



First Capital
A Jeasoththi Group Company

JAT HOLDINGS PLC [JAT.N0000]

INITIATING WITH A BUY

“FLOURISHING THROUGH FOCUS STRATEGIES...”

Fair Value: 2026E - LKR 32.0 [+40%]

Total Return with DPS: 2026E - 46% [AER 34%]

P/E 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Estimates (LKR 'Mn)							
Revenue	5,360	8,897	10,167	11,556	11,934	13,302	14,828
Gross profit	1,644	2,603	3,424	3,389	3,662	4,387	5,173
EBIT	685	1,186	1,931	1,355	1,862	2,355	2,882
Net Profit	600	1,211	1,301	1,023	1,444	1,845	1,940
Adjusted EPS (LKR)	1.2	2.4	2.6	2.0	2.8	3.6	3.8
YoY Growth (%)	-15.9%	103.0%	7.4%	-21.8%	41.2%	27.8%	5.1%
Valuations							
PER (x)	19.5x	9.6x	9.0x	11.4x	8.1x	6.3x	6.0x
PBV (x)	2.2x	1.5x	1.4x	1.3x	1.2x	1.1x	1.0x
DPS	0.4	0.8	0.8	0.8	1.1	1.4	1.5
DY (%)	1.6%	3.6%	3.6%	3.4%	4.9%	6.3%	6.6%
Dividend Payout (%)	30.7%	34.4%	32.5%	39.5%	40.0%	40.0%	40.0%
NAVPS	10.5	15.2	16.9	17.9	19.6	21.8	24.0

Strategic vertical backward integration to enhance margins

We expect JAT's gross and net margins to expand by 492bps and 371bps, from FY24 to FY29E, respectively driven by the company's strategic vertical integration initiatives in Sri Lanka and Bangladesh, as well as enhanced sales and distribution efforts to reduce intermediaries. In FY24, JAT made a significant investment in vertical backward integration by establishing a binder manufacturing plant in Sri Lanka which produces European standard binders. The facility in Horana commenced operations in 1QFY25E and is currently running at nearly 50.0% capacity. Margin improvements from the plant is expected to materialize starting from 4QFY25E, following the full utilization of imported binder inventories in 3QFY25E. As binder costs account for nearly 35.0% of the cost of sales, the new plant is anticipated to reduce these costs by nearly 70.0%. Additionally, the plant will eliminate 35.0% of CESS related to binder imports. JAT also plans to begin exporting excess production next year once the plant reaches full capacity. Additionally, JAT has commenced the production of Alkyd Resin in Bangladesh, a key raw material for solvent-based paints, which is expected to enhance gross and net margins in the Bangladesh operations as JAT is the market leader in industrial segment in Bangladesh. JAT is also implementing strategic sales and marketing initiatives aimed at reducing intermediaries and focusing on direct distribution in the Colombo district, which is projected to generate cost savings of LKR 50.0Mn to LKR 60.0Mn enhancing the bottom-line.

Dominant market player in the Wood Coating market with over 50% market share

JAT is the largest distributor and exclusive agent of Sayerlack products in South Asia and key regions of Africa. It holds a dominant position in Sri Lanka's wood coatings market, with a market share exceeding 50%, particularly in water-based coatings. JAT's leadership is anchored in its long-standing partnership with Sayerlack, which spans nearly 26 years and was recently extended for another 5-years. Since the launch of the Sayerlack Loyalty Program in 2019, the program has experienced significant growth, reaching over 158,000 loyal customers in FY24 who are trained as agents to distribute JAT products across Sri Lanka with the perceived brand quality. This customer base has expanded at an average annual growth rate of 16.8% over the past three years and is expected to continue growing at a 7-year CAGR of 4.4% according to FCR forecasting. JAT's customer-centric strategy, which focuses on anticipating emerging needs and delivering innovative solutions, has further strengthened its competitive edge. This approach coupled with premium quality have enabled JAT to command a 25.0%-30.0% premium over its competitors with its first-mover advantage, along with the anticipated boom in the Construction sectors in Sri Lanka and Bangladesh, JAT is well-positioned to maintain its dominant market share in the years ahead.

