



First Capital  
A Janashakthi Group Company

# HAYLEYS FABRIC PLC [MGT.N0000]

## MAINTAIN BUY

### “PRICING WEAVES GROWTH; VOLUMES ON A FAINT PICK UP”

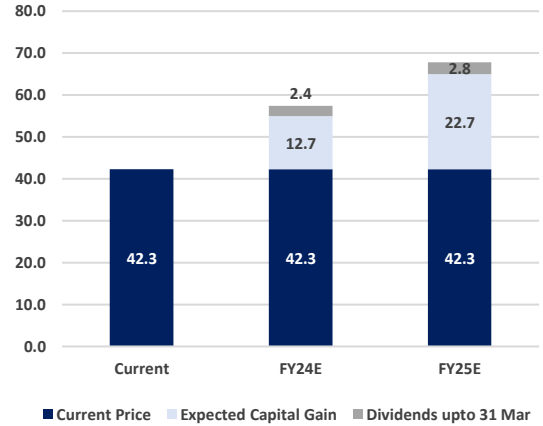
**Fair Value: FY24E - LKR 55.0 [+30%]**

Total Return with DPS: FY24E - 36% [AER 129%]

**Fair Value: FY25E - LKR 65.0 [+54%]**

Total Return with DPS: FY25E - 60% [AER 41%]

MGT continued to experience higher profits for the second quarter, with earnings improving by 85.5%YoY to LKR 930.3Mn (USD Earnings; +109.7%YoY, -1.5%QoQ) while remaining broadly stable relative to the previous quarter as the company reaped the benefits of high pricing coupled with a moderate improvement in volumes. Accordingly, dollar revenue of MGT climbed slightly higher by 5.4%YoY (+6.3%QoQ) reflecting the positive shift in volume and pricing. Additionally, the cost of sales in USD remained relatively stable compared to the previous year, with a slight 2.7% decrease, resulting in a substantial 687bps increase in GP margin. Nevertheless, GP margin shrunk on a QoQ basis owing to cost pressures as Cost of sales increased by 8.7%QoQ. However, LKR revenue experienced a 5.5%YoY decline but saw a notable 11.2%QoQ increase compared to the previous quarter, primarily due to exchange rate fluctuations. On the other hand, operating expenses increased by 28%YoY, to LKR 1.2Bn, which posed a challenge to the company's earnings growth. Looking ahead, we believe that MGT is well-positioned to experience higher sales volumes as global demand improves. Furthermore, the company's strategic focus on margin expansion will likely enhance its earning potential. As a result, we have raised our earnings target for FY24E to LKR 3.4Bn (previously LKR 2.6Bn), and our FY25E earnings expectations remain broadly steady at LKR 3.9Bn. Hence, target price for FY24E is revised to LKR 55.0, offering a 30% upside and FY25E target price is maintained at LKR 65.0 while it offers a 54% upside at the current price of LKR 42.3. **MAINTAIN BUY**



LKR (Mn)	2QFY23	2QFY24	YoY	6MFY23	6MFY24	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	16,796	15,877	-5%	31,834	30,154	-5%
Gross profit	1,796	2,793	+55%	3,744	5,552	+48%
EBIT	948	1,668	+76%	1,967	3,558	+81%
PBT	536	1,464	+173%	2,541	2,527	-1%
Net Profit	501	930	+86%	2,112	1,832	-13%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	12,434	10,397	-16%	12,434	10,397	-16%
Borrowings	25,762	18,259	-29%	25,762	18,259	-29%
NAVPS	29.9	25.0	-16%	29.9	22.8	-24%

