



First Capital
A Janashakti Group Company

TEEJAY LANKA PLC [TJL.N0000]

MAINTAIN BUY

"EARNINGS LOOM LARGE AS TIGHTLY KNIT MARGINS UNRAVEL"

Fair Value: FY26E - LKR 56.0 [+16%] **Fair Value: FY27E - LKR 65.0 [+35%]**
Total Return with DPS: FY26E - 20% [AER 24%] **Total Return with DPS: FY27E - 40% [AER 20%]**

TJL reported earnings of LKR 900.1Mn in 4QFY25, up 64.0%YoY (-8.0%QoQ), broadly in line with FCR forecasts, driven by strong topline growth and a 451bps YoY expansion in GP margin to 14.4%; its highest since 3QFY21. With that, TJL recorded record-high profits during FY25E, reaching LKR 2.8Bn, showing only a 2.2% deviation from our yearly earnings forecast, supported by improved volumes, stable yarn prices, and operational efficiency. Revenue surpassed USD 50.0Mn in the quarter, aided by stronger U.S. and EU demand and a favorable product mix. While FY26E previously downgraded earnings are maintained at LKR 3.0Bn, FCR expects a dip in capacity utilization level to 85.0% amid global slowdown and U.S. tariff pressures. Nonetheless, TJL's geographically diversified footprint, product innovation, and sustainability driven company culture offer resilience for TJL. The anticipated benefits of LKR depreciation, easing raw material costs, and controlled operational expenses further support its margin expansion prospects. Thereby, FY27E fair value remains at LKR 65.0/share, implying a 35.0% upside from the current price of LKR 48.2. **MAINTAIN BUY**

LKR (Mn)	4QFY24	4QFY25	YoY	FY24	FY25	YoY
Earnings (LKR 'Mn)						
Revenue	15,254	17,248	+13%	60,734	67,036	+10%
Gross Profit	1,501	2,476	+65%	5,057	7,914	+56%
Operating Profit	648	1,456	+125%	2,213	4,557	+106%
PBT	387	1,365	+253%	1,572	4,059	+158%
Net Profit	549	900	+64%	1,110	2,793	+152%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	30,130	31,529	+5%	30,130	31,529	+5%
Borrowings	9,324	7,509	-19%	9,324	7,509	-19%
NAVPS	42.0	43.7	+4%	42.0	43.7	+4%

4QFY25 earnings soar 64.0%YoY, tightly knit by margin expansion

TJL recorded earnings of LKR 900.1Mn in 4QFY25, demonstrating a 64.0%YoY growth (-8.0%QoQ), broadly in line with our targets, reflecting only a 6.5% deviation from our earnings forecast for 4QFY25. The main driver behind the bottom-line surge was the robust top-line performance supported by gross profit margin expansion. With that, TJL recorded record-high profits during FY25, reaching LKR 2.8Bn, showing only a 2.2% deviation from our yearly earnings forecast. Meanwhile, the USD-denominated bottom-line also increased by 75.8%YoY but dipped 7.8%QoQ to USD 3.1Mn.

Gross margin waves wider by 451bps YoY, fueled by strong sales and softer raw material prices

