



## DIPPED PRODUCTS PLC [DIPD.N0000]

### MAINTAIN BUY

### “GLOVE MOMENTUM OFFSETS PLANTATION SETBACK IN 2QFY26”

**Fair Value: FY27E - LKR 90.0 [+43%]**

Total Return with DPS: FY27E - 47% [AER 33%]

DIPD reported earnings of LKR 920.2Mn, broadly in line with 2QFY25 results, up 4.7%QoQ but 8.0% below our LKR 1,204.2Mn forecast. The shortfall was mainly due to a 0.4%YoY revenue decline and a 162bps YoY drop in EBIT margins due to an increase in admin cost by 20.6%YoY, outweighing a modest 32bps improvement in gross margins. Looking ahead, FCR expects topline growth of 12.1%YoY by FY27E, driven largely by a 17.8%YoY increase in hand protection revenue supported by the new Hanwella facility, expected completion of the Katunayake plant, and a 5.0% LKR depreciation. Factory utilization is expected to reach 85%–90% by 3QFY26E as higher tariffs on Chinese competitors benefit DIPD. The plantation segment’s contribution to topline is projected to ease from 42% to 40% by FY27E amid continued sector softness. Operational efficiencies from ongoing factory innovations, stable latex prices (40%–50% of cost of sales), and the company’s ~90% renewable energy mix, reinforced by the new Hanwella boiler, should support margin stability despite rising electricity tariffs. We forecast EBIT margins of 9%–11% (+212bps by FY27E) and net margins of 6%–7% (+94bps). Our earnings target remains at LKR 5.5Bn (+11.6% YoY), lifting ROE to 17.5% (+270bps) by FY27E. FCR believes stronger profitability could drive the share price toward our target of LKR 90.0 for FY27E, translating to a AER of 33.3% and a forward PER of 10.0x.

LKR (Mn)	2QFY25	2QFY26	YoY	1HFY25	1HFY26	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	21,277	21,196	-0%	40,463	43,466	+7%
Gross Profit	4,639	4,689	+1%	8,160	8,929	+9%
Operating Profit	2,137	1,785	-16%	3,222	3,281	+2%
PBT	1,825	1,730	-5%	3,028	3,247	+7%
Earnings	920	920	-0%	1,583	1,799	+14%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholder's Equity	29,454	33,701	+14%	29,454	33,701	+14%
Borrowings	11,267	15,081	+34%	11,267	15,081	+34%
NAVPS	49.2	56.3		49.2	56.3	

#### DIPDs bottom-line grew by 74.5%YoY during 2QFY26

DIPD reported earnings of LKR 920.2Mn, broadly in line with 2QFY25 results, reflecting a 4.7%QoQ increase and an 8.0% shortfall relative to our target of LKR 1,204.2Mn. The subdued performance was mainly driven by a 0.4%YoY decline in revenue and a 162bps YoY contraction in EBIT margins, which offset the 32bps YoY improvement in gross margins. The revenue decline primarily stemmed from weaker performance in the plantation segment, particularly due to lower tea revenue at KVAL and TPL. Meanwhile, the gross margin expansion was supported by a 6.4%YoY reduction in global rubber prices and the company’s ongoing cost-cutting initiatives.

