



First Capital
A Janashakthi Group Company

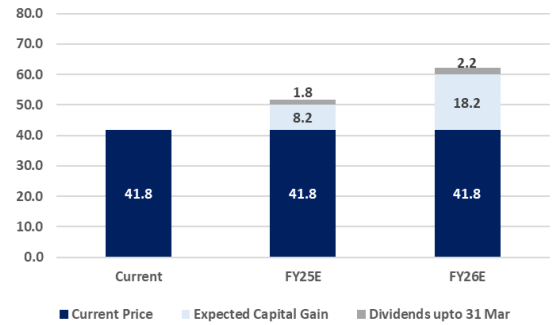
TEEJAY LANKA PLC [TJL.N0000]

MAINTAIN BUY

“PROFIT HEMMED BY TAX GAIN”

Fair Value: FY25E - LKR 50.0 [+20%] **Fair Value: FY26E - LKR 60.0 [+44%]**
Total Return with DPS: FY25E - 24% [AER 32%] **Total Return with DPS: FY26E - 49% [AER 25%]**

TJL's net profit surged 15.0%QoQ to LKR 549.1Mn, exceeding FCR estimate by about 26.0%, due to a favorable tax adjustment in 4QFY24. This growth was also driven by a substantial rise in the GP margin to 9.8%, despite a 4.0%QoQ revenue decline attributed to LKR appreciation and lower ASPs. However, EBIT margin contracted by 116bps QoQ to 4.2% in 4QFY24, impacted by higher distribution and administrative costs associated with market expansion efforts in Bangladesh. For FY24, TJL reported a net profit of LKR 1.1Bn, down 47.5%YoY, with revenue declining 27.6%YoY to LKR 60.8Bn, influenced by currency appreciation and reduced volumes. Looking forward, TJL faces potential margin pressures from anticipated cotton price hikes, though recent declines offer temporary relief. Despite these challenges, TJL anticipates growth driven by a robust order book, fueled by renewed purchasing activity post resolution of overstocking. External factors such as the US Fed's anticipated rate cuts and global inflation dynamics are expected to influence consumer spending positively, reinforcing TJL's market outlook. Despite operating below capacity, TJL remains cautiously optimistic, focusing on operational efficiencies and expanding synthetic offerings in response to emerging fashion trends. With strategies to optimize capacity through an increased order book, TJL aims to navigate economic shifts and capitalize on growth opportunities in the global apparel market. Considering these factors, we estimate FY26E earnings at LKR 2.6Bn, with a FV estimate of LKR 60.0 for the same period. This suggests a potential upside of 43.5% from the current market price of LKR 41.8. **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

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LKR (Mn)	4QFY23	4QFY24	YoY	FY23	FY24	YoY
Earnings (LKR 'Mn)						
Revenue	17,301	15,254	-12%	84,037	60,813	-28%
Gross profit	1,186	1,501	+27%	6,843	5,073	-26%
EBIT	773	648	-16%	3,295	2,142	-35%
PBT	409	387	-5%	3,116	1,588	-49%
Net Profit	152	549	+260%	2,127	1,116	-48%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	32,043	30,130	-6%	32,043	30,130	-6%
Borrowings	12,582	9,324	-26%	12,582	9,324	-26%
NAVPS	44.7	42.0		44.7	42.0	

Bottom-line buttons up 15.0%QoQ with tax gain

In 4QFY24, TJL's net profit surged 15.0%QoQ (+260.3%YoY) to LKR 549.1Mn, driven by a reversal to a tax gain. Income tax shifted to a gain of LKR 162.2Mn c.f. expenses of LKR 200.3Mn in 3QFY24 and LKR 256.7Mn in 3QFY23, due to a deferred tax recognition in India following the capitalization of a USD 26.0Mn project. The USD-denominated bottom-line also grew 15.6%QoQ (+347.8%YoY) to USD 1.8Mn, propelled by effective inventory management and capacity utilization. For FY24, TJL reported a net profit of LKR 1.1Bn (-47.5%YoY)—USD 3.6Mn (-41.1%YoY). Looking forward, TJL is optimistic with a strong order book and signs of recovery in the global apparel market, estimating earnings of LKR 2.2Bn for FY25E and LKR 2.6Bn for FY26E.

