



First Capital
A Janashakti Group Company

HAYLEYS FABRIC PLC [MGT.N0000]

MAINTAIN BUY

“NAVIGATING THE SOFT MARKET WITH STEADY MOMENTUM”

Fair Value: FY25E - LKR 65.0 [+63%]

Total Return with DPS: FY25E - 69% [AER 64%]

MGT earnings demonstrated resilience amidst the dull seasonality in apparel demand during the 3QFY24, recording a profit of LKR 551.7M (USD Earnings 1.6Mn; +134.4%YoY, -41.4%QoQ), an upswing of 131.5%YoY cf. loss of LKR 1.8Bn in 3QFY23 led by the one-off deferred tax of LKR 2.3Bn. However, earnings potential dampened by 40.7% on a QoQ basis amidst the decline in order book while appreciation in the rupee mildly impacted the topline. Accordingly, rupee revenue dipped to LKR 10.7Bn falling by 28.6%YoY (-32.7%QoQ), while contraction in the order book was perceptible amidst the decline in dollar denominated revenue by 33.4%QoQ (-20.5%YoY). Despite these headwinds, GP margin continued to thrive at 18.4% during the quarter amidst the considerable dip in cost of sales. Looking ahead, we believe that MGT will continue to see higher profits, amidst the recovery in global demand for apparel and textiles, contributed by the improving consumer sentiment in major markets. Moreover, MGT's strategic focus on expanding margins predominantly through the INNO brand shall provide further strength to its gaining momentum. Hence, FY25E earnings expectation is broadly maintained at LKR 3.8Bn while the fair value for FY25E is maintained at LKR 65.0, offering a 63% upside at the current price of LKR 40.0. **MAINTAIN BUY**

LKR (Mn)	3QFY23	3QFY24	YoY	9MFY23	9MFY24	YoY
Earnings (LKR 'Mn)						
Revenue	14,956	10,687	-29%	46,790	40,840	-13%
Gross profit	2,012	1,968	-2%	5,756	7,519	+31%
EBIT	1,042	1,099	+5%	3,009	4,657	+55%
PBT	506	827	+63%	3,047	3,353	+10%
Net Profit	(1,752)	552	+131%	360	2,384	+562%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	10,587	10,726	+1%	10,587	10,726	+1%
Borrowings	23,887	15,521	-35%	23,887	15,521	-35%
NAVPS	25.5	25.8	+1%	25.5	25.8	+1%

Earnings slow down, yet stands healthy persisting through subdued demand

MGT recorded an earnings of LKR 551.7Mn for 3QFY24 registering 131.5% above the net loss of LKR 1.8Bn recorded in 3QFY23, (largely owing to the one-off deferred tax payment that was made during 3QFY23 following the tax revision to 30.0%) amidst the lower base effect. However, on a QoQ basis, earnings slowed down by 40.7% while USD earnings too reflected the same, falling by 41.4%QoQ to USD 1.6Mn cf. USD 2.8Mn in 2QFY24 led by the subdued demand and order book contraction in the period under consideration. Accordingly, the dollar denominated topline of MGT shrunk on a both YoY and QoQ basis by 20.5% and 33.4%, respectively. Moreover, rupee revenue too contracted by 28.6%YoY (-32.7%QoQ). Soft market conditions in the global apparel market, specifically following the holiday season orders, impacted the order book of MGT to slightly decline affecting the topline of the business. Meanwhile, appreciation of the LKR against the USD by 11.0% during the quarter further challenged earnings growth (USD/LKR as at 30.12.2023: LKR 331.8 cf. LKR 371.5 in 30.12.2022), although the impact was limited. Reflecting the order book contraction, textile and garment exports for the 4Q2023 slightly deteriorated by 3.1%QoQ (-13.4%YoY). However, on a positive note, during Dec-23 export earnings from textile and garment displayed a considerable uptick of 11.0%MoM relative to Nov-23. Meanwhile, in terms of expectations, FCR outlook remains positive for the period ahead for the apparel sector and hence we broadly maintain our earnings expectations for FY25E at LKR 3.8Bn.