#### Hand Protection segment to fuel DIPD’s 12.1%YoY topline rise by FY27E

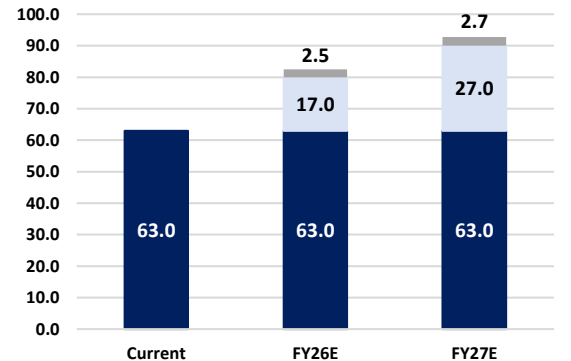
FCR expects DIPD’s topline to grow 12.1%YoY by FY27E mainly due to 17.8%YoY growth in hand protection segment revenue. The growth in hand protection revenue is likely to be supported by newly built rubber glove manufacturing facility in Hanwella and expected completion of Katunayake Plant coupled with 5.0% LKR depreciation. The DIPD capacity expansion may address the rising global demand, as the global glove market is projected to grow at a 3-year CAGR of 12.7%. However, we believe even though plantation segment contributes currently 42.0% to the group topline, this may reduce to 40.0% by FY27E due to subdued performance in the overall plantation segment. Furthermore, we expect DIPD’s factory to operate at 85.0% to 90.0% capacity utilization in 3QFY26E, as Chinese competitors face higher tariff rates. We also anticipate a subdued performance from the plantation segment over the next few quarters.

#### Automation efficiencies and serene raw-material price outlook signal margin expansion

With a broad and diversified portfolio that includes high-margin products such as electrician gloves, DIPD sets itself apart from East Asian and Chinese manufacturers that typically specialize in narrow ranges. In addition, ongoing factory-level innovations are expected to enhance operational efficiency and reduce costs over the coming years. Since latex represents around 40%–50% of total cost of sales, margin pressure should remain limited, supported by a stable latex price outlook. Energy costs account for roughly 30% of cost of sales, and DIPD’s reliance on ~90% renewable energy, strengthened by the new boiler plant in Hanwella; helps cushion the impact of rising electricity tariffs. Accordingly, we expect EBIT margins to remain in the 9%–11% range (c.+212bps by FY27E) and net margins in the 6%–7% range (c.+94bps by FY27E).

#### FCR’s target price for FY27E remains unchanged at LKR 90.0, warranting an annualized total return of 33.4%

FCR expects DIPD’s bottom line to grow by 11.6%YoY in FY27E to LKR 5.5Bn, supported by higher revenue from increased capacity and improvements in gross and EBIT margins. This earnings growth is projected to lift ROE by 270bps to 17.5% by FY27E. FCR also believes that stronger profitability could drive the share price toward our target of LKR 90.0, implying a total annualized return of 33.3%, with DIPD likely trading at a forward PER of 10.0x. **MAINTAIN BUY**



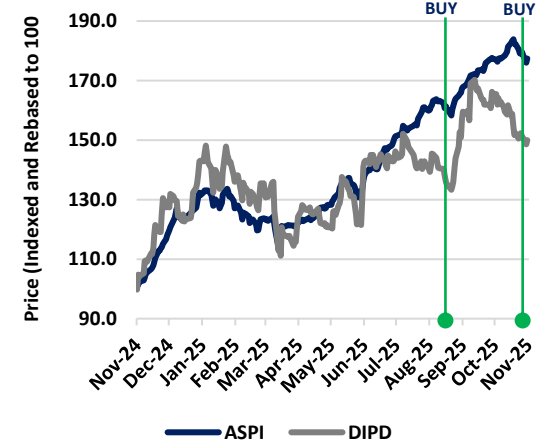
■ Current Price ■ Expected Capital Gain ■ Dividends upto 31st Mar

### FIRST CAPITAL RESEARCH

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



Source: CSE

#### Minimum Return for BUY:

**Buy Below for FY27E [AER of 17.0% with DPS]: LKR 75.1**  
DIPD 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 DIPD during the five trading days prior to the issuance of this document.