GP margin lends a subtle hem to the bottom-line despite a 4.0%QoQ top-line dip

In 4QFY24, TJL achieved a notable 9.8% GP margin, the 2nd highest in FY24 after the 12.2% peak in 2QFY24. Despite a 4.0%QoQ (-11.8% YoY) decline in revenue to LKR 15.3Bn, the GP margin improved by 178bps QoQ and 299bps YoY. This improvement was due to optimized capacity utilization, enhanced operational efficiency, increased volumes, and stable yarn prices. Currently, TJL's capacity utilization remains at 63.0%, with efforts to reach the high 90.0% mark by 2QFY25E. The top-line decline was primarily influenced by a 14.0%YoY appreciation of the LKR and an 8.0% reduction in average selling prices. The USD-denominated revenue slightly decreased by 1.3%QoQ (+2.3%YoY) to USD 48.9Mn, stabilizing around the USD 50.0Mn mark over recent quarters due to increased demand for TJL's high-end products. For FY24, TJL reported LKR 60.8Bn (-27.6%YoY)—USD 194.1Mn (-18.7% YoY) in revenue, affected by an 8.5%YoY volume reduction. Furthermore, TJL aims to increase its synthetic contribution to 25.0% by FY25E, up from the current 10.0%-20.0% range of its margins, to cater to emerging fashion trends. Furthermore, the Apr-24 festive season dampened 1QFY25E demand, but TJL expects to meet pent-up demand in 2QFY25E, supported by ongoing projects expected to expand the order book and capacity utilization by 2H2024. For FY25E, we project TJL's revenue to reach LKR 68.9Bn, driven by synthetic segment expansion and a robust order book. Furthermore, we expect TJL to benefit from economies of scale due to improved capacity utilization, which may enhance its GP margin to 9.0% in FY25E.

EBIT margin trimmed by rising expenses

Despite a growth in the bottom-line, TJL's EBIT margin contracted by 116bps QoQ and 220bps YoY to 4.2% in 4QFY24, driven by a 24.6%QoQ (-16.2%YoY) decline in operating profit to LKR 647.9Mn. Distribution expenses rose by 32.4%QoQ, and administrative expenses by 10.8%QoQ, reflecting TJL's intensified market penetration into the Bangladesh market to support European operations. This was fueled by increased traction and expanding order volumes from local customers and vendors in Bangladesh which accounted for 8.0%-10.0% of TJL's FY24 revenue. However, rising labor cost and capacity constraints in Bangladesh due to the China Plus One strategy may alter this. Marks and Spencer and other major clients are already considering shifting their supply chains to Sri Lanka, which could benefit TJL. Furthermore, finance income reversed into a cost of LKR 38.9Mn in 4QFY24, exacerbating the net finance cost by 43.4%QoQ, primarily driven by exchange translation losses which resulted from LKR appreciation.

Looming cotton price hike to threadbare TJL's margins

Cotton prices have recently dropped to around USD 0.70 per pound, from a peak of USD 1.03 per pound in 4QFY24, influenced by sluggish milling demand amidst muted global demand and expectations of better crops in countries like Australia. The US election and domestic supply dynamics are also expected to further suppress the cotton prices. However, volatility in cotton prices is anticipated, driven by limited exportable supplies and strong consumption trends, which suggests potential future increases. Additionally, India's projected 2.0% decline in cotton production in 2024E, due to farmers shifting acreage to higher return crops, and an expected 2.0% increase in mill consumption globally for yarn and textiles further complicates the price outlook. Moreover, India's recent 7.0% increase in Minimum Support Price (MSP) for cotton may elevate production costs, potentially keeping market prices above the MSP level.

US Fed's rate cut to weave in more consumer spending

In 1Q2024, US consumer spending held steady, buoyed by savings and credit amid slowing personal income growth. The savings rate dipped to 3.6% in Feb-24, the lowest since Dec-22, while inflation subsequently eased marginally from 3.4% in Apr-24 to 3.3% in May-24. However, consumer sentiment plummeted to a 7-month low of 65.6 in Jun-24, reflecting anxiety over persistent inflation, curbing spending.

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



Minimum Return for BUY:

Buy Below for FY26E [AER of 21.0% with DPS]: LKR 44.3
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.

