



HAYLEYS FABRIC PLC [MGT.N0000]

MAINTAIN BUY

“TOUGH TIMES; BRIGHT FUTURE...”

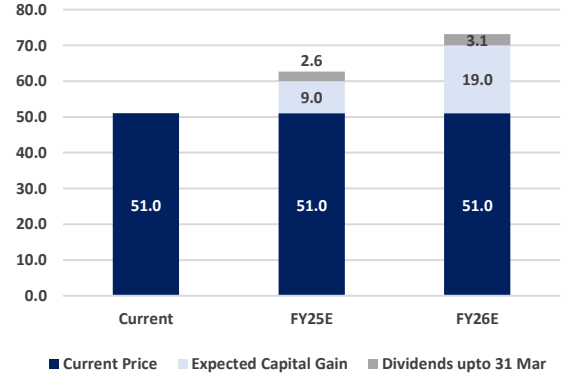
Fair Value: FY25E - LKR 60.0 [+18%]

Total Return with DPS: FY25E - 23% [AER 109%]

Fair Value: FY26E - LKR 70.0 [+37%]

Total Return with DPS: FY26E - 43% [AER 33%]

MGT earnings for 2QFY25, trimmed down by 28.9%YoY (-16.2%QoQ) to LKR 661.2Mn (USD Earnings – USD 2.2Mn; -22.9%YoY) falling short by 49.1% from FCR forecast. Negative impact to the topline amidst weaker demand, slightly low margins caused headwinds to profits. Accordingly, the topline shrunk by 18.1%YoY to LKR 13.0Bn largely due to softer demand in key markets and the sharp appreciation of the Rupee. Similarly, Dollar denominated revenue witnessed a decline of 11.2%YoY, recording at USD 42.6Mn. Meanwhile, net financing costs inclined sharply during the quarter further adding pressure to the bottom line, resulting in a 29.7%YoY decline in profit before tax (-11.4%QoQ). On a positive note, tax expenses declined by 30.9%YoY, providing some relief to the bottom line. However, the combination of weak global demand, margin pressure, structural changes in key brands, and the appreciating Rupee presents near-term challenges for MGT. Nevertheless, demand is expected to recover considerably from the second quarter of 2025 as discretionary spending is expected to improve amidst the low inflation environment and rate cuts in key markets. Given the underperformance relative to FCR forecasts over the past two quarters, we have revised down earnings estimates by 11.2% and 8.4% for FY25E and FY26E, respectively. Consequently, fair value for FY25E is revised down to LKR 60.0 (previous: LKR 65.0) while fair value for FY26E is estimated at LKR 70.0 (previous: LKR 75.0), offering an upside of 37.3% for FY26E, at the current price of LKR 51.0. **MAINTAIN BUY**



LKR (Mn)	2QFY24	2QFY25	YoY	1HFY24	1HFY25	YoY
Earnings (LKR 'Mn)						
Revenue	15,877	13,008	-18%	30,154	25,920	-14%
Gross profit	2,793	2,481	-11%	5,552	5,018	-10%
EBIT	1,668	1,416	-15%	3,558	2,771	-22%
PBT	1,464	1,030	-30%	2,527	2,193	-13%
Net Profit	930	661	-29%	1,832	1,450	-21%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	10,397	10,913	+5%	10,397	10,913	+5%
Borrowings	9,140	8,529	-7%	9,140	8,529	-7%
NAVPS	25.0	26.3	+5%	25.0	26.3	+5%

