TEEJAY LANKA PLC [TJL.N0000]

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EQUITY | SRI LANKA | CONSUMER DURABLES AND APPAREL

TJL'S CAPACITY THREADS THIN AS MARKETS MELT…

FIRST CAPITAL RESEARCH

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A Janashakthi Group Company

FCR revised down TJL's FY26E and FY27E earnings forecasts and target prices

MAINTAIN BUY

Fair Value: FY26E - LKR 56.0 [+9.8%] **FY27E - LKR 65.0 [+27.5%]**

Total Return with DPS: FY26E - 14% [AER 14.8%] ***FY27E - 32% [AER 16%]***

Estimate revision

In LKR Mn	FY26E-O	FY26E-R	% Change	FY27E-O	FY27E-R	% Change
Earnings Estimate						
Revenue	76,564.4	72,243.2	-5.6%	88,545.6	84,536.0	-4.5%
Gross Profit	9,913.3	9,294.9	-6.2%	11,134.2	10,490.3	-5.8%
EBIT	5,625.7	5,104.8	-9.3%	6,131.4	5,714.0	-6.8%
Profit before Tax	4,772.7	4,251.9	-10.9%	5,368.9	4,951.5	-7.8%
Net Profit	3,356.6	2,990.3	-10.9%	3,775.9	3,482.3	-7.8%
Adjusted EPS	4.7	4.1	-10.9%	5.2	4.8	-7.8%
Balance Sheet Estimate						
Shareholders' Equity	33,360.6	33,170.1	-0.6%	35,324.1	34,980.9	-1.0%
Borrowings	12,354.3	12,354.3	0.0%	13,304.0	13,304.0	0.0%
Adjusted NAVPS	**46.2**	**46.0**	-0.6%	**49.0**	**48.5**	**-1.0%**
Ratio Estimate						
PER (x)	***10.0x***	***11.2x***		***8.9x***	***9.6x***	
PBV (x)	***1.0x***	***1.0x***		***0.9x***	***1.0x***	
DY (%)	***4.8%***	***4.3%***		***5.0%***	***5.0%***	

Case for downgrade

! FCR downgraded TJL's earnings for FY26E and FY27E by 11.0% and 7.8%, respectively from the initially released forecast, based on the detailed corporate update from 2nd Apr-25, to LKR 3.0Bn and LKR 3.5Bn, driven by a revenue decline linked to the global economic slowdown. As a result of earnings downgrade, we revised down the target prices for FY26E and FY27E to LKR 56.0 and LKR 65.0 respectively from LKR 60.0 and LKR 70.0.

! FCR anticipates TJL's capacity utilization may decrease to 85.0%, down from the previously expected 90.0%. The expected demand decrease due to the global slowdown is the main factor for the reduced capacity utilization level, although TJL's diversified presence in Sri Lanka, India, and Egypt may provide some offset.

! In a meeting with TJL management, FCR was informed that the full tariff burden cannot be fully passed on to the end customer, as it is likely to be distributed across the entire supply chain. Consequently, FCR anticipates that TJL may reduce the average selling price of fabric to absorb the tariff burden. As a result, TJL's revenue is projected to decrease by 5.6% and 4.5% for FY26E and FY27E, respectively from the initial forecast, reaching LKR 72.2Bn and LKR 84.5Bn.

! Margins are expected to experience only a minimal decline due to stabilizing cotton prices (-22.0% from Mar-24 to Mar-25) and the depreciation of the LKR (2.4%YTD) offsetting the adverse effect from the reduced topline.

FCR revised down TJL's FY26E and FY27E earnings forecasts and target prices cont'd