#### Key risks associated with our recommendation

##### Downside risks

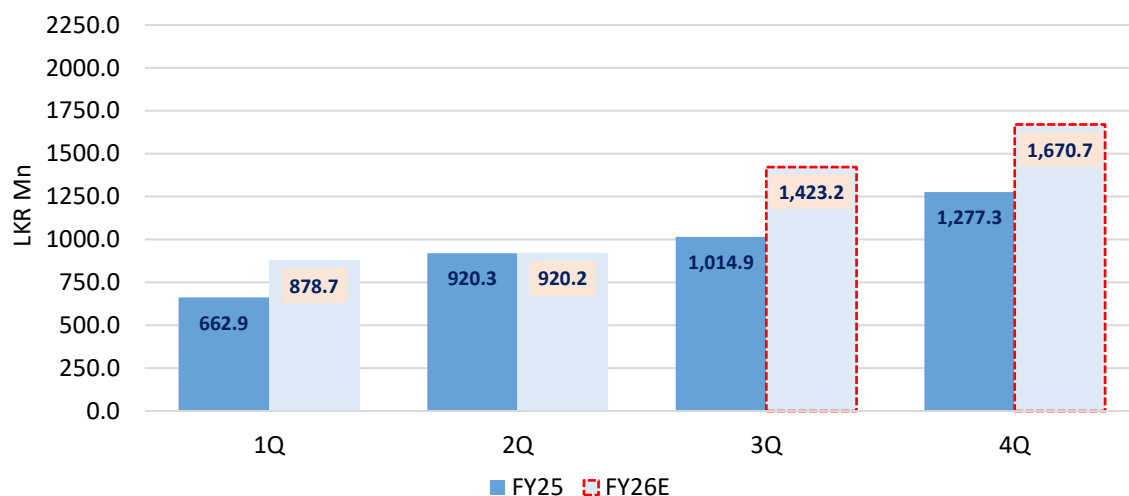
- Severe competition from ASEAN glove manufacturers
- Volatile latex prices
- Depreciation of ASEAN currencies against USD and other major currencies
- Subdued performance of the plantation segment and increased wages of plantation sector workers
- U.S tariffs and GSP+ concerns

##### Upside risks

- Appreciation of ASEAN currencies against USD and other major currencies
- Reduction in excess inventory produced during the COVID-19 period
- Rapid growth of the key export markets



## Quarterly Earnings



## Estimate Revision

In LKR Mn	FY26E-O	FY26E-R	% Change	FY27E-O	FY27E-R	% Change
<b>Earnings Estimate</b>						
Revenue	89,278	89,278	0%	100,067	100,067	0%
Gross Profit	19,641	19,641	0%	21,915	21,915	0%
EBIT	9,642	9,642	0%	10,707	10,707	0%
Profit Before Tax	8,737	8,737	0%	9,748	9,748	0%
Adjusted Earnings	4,893	4,893	0%	5,459	5,459	0%
Adjusted EPS	8.2	8.2	0%	9.1	9.1	0%
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	35,203	35,203	0%	39,024	39,024	0%
Borrowings	11,715	11,715	0%	11,504	11,504	0%
Adjusted NAVPS	58.8	58.8		65.2	65.2	
<b>Ratio Estimate</b>						
PER (x)	7.3x	7.7x		6.5x	6.9x	
PBV (x)	1.0x	1.1x		0.9x	1.0x	
DY (%)	4.1%	3.9%		4.6%	4.3%	



## Valuation Table

P/E 31 Mar (LKR 'Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue	55,294	80,099	73,942	79,289	89,278	100,067	111,568
Gross Profit	10,733	19,609	17,059	16,564	19,641	21,915	24,266
EBIT	5,360	9,628	7,729	6,802	9,642	10,707	11,770
<b>Adjusted Net Profit</b>	<b>5,383</b>	<b>6,507</b>	<b>4,472</b>	<b>3,568</b>	<b>4,893</b>	<b>5,459</b>	<b>6,032</b>
Adjusted EPS (LKR)	9.0	10.9	7.5	6.0	8.2	9.1	10.1
YoY Growth (%)	4.2%	20.9%	-31.3%	-20.2%	37.1%	11.6%	10.5%
<b>Valuations</b>							
PER (x)	7.0x	5.8x	8.4x	10.6x	7.7x	6.9x	6.3x
PBV (x)	1.7x	1.4x	1.3x	1.2x	1.1x	1.0x	0.9x
DPS	2.5	3.0	2.3	1.9	2.5	2.7	3.0
DY (%)	4.0%	4.8%	3.6%	3.0%	3.9%	4.3%	4.8%
Dividend Payout (%)	27.8%	27.6%	30.1%	31.9%	30.0%	30.0%	30.0%
NAVPS	36.6	45.1	48.2	53.1	58.8	65.2	72.2