Margins remain elevated amidst minimized cost pressures

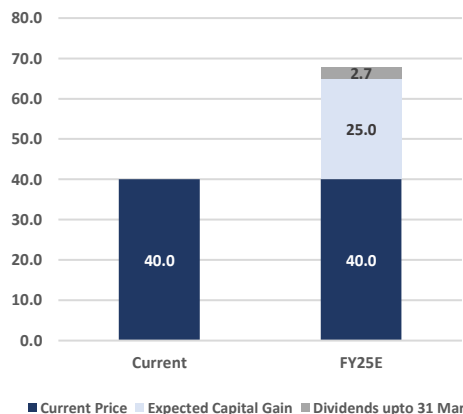
During 3QFY24, GP margin of MGT skyrocketed by 495bps to 18.4% on a YoY basis (+82bps QoQ) aided by the sizeable dip in Cost of Sales by 32.6%YoY (-33.4%QoQ) to LKR 8.7Mn. Decline in orders coupled with the appreciation in the LKR attributed to the decline in Cost of Sales, supporting the massive surge in GP margin. Moreover, during the quarter, distribution expenses showcased a notable decline of 78.9%YoY (-70.1%QoQ) owing to reduced carriage outwards cost amidst low orders while administration expenses too declined by 9.3%QoQ, despite a marginal uptick of 0.5%YoY. As a result, EBIT margin displayed a robust improvement of 331bps on a YoY basis (-22bps QoQ), while EBIT ticked higher by 5.4%YoY further amplifying the earnings growth. Additionally, income tax expense for the quarter edged down sharply by 87.8%YoY (-48.5%QoQ) to LKR 275.2Mn amidst the higher base effect, providing comfort to the bottom-line. In the period ahead, we expect the electricity tariff reduction to eliminate pressure to operating costs to a certain extent.

Subtly radiant future for the apparel sector

FCR maintains a positive outlook for the apparel sector, anticipating a gradual recovery in 2024 and a potential surge in demand by 2025. On the global side, consumer sentiment has begun to show sharp recovery, predominantly in the USA with the consumer sentiment peaking to a 2-½ high in Jan-24 to 78.8, according to The University of Michigan's preliminary reading on the overall index of consumer sentiment. Meanwhile, we expect inventory days of tier-1 clients such as Nike and PVH to taper down in the coming quarters which may result in an increase in orders for MGT. McKinsey expects a slower but normalized growth across regions in 2024, where European and Chinese growth is set to slow down, whilst US growth is expected to pick up after a relatively weak 2023, reflecting the slightly more optimistic outlook. We believe MGT is well-positioned to capitalize on the positive trends in the sector especially with the INNO brand dominating MGT sales as a niche supplier of fashion-forward fabric while it accounts to over 90.0% of overall sales.

FV estimated at LKR 65.0 for FY25E - MAINTAIN BUY

Looking ahead, we believe that MGT will continue to see higher profits, amidst the recovery in global demand for apparel and textiles, contributed by the improving consumer sentiment in major markets. Moreover, MGT's strategic focus on expanding margins predominantly through the INNO brand shall provide further strength to its gaining momentum. Hence, FY25E earnings expectation is broadly maintained at LKR 3.8Bn while the fair value for FY25E is maintained at LKR 65.0, offering a 63% upside at the current price of LKR 40.0. **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

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



Source: CSE

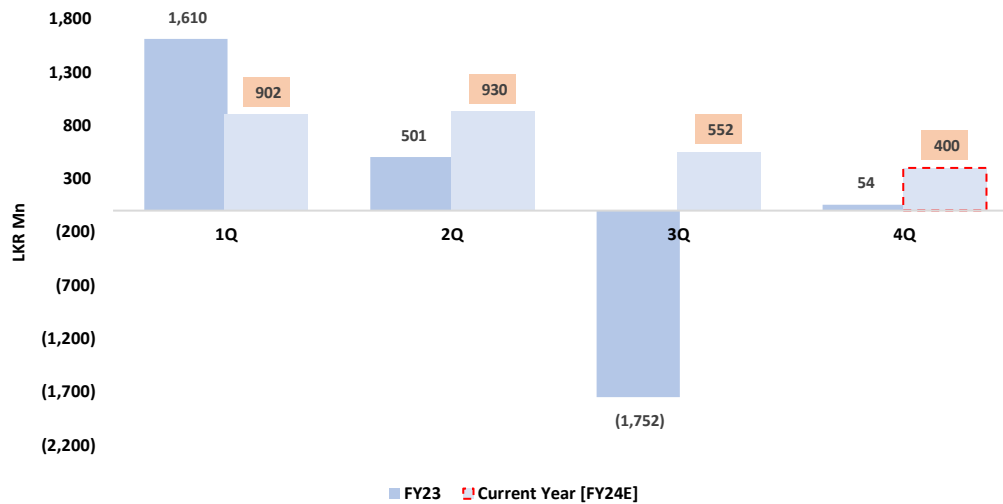
Minimum Return for BUY:

Buy Below FY25E - [AER of 22% with DPS]: LKR 57.0
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	65,198	61,971	-5%	73,423	70,039	-5%
Gross profit	9,780	8,862	-9%	10,500	10,156	-3%
EBIT	5,724	4,861	-15%	6,215	6,081	-2%
Profit before tax	4,794	3,977	-17%	5,529	5,429	-2%
Net Profit	3,356	2,784	-17%	3,871	3,800	-2%
EPS	8.1	6.7		9.3	9.1	
Growth YoY	710%	572%		15%	37%	
Balance Sheet Estimate						
Shareholders' Equity	11,841	11,301	-5%	14,550	13,961	+4%
Borrowings	20,360	19,426	-5%	22,506	21,406	-5%
NAVPS	28.5	27.2		35.0	33.6	
Ratio Estimate						
ROE (%)	28.3%	24.6%		26.6%	27.2%	
PER (x)	5.2	6.0		4.5	4.4	
PBV (x)	1.5	1.5		1.2	1.2	

Valuation Table

P/E 31 March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)							
Revenue	12,225	14,769	31,653	60,949	61,971	70,039	80,075
Gross Profit	1,585	2,019	4,122	7,826	8,862	10,156	10,970
EBIT	450	890	1,756	4,199	4,861	6,081	6,616
Net Profit	231	736	2,692	414	2,784	3,800	4,485
Adjusted EPS (LKR)	0.6	1.8	6.5	1.0	6.7	9.1	10.8
YoY Growth (%)	28%	218%	266%	-85%	572%	37%	18%
Valuations							
PER (x)	71.8x	22.6x	6.2x	40.1x	6.0x	4.4x	3.7x
PBV (x)	4.7x	3.9x	1.8x	1.8x	1.5x	1.2x	1.0x
DY (%)	2%	3%	5%	4%	6%	7%	8%
NAVPS	8.5	10.2	21.9	22.8	27.2	33.6	41.2
DPS	0.6	1.1	2.1	1.6	2.3	2.7	3.2
Dividend Payout	107.7%	59.3%	32.4%	160.4%	35.0%	30.0%	30.0%

Valuation Summary

Expected MGT Price	FY25E
PER Based Target Price	64.0
DCF Based Target Price	58.9
Average Target Price	61.4
Target Price after Rounding Off	65.0

Return	FY25E
Target Price	65.0
Current Price	40.0
Capital Gain (LKR)	25.0
Dividend upto 31 Mar (LKR)	2.7
Capital Gain %	63%
Dividend Yield %	7%
Total Return %	69%
Annualized Return %	64%

Discounted Cash flow Valuation

DCF Based Valuation	FY25E
Enterprise Value	27,780
Debt (-)	(10,029)
Cash (+)	6,704
Total Value of Equity	24,455
No. of Shares (Mn)	415
Target Price	58.9

