



HAYLEYS FABRIC PLC [MGT.N0000]

MAINTAIN BUY

“BALLOONING MARGINS LEAD GROWTH STORY”

Fair Value: FY24E - LKR 50.0 [+5%]

Total Return with DPS: FY24E - 7% [AER 13%]

Fair Value: FY25E - LKR 65.0 [+36%]

Total Return with DPS: FY25E - 41% [AER 25%]

MGT set about on a promising note for FY24E with a better than anticipated performance during the 1QFY24 as it recorded a profit of LKR 901.6Mn amidst a soft market environment while displaying a robust QoQ improvement against the earnings of LKR 54.3Mn in 4QFY23. However, on a YoY basis earnings of MGT fell 44.1% below the 1QFY23 earnings of LKR 1.6Bn owing to the higher base effect. Massive improvement in the GP margin (YoY) by 638bps to 19.3% in during the 1QFY24 has acted as the main catalyst in positive earnings growth. Accordingly, dollar denominated revenue appreciated by 9.3%YoY to USD 45.1Mn amidst higher quantities and higher margins while cost of sales in dollar terms remained broadly unchanged with a minute increase of 1.3%YoY. Thus, gross profit surged higher by 63.1% and recorded at USD 8.7Mn. Nevertheless, LKR topline for 1QFY24 shrunk on a YoY basis amidst exchange rate fluctuations while cost of sales dipped YoY on the same line aiding GP margin to remain strong. During the 1QFY24, fluctuations in the rupee posed challenges to the bottom-line of MGT as finance expense continued to surge high causing a stumbling block to the earnings potential. Since our last report in Jul-23, share price appreciated sharply reaching our FV of LKR 35.0 and LKR 45.0 for FY24E and FY25E, respectively. Accordingly, considering MGT's strategy to increase margins, expected gradual revival in the apparel industry and with the company substantially surpassing our earnings target for 1QFY24, we have upgraded the earnings target for FY24E to LKR 2.6Bn (previous: LKR 1.6Bn) while FY25E earnings is estimated at LKR 3.6Bn (previous: LKR 2.5Bn) while the target price for FY25E is further upgraded to LKR 65.0. **MAINTAIN BUY**

LKR (Mn)	1QFY23	1QFY24	YoY	FY22	FY23	YoY
Earnings (LKR 'Mn)						
Revenue	15,039	14,277	-5%	31,653	60,949	+93%
Gross profit	1,948	2,759	+42%	4,122	7,826	+90%
EBIT	1,019	1,890	+86%	1,756	4,199	+139%
PBT	2,005	1,062	-47%	3,156	3,066	-3%
Net Profit	1,610	902	-44%	2,692	414	-85%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	12,259	9,822	-20%	9,107	9,492	+4%
Borrowings	24,623	20,143	-18%	21,503	20,668	-4%
NAVPS	29.5	23.6	-20%	21.9	22.8	+4%

Earnings growth picks up as topline make strides

MGT recorded earnings of LKR 901.6Mn for 1QFY24 compared to LKR 1.6Bn recorded in 1QFY23 registering a decline of 44.1% due to the higher base effect. However, profits were on a sharp upsurge on a QoQ basis as it increased by over 1,500.0% compared to a net profit of LKR 54.3Mn in 4QFY23 indicating a solid pickup in the earnings growth. Similarly, USD denominated earnings also displayed a similar trend recording a sizeable increase of over 1,700.0% on a QoQ basis with the 1QFY24 earnings being recorded at USD 2.8Mn relative to USD 0.2Mn recorded in the previous quarter of 4QFY23. However, on a YoY basis dollar earnings dipped by 35.5%. The bottom-line growth is mainly attributable to the reviving revenue where USD topline was recorded at LKR 45.1Mn registering an increase of 9.3%YoY while it also improved by 14.0%QoQ. However, rupee revenue budgeted slightly lower by 5.1%YoY (+0.8%QoQ) largely owing to the appreciation in the rupee against the USD. During the given quarter MGT experienced an uptick in volumes and revised its prices upwards supporting an improvement in the dollar denominated revenue. Meanwhile, on the macro front Garment exports that shrunk MoM in Apr-23 (USD 343.8Mn) gradually paced up as it recorded an export income of USD 430.0Mn in Jun-23 reflecting the improvement in apparel volumes. Hence, taking into account, the continuity in higher margins incited by upward price revisions and gradual revival in apparel volumes from 2HFY24E, we have upgraded the earnings target for FY24E to LKR 2.6Bn (previous: LKR 1.6Bn) while FY25E earnings are estimated to reach LKR 3.6Bn (previous: LKR 2.5Bn).