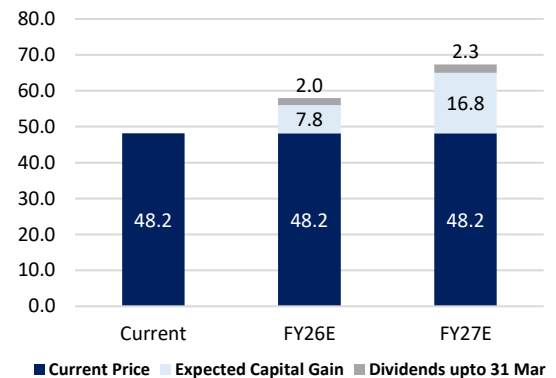
In 4QFY25, TJL's gross profit margin expanded by 451bps YoY to 14.4%; its highest level since 3QFY21 (15.0%) and improved from 13.1% in 3QFY25. This margin expansion was driven by multiple factors, including optimized capacity utilization, enhanced operational efficiency, increased volumes, and stable yarn prices. The company's USD-denominated topline grew by 21.3%YoY, translating to a 13.1%YoY (0.8% QoQ) increase in LKR terms, despite a 1.1% appreciation of the LKR during the quarter. Notably, revenue surpassed the USD 50.0Mn mark for the first time since 1QFY25. Topline growth was primarily supported by improved demand conditions in the U.S. market and EU, where quarterly sales in clothing and clothing accessories stores rose by 4.2%YoY in U.S. This uptick was driven by rising demand for TJL's premium product offerings as strategic brands of TJL have done well during 4QFY25 and favourable seasonal shifts in the product mix. The improved U.S. consumer environment was underpinned by a c.50bps decline in inflation from Dec-24 to Mar-25. Additionally, global cotton prices fell below USD 0.80 per pound during the quarter, decreasing approximately 2.8% in 4QFY25. Given that 70.0%-80.0% of TJL's revenue is derived from cotton-based fabric, the decline in cotton prices significantly contributed to the YoY and QoQ margin improvements with the LKR appreciation during the quarter.

Capacity utilization is expected to fall below 85.0% amid the anticipated global economic slowdown

FCR maintains its previously downgraded earnings forecasts for TJL at LKR 3.0Bn for FY26E and LKR 3.5Bn for FY27E, primarily due to anticipated revenue pressures stemming from the global economic slowdown and the implementation of reciprocal tariffs by the U.S. as U.S. accounts for approximately 40-45% of TJL's revenue. FCR expects capacity utilization to decline to around 85.0%, as the expected reduction in demand from key export markets weighs on operations. However, TJL's geographically diversified operations, with capacity in Sri Lanka (45MT), India (55MT), Egypt (3MT), and Indonesia, may help cushion the impact. In a recent meeting with management, TJL confirmed that the full burden of the new tariffs cannot be passed on to end customers and will likely be shared across the supply chain. As a result, FCR expects TJL to reduce average selling prices to partially absorb the tariff impact. Consequently, revenue projections stand at LKR 72.2Bn for FY26E and LKR 84.5Bn for FY27E. Cotton prices are expected to remain subdued, while synthetic yarn costs are also projected to stay low, supported by anticipated declines in crude oil prices according to forecasts by the U.S. Energy Information Administration and J.P. Morgan for 2026E. With 80.0%-90.0% of TJL's cost of sales denominated in USD and revenue also largely USD denominated, the company benefits from a natural hedge against currency volatility. FCR's base case assumes an exchange rate of LKR 310/USD for 2025E, which should help cushion potential margin pressures from LKR depreciation. Accordingly, FCR projects TJL's gross profit margins at 12.7% in FY26E and 12.4% in FY27E.

EV for FY27E estimated at LKR 65.0

FCR believes that TJL's focus on product innovation, sustainability-driven culture, and strategic proximity to key export markets through its new Egyptian plant, as well as the scalability of its products across diverse geographical footprints, may mitigate the risk of U.S. reciprocal tariffs despite the decline in capacity utilization levels. According to TJL management, the company achieved one of the highest Higg Index score among fabric manufacturers globally (98.0% in FY24), which could serve as a strong unique selling proposition and a key factor in customer retention. The anticipated benefits of LKR depreciation, easing raw material costs, and controlled operational expenses further support its margin expansion prospects. Considering these factors, FCR maintains the target price for TJL at LKR 65/share, suggesting a potential upside of 35.0% from the current market price of LKR 48.2. **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

Manusha Kandanaarachchi +94 11 263 9866
manusha@firstcapital.lk

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



Minimum Return for BUY:

Buy Below for FY27E [AER of 20.0% with DPS]: LKR 46.0
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.