#### Earnings potential sustained over MGT's strategic pricing

MGT recorded earnings of LKR 930.3Mn for 2QFY24 registering an uptick of 85.5%YoY while on a quarterly basis it remained broadly steady against a profit of LKR 901.6Mn (+3.3%QoQ) in 1QFY24. The notable growth in earnings in Rupees is largely attributed to fluctuations in the exchange rate between LKR and USD. Despite the currency-related boost in Rupee earnings, MGT's USD denominated earnings experienced a substantial YoY growth of 109.7%, reaching USD 2.8Mn. This growth was supported by margin expansion and a slight improvement in the topline, while the cost of sales remained relatively steady. Accordingly, dollar denominated topline was recorded at USD 48.0Mn increasing slightly by 5.4%YoY (+6.3%QoQ) driven by improved volumes and upscale in pricing by MGT. The stability in the cost of sales at USD 39.6Mn (-2.7%YoY) contributed to a significant expansion of the GP margin by 690 basis points to 17.6%. However, on a quarterly basis, the cost of sales increased by 8.7% from USD 36.4Mn in 1QFY24, mainly due to higher yarn prices and changes in the product mix. However, taking into account the expansion in margins alongside the anticipated recovery in the apparel sector, we have upgraded our earnings target to LKR 3.4Bn (previous estimate: LKR 2.6Bn) while holding our FY25E earnings expectation broadly steady at LKR 3.9Bn.

#### EBIT margin remains elevated yet slumps on a QoQ basis; tax expense rises foiling profit growth

Operating Profits of MGT was recorded at LKR 1.7Bn displaying an upswing of 75.9%YoY resulting in a 486bps surge in EBIT margin to 10.5%, largely supported by the improvement in Gross Profit. However, margins dipped by 207bps on a QoQ basis as EBIT slid low by 11.8%QoQ mainly due to the sharp upsurge in distribution expenses by 143.7%QoQ (+336.4%YoY) which leaped higher as a result of the delays in deliveries of goods. Meanwhile, administrative expenses too increased by 10.3%YoY (+14.4%QoQ) to LKR 964.9Mn, further shrinking EBIT. Meanwhile, MGT's income tax expense skyrocketed to LKR 534.0Mn increasing by 232.2%QoQ (+1460.3%YoY) following the tax hike to 30%, causing a stumbling block to MGT's bottom-line growth.

#### Margins expected to thrive while global demand indicates signs of recovery

MGT has shown a robust headway in its GP margin since 2QFY23 as the company transitioned from low margin products to average-high margin products while INNO brand dominated MGT sales as a niche supplier of fashion-forward fabric while it accounts to over 90% of overall sales. FCR is optimistic about the continuous improvement in margins, foreseeing a boost as demand rebounds and order books fill up. The projected gross profit margin for FY24E is expected to reach 15.0%, surpassing the 12.8% recorded in FY23. On the global stage, the US markets are witnessing positive changes in consumer buying behavior, particularly during the ongoing holiday season shopping. Major brands like NIKE are diversifying their investment strategies by increasing focus on wholesale, complementing their direct-to-consumer approach. Deloitte, a leading global financial advisory firm, anticipates a 3.5%-4.6% increase in US holiday retail sales for 2023. Moreover, according to e-commerce protection provider Signifyd, it is anticipated that holiday apparel sales in the United States will experience a 9% growth, marking a substantial increase compared to the 2.2% growth observed in 2022.

#### FV estimated at LKR 65.0 for FY25E - MAINTAIN BUY

Looking ahead, we anticipate that MGT is well-positioned to experience higher sales volumes as global demand improves. Furthermore, the company's strategic focus on margin expansion will likely enhance its earning potential. As a result, we have raised our earnings target for FY24E to LKR 3.4Bn (previously LKR 2.6Bn), and our FY25E earnings expectations remain broadly steady at LKR 3.9Bn. Hence, target price for FY24E is revised to LKR 55.0, offering a 30% upside and FY25E target price is maintained at LKR 65.0 while it offers a 54% upside at the current price of LKR 42.3. **MAINTAIN BUY**