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Valuation table

P/E 31 March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Estimates (LKR 'Mn)								
Revenue	31,780.3	49,588.0	84,037.1	60,734.0	68,191.5	72,243.2	84,536.0	96,929.1
Gross profit	3,790.0	4,577.6	6,842.9	5,056.6	8,640.8	9,294.9	10,490.3	11,543.4
EBIT	2,441.4	2,573.1	3,295.1	2,213.2	4,822.0	5,104.8	5,714.0	6,066.9
Net Profit	**2,139.6**	**2,531.3**	**2,126.7**	**1,109.5**	**2,855.8**	**2,990.3**	**3,482.3**	**3,682.1**
Adjusted EPS (LKR)	3.0	3.5	2.9	1.5	4.0	4.1	4.8	5.1
YoY growth (%)	-10.2%	18.3%	-16.0%	-47.8%	155.8%	4.7%	16.5%	5.7%
Valuations								
PER (x)	***15.7x***	***13.3x***	***15.8x***	***30.2x***	***11.7x***	***11.2x***	***9.6x***	***9.1x***
PBV (x)	***1.9x***	***1.2x***	***1.0x***	***1.1x***	***1.1x***	***1.0x***	***1.0x***	***0.9x***
DY (%)	***3.6%***	***4.3%***	***3.2%***	***1.6%***	***4.1%***	***4.3%***	***5.0%***	***5.3%***
Adjusted NAVPS	*24.6*	*39.1*	*44.4*	*41.8*	*43.8*	*46.0*	*48.5*	*51.1*
DPS (LKR)	*1.7*	*2.0*	*1.5*	*0.8*	*1.9*	*2.0*	*2.3*	*2.4*
Dividend payout	*56%*	*57%*	*51%*	*49%*	*48%*	*48%*	*48%*	*48%*

Key data	
CSE ticker	TJL.N0000
Bloomberg ticker	TJL SL
Share price (LKR)	46.5
52w High (LKR)	59.0
52w Low (LKR)	36.9
Issued share capital (shares 'Mn)	721.46
Market cap (LKR 'Mn)	33,548
Market cap (USD 'Mn)	112

Valuation summary

Expected TJL price	FY26E	FY27E
DCF based target price	56.4	63.6
PER based valuation	53.9	62.7
Average target price	**55.2**	**63.2**
Target price after rounding off	**56.0**	**65.0**

Return	FY26E	FY27E
Target price	56.0	65.0
Current price	51.0	51.0
Capital gain (LKR)	5.0	14.0
Dividends up to 31st March	2.0	2.3
Capital gain %	9.8%	27.5%
Dividend yield %	3.9%	4.5%
Total return %	**13.7%**	**32.0%**
Annualized return %	**14.8%**	**15.5%**