EBIT margin strengthens over cost reductions

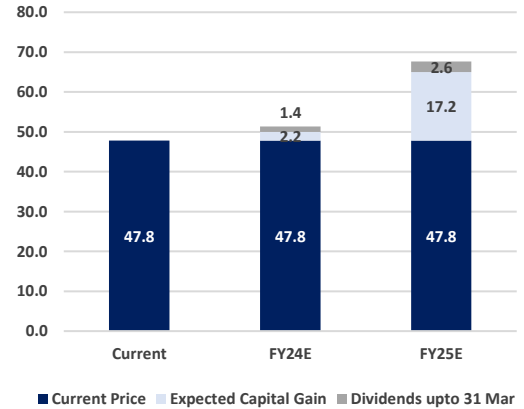
MGT continued to witness a strengthening EBIT on both YoY and QoQ basis as it scaled higher by 85.6% and 58.9%, respectively, during 1QFY24. Accordingly, EBIT margin of MGT has showcased an incline of 647bps (YoY). As a result of low customer claims, Distribution expense declined by 53.9%YoY (-6.0%QoQ) to LKR 83.9Mn contributing largely to the upswing in the EBIT margin. Moreover, Other operating income too increased by 26.4%YoY to LKR 58.6Mn while Administrative expense remained broadly steady at LKR 843.3Mn increasing by only 6.3%YoY while registering a reduction of 2.8%QoQ, aiding the EBIT margin to thrive.

Prudent price revisions accelerate margin growth while INNO stands out beating competition

GP margin of MGT persistently showcased growth as reflected in the sharp upsurge in the margin by 638bps to 19.3% from 13.0% in 1QFY23. MGT strategically shifted from low margin products to average margin products over time while prices were further revised up slightly during the 1QFY24 as partly reflected by the increase in USD denominated topline. Meanwhile, Cost of Sales shrunk by 12.0%YoY to LKR 11.5Bn (largely due to LKR appreciation) while it was held steady in dollar terms at USD 36.4Mn. MGT managed to control cost pressures through negotiated prices from suppliers amidst low yarn prices, controlled utility expenses and changing quantum of the product mix. Meanwhile to further strengthen the topline, INNO brand gives MGT the competitive edge to remain as a niche supplier of fashion-forward fabric while it accounts to over 90% of overall sales as demand from tier-1 clients for value added fashion fabric inches higher.

FV estimated at LKR 65.0 for FY25E - MAINTAIN BUY

Considering MGT's strategy to increase margins, expected gradual revival in the apparel industry and with the company substantially surpassing our earnings target for 1QFY24, we have upgraded the earnings target for FY24E to LKR 2.6Bn (previous: LKR 1.6Bn) while FY25E earnings is estimated at LKR 3.6Bn (previous: LKR 2.5Bn) while the target price for FY25E is further upgraded to LKR 65.0. **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

