

JAT HOLDINGS PLC [JAT.N0000]

MAINTAIN BUY

“STRATEGIC MOVES COAT PROFIT SURGE TO NEW HEIGHTS”

Fair Value: FY26E - LKR 40.0 [+25%]

Total Return with DPS: FY26E - 29% [AER 34%]

Fair Value: FY27E - LKR 46.0 [+44%]

Total Return with DPS: FY27E – 48% [AER 23%]

In 4QFY25, JAT's bottom-line surged 74.5%YoY to LKR 789.0Mn, exceeding FCR's estimate of LKR 550.1Mn by 41.9%. This was driven by a 10.4%YoY revenue increase, mainly from local sales, gross margin expansion, a 33.0% reduction in operating expenses, and a deferred tax reversal from the binder plant investment. Gross, operating, and net margins improved significantly, up 456bps, 595bps, and 707bps YoY, respectively, supported by cost savings from the Horana and Bangladesh binder plants, along with other cost efficiency initiatives. FCR expects further margin improvements in FY26E and FY27E from backward integrated binder plants and intermediary distributor elimination in Colombo district (except Moratuwa area), with net margins projected at 15.1% and 14.4% during FY26E and FY27E. Revenue is forecasted to grow at a 3-year CAGR of 13.0%, with a 17.2%YoY increase in FY26E and a 11.5%YoY increase in FY27E, driven by demand from the local construction sector, industrial growth, the JAT 360° campaign, and BYD electric charger sales. Foreign sales are expected to grow at a 3-year CAGR of 15.7%, including a 13.0%YoY and a 26.0%YoY increase in FY26E and FY27E respectively, fuelled by expansions into Bangladesh, Maldives, Australia, Kenya, Vietnam, and Cambodia. FCR projects JAT's earnings to grow at a 3-year CAGR of 12.1%, reaching LKR 2.1Bn in FY26E (up 15.6%YoY) and LKR 2.2Bn in FY27E (up 6.4%YoY), with underlying ROE rising to 16.4% by FY27E. Given the strong earnings growth, margin expansion, and revenue outlook, FCR maintains a target price of LKR 46.0 for FY27E, implying a 23.4% total annualized return. **MAINTAIN BUY**

LKR (Mn)	4QFY24	4QFY25	YoY	FY24	FY25	YoY
Earnings (LKR 'Mn)						
Revenue	3,673	4,054	+10%	11,560	11,625	+1%
Gross Profit	1,098	1,397	+27%	3,393	3,997	+18%
Operating Profit	495	787	+59%	1,365	1,862	+36%
PBT	460	764	+66%	1,215	1,602	+32%
Net Profit	447	781	+74%	1,021	1,789	+75%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	9,128	10,409	+14%	9,128	10,409	+14%
Borrowings	2,789	3,538	+27%	2,789	3,538	+27%
NAVPS	17.9	20.4		17.9	20.4	

JATs bottom-line grew by 74.5%YoY during 4QFY25

JAT reported earnings of LKR 789.0Mn, up 74.5%YoY and 59.3%QoQ, exceeding FCR's estimate of LKR 550.1Mn by 41.9%. With that JAT has recorded all time high profits of LKR 1788.7Mn beating our targets by 14.9%. The surge in profitability was driven by a 10.4%YoY revenue increase; primarily from local sales offsetting a decline in Bangladesh due Taka appreciation, alongside a 33.0%YoY reduction in operating expenses due reduction in inventory provision and the recognition of a tax reversal from the binder plant investment. Profitability was further supported by margin expansion, with gross, operating, and net margins improving by 456bps, 595bps, and 707bps, respectively. Cost savings from vertically integrated acrylic and alkyd binder plants, along with other efficiency measures, also contributed to the earnings growth.