### FIRST CAPITAL RESEARCH

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



#### Minimum Return for BUY:

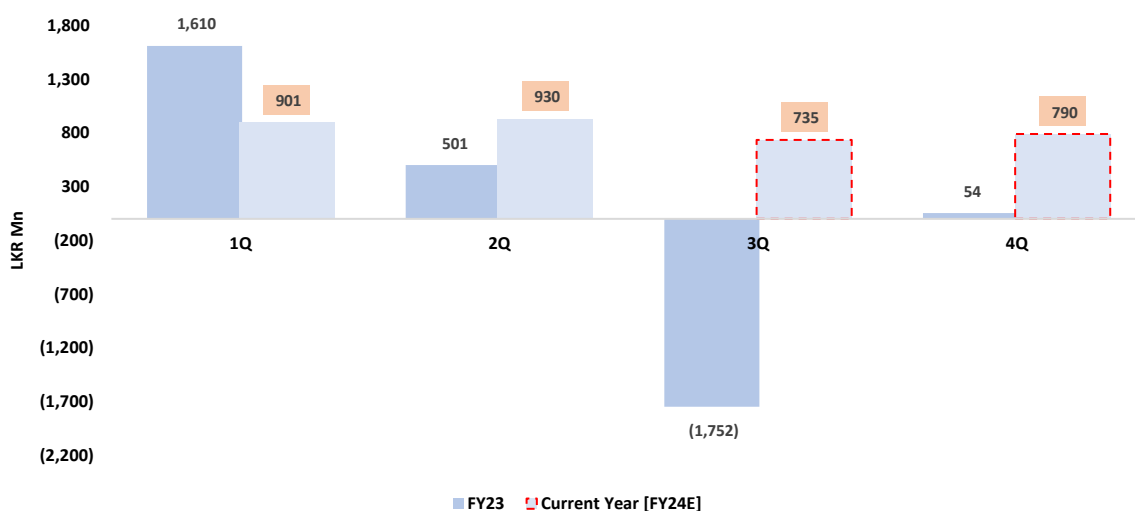
**Buy Below FY25E - [AER of 23% with DPS]: LKR 59.0**  
MGT categorized as 'Grade B' counter

#### 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	FY25E - O	FY25E - R	% Change
<b>Earnings Estimate</b>						
Revenue	64,352	65,198	+1%	72,145	73,423	+2%
Gross profit	8,687	9,780	+13%	10,100	10,500	+4%
EBIT	4,430	5,724	+29%	5,895	6,215	+5%
Profit before tax	3,664	4,794	+31%	5,209	5,529	+6%
Net Profit	2,565	3,356	+31%	3,647	3,871	+6%
EPS	6.2	8.1		8.8	9.3	
Growth YoY	519%	710%		42%	15%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	11,492	11,841	+3%	14,045	14,550	+4%
Borrowings	20,402	20,360	-0%	22,339	22,506	+1%
<b>NAVPS</b>	<b>27.7</b>	<b>28.5</b>		<b>33.8</b>	<b>35.0</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>22.3%</b>	<b>28.3%</b>		<b>26.0%</b>	<b>26.6%</b>	
<b>PER (x)</b>	<b>7.7</b>	<b>5.2</b>		<b>5.4</b>	<b>4.5</b>	
<b>PBV (x)</b>	<b>1.7</b>	<b>1.5</b>		<b>1.4</b>	<b>1.2</b>	

## Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Estimates (LKR 'Mn)</b>								
Revenue	11,983	12,225	14,769	31,653	60,949	65,198	73,423	83,945
Gross Profit	1,429	1,585	2,019	4,122	7,826	9,780	10,500	10,913
EBIT	470	450	890	1,756	4,199	5,724	6,215	6,334
<b>Net Profit</b>	<b>181</b>	<b>231</b>	<b>736</b>	<b>2,692</b>	<b>414</b>	<b>3,356</b>	<b>3,871</b>	<b>4,280</b>
Adjusted EPS (LKR)	0.4	0.6	1.8	6.5	1.0	8.1	9.3	10.3
YoY Growth (%)	272%	28%	218%	266%	-85%	710%	15%	11%
<b>Valuations</b>								
PER (x)	96.9x	75.9x	23.9x	6.5x	42.4x	5.2x	4.5x	4.1x
PBV (x)	5.5x	5.0x	4.2x	1.9x	1.9x	1.5x	1.2x	1.0x
DY (%)	0%	1%	2%	5%	6%	6%	7%	7%
NAVPS	7.7	8.5	10.2	21.9	22.8	28.5	35.0	42.2
DPS	-	0.6	1.1	2.1	2.5	2.4	2.8	3.1
Dividend Payout	0.0%	107.7%	59.3%	32.4%	250.6%	30.0%	30.0%	30.0%



## Valuation Summary

Expected MGT Price	FY24E	FY25E
PER Based Target Price	48.5	65.2
DCF Based Target Price	55.0	59.9
Average Target Price	51.7	62.5
Target Price after Rounding Off	55.0	65.0