R&D in forefront of JAT; enabling company to stay ahead of the curve

By fulfilling JAT's IPO promises, investing into state-of-the-art research and development capabilities, (including the "Reverse Engineering Division" under the R&D center) has enabled JAT to analyze competitor products and enhance its offerings. This facility has centralized all R&D efforts, reducing reliance on supplier support and improving collaboration with supplier R&D teams, ultimately enhancing JAT's wood coating product range. As a result, JAT has introduced home-grown, affordable alternatives of Sayerlack water-based wood coatings, as "Masters" for the Sri Lankan market and "JChem" for Bangladesh as the affordable alternative for Sayerlack PU-based wood coatings. According to the management guidance, we believe, JAT may add LKR 100.0Mn for the R&D yearly over the next 7-years. With a strong first-mover advantage and ongoing R&D efforts to cater to diverse customer segments, we project JAT's topline to grow at an 8.6% CAGR over the next 7-years.

Coating for future gains; JAT's FY26E target price offers a total annualized return of 33.7%

In FY25E, we expect JAT to record earnings of LKR 1.4Bn (+41.1%YoY) while FY26E earnings is expected to record at LKR 1.8Bn (+27.8%YoY). Along with that, we expect JAT's EPS to grow at a 7-year CAGR of 15.6% over the forecasted period. Using a blend of DCF and PER based valuation methodologies, we have arrived at a target price of LKR 32.0 for FY26E, which implies a total annualized return of 33.7%. However, based on our analysis, JAT is currently trading at a 34.7% premium compared to the Materials sector PER of 7.1x. Considering its dominant position in the wood coating industry, coupled with market-driven research and development initiatives, cutting-edge innovations, and a strong focus on global expansion, we believe this premium is justified. In the same way, other dominant players like LLUB, LION, CCS, and CTC are trading at a premium to their sectors, underpinned by their established and consistent track records. **BUY**

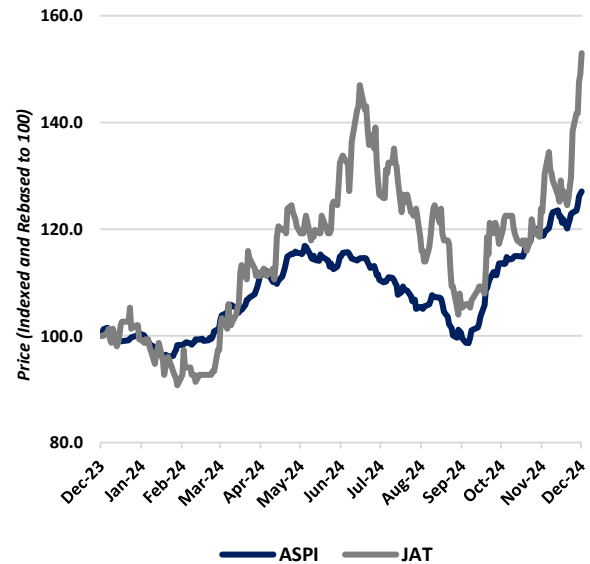
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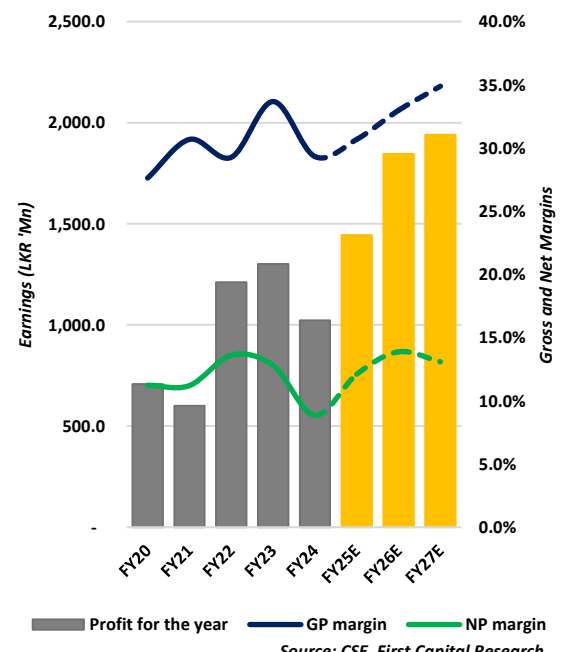
Price Performance (%)	1 mth	3 mths	12 mths
JAT	16.2%	43.1%	50.7%
ASPI	7.2%	29.7%	26.2%

Price Movement of JAT vs ASPI (Indexed and Rebased to 100)



Source: CSE

Earnings, Gross and Net Margins of JAT



Source: CSE, First Capital Research



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