Zaeema Jihan

+94 11 263 9863

zaheema@firstcapital.lk

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



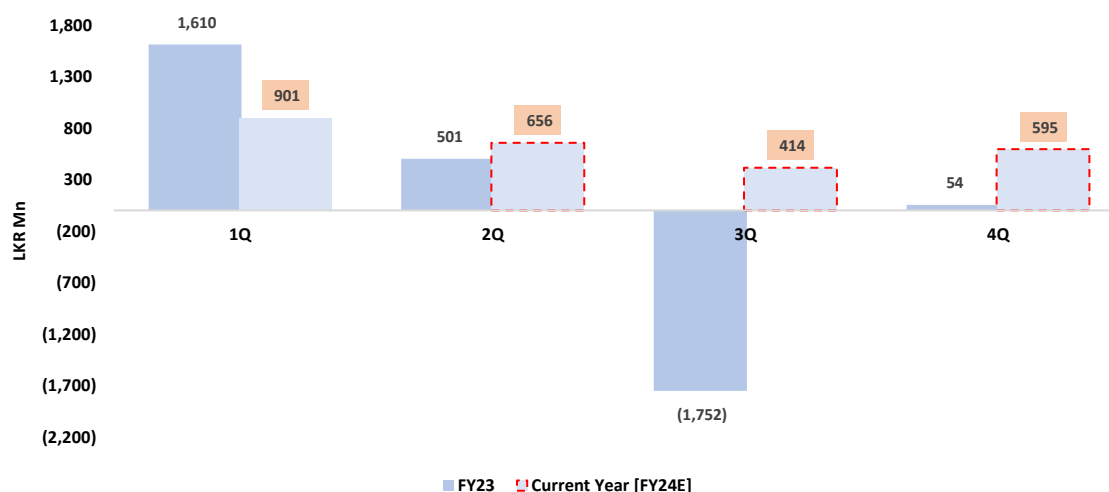
Minimum Return for BUY:

Buy Below FY25E - [AER of 23% with DPS]: LKR 60.0
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	FY24E - O	FY24E - R	% Change	FY25E - O	FY25E - R	% Change
Earnings Estimate						
Revenue	62,205	64,352	+3%	69,738	72,145	+3%
Gross profit	7,465	8,687	+16%	8,369	10,100	+21%
EBIT	3,046	4,430	+45%	4,103	5,895	+44%
Profit before tax	2,307	3,664	+59%	3,500	5,209	+49%
Net Profit	1,615	2,565	+59%	2,450	3,647	+49%
EPS	3.9	6.2		5.9	8.8	
Growth YoY	290%	519%		52%	42%	
Balance Sheet Estimate						
Shareholders' Equity	10,751	11,492	+7%	12,466	14,045	+13%
Borrowings	20,678	20,402	-1%	22,629	22,339	-1%
NAVPS	25.9	27.7		30.0	33.8	
Ratio Estimate						
ROE (%)	15.0%	22.3%		19.7%	26.0%	
PER (x)	6.9	7.7		4.5	5.4	
PBV (x)	1.0	1.7		0.9	1.4	

Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	11,983	12,225	14,769	31,653	60,949	64,352	72,145	82,483
Gross Profit	1,429	1,585	2,019	4,122	7,826	8,687	10,100	10,310
EBIT	470	450	890	1,756	4,199	4,430	5,895	5,817
Net Profit	181	231	736	2,692	414	2,565	3,647	3,918
Adjusted EPS (LKR)	0.4	0.6	1.8	6.5	1.0	6.2	8.8	9.4
YoY Growth (%)	272%	28%	218%	266%	-85%	519%	42%	7%
Valuations								
PER (x)	109.5x	85.8x	27.0x	7.4x	47.9x	7.7x	5.4x	5.1x
PBV (x)	6.2x	5.6x	4.7x	2.2x	2.1x	1.7x	1.4x	1.2x
DY (%)	0%	1%	2%	4%	5%	3%	6%	6%
NAVPS	7.7	8.5	10.2	21.9	22.8	27.7	33.8	40.4
DPS	-	0.6	1.1	2.1	2.5	1.4	2.6	2.8
Dividend Payout	0.0%	107.7%	59.3%	32.4%	250.6%	22.0%	30.0%	30.0%



Valuation Summary

Expected MGT Price	FY24E	FY25E
PER Based Target Price	46.3	65.8
DCF Based Target Price	53.4	60.7
Average Target Price	49.9	63.2
Target Price after Rounding Off	50.0	65.0

Return	FY24E	FY25E
Target Price	50.0	65.0
Current Price	47.8	47.8
Capital Gain (LKR)	2.2	17.2
Dividend upto 31 Mar (LKR)	1.4	2.6
Capital Gain %	5%	36%
Dividend Yield %	3%	6%
Total Return %	7%	41%
Annualized Return %	13%	25%