Return	FY24E	FY25E
Target Price	55.0	65.0
Current Price	42.3	42.3
Capital Gain (LKR)	12.7	22.7
Dividend upto 31 Mar (LKR)	2.4	2.8
Capital Gain %	30%	54%
Dividend Yield %	6%	7%
<b>Total Return %</b>	<b>36%</b>	<b>60%</b>
Annualized Return %	129%	41%

## Discounted Cash flow Valuation

DCF Based Valuation	FY24E	FY25E
Enterprise Value	29,378	28,595
Debt (-)	(10,939)	(10,551)
Cash (+)	4,412	6,830
<b>Total Value of Equity</b>	<b>22,851</b>	<b>24,873</b>
No. of Shares (Mn)	415	415
<b>Target Price</b>	<b>55.0</b>	<b>59.9</b>

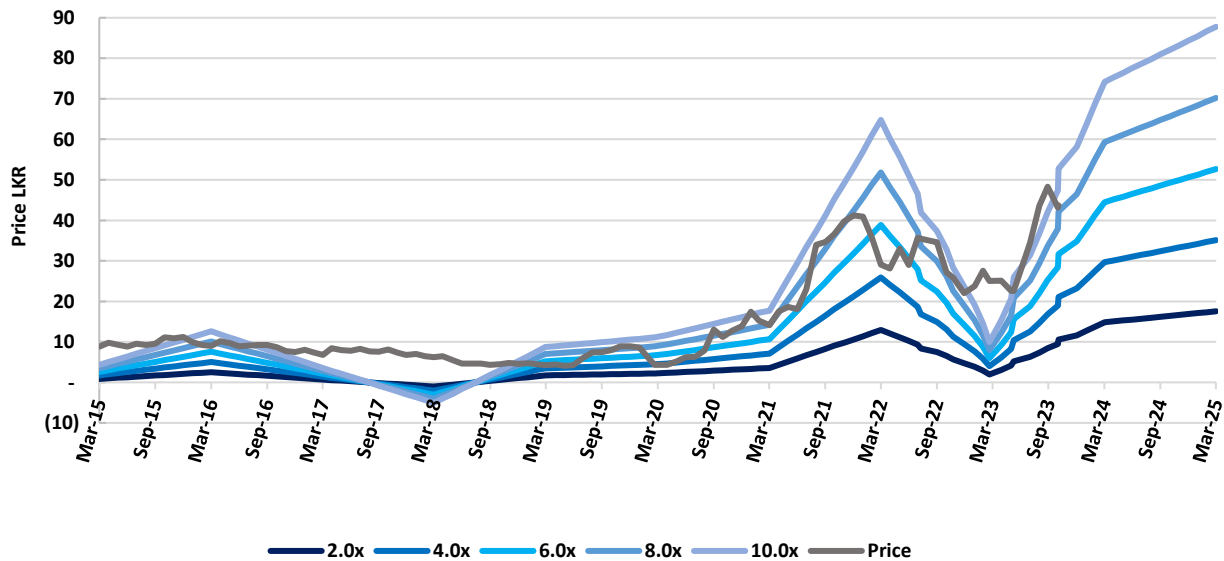
COE	FY24E	FY25E
Rf	12%	11%
Rm	20%	19%
Growth %	3%	4%
$\beta$	0.8	0.8
<b>Ke = Rf + <math>\beta</math>(Rm-Rf)</b>	<b>18%</b>	<b>17%</b>

## PER Valuation

PER Based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	3,356	3,871
No. of Shares ('Mn)	415	415
EPS	8.1	9.3
Expected Average PER	6.0x	7.0x
<b>Target Price</b>	<b>48.5</b>	<b>65.2</b>

