



First Capital  
A Janashakti Group Company

## HAYLEYS FABRIC PLC [MGT.N0000]

### DOWNGRADE TO SELL AND DISCONTINUE COVERAGE

#### “STITCHES UNRAVEL AS EARNINGS COME UNDER STRAIN”

**Fair Value: FY27E - LKR 45.0**

#### Previous Report in Aug-25 - MAINTAIN HOLD

We previously maintained our earnings forecasts for MGT at LKR 2.2Bn for FY26E and LKR 2.5Bn for FY27E, along with target prices of LKR 50.0 and LKR 54.0 per share, respectively. However, based on the latest earnings revisions and MGT's subdued performance over four consecutive quarters, FCR now estimates a revised fair value of LKR 45.0 per share.

#### MGT's consistent underperformance has continued in 2QFY26 with earnings well below FCR expectations

MGT reported earnings of LKR 138.6Mn for 2QFY26, reflecting a steep 79.0%YoY decline and falling short of our forecasts by 75.9%. The underperformance stemmed from the topline, with revenue contracting by 26.7%YoY. Margins also weakened, driven by reduced pricing power and lower average selling prices. As a result, gross profit margin fell to 13.4% (vs 19.1% a year earlier). EBIT margins mirrored this trend, declining by 640bps YoY and 307bps QoQ amid rising operating expenses, pushing EBIT down to LKR 427.7Mn, which is a 69.8%YoY drop from LKR 1,415.8Mn in 1QFY25. Consequently, MGT's cumulative earnings for 1HFY26 amounted to LKR 532.1Mn, representing a significant 63.3%YoY underperformance relative to LKR 1.5Bn in 1HFY25.

#### FCR downgrades MGT's earnings to LKR 1.0Bn and LKR 1.8Bn for FY26E and FY27E, respectively

We have further revised MGT's earnings forecasts downward by 53.4% and 25.7% to LKR 1.0Bn and LKR 1.8Bn for FY26E and FY27E, following the earlier downgrade in 4QFY25. This adjustment reflects the company's continued underperformance through 2QFY26, which initially stemmed from uncertainty surrounding U.S. tariff rates and has since been amplified by a sustained contraction in orders from the U.S. market, particularly from key tier-1 customers such as Nike. Although inflationary pressures are easing in key markets such as the USA and Europe, and interest rate cuts are expected, consumer demand for discretionary categories including apparel remains subdued. Sri Lanka's apparel exports to the U.S. fell 1.9%YoY in Oct 2025, while Jan-Oct saw only a marginal 1.4%YoY rise, underscoring persistently weak demand.

#### MGT's heavy reliance on the U.S. market has led to near term vulnerability

MGT's heavy U.S. exposure (c.60% of revenue) continues to weigh on performance, with order contractions from this market remaining the key drag on profitability. Weakened premium pricing power has pushed the company toward margin-preservation measures such as improving cutting efficiency and offering selective discounts. Margins are set to compress further due to weaker operating leverage, soft global demand, elevated costs and ongoing brand-level adjustments, despite a modest currency depreciation projected by FCR. These pressures have persisted since reciprocal U.S. tariffs came into effect, amplifying challenges for MGT given its fully domestic manufacturing footprint and concentrated U.S. dependence.

Against this backdrop, we revise our target price to LKR 45.0 for FY27E. MGT's share price has already lagged the broader market over the past year, declining by 19.5%. Based on the revised target price, the annualized return for FY27E is estimated at 11.3%, well below our minimum required return of 17.0%. Accordingly, we downgrade our recommendation from **HOLD** to **SELL AND DISCONTINUE COVERAGE**.

#### FIRST CAPITAL RESEARCH

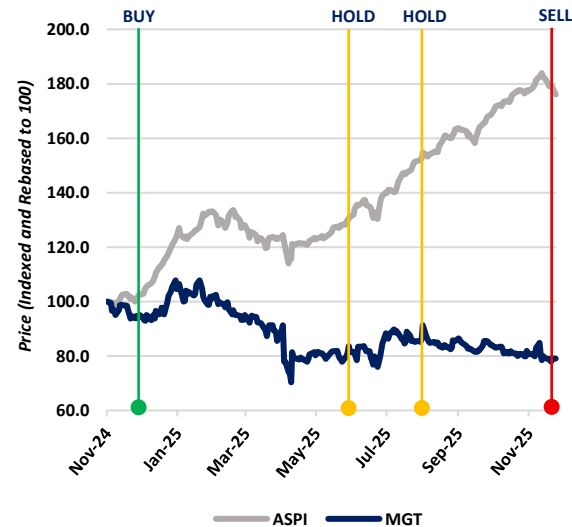
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Price Performance (%)	1 mth	3 mths	12mths
MGT	-5.9%	-8.2%	-19.5%
ASPI	-3.4%	6.8%	69.9%

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



Source: CSE

#### Minimum Return for BUY:

**Buy Below FY27E - [AER of 17% with DPS]: LKR 37.5**  
MGT 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 MGT during the five trading days prior to the issuance of this document.



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