Key risks associated with our recommendation

Downside risks

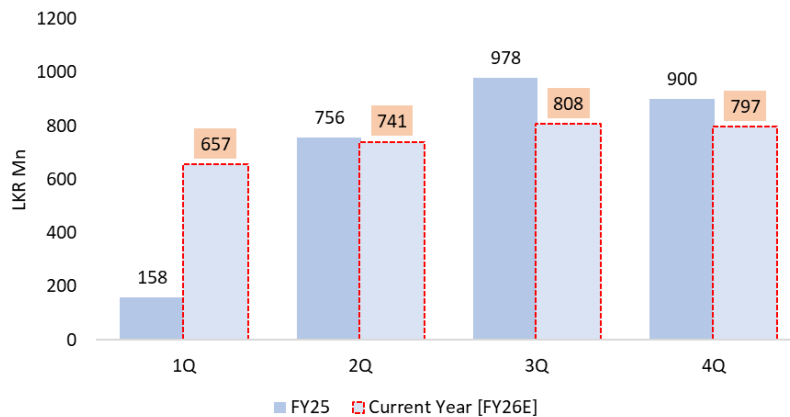
- Exchange rate risk (appreciation may lead to LKR topline reduction and depreciation may lead to increase of raw material costs)
- Risk of export market inflation levels
- Greater than expected global economic slowdown
- Increasing yarn prices may lead to margin contraction
- Lower than anticipated U.S. tariff rates for regional peers after 90 days grace period
- Expected electricity tariff hikes from Jul-25 onwards

Upside risks

- Lower than anticipated U.S. tariffs after 90 days grace period
- Exchange rate risk (appreciation may lead to reduction of raw material costs and depreciation may lead to LKR topline increase)



Quarterly Earnings



Estimate Revision

In LKR Mn	FY26-O	FY26-R	% Change	FY27E-O	FY27E-R	% Change
Earnings Estimate						
Revenue	72,243.2	72,243.2	0.0%	84,536.0	84,536.0	0.0%
Gross Profit	9,287.8	9,287.8	0.0%	10,477.5	10,477.5	0.0%
EBIT	4,926.8	4,926.8	0.0%	5,701.2	5,701.2	0.0%
Profit before Tax	4,244.8	4,244.8	0.0%	4,949.4	4,949.4	0.0%
Net Profit	2,995.3	2,995.3	0.0%	3,492.5	3,492.5	0.0%
Adjusted EPS	4.2	4.2	0.0%	4.8	4.8	0.0%
Growth YoY	7.3%	7.3%		16.6%	16.6%	
Balance Sheet Estimate						
Shareholders' Equity	33,086.8	33,086.8	0.0%	34,902.9	34,902.9	0.0%
Borrowings	8,263.6	8,263.6	0.0%	8,828.7	8,828.7	0.0%
Adjusted NAVPS	45.9	45.9	0.0%	48.4	48.4	0.0%
Ratio Estimate						
ROE (%)	9.1%	9.1%		10.0%	10.0%	
PER (x)	11.2x	11.6x		9.6x	10.0x	
PBV (x)	1.0x	1.1x		1.0x	1.0x	
DY (%)	4.3%	4.1%		5.0%	4.8%	

Valuation Table

P/E 31 March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Estimates (LKR 'Mn)							
Revenue	49,588.0	84,037.1	60,734.0	67,036.1	72,243.2	84,536.0	96,929.1
Gross profit	4,577.6	6,842.9	5,056.6	7,913.5	9,287.8	10,477.5	11,524.4
EBIT	2,573.1	3,295.1	2,213.2	4,556.5	4,926.8	5,701.2	6,047.9
Net Profit	2,531.3	2,126.7	1,109.5	2,792.8	2,995.3	3,492.5	3,685.3
Adjusted EPS (LKR)	3.5	2.9	1.5	3.9	4.2	4.8	5.1
YoY Growth (%)	18.3%	-16.0%	-47.8%	151.7%	7.3%	16.6%	5.5%
DPS (LKR)	1.7	2.0	1.5	0.8	1.9	2.0	2.3
Valuations							
PER (x)	13.7x	16.4x	31.3x	12.5x	11.6x	10.0x	9.4x
PBV (x)	1.2x	1.1x	1.1x	1.1x	1.1x	1.0x	0.9x
DY (%)	4.1%	3.1%	1.6%	3.9%	4.1%	4.8%	5.1%
Adjusted NAVPS	39.1	44.4	41.8	43.7	45.9	48.4	51.0
DPS (LKR)	2.0	1.5	0.8	1.9	2.0	2.3	2.5
Dividend Payout	57%	51%	49%	48%	48%	48%	48%
Net Assets	28,226	32,043	30,130	31,529	33,087	34,903	36,819
NAVPS	39.1	44.4	41.8	43.7	45.9	48.4	51.0