Underutilized capacity and price discounts weigh on earnings growth

MGT reported earnings of LKR 661.2Mn for 2QFY25, reflecting a decline of 28.9%YoY (-16.2%QoQ), primarily due to lower topline performance amidst soft demand. Dollar revenue contracted by 11.2%YoY and Rupee revenue fell by 18.1%YoY, as reduced demand from tier-1 clients led to underutilization of capacity, which stood at approximately 75%. Competitive pressures forced MGT to offer price discounts, further impacting gross profit margins, which contracted by 58bps QoQ to 19.1%, although still elevated on a YoY basis. The appreciation of the Sri Lankan Rupee against the USD by 7.8% during the quarter further weighed on earnings growth. However, cost of sales declined by 19.6%YoY due to lower yarn prices, providing some relief. Looking ahead, MGT expects capacity utilization to hover around 75% in 3QFY25E, improving to nearly 90% by 4QFY25E with a recovery in demand anticipated from February 2025 as discretionary spending is expected to pick up. Despite order books remaining slightly unfilled due to weak demand from tier-1 clients like Nike, the company remains optimistic about a gradual recovery. Considering these factors and Rupee movements, FCR has revised revenue targets downward to LKR 52.2Bn (-9.8%) for FY25E and LKR 58.9Bn (-11.4%) for FY26E. While challenges persist in the near term, the expected improvement in capacity utilization and a gradual demand recovery offer a positive outlook for the coming quarters.

EBIT margins remain resilient, supported by controlled OPEX

MGT recorded an operating profit (EBIT) of LKR 1.4Bn in 2QFY25, reflecting a decline of 15.1%YoY but a moderate increase of 4.5%QoQ. The rise in quarterly EBIT was partially offset by higher distribution expenses, which increased 16.5%QoQ (-5.3%YoY) due to elevated claims during the quarter. Conversely, administration expenses declined significantly by 15.1%QoQ (-5.3%YoY) to LKR 914.0Mn, primarily due to a reversal in provisions following the utilization of previously provided stocks. As a result, the EBIT margin improved by 38bps YoY and QoQ to 10.9% during the quarter. However, net financing costs surged sharply by 89.5%YoY (+100.4%QoQ), driven by exchange rate losses amidst the appreciation of the Rupee, which added further pressure to the bottom line.

Near term challenges persist, gradual recovery on the cards

Despite easing inflationary pressures in key markets like the USA and Europe, and upcoming rate cuts, consumers are still holding back on discretionary spending, including apparel. Nike, a tier-1 client of MGT, experienced weaker sales due to poor demand, competition, and declining consumer spending, particularly in China, the US, and Europe. The company is yet to see sales gains from recent product launches. However, market players remain optimistic for a recovery in demand, likely beginning in the second quarter of 2025 as discretionary spending is expected to improve amidst the low inflation environment and rate cuts. In the third quarter of 2024, global apparel trade saw a strong 14.0% increase, contrasting with a 5.0% annual decline, largely due to stock replenishments. Additionally, the University of Michigan's Consumer Sentiment Index for November 2024 rose to 71.8, its highest since April, indicating potential signs of a swift recovery.

FV estimated at LKR 70.0 for FY26E - MAINTAIN BUY

Looking ahead, weak global demand, margin pressure, structural changes in key brands, and the appreciating Rupee presents near-term challenges for MGT. Nevertheless, demand is expected to recover considerably from the second quarter of 2025. Given the underperformance relative to FCR forecasts over the past two quarters, we have revised down earnings estimates by 11.2% and 8.4% for FY25E and FY26E, respectively. Consequently, fair value for FY25E is revised down to LKR 60.0 (previous: LKR 65.0) while fair value for FY26E is estimated at LKR 70.0 (previous: LKR 75.0), offering an upside of 37.3% for FY26E, at the current price of LKR 51.0. **MAINTAIN BUY**

