



TEEJAY LANKA PLC [TJL.N0000]

MAINTAIN BUY

“STRIDING FORWARD AGAINST GLOBAL HEADWINDS”

Fair Value: FY25E - LKR 50.0 [+35%]

Total Return with DPS: FY25E - 40% [AER 37%]

TJL continued its positive trajectory in 3QFY2024, experiencing a notable net profit growth of 230.4%YoY, totaling LKR 477.4Mn, albeit falling below our expectations due to a slower than anticipated recovery. This turnaround from a net loss in 3QFY23 was primarily due to an impairment gain in 3QFY24. However, the bottom-line saw a temporary setback with a 49.4%QoQ decline, largely attributed to a reduction in the GP margin due to seasonal demand fluctuations. Moreover, the topline increased by 2.2%QoQ, reaching LKR 15.9Bn for the 2nd consecutive quarter of FY24 due to improvements in sales mix and evolving market conditions amidst the negative impact from LKR appreciation. Despite operating below capacity, TJL continued to expand its capacity during the quarter and remains optimistic about a promising turnaround, especially with ongoing development projects nearing completion. Anticipating these efforts to bear fruit in 2H2024, TJL foresees an expansion in its order book. Moreover, TJL plans to enhance profitability by increasing synthetic contribution to its topline driven by a shift in consumer preferences. Notably, with consumer sentiment improving in the US in recent months, a resurgence in consumer spending is anticipated in 2024 despite the prevailing recessionary pressures. In light of slower than anticipated recovery in 1H2024, the earnings outlook for FY25E has been slightly revised down to LKR 2.3Bn, and thus we maintain the FV of LKR 50.0 for FY25E. **MAINTAIN BUY**

LKR (Mn)	3QFY23	3QFY24	YoY	9MFY23	9MFY24	YoY
Earnings (LKR 'Mn)						
Revenue	18,147	15,898	-12%	66,758	45,445	-32%
Gross profit	900	1,282	+42%	5,182	3,457	-33%
EBIT	122	860	+602%	2,503	1,495	-40%
PBT	(24)	678	+2870%	2,702	1,201	-56%
Net Profit	(366)	477	+230%	1,974	567	-71%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	36,207	32,182	-11%	36,207	32,182	-11%
Borrowings	26,343	23,432	-11%	26,343	23,432	-11%
NAVPS	50.5	44.9		50.5	44.9	

2nd wave of top-line growth in Q3

In 3QFY24, TJL saw a 2.2%QoQ growth in revenue to LKR 15.9Bn, maintaining its growth trajectory for the 2nd consecutive quarter, attributed to an improved sales mix and changing market conditions. However, there was a notable 12.4%YoY decline in revenue in LKR terms due to the negative impact from LKR appreciation and a reduction in Average Selling Prices (ASPs). Moreover, TJL marked a 230.4%YoY surge in its bottom-line to LKR 477.4Mn, against a net loss of LKR 366.0Mn in 3QFY23, driven by a notable reversal to an impairment gain of LKR 224.6Mn during 3QFY24. Furthermore, TJL implemented effective cost control measures and reduced volume/performance-based costs which resulted in a reduction of both administration (-18.0%YoY) and distribution (-13.9%YoY) costs. However, the bottom-line experienced a notable 49.4%QoQ decline, due to a reduction in the GP margin and a reversal to a net finance cost component of LKR 181.9Mn. Moreover, TJL's USD-denominated revenue saw a marginal 0.4% decrease both YoY and QoQ to USD 49.5Mn, while the USD-denominated bottom-line witnessed a substantial 231.3%YoY increase and a 50.6%QoQ decrease to USD 1.5Mn in 3QFY24. TJL aims to boost the synthetic contribution to the topline from 10.0% to 25.0% (3QFY24: USD 5.0Mn), to enhance profitability through higher ASPs in response to the growing active wear fabric market and shifting consumer preferences towards comfortable clothing amidst remote work and casual fashion trends. Moreover, we have projected TJL's FY25E topline to reach LKR 72.7Bn underpinned by TJL's expansion in the synthetic segment and enhanced order book in FY25E.