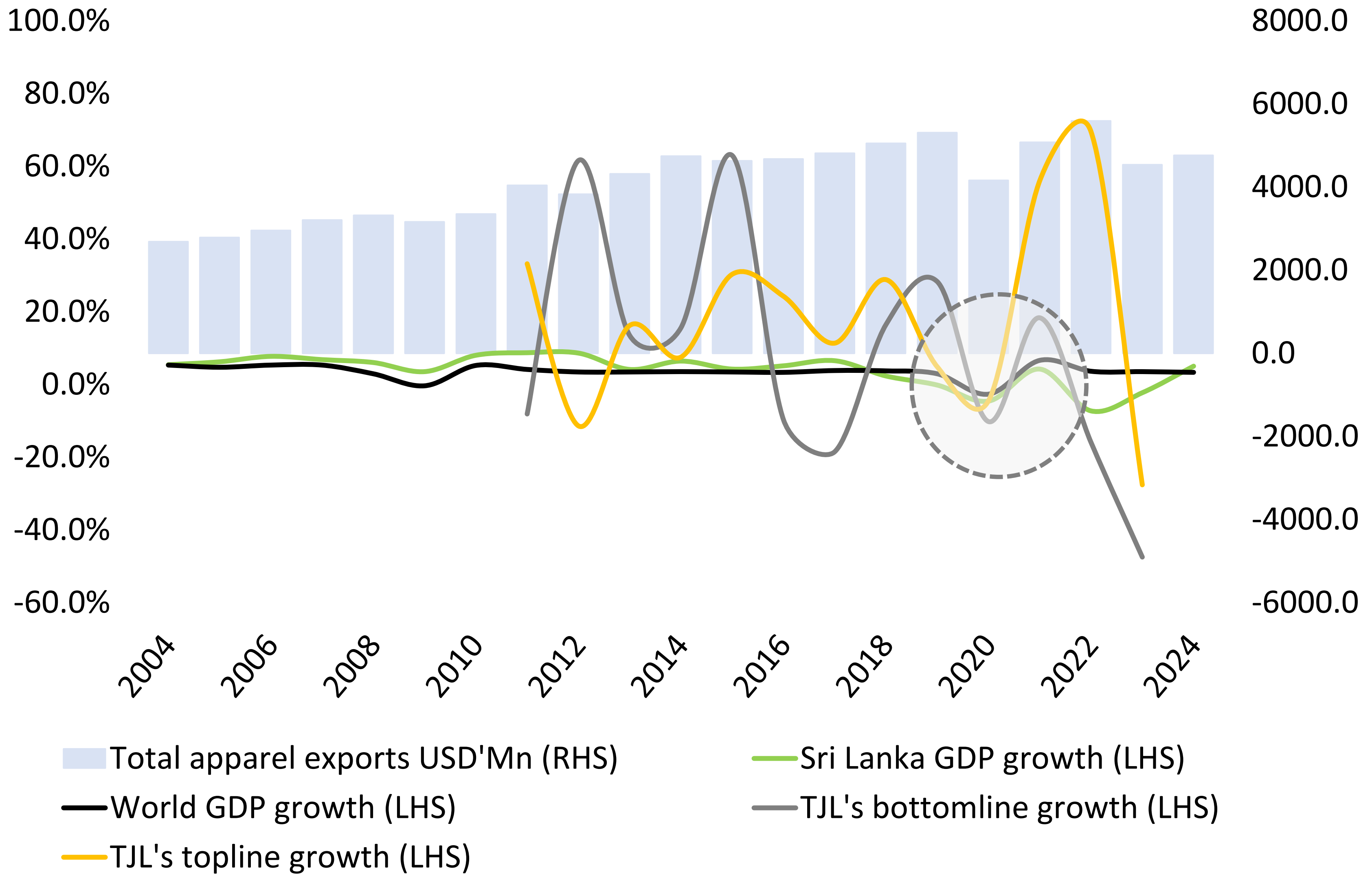
Source: CSE and FC Research

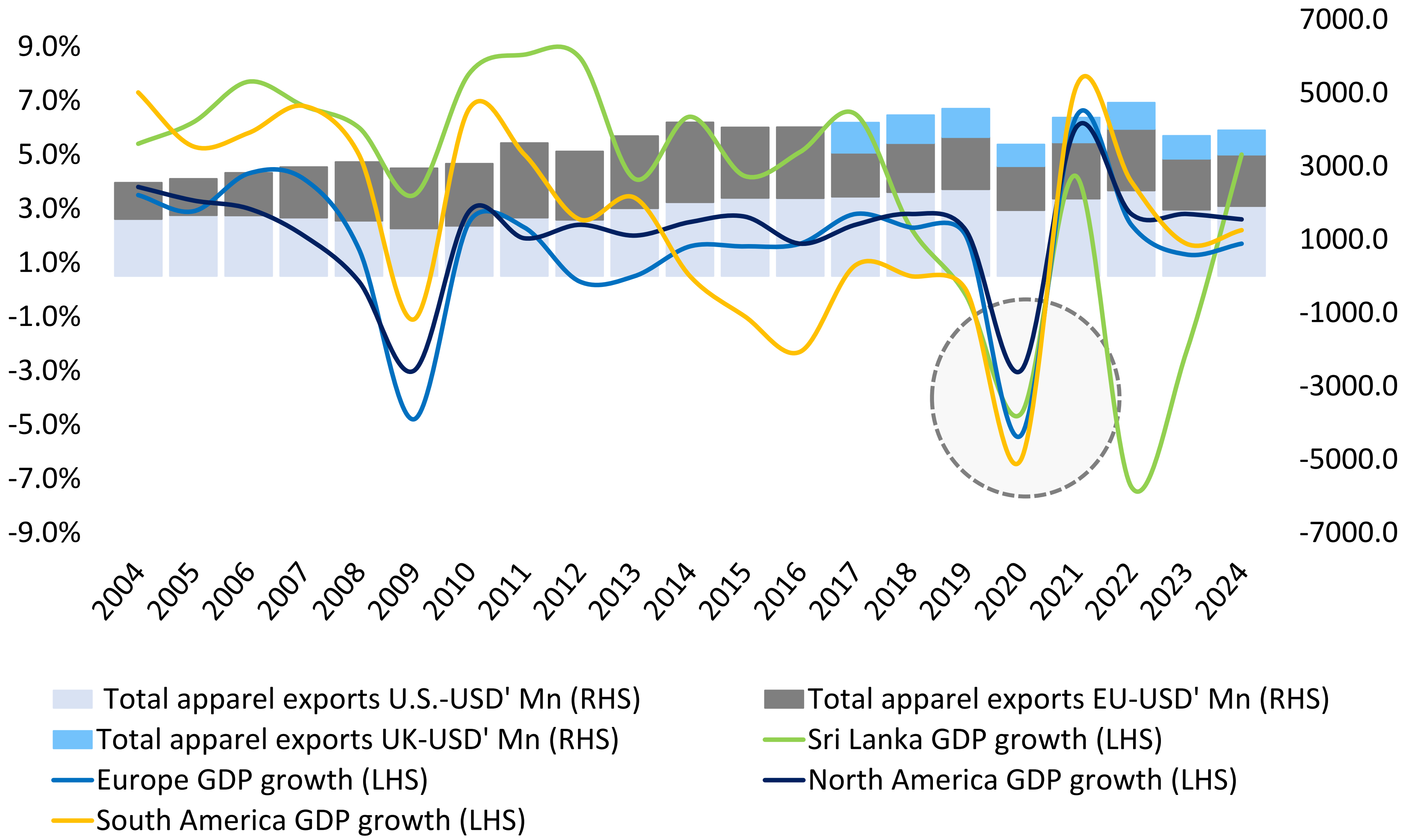
Expected global economic slowdown due to reciprocal tax rates which may weigh on TJL's margins and earnings…