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

## PER Chart



## Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>As at 31st March</b>								
Revenue from Contracts with Customers	11,983	12,225	14,769	31,653	60,949	65,198	73,423	83,945
Cost of Sales	(10,554)	(10,641)	(12,750)	(27,531)	(53,123)	(55,419)	(62,924)	(73,032)
<b>Gross Profit</b>	<b>1,429</b>	<b>1,585</b>	<b>2,019</b>	<b>4,122</b>	<b>7,826</b>	<b>9,780</b>	<b>10,500</b>	<b>10,913</b>
Other Operating Income	11	11	12	395	258	263	284	306
Administrative Expenses	(819)	(915)	(960)	(2,316)	(3,407)	(3,651)	(3,671)	(4,197)
Distribution Expenses	(134)	(150)	(182)	(402)	(463)	(652)	(881)	(672)
Other Expenses	(18)	(81)	-	(44)	(16)	(16)	(16)	(16)
<b>EBIT</b>	<b>470</b>	<b>450</b>	<b>890</b>	<b>1,756</b>	<b>4,199</b>	<b>5,724</b>	<b>6,215</b>	<b>6,334</b>
Net Financing Income/(Expense)	(153)	(146)	(159)	1,400	(1,133)	(930)	(686)	(220)
<b>Profit Before Tax</b>	<b>317</b>	<b>304</b>	<b>731</b>	<b>3,156</b>	<b>3,066</b>	<b>4,794</b>	<b>5,529</b>	<b>6,115</b>
Tax	(135)	(73)	6	(463)	(2,652)	(1,438)	(1,659)	(1,834)
<b>Profit After Tax</b>	<b>181</b>	<b>231</b>	<b>736</b>	<b>2,692</b>	<b>414</b>	<b>3,356</b>	<b>3,871</b>	<b>4,280</b>
Adjusted EPS	0.4	0.6	1.8	6.5	1.0	8.1	9.3	10.3

## Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<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	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	-	-	-	-
<b>Total Non-Current Assets</b>	<b>4,430</b>	<b>4,914</b>	<b>5,852</b>	<b>16,713</b>	<b>18,998</b>	<b>17,393</b>	<b>17,463</b>	<b>17,735</b>
<b>Current Assets</b>								
Inventories	2,368	2,938	3,346	11,002	12,315	11,084	11,326	14,606
Trade Receivables	1,494	1,213	1,590	4,831	6,048	5,216	7,342	10,073
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	4,412	6,830	4,428
<b>Total Current Assets</b>	<b>4,046</b>	<b>4,507</b>	<b>5,849</b>	<b>19,778</b>	<b>20,899</b>	<b>21,718</b>	<b>26,505</b>	<b>30,114</b>
<b>Total Assets</b>	<b>8,475</b>	<b>9,420</b>	<b>11,701</b>	<b>36,491</b>	<b>39,897</b>	<b>39,112</b>	<b>43,968</b>	<b>47,849</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	1,968
Reserve on Amalgamation	-	-	-	-	-	-	-	-
Revaluation Reserve	252	272	286	189	173	173	173	173
Retained Earnings	52	275	633	2,836	2,089	4,438	7,148	10,144
Exchange Fluctuation Reserve	907	1,027	1,339	4,114	5,262	5,262	5,262	5,262
<b>Total Equity</b>	<b>3,179</b>	<b>3,543</b>	<b>4,226</b>	<b>9,107</b>	<b>9,492</b>	<b>11,841</b>	<b>14,550</b>	<b>17,546</b>
<b>Non-Current Liabilities</b>								
Interest Bearing Loans and Borrowings	188	135	687	5,216	5,269	5,688	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
<b>Total Non-Current Liabilities</b>	<b>954</b>	<b>1,079</b>	<b>1,716</b>	<b>7,353</b>	<b>9,535</b>	<b>9,955</b>	<b>8,487</b>	<b>8,657</b>
<b>Current Liabilities</b>								
Trade and Other Payables	1,104	1,429	2,797	10,600	9,146	9,421	11,955	12,415
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	5,251	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
<b>Total Current Liabilities</b>	<b>4,342</b>	<b>4,798</b>	<b>5,759</b>	<b>20,031</b>	<b>20,870</b>	<b>17,317</b>	<b>20,931</b>	<b>21,646</b>
<b>Total Equity and Liabilities</b>	<b>8,475</b>	<b>9,420</b>	<b>11,701</b>	<b>36,491</b>	<b>39,897</b>	<b>39,112</b>	<b>43,968</b>	<b>47,849</b>
Adjusted NAVPS	7.7	8.5	10.2	21.9	22.8	28.5	35.0	42.2



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