GP margin sails higher YoY in Q3

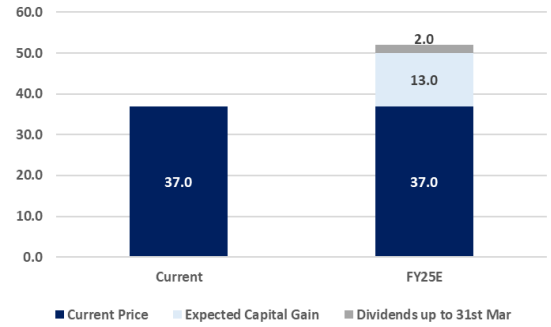
In 3QFY24, TJL experienced a notable 311bps YoY increase in GP margin, reaching 8.1% (3QFY23: 5.0%), attributed to stringent inventory management practices and effective cost reduction strategies. However, the GP margin declined by 410bps QoQ (2QFY24: 12.2%), due to a reduction in the sales of value-added products driven by seasonal demand fluctuations. TJL operated below capacity at 63.0% during 3QFY24 (1QFY24: 60.0%) and currently stands at a break-even juncture. However, the company is poised for a promising turnaround in the near future, as its ongoing development projects are nearing completion within 6-9 months, with TJL anticipating the fruition of these efforts in 2H2024, which can expand its order book and capacity utilization. Looking forward, we expect TJL to benefit from economies of scale resulting from enhanced capacity utilization and reducing costs which will improve the GP margin to 9.0% in FY25E.

Promising future outlook despite macro headwinds

With recessionary trends observed in its key markets including the US (55.0%) and Europe (40.0%), TJL faces challenges ahead, which may prompt it to shift towards segments like its Uniqlo business in the Asian region (5.0%). However, despite the recessionary hurdle, inventory levels are stabilizing inventory which may stimulate purchasing activities. The inventory turnover ratio for clothing and clothing access stores in the US improved to 2.29 in Dec-23 from 2.34 in Nov-23 and 2.41 in Dec-22, as reported by the US Census Bureau. Therefore, TJL remains optimistic about FY25E prospects, with indicators suggesting potential order book improvement. Positive US economic indicators include growing consumer spending amidst inflation and higher interest rates, driven by rising wages and increased debt spending. Consumer sentiment in the US improved by 13.0%MoM in Jan-24, with clothing prices experiencing deflation, followed by a modest rise in Feb-24, up 19.0% from year-ago levels. These trends bode well for improved consumer spending in 2024. Despite inflationary pressures, there was also a significant uptick in US discretionary spending on clothing and apparel during the holiday shopping season. However, with the conclusion of the holiday period and ongoing market softness, we expect TJL to witness a contraction in sales in the upcoming quarters, amidst shipping disruptions in the Red Sea causing delays in shipments and consequently driving up costs. Furthermore, TJL expects optimal capacity utilization in the long-run driven by a strategic industry shift towards South Asia, leveraging its existing multinational presence in markets such as Bangladesh and Indonesia.

FV for FY25E maintained at LKR 50.0

Despite the prevailing challenges, TJL's developments are expected to bear fruit in the latter half of 2024 which sets the stage for sustained growth throughout FY25E. However, due to a slower than anticipated recovery during 1H2024, we have slightly downgraded TJL's earnings forecast for FY25E to LKR 2.3Bn. Hence, we are maintaining our FV at LKR 50.0 for FY25E providing an annualized return of 36.5% at the current price level of LKR 37.0. **MAINTAIN BUY**



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Price Movement of TJL vs ASPI (Indexed and rebased to 100)



Minimum Return for BUY:

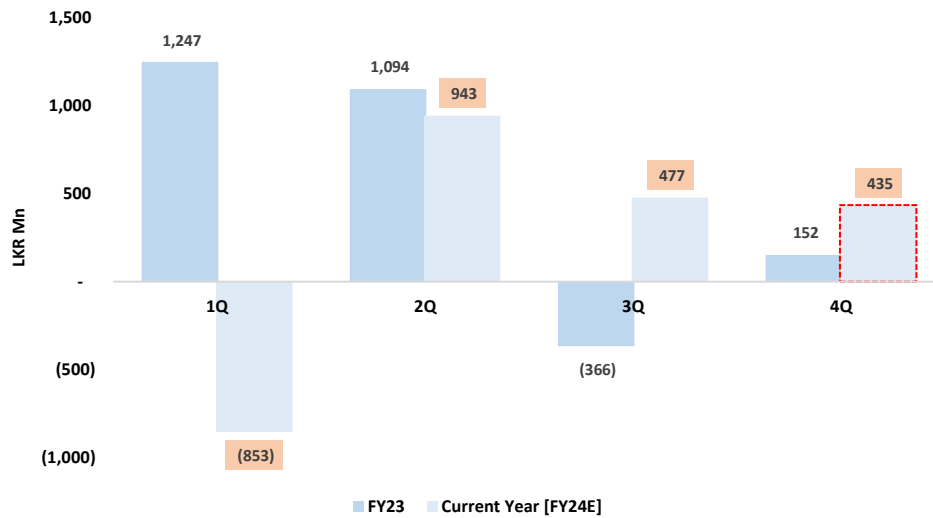
Buy Below for FY25E [AER of 23.0% with DPS]: LKR 40.5
TJL.N categorized as 'Grade B' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of TJL 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	62,202	61,361	-1%	67,480	72,704	+8%
Gross profit	6,220	4,602	-26%	6,748	6,543	-3%
EBIT	3,483	2,270	-35%	3,846	3,781	-2%
Profit before tax	3,280	1,927	-41%	3,578	3,533	-1%
Net Profit	2,214	1,002	-55%	2,415	2,332	-3%
EPS	3.1	1.4		3.4	3.3	
Growth YoY	4%	-53%		9%	133%	
Balance Sheet Estimate						
Shareholders' Equity	33,040	32,603	-1%	34,006	33,536	-1%
Borrowings	11,953	9,852	-18%	11,955	9,795	-18%
NAVPS	46.1	45.5		47.4	46.8	
Ratio Estimate						
ROE (%)	6.8%	3.1%		7.2%	7.1%	
PER (x)	11.2	26.5		10.3	11.4	
PBV (x)	0.8	0.8		0.7	0.8	

Valuation Table

P/E 31 March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)							
Revenue	33,277	31,780	49,588	84,037	61,361	72,704	78,856
Gross profit	4,229	3,790	4,578	6,843	4,602	6,543	7,097
EBIT	2,728	2,441	2,573	3,295	2,270	3,781	4,101
Net Profit	2,384	2,140	2,531	2,127	1,002	2,332	2,504
Adjusted EPS (LKR)	3.3	3.0	3.5	3.0	1.4	3.3	3.5
YoY Growth (%)	28%	-10%	18%	-16%	-53%	133%	7%
Valuations							
PER (x)	11.1x	12.4x	10.5x	12.5x	26.5x	11.4x	10.6x
PBV (x)	1.7x	1.5x	0.9x	0.8x	0.8x	0.8x	0.8x
DY (%)	6.5%	4.5%	5.4%	4.1%	1.9%	5.3%	5.7%
NAVPS	21.8	24.8	39.4	44.7	45.5	46.8	48.2
DPS (LKR)	2.4	1.7	2.0	1.5	0.7	2.0	2.1
Dividend Payout	72%	55%	57%	51%	50%	60%	60%