The IMF and World Bank have both revised down their global growth forecasts, with the IMF now projecting global growth at 2.8% for 2025, down from its earlier estimate of 3.3% in January. In this context, we believe TJL's topline may be affected by both the ongoing tariff transition and the broader global economic slowdown. According to TJL, end producers are unable to fully pass on the import tariffs to end consumers, and the entire apparel and textile supply chain is likely to experience the adverse effects of reciprocal tariffs, even as the U.S. considers tariff reductions. However, we anticipate that TJL may respond by lowering average selling prices for both cotton and synthetic fabrics in order to sustain capacity utilization. FCR anticipates TJL's capacity utilization may decrease to 85.0%, down from the previously expected 90.0%. As a result, TJL's revenue is projected to decrease by 5.6% and 4.5% for FY26E and FY27E, respectively from the initial forecast, reaching LKR 72.2Bn and LKR 84.5Bn.

What does history tell us?

During the Covid-19 pandemic period, TJL's topline and bottom-line declined by 4.5% and 10.2%, respectively, primarily due to the global economic slowdown, as the world economy contracted by 4.6%. During this time, Sri Lanka's textile and apparel exports to key markets also saw significant reductions, exports to the U.S. dropped by 24.2%, to the UK by 24.6%, and to the EU by 15.3%.