Source: CSE



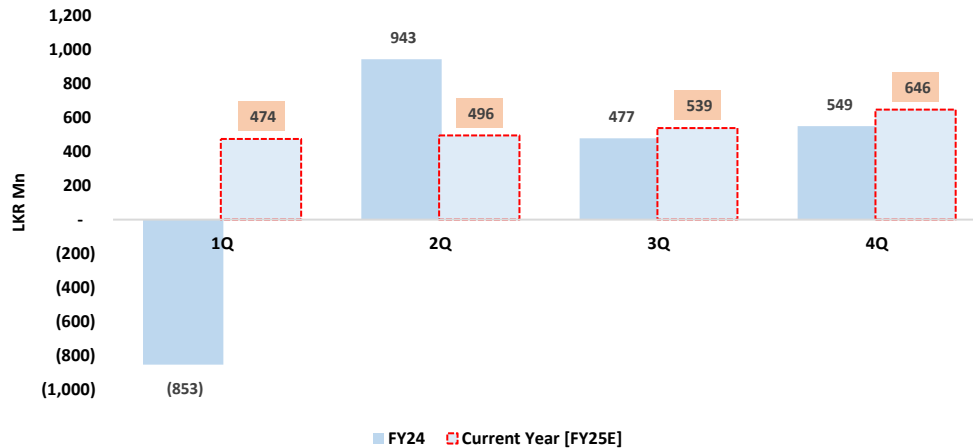
The Fed noted inflation nearing their 2.0% target and hinted at a potential Sep-24 rate cut, which is expected to bolster consumer spending in 2H2024. Additionally, the upcoming Summer Olympics in Jul-24 is poised to boost business for TJL’s top US retailers like Nike, which is pivotal as the US market comprises 52.0% of TJL’s revenue. Notably, TJL’s top five retailers—Oniverse (formerly Calzedonia), PVH, VS&Co, LIDL, and Nike—account for about 70.0%-80.0% of its revenue. Across the Eurozone, inflation rose to 2.6% in May-24 from 2.4% in Apr-24, nearing the ECB’s 2.0% target, prompting its first rate cut in five years in Jun-24. This move aims to stimulate consumer spending in Europe, which contributes about 44.0% of TJL’s revenue. TJL is currently experiencing increased volumes in its high-end segment, with anticipated growth in the mid-market across the US and EU regions in 2QFY25E, which is poised to bolster the upcoming purchasing season over the next six months. Despite challenges like the Red Sea issue and the upcoming US elections, which could temper this outlook, TJL remains optimistic about robust growth over the next one to two years. It foresees renewed purchasing activity following resolution of client overstocking, as indicated by the improved inventory turnover ratio for US clothing and accessory stores—rising to 2.29 in Apr-24 c.f. 2.30 in Mar-24 and 2.36 in Apr-23, as per the US Census Bureau.

FV for FY26E estimated at LKR 60.0

Despite operating below capacity, TJL remains cautiously optimistic, focusing on operational efficiencies and expanding synthetic offerings in response to emerging fashion trends. With strategies to optimize capacity through an increased order book, TJL aims to navigate economic shifts and capitalize on growth opportunities in the global apparel market. Considering these factors, we estimate FY26E earnings at LKR 2.6Bn, with a FV estimate of LKR 60.0 for the same period. This suggests a potential upside of 43.5% from the current market price of LKR 41.8. **MAINTAIN BUY**



Quarterly Earnings



Estimate Revision

In LKR Mn	FY25E - O	FY25E - R	% Change	FY26E - O	FY26E - R	% Change
Earnings Estimate						
Revenue	72,704	68,924	-5%	78,856	81,648	+4%
Gross profit	6,543	6,203	-5%	7,097	7,348	+4%
EBIT	3,781	3,377	-11%	4,101	4,001	-2%
Profit before tax	3,533	3,064	-13%	3,794	3,680	-3%
Net Profit	2,332	2,155	-8%	2,504	2,588	+3%
EPS	3.3	3.0		3.5	3.6	
Growth YoY	133%	93%		9%	20%	
Balance Sheet Estimate						
Shareholders' Equity	33,536	30,992	-8%	34,538	32,027	-7%
Borrowings	9,795	9,376	-4%	9,741	9,451	-3%
NAVPS	46.8	43.2		48.2	44.7	
Ratio Estimate						
ROE (%)	7.1%	7.1%		7.4%	8.2%	
PER (x)	11.4	13.9		10.6	11.6	
PBV (x)	0.8	1.0		0.8	0.9	

Valuation Table

P/E 31 March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Estimates (LKR 'Mn)							
Revenue	31,780	49,588	84,037	60,813	68,924	81,648	88,537
Gross profit	3,790	4,578	6,843	5,073	6,203	7,348	7,968
EBIT	2,441	2,573	3,295	2,142	3,377	4,001	4,338
Net Profit	2,140	2,531	2,127	1,116	2,155	2,588	2,816
Adjusted EPS (LKR)	3.0	3.5	3.0	1.6	3.0	3.6	3.9
YoY Growth (%)	-10%	18%	-16%	-48%	93%	20%	9%
Valuations							
PER (x)	14.0x	11.8x	14.1x	26.8x	13.9x	11.6x	10.6x
PBV (x)	1.7x	1.1x	0.9x	1.0x	1.0x	0.9x	0.9x
DY (%)	3.9%	4.8%	3.6%	3.6%	4.3%	5.2%	6.1%
NAVPS	24.8	39.4	44.7	42.0	43.2	44.7	46.1
DPS (LKR)	1.7	2.0	1.5	1.5	1.8	2.2	2.6
Dividend Payout	55%	57%	51%	96%	60%	60%	65%



