



First Capital
A Janashakti Group Company

TEEJAY LANKA PLC [TJL.N0000]

DOWNGRADE TO SELL AND DISCONTINUE COVERAGE

"ORDERS SHRINK, CAPACITY SINKS, SENTIMENT AT THE BRINK"

Fair Value: FY27E - LKR 42.0

Previous Report in Aug-25 - MAINTAIN HOLD

In our previous earnings report, we maintained our earnings forecasts for TJL at LKR 2.9Bn for FY26E and LKR 3.4Bn for FY27E and our target prices at LKR 50.0 and LKR 55.0 per share for FY26E and FY27E, respectively.

TJL's 2QFY26 quarterly results are well below FCR's expectations

TJL reported earnings of LKR 149.9Mn, marking an 80.2%YoY decline and underperforming our forecasts by 79.8%. The shortfall was mainly driven by a 10.4% drop in revenue, stemming from an approximate 6.0% decline in volumes and a c.5.0% reduction in pricing. The volume decline was largely attributable to the Indian plant, where a 50.0% tariff imposed in late August significantly affected output. The reduction of average selling price was largely due to easing raw material costs, leading customers to demand price cuts. Group-level capacity utilization fell to 69.0% (compared with around 77.0% in 2QFY25). Additionally, a 30.0%YoY increase in OPEX further pressured the bottom line.

FCR downgrades the earnings to LKR 1.4Bn and LKR 2.1Bn for FY26E and FY27E

We have further revised TJL's earnings forecasts downward by 50.0% and 38.0% to LKR 1.4Bn and LKR 2.1Bn for FY26E and FY27E, respectively, following the earlier downgrade in 1QFY26 as the company underperformed our expectations in 2QFY26 amid persistent uncertainty surrounding U.S. tariff rates. Capacity utilization is now expected to remain between 65.0%–70.0% for FY26E and FY27E, compared with our earlier estimate of 80.0%, as pressures from the U.S. market continue to weigh on demand, further compounded by an already compressed order book for 3QFY26E. The newly imposed 50.0% tariff on exports to India is also likely to intensify these challenges. Average selling price is projected to decline by around 5.0% to 6.0% this year before gradually stabilizing, supported by a steady cotton and synthetic raw material outlook. Margins are expected to narrow further due to weaker operating leverage. As a result, investor sentiment toward TJL is likely to remain subdued. However, the expected LKR depreciation may support the topline growth. Accordingly, we downgrade our target price for TJL to LKR 42.0 for FY27E. Additionally, TJL's share price has underperformed the broader market over the past year, declining by 13.6%. Given the revised target price, the annualized return for FY27E stands at 10.0%, which falls well below our minimum required return of 17.0%. Thereby, we have revised our recommendation to **DOWNGRADE TO SELL AND DISCONTINUE COVERAGE**, from the previously maintained **HOLD**.

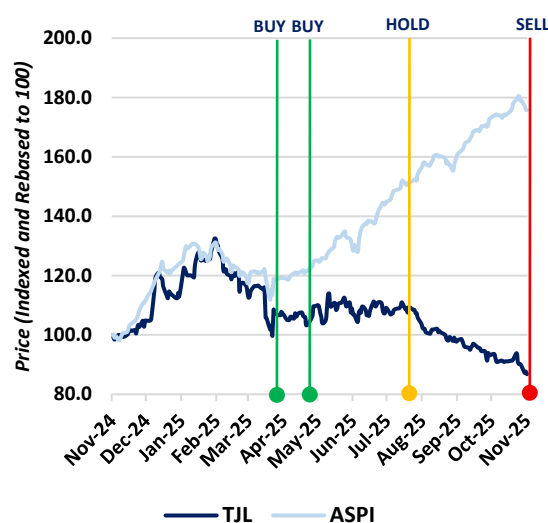
FIRST CAPITAL RESEARCH

Manusha Kandanaarachchi +94 11 263 9866

Manusha@firstcapital.lk

Price Performance (%)	1 mth	3 mths	12 mths
TJL	-6.4%	-18.3%	-13.6%
ASPI	1.1%	40.0%	75.6%

Price movement of TJL vs ASPI (indexed and rebased to 100)



Source: CSE

Minimum Return for BUY:

Buy Below FY27E - [AER of 17% with DPS]: LKR 33.3
TJL 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.

Sensitivity analysis of cotton price growth and capacity utilization level to

TJL's revenue for FY27E

		Capacity utilization level				
Growth in cotton fabric average selling price		50.0%	60.0%	70.0%	80.0%	90.0%
	-2.5%	47,840.6	56,875.3	65,909.4	74,943.8	83,978.4
	-1.5%	48,187.1	57,290.8	66,394.4	75,498.1	84,601.8
	0.5%	48,879.9	58,122.2	67,364.5	76,606.7	85,849.1
	1.5%	49,226.4	58,537.9	67,849.5	77,161.0	86,472.6
	2.5%	49,572.8	58,953.7	68,334.5	77,715.3	87,096.2

**Revenue figures are in LKR millions



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	Dilhari Dias	+94 11 2639 866
Charith Gamage	+94 11 2639 863	Imashi Sellaperuma	+94 11 2639 866
Shahana Kanagaratnam	+94 11 2639 866	Manusha Kandanaarachchi	+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
--------------------	-------------------

EQUITY SALES

CEO	Jaliya Wijeratne	+94 71 5329 602	Equity Branches		
Colombo			Negombo	Priyanka Anuruddha	+94 77 4546 070
Isuru Jayawardana	+94 76 7084 953			Priyantha Wijesiri	+94 77 9065 779
Nishantha Mudalige	+94 77 3204 929		Jaffna	Gratian Nirmal	+94 77 4510 000
Anushka Buddhika	+94 71 4310 600				
Thushara Pathiraja	+94 77 0076 314		Agents		
Dayan Fernando	+94 77 7354 081		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
Yumeth Samarakoon	+94 72 4444 135				
Amash Ranasinghe	+94 77 7820 168				

UNIT TRUST SALES

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

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

Disclaimer:

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or a connected person or associated person may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

About us:

This report providing a snapshot of fixed income, equity and unit trust is composed and circulated by First Capital Holdings PLC an investment bank in Sri Lanka. The company operates in the capital market of Sri Lanka with operations in government securities - treasury bills and bonds, stock brokering and share market investments, asset management, private wealth management, retirement planning, personal financial planning, unit trust, margin trading, capital market research, trustee services, corporate finance advisory services including corporate debt structuring (debentures, trust certificates, commercial papers), valuations, restructuring, mergers and acquisitions, initial public offerings (IPOs) and project advisory. The First Capital Group consists of First Capital Treasuries PLC, First Capital Limited, First Capital Markets Limited, First Capital Asset Management Limited and First Capital Equities (Private) Limited covering Colombo, Negombo, Matara, Kandy and Kurunegala.