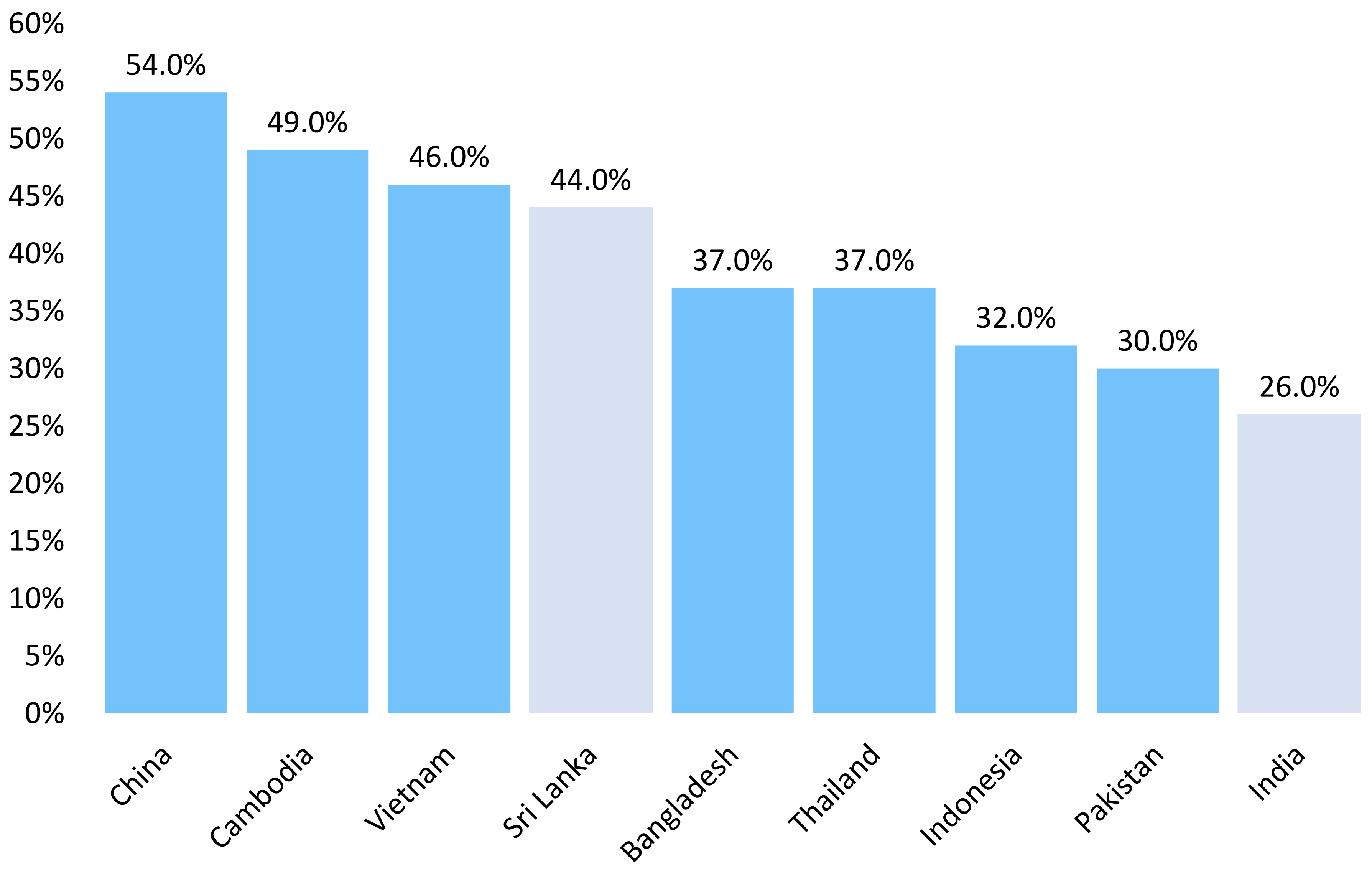


Source: IMF, World Bank, Joint Apparel Association Sri Lanka and FC Research

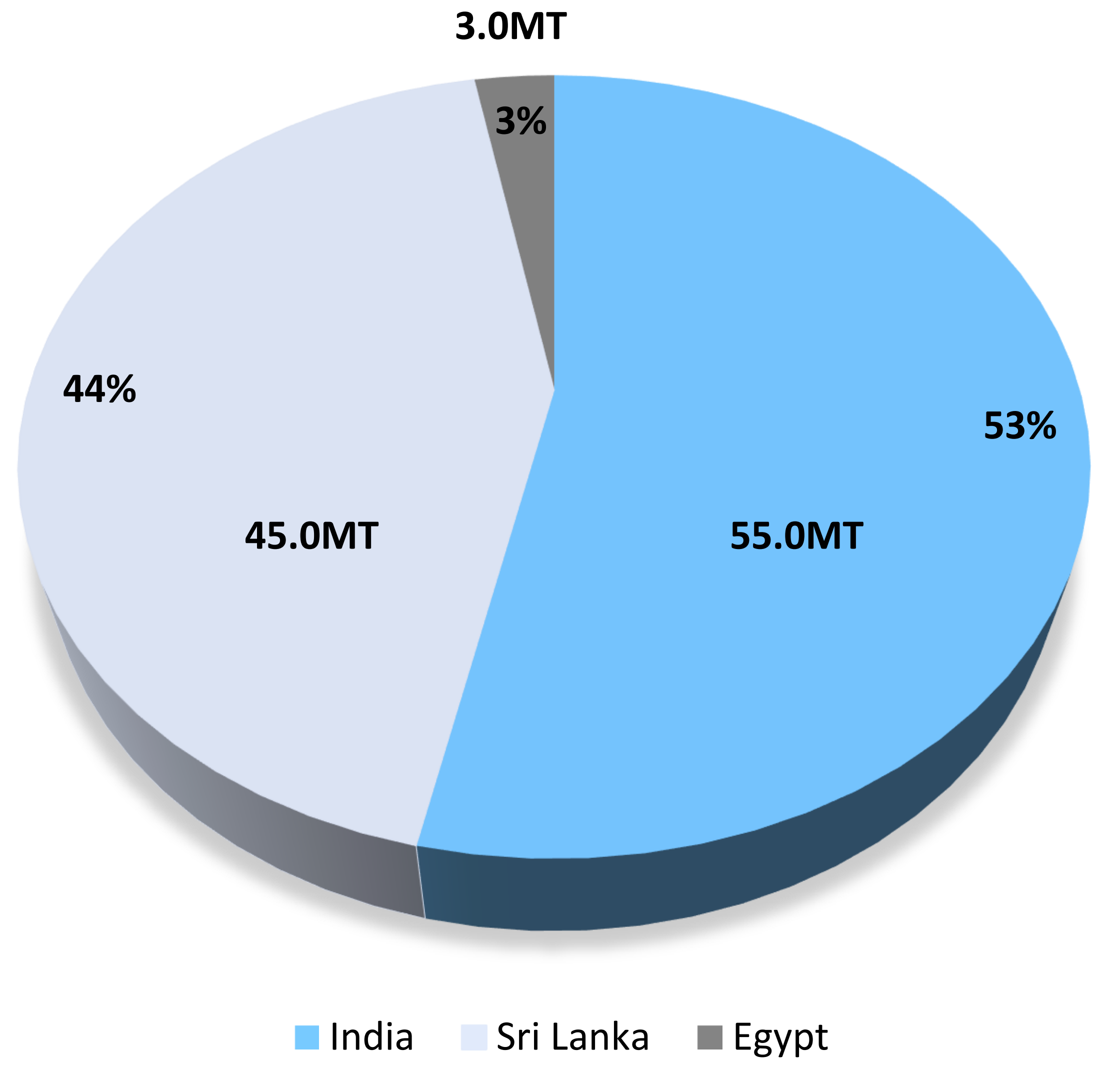
…however, despite the global economic slowdown, TJL's locational advantage and scalable operations may help mitigate post-tariff risk…

