



First Capital
A Janashakthi Group Company

HAYLEYS FABRIC PLC [MGT.N0000]

MAINTAIN BUY

“EARNINGS LEAN ON SLUGGISH DEMAND RECOVERY”

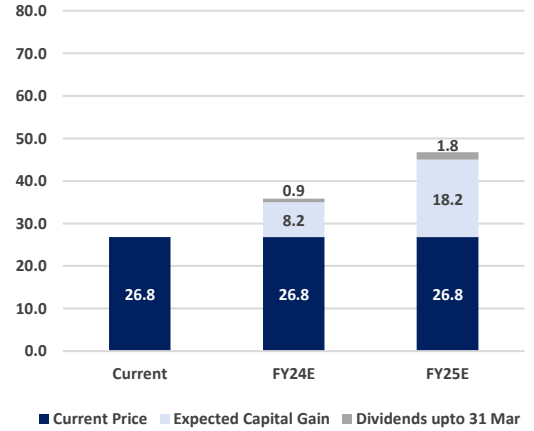
Fair Value: FY24E - LKR 35.0 [+31%]

Total Return with DPS: FY24E - 34% [AER 50%]

Fair Value: FY25E - LKR 45.0 [+68%]

Total Return with DPS: FY24E - 75% [AER 38%]

MGT registered earnings of LKR 414.4Mn for FY23 recording a downturn of 84.6%YoY while dollar denominated earnings stood at USD 1.1Mn falling 91.1% below the FY22 earnings of USD 12.8Mn largely owing to the curtailing global apparel demand and domestic macro-economic dynamics. Rupee topline surged sharply by 92.6%YoY as a cause of the steep depreciation in the LKR. However, GP margin remained broadly stable at 12.8% as the rise in topline was offset by the increase in cost of sales. During the last quarter of FY23, MGT recorded a profit of LKR 54.3Mn down by 96.6%YoY (+103.1%QoQ cf. loss of LKR 1.8Bn). Nevertheless, revenue for 4QFY23 in rupee terms displayed an increase of 53.9%YoY to LKR 14.2Bn resulting in the GP margin to improve by 190bps during the quarter. However, during 4QFY23 as the LKR began appreciating against the USD, profitability of MGT shrunk significantly with EBT margins declining drastically by over 2000bps as a result of hefty exchange losses. Accordingly, considering the slow recovery in global demand, impact from appreciation of LKR and outcome of higher taxes applicable, we have lowered our earnings target for FY24E to LKR 1.6Bn while earnings for FY25E is estimated at LKR 2.5Bn. Hence, fair value for FY24E is estimated at LKR 35.0 (previous LKR 45.0) while FY25E fair value is estimated at LKR 45.0. **MAINTAIN BUY.**



FIRST CAPITAL RESEARCH

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LKR (Mn)	4QFY22	4QFY23	YoY	FY22	FY23	YoY
Earnings (LKR 'Mn)						
Revenue	9,201	14,158	+54%	31,653	60,949	+93%
Gross profit	1,170	2,070	+77%	4,122	7,826	+90%
EBIT	304	1,190	+291%	1,756	4,199	+139%
PBT	1,979	19	-99%	3,156	3,066	-3%
Net Profit	1,602	54	-97%	2,692	414	-85%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	9,107	9,492	+4%	9,107	9,492	+4%
Borrowings	21,503	20,668	-4%	21,503	20,668	-4%
NAVPS	21.9	22.8	+4%	21.9	22.8	+4%