## Rato Analysis

		FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Growth</b>	Revenue	19.2%	44.9%	-7.7%	7.2%	12.6%	12.1%	11.5%
	Cost of Sales	29.0%	35.7%	-6.0%	10.3%	11.0%	12.2%	11.7%
	Gross Profit	-9.3%	82.7%	-13.0%	-2.9%	18.6%	11.6%	10.7%
	EBIT	-26.8%	79.6%	-19.7%	-12.0%	41.8%	11.0%	9.9%
	Net Profit	9.9%	32.6%	-32.0%	-19.3%	31.2%	11.6%	10.5%
<b>Profitability</b>	GP Margin	19.4%	24.5%	23.1%	20.9%	22.0%	21.9%	21.8%
	EBIT Margin	9.7%	12.0%	10.5%	8.6%	10.8%	10.7%	10.6%
	NP Margin	11.6%	10.6%	7.8%	5.9%	6.9%	6.8%	6.8%
	Return on Equity	29.3%	31.5%	20.0%	14.7%	17.4%	17.5%	17.4%
<b>Liquidity</b>	Current Ratio	1.7x	1.9x	2.2x	1.7x	1.7x	1.8x	1.9x
	Quick Ratio	1.1x	1.2x	1.4x	1.1x	1.1x	1.2x	1.3x
<b>Activity</b>	Inventory Days	94.9	74.6	78.1	74.5	73.0	69.0	69.2
	Accounts Payable Days	67.8	54.1	63.8	69.9	72.9	69.0	69.2
	Accounts Receivable Days	12.9	6.3	7.8	7.7	7.1	6.6	6.6
<b>Gearing</b>	Debt/Equity	0.5x	0.3x	0.3x	0.3x	0.1x	0.1x	0.1x
	Debt/Debt+Equity	0.6x	0.7x	0.8x	0.8x	0.9x	0.9x	0.9x
	Debt/Total assets	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x



### Valuation Summary

Expected DIPD Price	FY26E	FY27E	Return	FY26E	FY27E
PER Valuation based target price	81.7	91.2	Target Price	80.0	90.0
DCF Valuation based target price	77.5	85.9	Current Price	63.0	63.0
Average Target Price	79.6	88.5	Capital Gain (LKR)	17.0	27.0
Price after Rounding-off	80.0	90.0	Dividends upto 31 Mar (LKR)	2.5	2.7
			Capital Gain %	27%	43%
			Dividend Yield %	4%	4%
			Total Return %	31%	47%
			Annualized Return %	119%	33%

### Discounted Cash Flow Valuation

DCF based Valuation	FY26E	FY27E	COE	FY26E	FY27E
Enterprise Value	61,914	66,308	Rf	9%	9%
Debt (-)	11,715	11,504	Rm	18%	18%
Cash (+)	9,998	11,788	Growth %	3%	3%
Total Value of Equity	46,383	51,414	Unlevered $\beta$	0.5	0.5
No. of Shares (Mn)	599	599	$Ke = Rf + \beta(Rm - Rf)$	14%	14%
Target Price	77.5	85.9			
WACC	FY26E	FY27E			
Ke	14%	14%			
Kd	11%	11%			
D/E Assumption	60:40	60:40			
Terminal Growth (%)	3%	3%			
WACC	12%	12%			