Margins expansion through cost reduction initiatives are on the cards

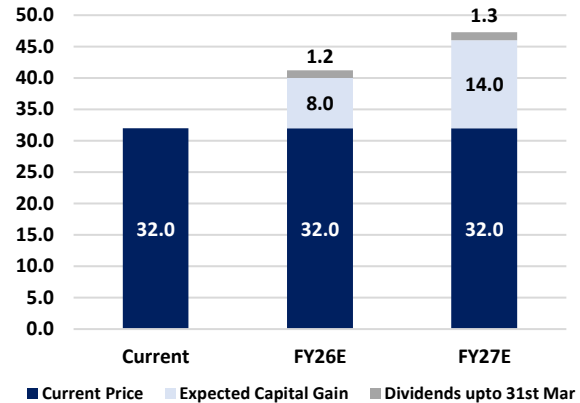
FCR projects JAT's gross and operating margins to improve by 65bps and 373bps in FY26E, and 138bps and 172bps in FY27E, primarily driven by significant cost savings. These include LKR 403.2Mn and LKR 438.0Mn cost savings for FY26E and FY27E respectively, from the Horana binder plant, which is expected to operate at 85.0%-100.0% capacity. Additionally, cost savings from the Bangladesh alkyd resin plant are projected to be LKR 119.4Mn in FY26E and LKR 138.0Mn in FY27E. Further margin gains are anticipated from increased backward integration of the Sayerlack range and cost savings from eliminating intermediary distributors in Colombo district (except Moratuwa area). While there may be margin pressure from potential LKR depreciation (with a base case projection of LKR 310/USD in FY26E), JAT's strong brand equity and 35.0%–45.0% pricing premium over competitors like Nippon enable it to pass on cost increases to end customers. This, combined with stable global crude oil prices, is expected to support margin stability. Despite the external challenges, JAT's net margins are projected at 15.1% and 14.4% for FY26E and FY27E respectively, as the deferred tax reversal from the binder plant investment is likely to be fully utilized in FY26E.

Construction sector momentum and foreign market growth initiatives to drive revenue

FCR expects local sales to grow c.12.0%YoY in FY26E, driven by a low-interest rate environment, ongoing construction activity, and increased wood-coating market share through JAT's 360° marketing campaign (58.0% in FY25 vs. 57.0% in FY24) with a 4.3%YoY growth in FY27E. Growth is further supported by a 12.0%YoY increase in the loyal customer base in FY25, with a 4.0% rise expected in FY26E and FY27E, backed by loyalty programs and dealer promotions. Additional contributions are expected from new wood-coating product launches in Moratuwa and Moratumulla, and BYD EV charger sales under the "Volt Charge" brand. The recent 25bps OPR cut is likely to boost lending, with CBSL optimistic on construction sector growth in the near term. In Bangladesh, the newly launched value-for-money product CoatEx is expected to account for 7.0%–8.0% of revenue (with c.55.0% YoY growth), supported by a 2.0% market share gain in FY25 and projected medium-term GDP growth by the World Bank. With this, foreign sales are projected to grow 13.0%YoY in FY26E and 26.0%YoY in FY27E, further driven by Maldives market recovery, confirmed Australian furnishing orders worth AUD 2.0Mn (LKR c.385.6Mn), and expansion into Kenya, Vietnam, and Cambodia.

FCR's target price for FY27E remains at LKR 46.0 per share, warranting an annualized total return of 23.4%

FCR believes JAT's earnings to grow at 6.4%YoY to LKR 2.2Bn in FY27E, driven by margin expansion through cost saving initiatives and top-line expansion. The surge in the profitability may translate to an increase of ROE to 16.4%. FCR believes growth in profitability may trigger the share price to achieve our target price of LKR 46.0, warranting a total annualized return of 23.4%. **MAINTAIN BUY**

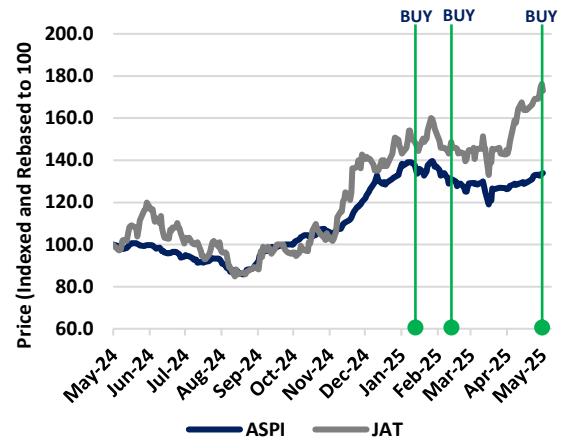


FIRST CAPITAL RESEARCH

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



Source: CSE

Minimum Return for BUY:

Buy Below for FY27E [AER of 23.3% with DPS]: LKR 32.2 JAT 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 JAT during the five trading days prior to the issuance of this document.