Stability maintained in dollar revenue amidst shallow dip in production

Dollar denominated revenue of MGT for FY23 was recorded at USD 116.6Mn (+10.9%YoY) while for 4QFY23 it was recorded at USD 39.6Mn cf. USD 39.4Mn recorded in 4QFY22 maintaining stability. MGT managed to maintain a full orderbook upto the end of 3QFY23, yet experienced a slight dip in production by 10% in Dec-22 and Jan-23 with the slowdown in global demand for apparels. However, in rupee terms there was a sizeable jump in topline for FY23 by 92.6%YoY largely aided by the depreciation in rupee while during the quarter, MGT recorded a growth of 53.9%YoY in the topline as it registered a revenue of LKR 14.2Bn. Major markets like the USA, who is Sri Lanka's single largest consumer of apparel, dropped apparel imports by 20% during the first few months of the year. Accordingly, Sri Lankan apparel exports declined by 24.1% reflecting the toilsome environment that Sri Lankan apparel exporters continued to work in. However, MGT managed to resist any major strike to production as it operated at 90% capacity throughout the year (except Dec-22 and Jan-23) while securing orders from tier-1 clients with reasonable margins. Moreover, MGT is positioned with a full orderbook for the upcoming months and expects to see a revival in demand from 3QFY24E. However, taking into consideration the slowdown in the first half of the year and the impact from the rupee appreciation we have slightly lowered our rupee revenue target to LKR 62.2Bn from LKR 70.3Bn for FY24E while we expect the impact from the normalizing demand to trickle down to FY25E as we estimate a turnover of LKR 69.7Bn.

LKR appreciation pulls back earnings potential of MGT

The rupee has appreciated significantly over the last few months by nearly 18%-20% with the rise in foreign inflows. However, this has begun to negatively impact exporters including MGT whose main operations take place in dollar terms. Although it has no impact on topline and raw material procurement (both done in dollar terms, hence no impact), appreciation in the rupee has caused a stumbling block to meet rupee expenses of the company. Accordingly, during 4QFY23 MGT witnessed a sizeable increase in Net Financing expense by 169.9%YoY to LKR 1.2Bn stemming from exchange loss. As a result, EBT margin for 4QFY23 dipped significantly by 324bps cf. to the EBT margin of 3.38% in the previous quarter.

GP margin recovers as COS shrinks

MGT managed to recover its GP margin as cost of sales shrunk in dollar terms while USD denominated topline remained broadly steady. Accordingly, GP margin improved by 190bps to 14.6% (cf. 12.7% in 4QFY22) during 4QFY23. Moreover, MGT's composition of clients in terms of tier 1 is dominant as it comprises 80%-85% of the entire clientele. Hence, improving demand from these major brands in the tier-1 such as Victorias' Secret, Intimissimi, Decathlon, PVH, Calvin Klein etc. create potential for boost in topline alongside global demand recovery, allowing GP margin to further improve.

FV estimated at LKR 45.0 for FY25E - MAINTAIN BUY

Considering the slow recovery in global demand, impact from appreciation of LKR and outcome of higher taxes applicable, we have lowered our earnings target for FY24E to LKR 1.6Bn while earnings for FY25E is estimated at LKR 2.5Bn. Hence, fair value for FY24E is estimated at LKR 35.0 (previous LKR 45.0) while FY25E fair value is estimated at LKR 45.0. **MAINTAIN BUY.**

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



Minimum Return for BUY:

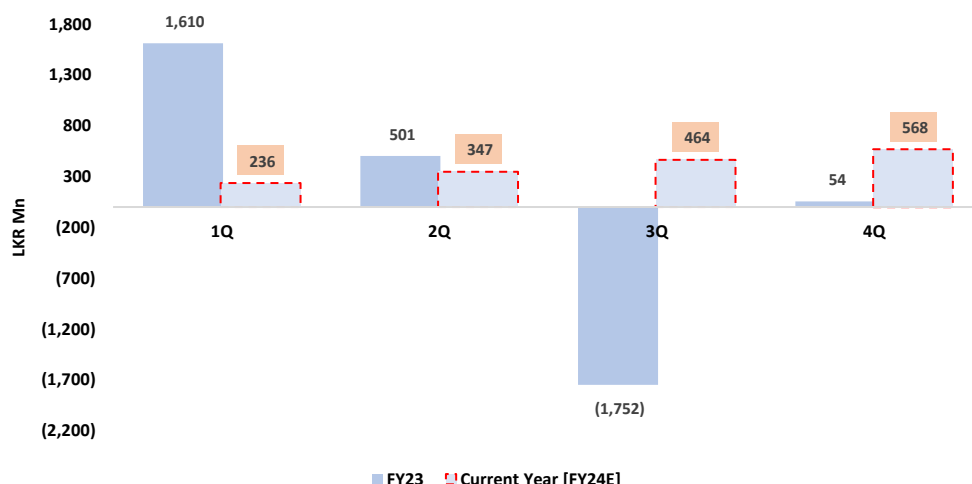
Buy Below FY24E - [AER of 23% with DPS]: LKR 26.0
MGT categorized as 'Grade B' counter