Valuation Summary

Expected TJL price	FY25E	FY26E
EV/EBITDA Valuation based target price	48.2	58.6
PER based Valuation	45.1	54.2
Average Target Price	46.7	56.4
Target Price after Rounding off	50.0	60.0

Return	FY25E	FY26E
Target Price	50.0	60.0
Current Price	41.8	41.8
Capital Gain (LKR)	8.2	18.2
Dividends up to 31st March	1.8	2.2
Capital Gain %	20%	44%
Dividend Yield %	4%	5%
Total Return %	24%	49%
Annualized Return %	32%	25%

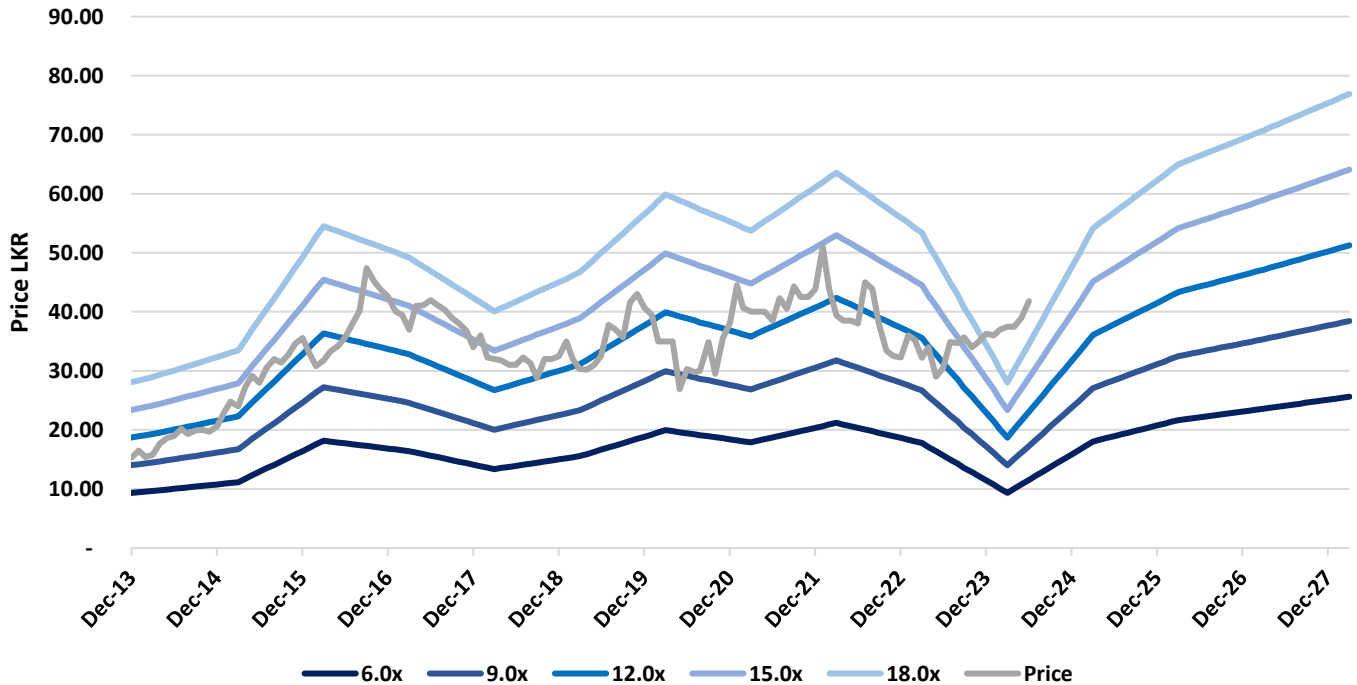
PER based Valuation

PER based Valuation	FY25E	FY26E
Earnings (LKR 'Mn)	2,155	2,588
No. of Shares ('Mn)	717	717
EPS	3.0	3.6
Expected PER	15.0x	15.0x
Target Price	45.1	54.2