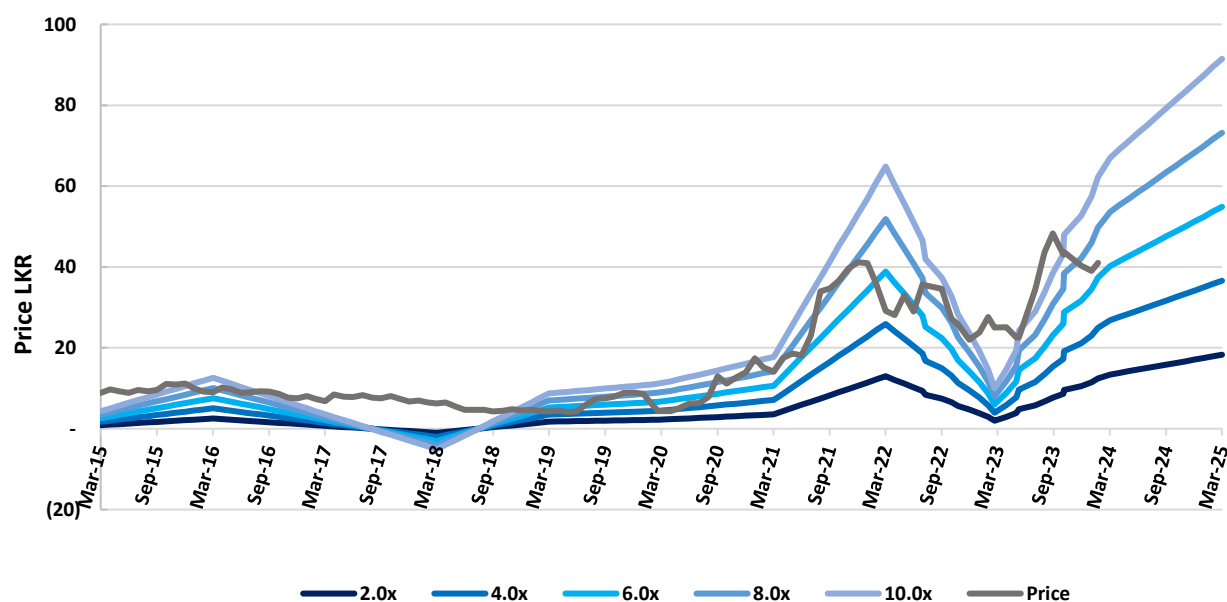
COE	FY25E
Rf	11%
Rm	19%
Growth %	4%
β	0.8
$Ke = Rf + \beta(Rm - Rf)$	17%

PER Valuation

PER Based Valuation	FY25E
Earnings (LKR 'Mn)	3,800
No. of Shares ('Mn)	415
EPS	9.1
Expected Average PER	7.0x
Target Price	64.0

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

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	61,971	70,039	80,075
Cost of Sales	(10,554)	(10,641)	(12,750)	(27,531)	(53,123)	(53,109)	(59,883)	(69,105)
Gross Profit	1,429	1,585	2,019	4,122	7,826	8,862	10,156	10,970
Other Operating Income	11	11	12	395	258	263	284	306
Administrative Expenses	(819)	(915)	(960)	(2,316)	(3,407)	(3,470)	(3,502)	(4,004)
Distribution Expenses	(134)	(150)	(182)	(402)	(463)	(778)	(840)	(641)
Other Expenses	(18)	(81)	-	(44)	(16)	(16)	(16)	(16)
EBIT	470	450	890	1,756	4,199	4,861	6,081	6,616
Net Financing Income/(Expense)	(153)	(146)	(159)	1,400	(1,133)	(884)	(652)	(209)
Profit Before Tax	317	304	731	3,156	3,066	3,977	5,429	6,408
Tax	(135)	(73)	6	(463)	(2,652)	(1,193)	(1,629)	(1,922)
Profit After Tax	181	231	736	2,692	414	2,784	3,800	4,485
Adjusted EPS	0.4	0.6	1.8	6.5	1.0	6.7	9.1	10.8

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	12,844	12,919	13,184
Right of Use Assets	-	-	38	252	279	279	279	279
Intangible Assets	11	23	15	109	238	95	86	80
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	16,720	16,786	17,045
Current Assets								
Inventories	2,368	2,938	3,346	11,002	12,315	10,622	10,779	13,821
Trade Receivables	1,494	1,213	1,590	4,831	6,048	4,958	7,004	9,609
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	4,332	6,704	4,712
Total Current Assets	4,046	4,507	5,849	19,778	20,899	20,918	25,494	29,149
Total Assets	8,475	9,420	11,701	36,491	39,897	37,638	42,279	46,193
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	3,899	6,559	9,699
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	11,301	13,961	17,101
Non-Current Liabilities								
Interest Bearing Loans and Borrowings	188	135	687	5,216	5,269	5,407	4,011	4,173
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	9,673	8,278	8,440
Current Liabilities								
Trade and Other Payables	1,104	1,429	2,797	10,600	9,146	9,029	11,378	11,748
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	4,991	6,017	6,260
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	16,664	20,040	20,653
Total Equity and Liabilities	8,475	9,420	11,701	36,491	39,897	37,638	42,279	46,193
Adjusted NAVPS	7.7	8.5	10.2	21.9	22.8	27.2	33.6	41.2



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