FIRST CAPITAL RESEARCH

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



Source: CSE

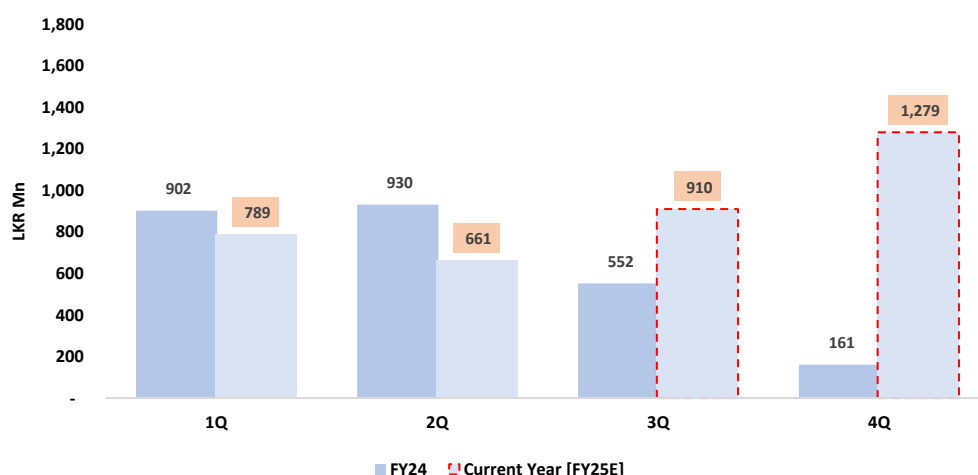
Minimum Return for BUY:

Buy Below FY26E - [AER of 19% with DPS]: LKR 63.0
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	FY25E - O	FY25E - R	% Change	FY26E - O	FY26E - R	% Change
Earnings Estimate						
Revenue	57,931	52,243	-10%	66,531	58,922	-11%
Gross profit	9,848	9,613	-2%	10,645	10,017	-6%
EBIT	6,428	6,028	-6%	7,036	6,672	-5%
Profit before tax	5,849	5,197	-11%	6,778	6,210	-8%
Net Profit	4,095	3,638	-11%	4,744	4,347	-8%
EPS	9.9	8.8		11.4	10.5	
Growth YoY	61%	43%		16%	19%	
Balance Sheet Estimate						
Shareholders' Equity	12,884	12,564	-2%	16,205	15,607	-4%
Borrowings	17,404	16,836	-3%	18,102	17,484	-3%
NAVPS	31.0	30.2		39.0	37.6	
Ratio Estimate						
ROE (%)	31.8%	29.0%		29.3%	27.9%	
PER (x)	4.9	5.8		4.3	4.9	
PBV (x)	1.6	1.7		1.2	1.4	

Valuation Table

P/E 31 March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Estimates (LKR 'Mn)							
Revenue	14,769	31,653	60,949	50,253	52,243	58,922	66,111
Gross Profit	2,019	4,122	7,826	9,440	9,613	10,017	10,313
EBIT	890	1,756	4,199	5,780	6,028	6,672	7,411
Net Profit	736	2,692	414	2,544	3,638	4,347	4,891
Adjusted EPS (LKR)	1.8	6.5	1.0	6.1	8.8	10.5	11.8
YoY Growth (%)	218%	266%	-85%	514%	43%	19%	13%
Valuations							
PER (x)	28.8x	7.9x	51.1x	8.3x	5.8x	4.9x	4.3x
PBV (x)	5.0x	2.3x	2.2x	2.1x	1.7x	1.4x	1.1x
DY (%)	2%	4%	5%	5%	5%	6%	7%
NAVPS	10.2	21.9	22.8	24.1	30.2	37.6	45.8
DPS	1.1	2.1	2.5	2.5	2.6	3.1	3.5
Dividend Payout	59.3%	32.4%	250.6%	40.8%	30.0%	30.0%	30.0%

Valuation Summary

Expected MGT Price	FY25E	FY26E
PER Based Target Price	61.3	73.2
DCF Based Target Price	62.6	64.4
Average Target Price	62.0	68.8
Target Price after Rounding Off	60.0	70.0

Return	FY25E	FY26E
Target Price	60.0	70.0
Current Price	51.0	51.0
Capital Gain (LKR)	9.0	19.0
Dividend upto 31 Mar (LKR)	2.6	3.1
Capital Gain %	18%	37%
Dividend Yield %	5%	6%
Total Return %	23%	43%
Annualized Return %	109%	33%