Valuation Summary

Expected TJL price	FY26E	FY27E
DCF based target price	57.9	67.8
PER based Valuation	54.0	62.9
Average Target Price	55.9	65.4
Target Price after Rounding off	56.0	65.0

Return	FY26E	FY27E
Target Price	56.0	65.0
Current Price	48.2	48.2
Capital Gain (LKR)	7.8	16.8
Dividends up to 31st March	2.0	2.3
Capital Gain %	16.2%	34.9%
Dividend Yield %	4.1%	4.8%
Total Return %	20.3%	39.7%
Annualized Return %	23.8%	19.6%

Discounted Cash flow Valuation

DCF based Valuation	FY26E	FY27E
Enterprise Value	45,986	45,817
(-) Debt	(8,264)	(8,829)
(+) Cash	4,035	11,914
Total Value of Equity	41,757	48,903
No. of Shares (Mn)	721	721
Target Price	57.9	67.8

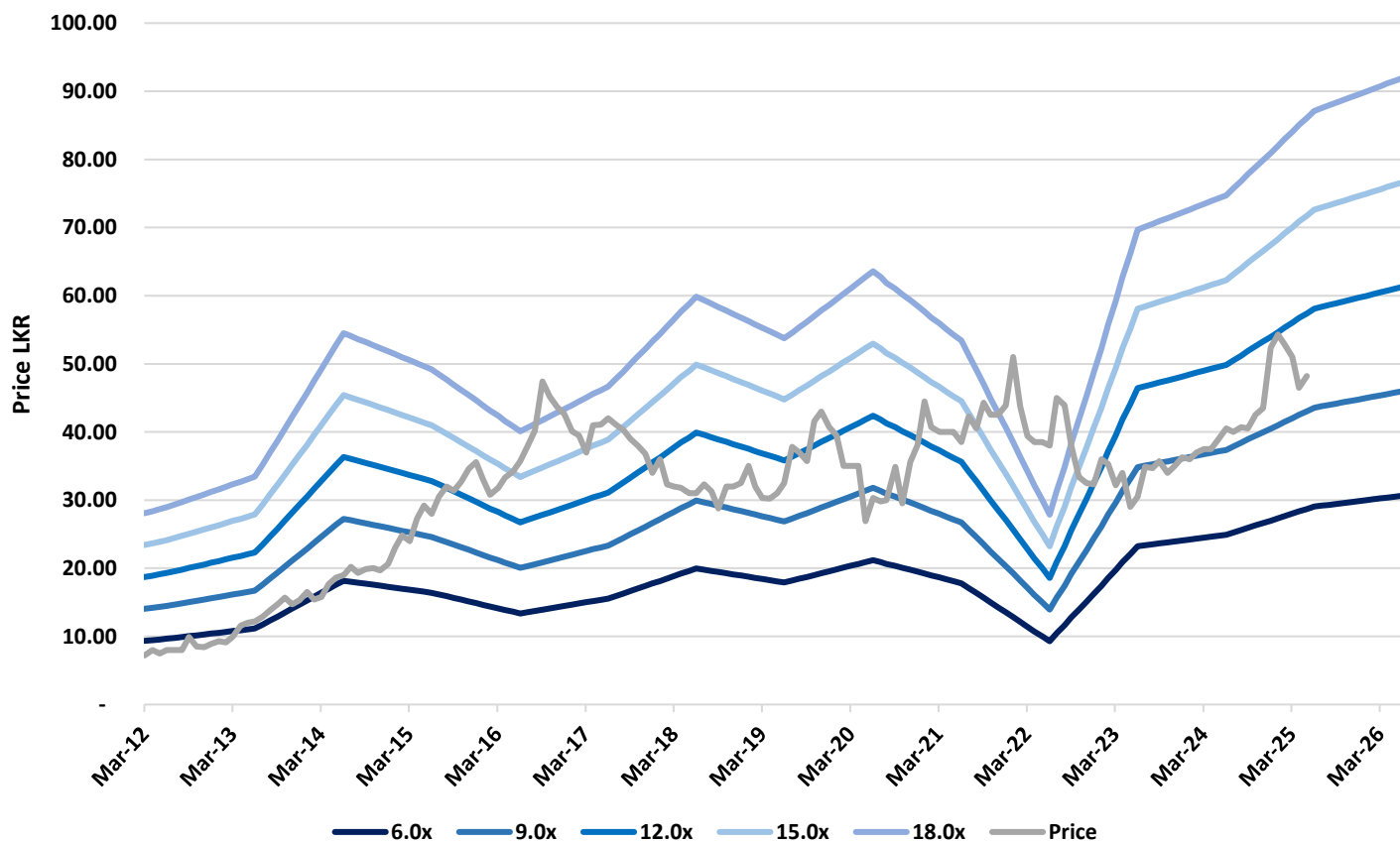
COE	FY26E	FY27E
Rf	11.0%	11.0%
Rm	19.0%	19.0%
Growth %	3.0%	3.0%
β	0.60	0.60
$K_e = R_f + \beta(R_m - R_f)$	15.8%	15.8%