Valuation Summary

Expected TJL price	FY25E
EV/EBITDA Valuation based target price	47.1
PER based Valuation	45.6
Average Target Price	46.3
Target Price after Rounding off	50.0

Return	FY25E
Target Price	50.0
Current Price	37.0
Capital Gain (LKR)	13.0
Dividends up to 31st March	2.0
Capital Gain %	35%
Dividend Yield %	5%
Total Return %	40%
Annualized Return %	37%

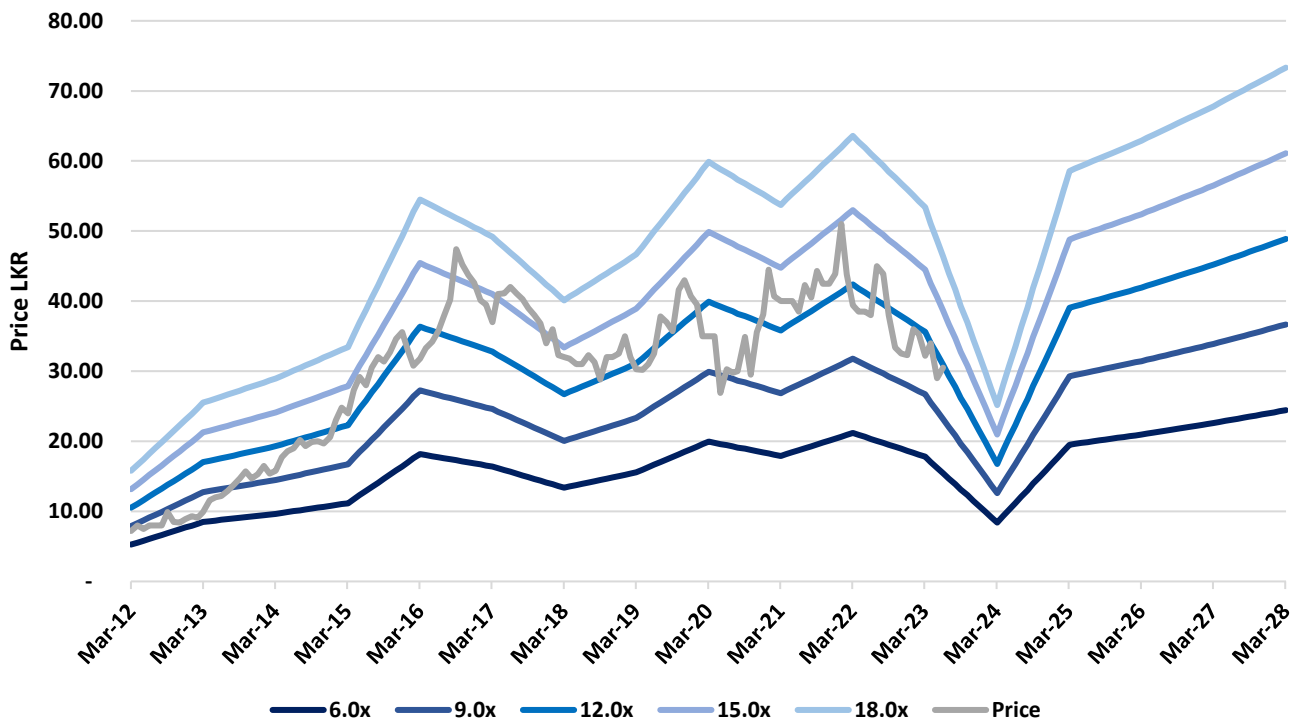
PER based Valuation

PER based Valuation	FY25E
Earnings (LKR 'Mn)	2,332
No. of Shares ('Mn)	717
EPS	3.3
Expected PER	14.0x
Target Price	45.6

EV/EBITDA Valuation

EV/EBITDA based Valuation	FY25E
EBITDA (LKR 'Mn)	8,437
Avg. EV/EBITDA	4.0x
No. of Shares ('Mn)	717
Target Price	47.1

