,689	3,551	6,364
Net Profit	181	231	736	2,692	1,784	2,682	4,246
Adjusted EPS (LKR)	0.4	0.6	1.8	6.5	4.3	6.5	10.2
YoY Growth (%)	272%	28%	218%	266%	-34%	50%	58%
Valuations							
PER (x)	55.5x	43.4x	13.7x	3.7x	5.6x	3.7x	2.4x
PBV (x)	3.2x	2.8x	2.4x	1.1x	1.0x	0.8x	0.6x
DY (%)	0%	2%	4%	9%	4%	6%	13%
NAVPS	7.7	8.5	10.2	21.9	25.1	30.2	37.3
DPS	-	0.6	1.1	2.1	1.1	1.4	3.1
Dividend Payout	0.0%	107.7%	59.3%	32.4%	25%	22%	30%



Valuation Summary

Expected MGT Price	FY24E
PER Based Target Price	35.5
DCF Based Target Price	37.3
Average Target Price	36.4
Target Price after Rounding Off	40.0

Return	FY24E
Target Price	40.0
Current Price	24.2
Capital Gain (LKR)	15.8
Dividend upto 31 Mar (LKR)	1.4
Capital Gain %	65%
Dividend Yield %	6%
Total Return %	71%
Annualized Return %	70%

Discounted Cash flow Valuation

DCF Based Valuation	FY24E
Enterprise Value	25,574
Debt (-)	(14,048)
Cash (+)	3,981
Total Value of Equity	15,507
No. of Shares (Mn)	415
Target Price	37.3

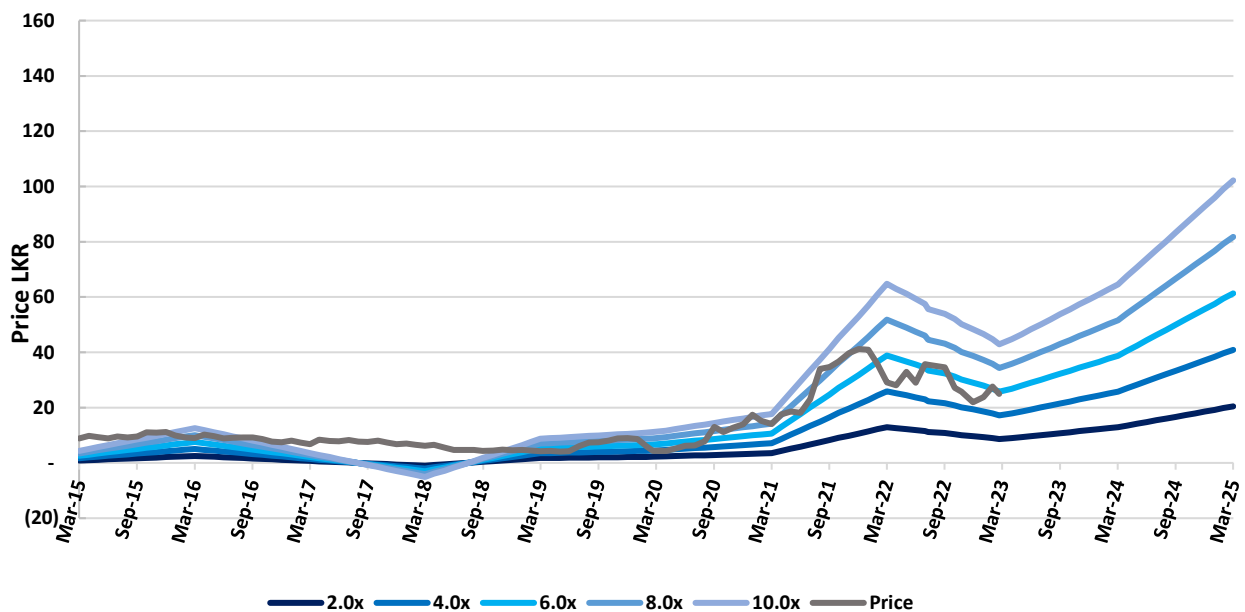
COE	FY24E
Rf	21%
Rm	29%
Growth %	4%
β	1.1
$Ke = Rf + \beta(Rm - Rf)$	30%