Discounted Cash flow Valuation

DCF Based Valuation	FY25E	FY26E
Enterprise Value	30,898	29,574
Debt (-)	(8,310)	(7,703)
Cash (+)	3,429	4,894
Total Value of Equity	26,018	26,765
No. of Shares (Mn)	415	415
Target Price	62.6	64.4

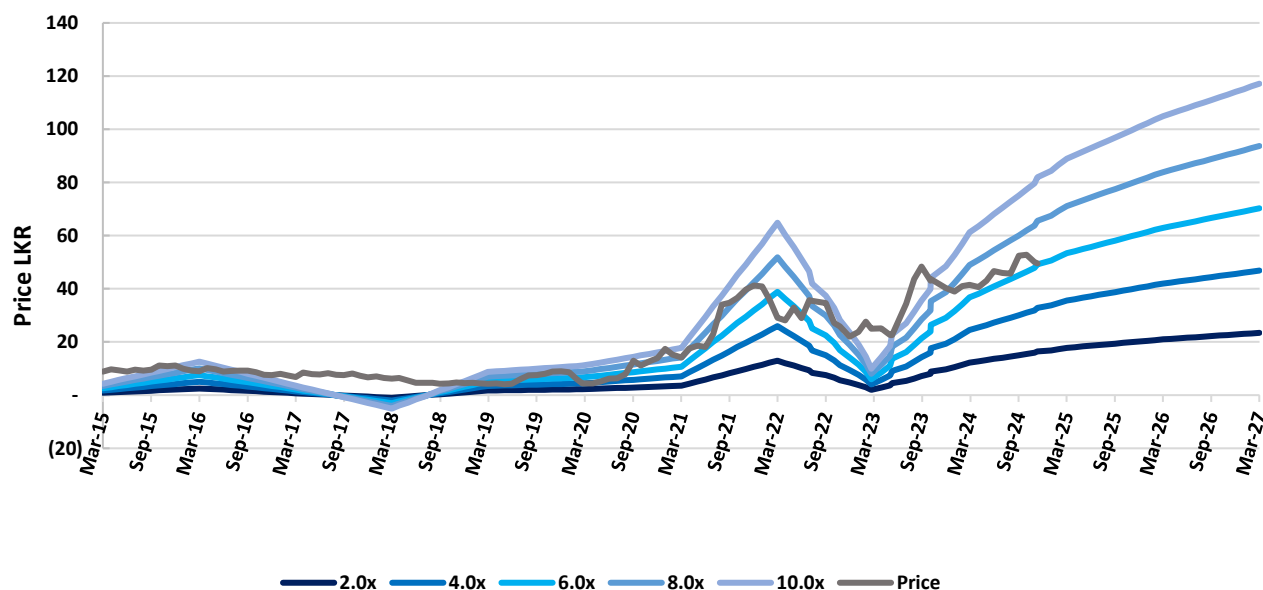
COE	FY25E	FY26E
Rf	10%	11%
Rm	18%	19%
Growth %	3%	3%
β	1.0	1.0
Ke = Rf + β(Rm-Rf)	18%	19%

PER Valuation

PER Based Valuation	FY25E	FY26E
Earnings (LKR 'Mn)	3,638	4,347
No. of Shares ('Mn)	415	415
EPS	8.8	10.5
Expected Average PER	7.0x	7.0x
Target Price	61.3	73.2

WACC	FY25E	FY26E
Ke	18%	19%
Kd	18%	18%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3%	3%
WACC	18%	19%