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.

Source: CSE

Quarterly Earnings



Estimate Revision

In LKR Mn	FY24E - O	FY24E - R	% Change	FY24E - O	FY24E - R	% Change
Earnings Estimate						
Revenue	70,306	62,205	-12%	75,516	69,738	-8%
Gross profit	8,437	7,465	-12%	9,440	8,369	-11%
EBIT	3,551	3,046	-14%	5,325	4,103	-23%
Profit before tax	3,832	2,307	-40%	5,840	3,500	-40%
Net Profit	2,682	1,615	-40%	4,088	2,450	-40%
EPS	6.5	3.9		9.8	5.9	
Growth YoY	50%	290%		13%	52%	
Balance Sheet Estimate						
Shareholders' Equity	12,537	10,751	-14%	14,999	12,466	+17%
Borrowings	14,048	20,678	+47%	12,882	22,629	+76%
NAVPS	30.2	25.9		36.1	30.0	
Ratio Estimate						
ROE (%)	21.4%	15.0%		27.3%	19.7%	
PER (x)	3.7	6.9		2.2	4.5	
PBV (x)	0.8	1.0		0.6	0.9	

Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	11,983	12,225	14,769	31,653	60,949	62,205	69,738	80,450
Gross Profit	1,429	1,585	2,019	4,122	7,826	7,465	8,369	10,056
EBIT	470	450	890	1,756	4,199	3,046	4,103	5,681
Net Profit	181	231	736	2,692	414	1,615	2,450	3,817
Adjusted EPS (LKR)	0.4	0.6	1.8	6.5	1.0	3.9	5.9	9.2
YoY Growth (%)	272%	28%	218%	266%	-85%	290%	52%	56%
Valuations								
PER (x)	61.4x	48.1x	15.1x	4.1x	26.9x	6.9x	4.5x	2.9x
PBV (x)	3.5x	3.1x	2.6x	1.2x	1.2x	1.0x	0.9x	0.7x
DY (%)	0%	2%	4%	8%	6%	3%	7%	10%
NAVPS	7.7	8.5	10.2	21.9	22.8	25.9	30.0	36.4
DPS	-	0.6	1.1	2.1	1.6	0.9	1.8	2.8
Dividend Payout	0.0%	107.7%	59.3%	32.4%	160%	22%	30%	30%



Valuation Summary

Expected MGT Price	FY24E	FY25E
PER Based Target Price	33.0	50.1
DCF Based Target Price	36.6	46.1
Average Target Price	34.8	48.1
Target Price after Rounding Of	35.0	45.0

Return	FY24E	FY25E
Target Price	35.0	45.0
Current Price	26.8	26.8
Capital Gain (LKR)	8.2	18.2
Dividend upto 31 Mar (LKR)	0.9	1.8
Capital Gain %	31%	68%
Dividend Yield %	3%	7%
Total Return %	34%	75%
Annualized Return %	50%	38%

Discounted Cash flow Valuation

DCF Based Valuation	FY24E	FY25E
Enterprise Value	23,254	25,159
Debt (-)	(11,372)	(10,969)
Cash (+)	3,329	4,976
Total Value of Equity	15,211	19,166
No. of Shares (Mn)	415	415
Target Price	36.6	46.1