Key risks associated with our recommendation

Downside risks

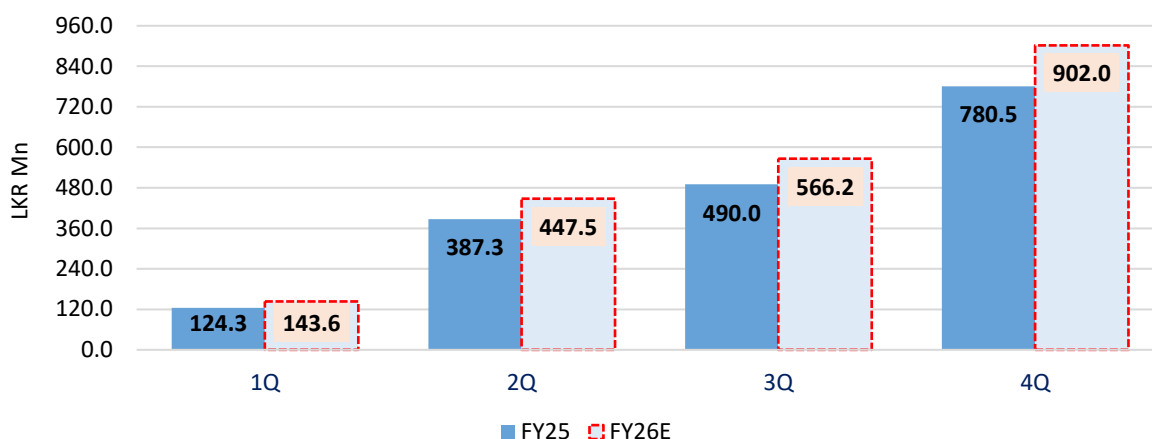
- Interest and exchange rate risks
- Severe price competition in Sri Lanka and Bangladesh
- Greater than anticipated economic slowdown of Bangladesh
- Cash outflows due to foreign acquisitions
- Expected electricity tariff hikes from Jul-25 onwards (however JAT's manufacturing factories are running mostly with solar power)

Upside risks

- Greater than anticipated demand for key products including Oppein furniture
- Increased demand from newly operating markets
- Greater than anticipated of BYD electric charger sales
- Greater than anticipated demand for CoatEx product



Quarterly Earnings



Estimate Revision

In LKR Mn	FY26E-O	FY26E-R	% Change	FY27E-O	FY27E-R	% Change
Earnings Estimate						
Revenue	13,521	13,620	+1%	15,079	15,189	+1%
Gross Profit	4,509	4,771	+6%	5,151	5,531	+7%
EBIT	2,513	2,689	+7%	2,976	3,260	+10%
Profit Before Tax	2,423	2,423	0%	2,953	3,065	+4%
Adjusted Net Profit	2,059	2,059	0%	2,192	2,192	0%
Adjusted EPS	4.0	4.0	0%	4.3	4.3	0%
Recurring Net Profit	1,696	1,696	0%	2,192	2,192	0%
Recurring EPS	3.3	3.3	0%	4.3	4.3	0%
Balance Sheet Estimate						
Shareholders' Equity	11,290	11,847	+5%	12,555	13,378	+7%
Borrowings	2,933	3,678	+25%	3,005	3,832	+28%
Adjusted NAVPS	22.1	23.2		24.6	26.2	
Ratio Estimate						
PER (x)	6.7x	7.9x		6.9x	7.5x	
PBV (x)	1.2x	1.4x		1.2x	1.2x	
DY (%)	6.0%	3.8%		5.8%	4.0%	

Valuation Table

P/E 31 Mar (LKR 'Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue	8,897	10,167	11,556	11,625	13,620	15,189	16,788
Gross Profit	2,603	3,424	3,389	3,997	4,771	5,531	6,220
EBIT	1,186	1,931	1,246	1,862	2,689	3,260	3,772
Adjusted Net Profit	1,215	1,305	912	1,782	2,059	2,192	2,511
Adjusted EPS (LKR)	2.4	2.6	1.8	3.5	4.0	4.3	4.9
YoY Growth (%)	103.0%	7.4%	-30.1%	95.0%	15.6%	6.4%	14.6%
Recurring Net Profit	1,215	1,305	912	1,497	1,696	2,192	2,511
Recurring EPS (LKR)	2.4	2.6	1.8	2.9	3.3	4.3	4.9
YoY Growth (%)	103.0%	7.4%	-30.1%	64.2%	13.3%	29.2%	14.6%
Valuations							
PER (x)	13.4x	12.5x	17.9x	9.2x	7.9x	7.5x	6.5x
PBV (x)	2.1x	1.9x	1.8x	1.6x	1.4x	1.2x	1.1x
DPS	0.8	0.8	0.8	1.0	1.2	1.3	1.5
DY (%)	2.6%	2.6%	2.5%	3.3%	3.8%	4.0%	4.6%
Dividend Payout (%)	34.4%	32.5%	44.2%	30.0%	30.0%	30.0%	30.0%
NAVPS	15.2	16.9	17.9	20.4	23.2	26.2	29.6