Discounted Cash flow Valuation

DCF Based Valuation	FY24E	FY25E
Enterprise Value	29,018	29,313
Debt (-)	(10,939)	(10,551)
Cash (+)	4,125	6,445
Total Value of Equity	22,205	25,206
No. of Shares (Mn)	415	415
Target Price	53.4	60.7

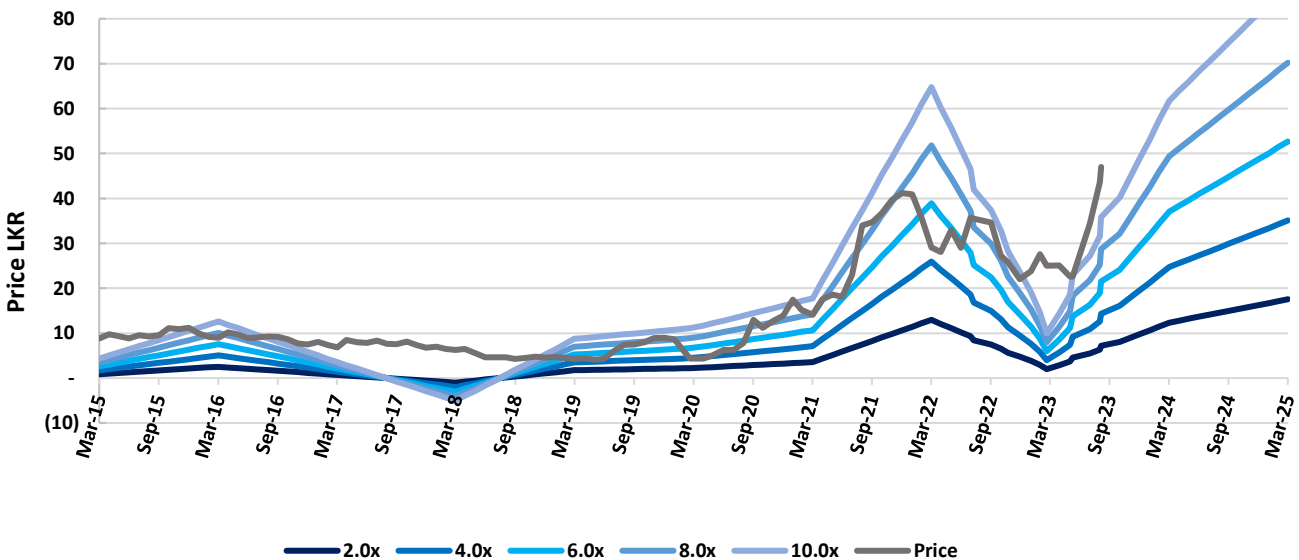
COE	FY24E	FY25E
Rf	12%	11%
Rm	20%	19%
Growth %	3%	4%
β	0.7	0.7
$Ke = Rf + \beta(Rm - Rf)$	17%	16%

PER Valuation

PER Based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	2,565	3,647
No. of Shares ('Mn)	415	415
EPS	6.2	8.8
Expected Average PER	7.5x	7.5x
Target Price	46.3	65.8

WACC	FY24E	FY25E
Ke	17%	16%
Kd	18%	18%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3%	4%
WACC	18%	17%

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
As at 31st March								
Revenue from Contracts with Customers	11,983	12,225	14,769	31,653	60,949	64,352	72,145	82,483
Cost of Sales	(10,554)	(10,641)	(12,750)	(27,531)	(53,123)	(55,664)	(62,044)	(72,173)
Gross Profit	1,429	1,585	2,019	4,122	7,826	8,687	10,100	10,310
Other Operating Income	11	11	12	395	258	263	284	306
Administrative Expenses	(819)	(915)	(960)	(2,316)	(3,407)	(3,861)	(3,607)	(4,124)
Distribution Expenses	(134)	(150)	(182)	(402)	(463)	(644)	(866)	(660)
Other Expenses	(18)	(81)	-	(44)	(16)	(16)	(16)	(16)
EBIT	470	450	890	1,756	4,199	4,430	5,895	5,817
Net Financing Income/(Expense)	(153)	(146)	(159)	1,400	(1,133)	(766)	(686)	(220)
Profit Before Tax	317	304	731	3,156	3,066	3,664	5,209	5,597
Tax	(135)	(73)	6	(463)	(2,652)	(1,099)	(1,563)	(1,679)
Profit After Tax	181	231	736	2,692	414	2,565	3,647	3,918
Adjusted EPS	0.4	0.6	1.8	6.5	1.0	6.2	8.8	9.4