EV/EBITDA Valuation

EV/EBITDA based Valuation	FY25E	FY26E
EBITDA (LKR 'Mn)	6,285	6,999
Avg. EV/EBITDA	5.5x	6.0x
No. of Shares ('Mn)	717	717
Target Price	48.2	58.6

PER Chart





Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
As at 31st March								
Revenue	33,277	31,780	49,588	84,037	60,813	68,924	81,648	88,537
Cost of sales	-29,048	-27,990	-45,010	-77,194	-55,741	-62,721	-74,300	-80,569
Gross profit	4,229	3,790	4,578	6,843	5,073	6,203	7,348	7,968
Other income	173	186	151	532	203	276	327	354
Selling, Distribution & Admin expenses	-1,673	-1,534	-2,156	-4,079	-3,133	-3,102	-3,674	-3,984
Operating profit	2,728	2,441	2,573	3,295	2,142	3,377	4,001	4,338
Finance Income	244	277	440	811	455	189	187	185
Less : Finance Cost	-160	-119	-149	-990	-1,010	-503	-508	-519
Net Finance Income/(Costs)	84	158	291	-179	-555	-313	-321	-334
Profit before tax	2,812	2,599	2,864	3,116	1,588	3,064	3,680	4,005
Income tax expense	-428	-460	-332	-990	-471	-909	-1,092	-1,188
Profit for the Year	2,384	2,140	2,531	2,127	1,116	2,155	2,588	2,816
EPS	3.3	3.0	3.5	3.0	1.6	3.0	3.6	3.9

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
As at 31st March								
ASSETS								
Non-Current Assets								
Property, plant and equipment	8,777	8,711	14,715	20,259	18,142	18,978	19,993	21,188
Capital work-in-progress	590	425	5,269	1,836	703	513	538	847
Intangible Assets	78	125	143	161	606	490	427	405
Deferred tax assets	256	273	432	1,856	2,240	2,240	2,240	2,240
Goodwill	62	66	96	106	98	103	108	114
Right-of-use assets	910	899	1,341	1,740	1,681	1,681	1,681	1,681
Total Non-Current Assets	10,673	10,500	21,996	25,958	23,471	24,005	24,987	26,474
Current Assets								
Inventories	5,904	7,281	16,356	13,383	11,646	12,274	13,422	13,341
Trade and other receivables	4,137	7,181	12,859	9,026	9,774	13,218	16,777	19,405
Current Tax Receivable	18	6	477	497	614	0	0	0
Cash and cash equivalents	5,263	4,452	6,383	7,914	7,233	7,661	6,640	6,352
Other Financial Assets	967	1,680	1,822	3,281	1,668	1,668	1,668	1,668
Total Current Assets	16,289	20,600	37,897	34,100	30,936	34,822	38,507	40,767
Total Assets	26,962	31,099	59,894	60,058	54,407	58,828	63,494	67,241
EQUITY AND LIABILITIES								
Capital and Reserves								
Stated capital	4,057	4,249	4,442	4,442	4,442	4,442	4,442	4,442
Exchange equalisation reserve	5,263	6,225	15,220	18,048	15,752	15,752	15,752	15,752
Retained earnings	6,232	7,137	8,410	9,400	9,754	10,616	11,651	12,637
Share option scheme	97	153	153	153	182	182	182	182
Total Equity	15,649	17,764	28,226	32,043	30,130	30,992	32,027	33,013
Non-Current Liabilities								
Borrowings	412	198	5,581	6,239	4,140	3,933	3,736	3,363
Lease Liability	628	655	930	1,341	1,229	1,229	1,229	1,229
Deferred tax liabilities	648	627	919	2,364	2,213	2,213	2,213	2,213
Retirement benefit obligations	378	520	425	569	875	875	875	875
Total Non-Current Liabilities	2,065	2,000	7,855	10,512	8,458	8,251	8,055	7,681
Current Liabilities								
Trade and other payables	5,643	8,087	17,623	10,556	10,866	13,747	17,303	19,866
Borrowings	3,502	3,108	5,914	6,343	5,184	5,443	5,715	6,287
Current tax liability	92	126	233	490	282	282	282	282
Lease Liability	12	14	43	114	113	113	113	113
Total Current Liabilities	9,248	11,335	23,813	17,503	16,444	19,584	23,412	26,547
Total Equity & Liabilities	26,962	31,099	59,894	60,058	55,033	58,828	63,494	67,241
Adjusted NAVPS	21.8	24.8	39.4	44.7	42.0	43.2	44.7	46.1



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