TJL has strategically built and subcontracted a diverse and agile manufacturing footprint across Sri Lanka, India, Egypt, and Indonesia which may mitigate the impact of potential post-tariff risks. With c.53.0% of its capacity based in India, where U.S. tariffs are lower at 26.0%; India serves as a key hub for exports to the U.S. and Japan. According to FCR's post-tariff discussions with TJL, TJL's plants are not product-locked and have duplicated capabilities (scalability), enabling low-cost production shifts across regions. FCR believes this operational agility is a strong hedge against trade volatility. The ongoing Egypt expansion supports near-shoring to African markets and diversifies future export dependency, while Indonesia offers flexible, low-cost subcontracted capacity for short-term adjustments. TJL is also planning to leverage India's tariff advantage for U.S. exports and maintains EU access via Sri Lanka under the GSP+ scheme, recently extended to December 2027. Strong integration with clients like MAS and Brandix, who also operate in India, further enhances adaptability.

U.S. tariff comparison of regional apparel sector peers



TJL's manufacturing plant capacities



***please note that current officially released U.S. tariff rates have been considered as the U.S. reciprocal tariff rates*

…along with stable cotton price and crude oil price outlook, coupled with possible LKR depreciation against USD to off-set the margin pressure

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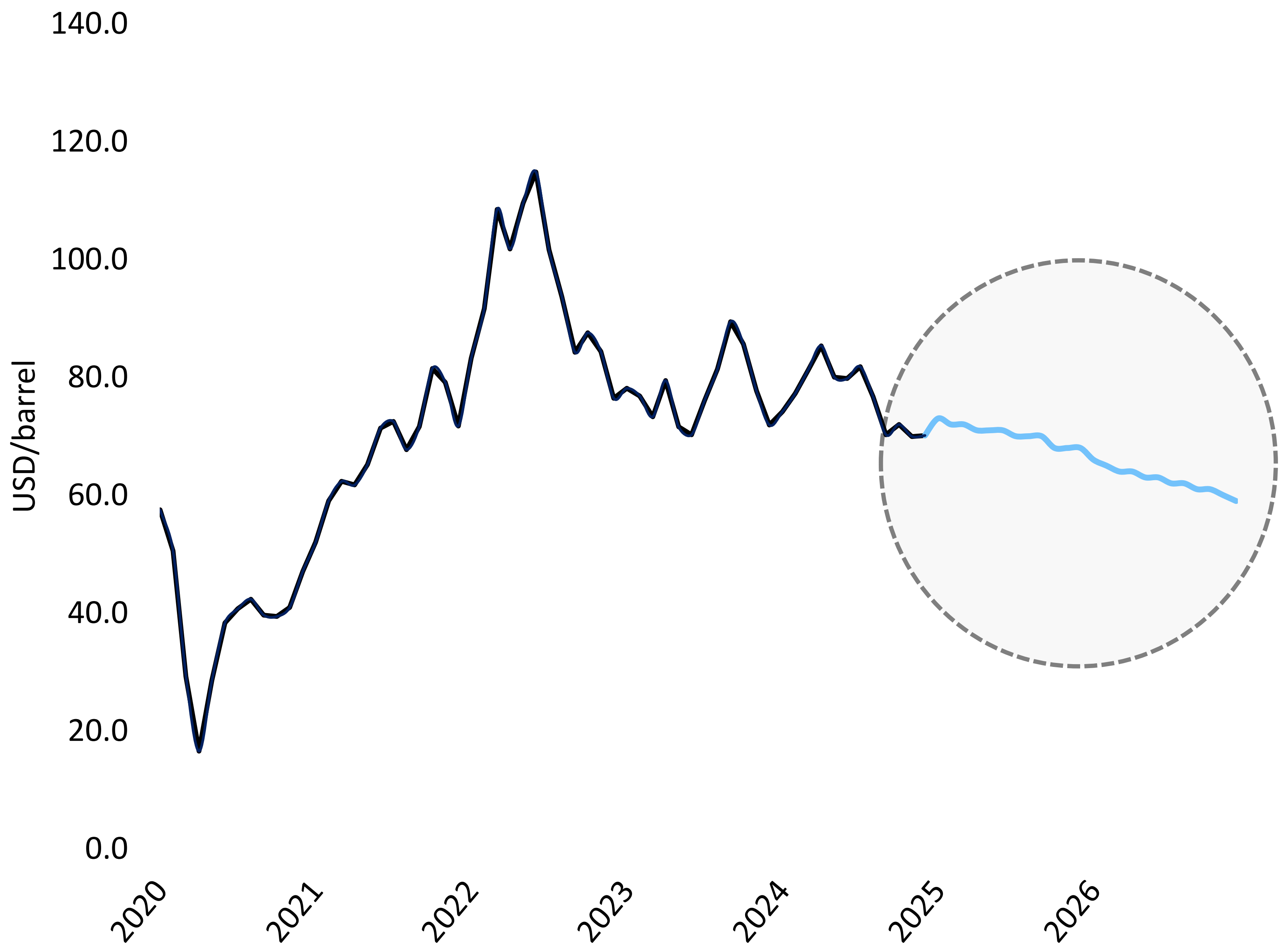
Cotton prices are expected to remain subdued, while synthetic yarn costs may also stay low, supported by the forecasted decline in crude oil prices, as per the U.S. Energy Information Administration's outlook for 2026E. With approximately 80.0% to 90.0% of TJL's cost of sales denominated in USD, and revenues also largely in USD, the company benefits from a natural hedge against currency fluctuations. FCR's base case projects an exchange rate of LKR 310/USD for 2025E, which could further cushion margin pressures from any potential LKR depreciation.

However, FCR predicts TJL's margins may decrease by c.8bps to 12.9% during FY26E and by c.17bps to 12.4% by FY27E from the initially published gross margins target from the detailed corporate update.

Crude oil price forecast for 2025E an 2026E



GP margin sensitivity

LKR depreciation and stable cotton price may support the FY26E gross margins of TJL as, if the cotton price decreases by 25.0%, and the exchange rate remains constant, the gross margin could increase by 7bps. Conversely, if LKR depreciates only by 0.6%, while cotton prices remain unchanged, the gross margin could see an increase by 31bps.

		Cotton price increase				
		0.8%	*1.0%*	*1.2%*	*1.5%*	*1.7%*
Exchange rate	*290*	*9.72%*	*9.65%*	*9.58%*	*9.47%*	*9.40%*
	300	*11.41%*	*11.34%*	*11.27%*	*11.16%*	*11.09%*
	310	*12.99%*	*12.92%*	*12.86%*	*12.75%*	*12.69%*
	312	*13.30%*	*13.23%*	*13.16%*	*13.06%*	*12.99%*
	315	*13.75%*	*13.68%*	*13.61%*	*13.51%*	*13.45%*

Source: U.S. Energy Information Administration and FC Research

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