PER Valuation

PER Based Valuation	FY24E
Earnings (LKR 'Mn)	2,682
No. of Shares ('Mn)	415
EPS	6.5
Expected Average PER	5.5x
Target Price	35.5

WACC	FY24E
Ke	30%
Kd	18%
D/E Assumption	40/60
Terminal Growth (%)	4%
WACC	25%

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
As at 31st March							
Revenue from Contracts with Customers	11,983	12,225	14,769	31,653	59,539	70,306	84,895
Cost of Sales	(10,554)	(10,641)	(12,750)	(27,531)	(52,394)	(61,870)	(74,028)
Gross Profit	1,429	1,585	2,019	4,122	7,145	8,437	10,867
Other Operating Income	11	11	12	395	411	432	466
Administrative Expenses	(819)	(915)	(960)	(2,316)	(3,989)	(4,218)	(4,245)
Distribution Expenses	(134)	(150)	(182)	(402)	(834)	(1,055)	(679)
Other Expenses	(18)	(81)	-	(44)	(44)	(45)	(45)
EBIT	470	450	890	1,756	2,689	3,551	6,364
Net Financing Income/(Expense)	(153)	(146)	(159)	1,400	(141)	281	(298)
Profit Before Tax	317	304	731	3,156	2,548	3,832	6,066
Tax	(135)	(73)	6	(463)	(764)	(1,150)	(1,820)
Profit After Tax	181	231	736	2,692	1,784	2,682	4,246
Adjusted EPS	0.4	0.6	1.8	6.5	4.3	6.5	10.2

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
As at 31st March							
ASSETS							
Non-Current Assets							
Property, Plant and Equipment	4,418	4,891	5,799	13,132	14,265	14,240	14,890
Right of Use Assets	-	-	38	252	252	252	252
Intangible Assets	11	23	15	109	111	105	99
Total Non-Current Assets	4,430	4,914	5,852	16,713	17,848	17,817	18,462
Current Assets							
Inventories	2,368	2,938	3,346	11,002	16,766	16,395	20,728
Trade Receivables	1,494	1,213	1,590	4,831	8,335	9,843	8,489
Cash and Cash Equivalents	51	103	646	2,953	1,760	3,981	4,125
Total Current Assets	4,046	4,507	5,849	19,778	27,854	31,212	34,335
Total Assets	8,475	9,420	11,701	36,491	45,701	49,029	52,797
EQUITY AND LIABILITIES							
Capital and Reserves							
Stated Capital	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Retained Earnings	52	275	633	2,836	4,173	6,265	9,238
Total Equity	3,179	3,543	4,226	9,107	10,444	12,537	15,509
Non-Current Liabilities							
Interest Bearing Loans and Borrowings	188	135	687	5,216	5,633	5,619	5,959
Deferred tax liabilities	315	416	420	1,257	1,257	1,257	1,257
Retirement benefit obligations	451	529	610	880	880	880	880
Total Non-Current Liabilities	954	1,079	1,716	7,353	7,770	7,756	8,096
Current Liabilities							
Trade and Other Payables	1,104	1,429	2,797	10,600	17,290	18,561	18,507
Interest Bearing Loans and Borrowings	2,515	3,094	2,659	7,684	8,450	8,429	8,938
Other Current Non Financial Liabilities	262	252	288	1,646	1,646	1,646	1,646
Total Current Liabilities	4,342	4,798	5,759	20,031	27,487	28,736	29,193
Total Equity and Liabilities	8,475	9,420	11,701	36,491	45,701	49,029	52,797
Adjusted NAVPS	7.7	8.5	10.2	21.9	25.1	30.2	37.3



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