PER Valuation

PER based Valuation	FY26E	FY27E
Earnings (LKR 'Mn)	2,995.3	3,492.5
No. of Shares ('Mn)	721	721
EPS	4.2	4.8
Expected PER	13.0x	13.0x
Target Price	54.0	62.9

WACC	FY26E	FY27E
K_e	15.8%	15.8%
K_d	6.7%	6.7%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3.0%	3.0%
WACC	12.1%	12.1%

PER Chart





Statement of Profit or Loss (LKR Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
As at 31st March							
Revenue	49,588	84,037	60,734	67,036	72,243	84,536	96,929
Cost of sales	-45,010	-77,194	-55,677	-59,123	-62,955	-74,058	-85,405
Gross profit	4,578	6,843	5,057	7,914	9,288	10,478	11,524
Other income	151	532	203	521	289	338	388
Selling, Distribution & Admin expenses	-2,156	-4,079	-3,047	-3,878	-4,650	-5,114	-5,864
Operating profit	2,573	3,295	2,213	4,557	4,927	5,701	6,048
Finance Income	440	811	455	396	243	241	241
Less : Finance Cost	-149	-990	-1,096	-894	-926	-993	-1,067
Net Finance Income/(Costs)	291	-179	-641	-497	-682	-752	-825
Profit before tax	2,864	3,116	1,572	4,059	4,245	4,949	5,223
Income tax expense	-332	-990	-463	-1,266	-1,249	-1,457	-1,537
Profit for the Year	2,531	2,127	1,110	2,793	2,995	3,492	3,685
EPS	3.5	3.0	1.5	3.9	4.2	4.8	5.1