****Note:** recurring net profit is calculated by excluding the deferred tax benefit for FY25 and applying a 30.0% tax rate for FY26E on a conservative basis



Valuation Summary

Expected JAT Price	FY26E	FY27E
PER Valuation based target price	40.3	42.9
DCF Valuation based target price	40.9	49.2
Average Target Price	40.6	46.1
Target Price after Rounding off	40.0	46.0

Return	FY26E	FY27E
Target Price	40.0	46.0
Current Price	32.0	32.0
Capital Gain (LKR)	8.0	14.0
Dividends upto 31 Mar (LKR)	1.2	1.3
Capital Gain %	25%	44%
Dividend Yield %	4%	4%
Total Return %	29%	48%
Annualized Return %	34%	23%

Discounted Cash Flow Valuation

DCF based Valuation	FY26E	FY27E
Enterprise Value	22,493	25,825
Debt (-)	3,832	4,004
Cash (+)	2,326	3,396
Total Value of Equity	20,887	25,108
No. of Shares (Mn)	510	510
Target Price	40.9	49.2

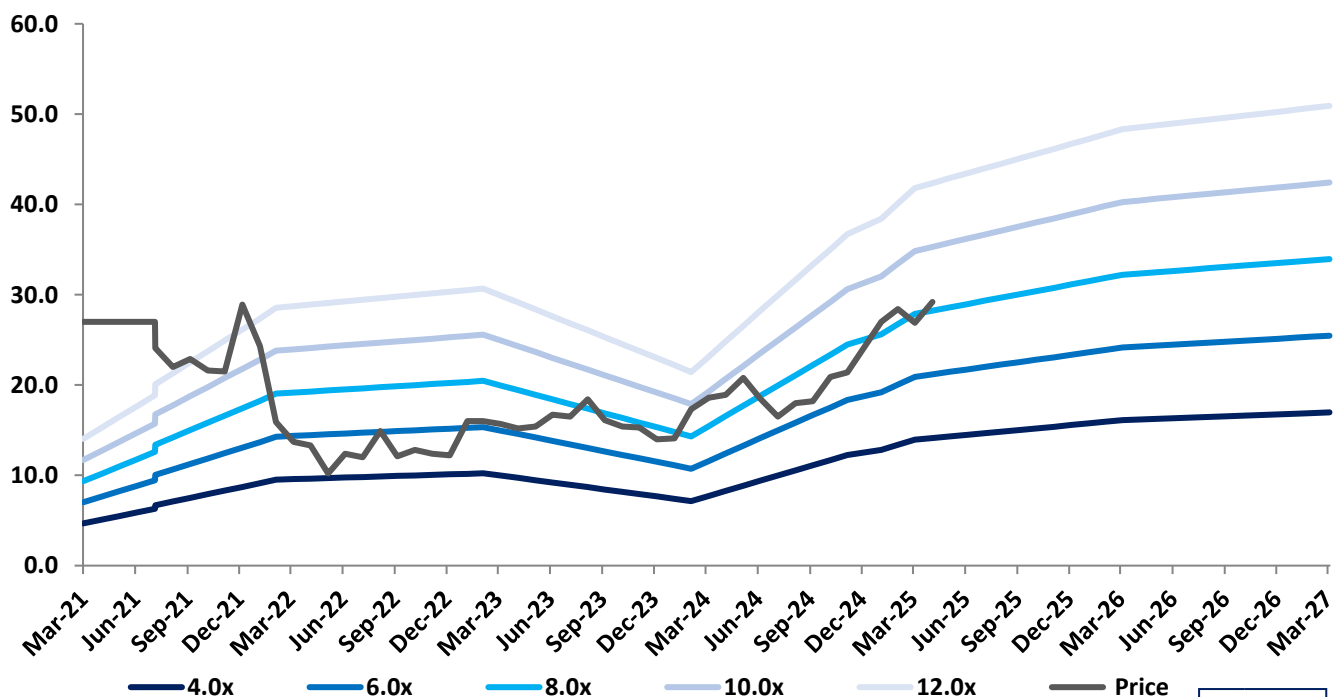
COE	FY26E	FY27E
Rf	10%	10%
Rm	18%	18%
Growth %	3%	3%
Unlevered β	0.5	0.5
Adjusted β	0.4	0.4
$Ke = Rf + \beta(Rm - Rf)$	13%	13%