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY19	FY20	FY21	FY22	FY23	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	13,513	13,592	13,871
Right of Use Assets	-	-	38	252	279	279	279	279
Intangible Assets	11	23	15	109	238	100	91	84
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	17,393	17,463	17,735
Current Assets								
Inventories	2,368	2,938	3,346	11,002	12,315	11,133	11,168	14,435
Trade Receivables	1,494	1,213	1,590	4,831	6,048	5,148	7,214	9,898
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	4,125	6,445	3,870
Total Current Assets	4,046	4,507	5,849	19,778	20,899	21,412	25,833	29,209
Total Assets	8,475	9,420	11,701	36,491	39,897	38,806	43,296	46,945
EQUITY AND LIABILITIES								
Capital and Reserves								
Stated Capital	1,968	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Reserve on Amalgamation	-	-	-	-	-	-	-	-
Revaluation Reserve	252	272	286	189	173	173	173	173
Retained Earnings	52	275	633	2,836	2,089	4,090	6,642	9,385
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	11,492	14,045	16,788
Non-Current Liabilities								
Interest Bearing Loans and Borrowings	188	135	687	5,216	5,269	4,376	4,220	4,390
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	8,642	8,487	8,657
Current Liabilities								
Trade and Other Payables	1,104	1,429	2,797	10,600	9,146	9,463	11,788	12,269
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	6,563	6,331	6,586
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	18,671	20,764	21,500
Total Equity and Liabilities	8,475	9,420	11,701	36,491	39,897	38,806	43,296	46,945
Adjusted NAVPS	7.7	8.5	10.2	21.9	22.8	27.7	33.8	40.4



First Capital

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Tharusha Ashokgar	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Zaeema Jihan	+94 11 2639 863
Vinodhini Rajapoopathy	+94 11 2639 866	Nethmi Fernando	+94 11 2639 863

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Tharusha Ekanayake	+ 94 77 7 809 154
--------------------	-------------------

EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042		
Colombo				
Rasika Indra Kumara		+94 77 7072 698	Anjelo LaBrooy	+94 77 7546 645
Isuru Jayawardena		+94 76 7084 953	Dillon Lowe	+94 76 616 0647
Nishantha Mudalige		+94 70 2910 041	Evelyn John	+94 77 779 2452
Anushka Buddhika		+94 71 4310 600	Yudheshan Kannadasan	+94 77 415 5809
Thushara Pathiraja		+94 70 2910 037		
Negombo				
Priyanka Anuruddha		+94 70 2910 035	Priyantha Wijesiri	+94 70 2910 036

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
---------------------	-----------------	-----------------------	-----------------

BRANCHES

Kandy	Kurunegala	Matara	Negombo
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1st Floor, E.H.Coorary Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 4937 072

Disclaimer:

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or a connected person or associated person may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

About us:

This report providing a snapshot of fixed income, equity and unit trust is composed and circulated by First Capital Holdings PLC an investment bank in Sri Lanka. The company operates in the capital market of Sri Lanka with operations in government securities - treasury bills and bonds, stock brokering and share market investments, asset management, private wealth management, retirement planning, personal financial planning, unit trust, margin trading, capital market research, trustee services, corporate finance advisory services including corporate debt structuring (debentures, trust certificates, commercial papers), valuations, restructuring, mergers and acquisitions, initial public offerings (IPOs) and project advisory. The First Capital Group consists of First Capital Treasuries PLC, First Capital Limited, First Capital Markets Limited, First Capital Asset Management Limited and First Capital Equities (Private) Limited covering Colombo, Negombo, Matara, Kandy and Kurunegala.