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
As at 31st March							
ASSETS							
Non-Current Assets							
Property, plant and equipment	14,715	20,259	18,142	17,270	17,593	18,360	19,509
Capital work-in-progress	5,269	1,836	703	334	867	860	300
Intangible Assets	143	161	606	434	442	562	701
Deferred tax assets	432	1,856	2,240	1,575	1,575	1,575	1,575
Goodwill and other assets	96	106	724	725	730	735	740
Right-of-use assets	1,341	1,740	1,681	1,925	1,925	1,925	1,925
Total Non-Current Assets	21,996	25,958	24,097	22,263	23,132	24,017	24,750
Current Assets							
Inventories	16,356	13,383	11,646	11,292	13,459	12,738	13,278
Trade and other receivables	12,859	9,026	9,774	12,248	13,855	14,360	22,573
Current Tax Receivable	477	497	614	750	750	750	750
Cash and cash equivalents	6,383	7,914	7,233	5,588	4,035	11,914	7,906
Other Financial Assets	1,822	3,281	1,668	4,019	4,019	4,019	4,019
Total Current Assets	37,897	34,100	30,936	33,897	36,119	43,782	48,526
Total Assets	59,894	60,058	55,033	56,160	59,250	67,798	73,276
EQUITY AND LIABILITIES							
Capital and Reserves							
Stated capital	4,442	4,442	4,442	4,583	4,583	4,583	4,583
Exchange equalisation reserve	15,220	18,048	15,752	187	187	187	187
Retained earnings	8,410	9,400	9,754	15,394	16,951	18,767	20,684
Share option scheme	153	153	182	11,366	11,366	11,366	11,366
Total Equity	28,226	32,043	30,130	31,529	33,087	34,903	36,819
Non-Current Liabilities							
Borrowings	5,581	6,239	4,140	2,531	3,037	3,341	3,675
Lease Liability	930	1,341	1,229	1,193	1,193	1,193	1,193
Deferred tax liabilities	919	2,364	2,213	2,154	2,154	2,154	2,154
Retirement benefit obligations	425	569	875	1,122	1,122	1,122	1,122
Total Non-Current Liabilities	7,855	10,512	8,458	6,999	7,506	7,809	8,144
Current Liabilities							
Trade and other payables	17,623	10,556	10,866	12,331	13,109	19,275	22,229
Borrowings	5,914	6,343	5,184	4,977	5,226	5,488	5,762
Current tax liability	233	490	282	213	213	213	213
Lease Liability	43	114	113	110	110	110	110
Total Current Liabilities	23,813	17,503	16,444	17,631	18,658	25,086	28,314
Total Equity & Liabilities	59,894	60,058	55,033	56,160	59,250	67,798	73,276
Adjusted NAVPS	39.1	44.4	41.8	43.7	45.9	48.4	51.0



First Capital
A Janashakthi Group Company

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Akna Tennakoon	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Manusha Kandanaarachchi	+94 11 2639 866
Shahana Kanagaratnam	+94 11 2639 866	Salaama Sanoon	+94 11 2639 866

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Arun Kandasamy	+94 75 4861 506
Anushka Dissanayake	+94 77 2220 021		
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Tharusha Ekanayake	+ 94 77 7 809 154
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EQUITY SALES

			Equity Branches		
CEO	Jaliya Wijeratne	+94 71 5329 602	Negombo	Priyanka Anuruddha	+94 77 4546 070
				Priyantha Wijesiri	+94 77 9065 779
Colombo					
	Rasika Vidanalage	+94 77 7072 698			
	Isuru Jayawardana	+94 76 7084 953			
	Nishantha Mudalige	+94 77 3204 929			
	Anushka Buddhika	+94 71 4310 600	Agents		
	Thushara Pathiraja	+94 77 0076 314	Colombo	Kithsiri Jayasinghe	+94 77 7790 657
	Anjelo LaBrooy	+94 77 7546 645	Anuradhapura	Amila Luwishewa	+94 71 0628 195
	Dillon Lowe	+94 76 6160 647	Galle	Nuwan Abeynayake	+94 77 7288 274
	Evelyn John	+94 77 779 2452	Kandy	Ajith Ihalawatta	+94 77 8477 530
	Yudheshan Kannadasan	+94 77 415 5809	Embilipitiya	Ruwan Wanniarachchi	+94 77 3877 734

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
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BRANCHES

Kandy	Kurunegala	Matara	Negombo
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1st Floor, E.H.Cooray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 4937 072

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