WACC	FY26E	FY27E
Ke	13%	13%
Kd	12%	12%
D/E Assumption	60:40	60:40
Terminal Growth (%)	3%	3%
WACC	12%	11%

PER Valuation

PER based Valuation	FY26E	FY27E
Earnings (LKR 'Mn)	2,059	2,192
No. of Shares ('Mn)	510	510
EPS	4.0	4.3
Expected PER	10x	10x
Price at 10x Earnings	40.3	42.9

PER Chart





Appendix I: Statement of Income and Expenses

Profit & loss statement Y/E 31 March (LKR 'Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue	8,897	10,167	11,556	11,625	13,620	15,189	16,788
Cost of sales	(6,293)	(6,743)	(8,168)	(7,628)	(8,848)	(9,659)	(10,567)
Gross profit	2,603	3,424	3,389	3,997	4,771	5,531	6,220
Other operating income	67	126	116	183	233	235	237
Selling and distribution	(824)	(857)	(1,296)	(1,351)	(1,294)	(1,367)	(1,511)
Admin expenses	(660)	(761)	(962)	(967)	(1,021)	(1,139)	(1,175)
EBIT	1,186	1,931	1,246	1,862	2,689	3,260	3,772
Net finance income	72	(445)	(145)	(236)	(266)	(194)	(184)
Profit before tax	1,258	1,486	1,101	1,602	2,423	3,065	3,588
Taxation	(47)	(185)	(187)	180	(363)	(874)	(1,076)
Adjusted net profit for the period	1,211	1,301	914	1,782	2,059	2,192	2,511
Recurring net profit for the period	1,211	1,301	914	1,497	1,696	2,192	2,511
Adjusted EPS	2.4	2.6	1.8	3.5	4.0	4.3	4.9
Recurring EPS	2.4	2.6	1.8	2.9	3.3	4.3	4.9

Appendix II: Statement of Financial Position

Balance sheet As at 31 March (LKR 'Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Assets							
Non current assets							
Property plant and equipment	1,668	1,979	3,631	3,636	3,809	4,007	4,231
Other non current assets	244	1,077	1,232	1,374	1,360	1,346	1,336
Current Assets							
Inventories	2,254	3,512	2,884	2,875	3,539	3,863	4,227
Receivables and prepayment	5,572	5,261	5,315	6,349	6,881	8,586	9,352
Short term investments and other current	1,056	887	1,051	1,119	1,910	2,159	2,902
Cash and cash equivalents	689	276	224	320	527	167	495
Total Assets	11,544	13,009	14,449	16,023	18,374	20,477	22,890
Equity and Liabilities							
Stated capital	2,395	2,395	2,395	2,395	2,395	2,395	2,395
Retained earnings and foreign currency tr	5,360	6,246	6,733	8,013	9,452	10,983	12,738
Equity attributable to equity holders of th	7,755	8,642	9,128	10,409	11,847	13,378	15,133
Non-controlling interest	(8)	(14)	(13)	(20)	(16)	(11)	(6)
Total equity	7,747	8,628	9,115	10,389	11,832	13,367	15,127
Non-current liabilities							
Interest bearing loans and borrowings	14	57	114	83	147	153	160
Other non-current liabilities	78	133	149	106	109	112	115
Current liabilities							
Trade and other payables	2,413	2,516	2,276	1,873	2,566	2,801	3,065
Current tax liabilities	17	117	121	117	190	365	580
Interest bearing loans and borrowings	1,275	1,558	2,674	3,456	3,531	3,679	3,844
Total liabilities	3,797	4,381	5,334	5,634	6,542	7,110	7,763
Total equity & liabilities	11,544	13,009	14,449	16,023	18,374	20,477	22,890
Adjusted NAVPS	15.2	16.9	17.9	20.4	23.2	26.2	29.6



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