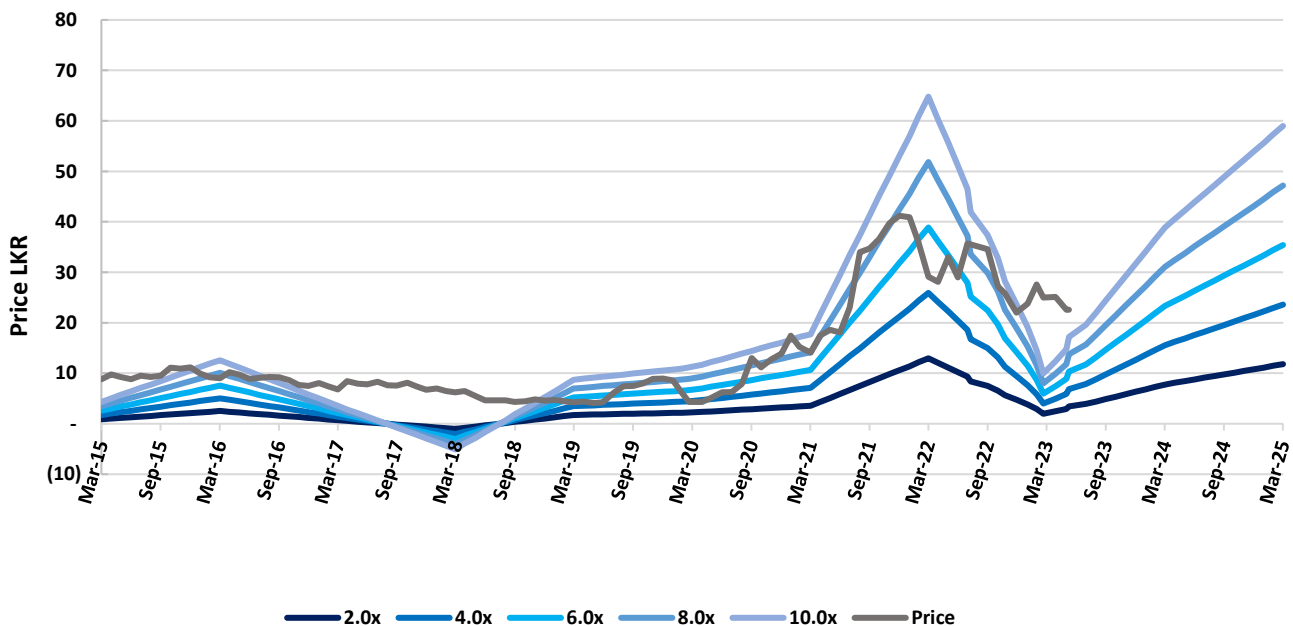
COE	FY24E	FY25E
Rf	15%	12%
Rm	23%	20%
Growth %	3%	4%
β	0.7	0.7
$Ke = Rf + \beta(Rm - Rf)$	21%	18%

PER Valuation

PER Based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	1,615	2,450
No. of Shares ('Mn)	415	415
EPS	3.9	5.9
Expected Average PER	8.5x	8.5x
Target Price	33.0	50.1

WACC	FY24E	FY25E
Ke	21%	18%
Kd	18%	18%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3%	4%
WACC	20%	18%