PER Chart





Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
As at 31st March							
Revenue	33,277	31,780	49,588	84,037	61,361	72,704	78,856
Cost of sales	-29,048	-27,990	-45,010	-77,194	-56,759	-66,161	-71,759
Gross profit	4,229	3,790	4,578	6,843	4,602	6,543	7,097
Other income	173	186	151	532	368	436	473
Selling, Distribution & Admin expenses	-1,673	-1,534	-2,156	-4,079	-2,700	-3,199	-3,470
Operating profit	2,728	2,441	2,573	3,295	2,270	3,781	4,101
Finance Income	244	277	440	811	553	491	441
Less : Finance Cost	-160	-119	-149	-990	-896	-738	-748
Net Finance Income/(Costs)	84	158	291	-179	-344	-247	-306
Profit before tax	2,812	2,599	2,864	3,116	1,927	3,533	3,794
Income tax expense	-428	-460	-332	-990	-925	-1,201	-1,290
Profit for the Year	2,384	2,140	2,531	2,127	1,002	2,332	2,504
EPS	3.3	3.0	3.5	3.0	1.4	3.3	3.5

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
As at 31st March							
ASSETS							
Non-Current Assets							
Property, plant and equipment	8,777	8,711	14,715	20,259	20,802	19,725	18,886
Capital work-in-progress	590	425	5,269	1,836	736	136	-464
Intangible Assets	78	125	143	161	692	1,207	1,669
Deferred tax assets	256	273	432	1,856	1,924	1,924	1,924
Goodwill	62	66	96	106	108	113	119
Right-of-use assets	910	899	1,341	1,740	1,740	1,740	1,740
Total Non-Current Assets	10,673	10,500	21,996	25,958	26,003	24,846	23,875
Current Assets							
Inventories	5,904	7,281	16,356	13,383	10,087	11,951	12,963
Trade and other receivables	4,137	7,181	12,859	9,026	10,927	13,943	16,203
Current Tax Receivable	18	6	477	497	0	0	0
Cash and cash equivalents	5,263	4,452	6,383	7,914	9,441	9,559	10,494
Other Financial Assets	967	1,680	1,822	3,281	3,478	3,478	3,478
Total Current Assets	16,289	20,600	37,897	34,100	33,933	38,932	43,138
Total Assets	26,962	31,099	59,894	60,058	59,936	63,778	67,013
EQUITY AND LIABILITIES							
Capital and Reserves							
Stated capital	4,057	4,249	4,442	4,442	4,442	4,442	4,442
Exchange equalisation reserve	5,263	6,225	15,220	18,048	18,156	18,156	18,156
Retained earnings	6,232	7,137	8,410	9,400	9,851	10,784	11,785
Share option scheme	97	153	153	153	153	153	153
Total Equity	15,649	17,764	28,226	32,043	32,603	33,536	34,538
Non-Current Liabilities							
Borrowings	412	198	5,581	6,239	6,363	6,236	6,111
Lease Liability	628	655	930	1,341	1,359	1,359	1,359
Deferred tax liabilities	648	627	919	2,364	2,364	2,364	2,364
Retirement benefit obligations	378	520	425	569	664	664	664
Total Non-Current Liabilities	2,065	2,000	7,855	10,512	10,750	10,623	10,498
Current Liabilities							
Trade and other payables	5,643	8,087	17,623	10,556	12,440	15,407	17,694
Borrowings	3,502	3,108	5,914	6,343	3,489	3,559	3,630
Current tax liability	92	126	233	490	490	490	490
Lease Liability	12	14	43	114	164	164	164
Total Current Liabilities	9,248	11,335	23,813	17,503	16,583	19,619	21,977
Total Equity & Liabilities	26,962	31,099	59,894	60,058	59,936	63,778	67,013
Adjusted NAVPS	21.8	24.8	39.4	44.7	45.5	46.8	48.2



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