### PER Valuation

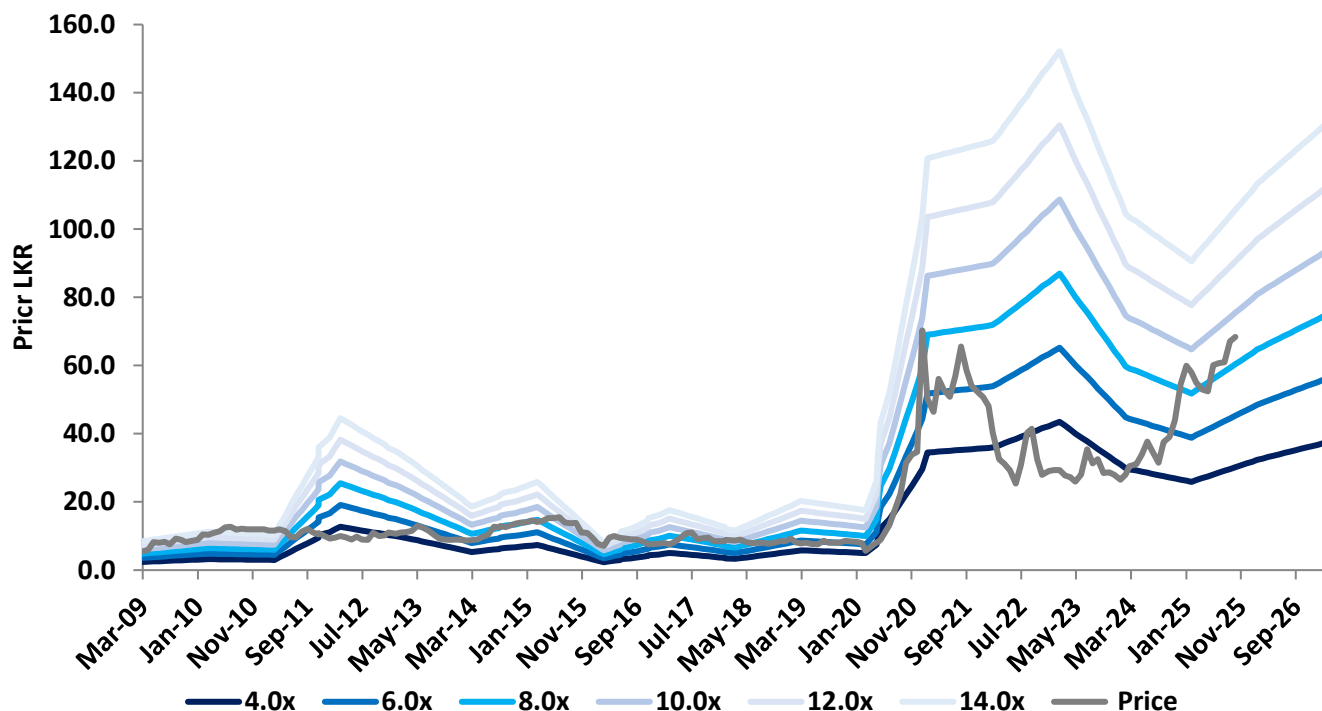
PER based Valuation	FY26E	FY27E
Earnings (LKR 'Mn)	6,116	6,823
No. of Shares ('Mn)	599	599
EPS	8.2	9.1
Expected PER	10x	10x
Price at 10x Earnings	81.7	91.2

### Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%
Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	14.00%	10.00%	10.00%
Grade B	Rest of the Companies	17.00%	12.00%	12.00%
Grade C	Companies less than LKR 1Bn Market Cap	20.00%	15.00%	15.00%