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Profit or Loss (LKR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
As at 31st March							
Revenue from Contracts with Customers	14,769	31,653	60,949	50,253	52,243	58,922	66,111
Cost of Sales	(12,750)	(27,531)	(53,123)	(40,813)	(42,630)	(48,905)	(55,797)
Gross Profit	2,019	4,122	7,826	9,440	9,613	10,017	10,313
Other Operating Income	12	395	258	234	252	272	294
Administrative Expenses	(960)	(2,316)	(3,407)	(3,683)	(3,396)	(3,123)	(2,644)
Distribution Expenses	(182)	(402)	(463)	(188)	(418)	(471)	(529)
Other Expenses	-	(44)	(16)	(22)	(23)	(23)	(23)
EBIT	890	1,756	4,199	5,780	6,028	6,672	7,411
Net Financing Income/(Expense)	(159)	1,400	(1,133)	(1,979)	(831)	(462)	(424)
Profit Before Tax	731	3,156	3,066	3,801	5,197	6,210	6,987
Tax	6	(463)	(2,652)	(1,257)	(1,559)	(1,863)	(2,096)
Profit After Tax	736	2,692	414	2,544	3,638	4,347	4,891
Adjusted EPS	1.8	6.5	1.0	6.1	8.8	10.5	11.8

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
As at 31st March							
ASSETS							
Non-Current Assets							
Property, Plant and Equipment	5,799	13,132	14,979	13,584	13,103	13,292	13,288
Right of Use Assets	38	252	279	245	245	245	245
Intangible Assets	15	109	238	180	158	147	135
Goodwill	-	3,122	3,502	3,188	3,188	3,188	3,188
Other Non Current Receivables	-	98	-	-	-	-	-
Total Non-Current Assets	5,852	16,713	18,998	17,197	16,695	16,872	16,855
Current Assets							
Inventories	3,346	11,002	12,315	9,286	9,379	10,759	12,275
Trade Receivables	1,590	4,831	6,048	4,869	5,224	5,892	6,611
Other Receivables	113	418	496	191	191	191	191
Advances and Prepayments	154	575	510	585	585	585	585
Cash and Cash Equivalents	646	2,953	1,530	3,372	3,429	4,894	5,730
Total Current Assets	5,849	19,778	20,899	18,303	18,808	22,322	25,392
Total Assets	11,701	36,491	39,897	35,500	35,503	39,194	42,248
EQUITY AND LIABILITIES							
Capital and Reserves							
Stated Capital	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Revaluation Reserve	286	189	173	157	157	157	157
Retained Earnings	633	2,836	2,089	3,549	6,096	9,138	12,562
Exchange Fluctuation Reserve	1,339	4,114	5,262	4,343	4,343	4,343	4,343
Total Equity	4,226	9,107	9,492	10,018	12,564	15,607	19,031
Non-Current Liabilities							
Interest Bearing Loans and Borrowings	687	5,216	5,269	5,172	4,155	3,852	3,536
Right of use assets- Lease obligations	-	-	54	44	54	54	54
Deferred tax liabilities	420	1,257	3,195	2,735	2,735	2,735	2,735
Retirement benefit obligations	610	880	1,017	1,180	1,180	1,180	1,180
Total Non-Current Liabilities	1,716	7,353	9,535	9,131	8,124	7,821	7,505
Current Liabilities							
Trade and Other Payables	2,797	10,600	9,146	7,721	8,526	9,781	10,044
Bank Overdraft	-	-	1,116	-	-	-	-
Current Portion of Interest Bearing Borrowings	-	-	1,710	2,775	-	-	-
Interest Bearing Loans and Borrowings	2,659	7,684	6,253	3,104	4,155	3,852	3,536
Amounts due to Hayleys PLC	15	101	25	81	81	81	81
Current portion of Right of use assets- Lease obligations	-	-	7	8	7	7	7
Other Current Non Financial Liabilities	288	1,646	2,613	2,045	2,045	2,045	2,045
Total Current Liabilities	5,759	20,031	20,870	16,351	14,814	15,766	15,713
Total Equity and Liabilities	11,701	36,491	39,897	35,500	35,503	39,194	42,248
Adjusted NAVPS	10.2	21.9	22.8	24.1	30.2	37.6	45.8



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