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
As at 31st March								
Revenue from Contracts with Customers	11,983	12,225	14,769	31,653	60,949	62,205	69,738	80,450
Cost of Sales	(10,554)	(10,641)	(12,750)	(27,531)	(53,123)	(54,741)	(61,370)	(70,394)
Gross Profit	1,429	1,585	2,019	4,122	7,826	7,465	8,369	10,056
Other Operating Income	11	11	12	395	258	263	284	306
Administrative Expenses	(819)	(915)	(960)	(2,316)	(3,407)	(3,732)	(3,487)	(4,023)
Distribution Expenses	(134)	(150)	(182)	(402)	(463)	(933)	(1,046)	(644)
Other Expenses	(18)	(81)	-	(44)	(16)	(16)	(16)	(16)
EBIT	470	450	890	1,756	4,199	3,046	4,103	5,681
Net Financing Income/(Expense)	(153)	(146)	(159)	1,400	(1,133)	(739)	(603)	(228)
Profit Before Tax	317	304	731	3,156	3,066	2,307	3,500	5,452
Tax	(135)	(73)	6	(463)	(2,652)	(692)	(1,050)	(1,636)
Profit After Tax	181	231	736	2,692	414	1,615	2,450	3,817
Adjusted EPS	0.4	0.6	1.8	6.5	1.0	3.9	5.9	9.2

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
As at 31st March								
ASSETS								
Non-Current Assets								
Property, Plant and Equipment	4,418	4,891	5,799	13,132	14,979	14,048	14,130	14,420
Right of Use Assets	-	-	38	252	279	279	279	279
Intangible Assets	11	23	15	109	238	104	94	87
Goodwill	-	-	-	3,122	3,502	3,502	3,502	3,502
Other Non Current Receivables	-	-	-	98	-	-	-	-
Total Non-Current Assets	4,430	4,914	5,852	16,713	18,998	17,933	18,005	18,288
Current Assets								
Inventories	2,368	2,938	3,346	11,002	12,315	9,853	11,047	14,079
Trade Receivables	1,494	1,213	1,590	4,831	6,048	6,221	6,974	9,654
Other Receivables	67	106	113	418	496	496	496	496
Advances and Prepayments	66	147	154	575	510	510	510	510
Cash and Cash Equivalents	51	103	646	2,953	1,530	3,329	4,976	2,401
Total Current Assets	4,046	4,507	5,849	19,778	20,899	20,409	24,002	27,140
Total Assets	8,475	9,420	11,701	36,491	39,897	38,341	42,007	45,428
EQUITY AND LIABILITIES								
Capital and Reserves								
Stated Capital	1,968	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Revaluation Reserve	252	272	286	189	173	173	173	173
Retained Earnings	52	275	633	2,836	2,089	3,349	5,064	7,736
Exchange Fluctuation Reserve	907	1,027	1,339	4,114	5,262	5,262	5,262	5,262
Total Equity	3,179	3,543	4,226	9,107	9,492	10,751	12,466	15,138
Non-Current Liabilities								
Interest Bearing Loans and Borrowings	188	135	687	5,216	5,269	4,549	4,388	4,564
Right of use assets- Lease obligations	-	-	-	-	54	54	54	54
Deferred tax liabilities	315	416	420	1,257	3,195	3,195	3,195	3,195
Retirement benefit obligations	451	529	610	880	1,017	1,017	1,017	1,017
Total Non-Current Liabilities	954	1,079	1,716	7,353	9,535	8,815	8,654	8,831
Current Liabilities								
Trade and Other Payables	1,104	1,429	2,797	10,600	9,146	9,306	11,660	11,967
Bank Overdraft	-	-	-	-	1,116	-	-	-
Current Portion of Interest Bearing Borrowings	450	-	-	-	1,710	-	-	-
Interest Bearing Loans and Borrowings	2,515	3,094	2,659	7,684	6,253	6,823	6,581	6,847
Amounts due to Hayleys PLC	11	23	15	101	25	25	25	25
Current portion of Right of use assets- Lease obligations	-	-	-	-	7	7	7	7
Income Tax Payable	-	-	-	-	-	-	-	-
Other Current Non Financial Liabilities	262	252	288	1,646	2,613	2,613	2,613	2,613
Total Current Liabilities	4,342	4,798	5,759	20,031	20,870	18,774	20,887	21,459
Total Equity and Liabilities	8,475	9,420	11,701	36,491	39,897	38,341	42,007	45,428
Adjusted NAVPS	7.7	8.5	10.2	21.9	22.8	25.9	30.0	36.4



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