## 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	55,294	80,099	73,942	79,289	89,278	100,067	111,568
Cost of sales	(44,561)	(60,490)	(56,883)	(62,724)	(69,637)	(78,153)	(87,302)
<b>Gross profit</b>	<b>10,733</b>	<b>19,609</b>	<b>17,059</b>	<b>16,564</b>	<b>19,641</b>	<b>21,915</b>	<b>24,266</b>
Other operating income	833	767	820	933	1,071	1,201	1,339
Selling and distribution	(1,403)	(2,661)	(1,956)	(2,013)	(2,143)	(2,402)	(2,678)
Admin expenses	(4,804)	(8,087)	(8,193)	(8,683)	(8,928)	(10,007)	(11,157)
<b>EBIT</b>	<b>5,360</b>	<b>9,628</b>	<b>7,729</b>	<b>6,802</b>	<b>9,642</b>	<b>10,707</b>	<b>11,770</b>
Net finance income	2,237	1,591	(170)	(343)	(905)	(960)	(999)
Profit before tax	7,597	11,219	7,567	6,466	8,737	9,748	10,772
Taxation	(1,186)	(2,716)	(1,788)	(1,802)	(2,621)	(2,924)	(3,232)
<b>Adjusted net profit for the period</b>	<b>6,411</b>	<b>8,502</b>	<b>5,779</b>	<b>4,663</b>	<b>6,116</b>	<b>6,823</b>	<b>7,540</b>
<b>Recurring net profit for the period</b>	<b>6,411</b>	<b>8,502</b>	<b>5,779</b>	<b>4,663</b>	<b>6,116</b>	<b>6,823</b>	<b>7,540</b>
<b>Profit for the period attributable to:</b>							
Equity holders of the company	5,383	6,507	4,472	3,568	4,893	5,459	6,032
Minority interest	1,028	1,995	1,307	1,096	1,223	1,365	1,508
<b>Adjusted EPS</b>	<b>9.0</b>	<b>10.9</b>	<b>7.5</b>	<b>6.0</b>	<b>8.2</b>	<b>9.1</b>	<b>10.1</b>



## Appendix II: Statement of Financial Position

Balance sheet							
As at 31 March (LKR 'Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Assets</b>							
Non current assets							
Property plant and equipment	16,345	21,977	23,971	30,107	31,460	33,069	34,952
Other non current assets	3,259	4,693	5,518	6,340	7,533	7,449	7,377
<b>Current Assets</b>							
Inventories	12,070	12,649	11,685	13,935	13,927	15,631	17,460
Receivables and prepayment	1,201	1,572	1,569	1,783	1,696	1,901	2,120
Cash and cash equivalents	9,045	9,660	8,976	9,099	9,556	11,346	13,393
<b>Total Assets</b>	<b>54,050</b>	<b>62,681</b>	<b>63,913</b>	<b>74,616</b>	<b>79,350</b>	<b>86,407</b>	<b>94,268</b>
<b>Equity and Liabilities</b>							
Stated capital	599	599	599	599	599	599	599
Retained earnings and foreign currency translation reserves	21,308	26,376	28,278	31,180	34,605	38,426	42,648
Equity attributable to equity holders of the parent	21,907	26,975	28,877	31,778	35,203	39,024	43,247
Non-controlling interest	4,452	6,540	7,203	7,853	9,076	10,441	11,949
<b>Total equity</b>	<b>26,359</b>	<b>33,515</b>	<b>36,080</b>	<b>39,631</b>	<b>44,279</b>	<b>49,465</b>	<b>55,196</b>
<b>Non-current liabilities</b>							
Interest bearing loans and borrowings	2,536	3,577	4,301	3,821	3,515	3,451	3,415
Other non-current liabilities	4,583	6,774	7,552	8,486	8,486	8,486	8,486
<b>Current liabilities</b>							
Trade and other payables	8,202	9,742	10,146	13,884	13,927	15,631	17,460
Other current liabilities	12,370	9,072	5,835	8,794	9,143	9,375	9,712
<b>Total liabilities</b>	<b>27,690</b>	<b>29,166</b>	<b>27,833</b>	<b>34,984</b>	<b>35,070</b>	<b>36,942</b>	<b>39,073</b>
<b>Total equity &amp; liabilities</b>	<b>54,050</b>	<b>62,681</b>	<b>63,913</b>	<b>74,616</b>	<b>79,350</b>	<b>86,407</b>	<b>94,268</b>
<b>Adjusted NAVPS</b>	<b>36.6</b>	<b>45.1</b>	<b>48.2</b>	<b>53.1</b>	<b>58.8</b>	<b>65.2</b>	<b>72.2</b>



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