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# Teejay Lanka PLC - TJL SL

## Recovery slow but steady

Recommendation	Current price	Target price
Buy	35.20	44.80

**TJL reported a loss of LKR 853mn for 1Q FY24 a 168% decline YoY, primarily attributed to a decline of 41% YoY in group revenue. This resulted from reduction in average selling prices (9%) coupled with drop in sales volumes (28%) and strengthening of the LKR against the USD. GP and EBIT margins contracted to 2% and -4% (previously 9% and 5%), with the initial impact ensuing from the 41% decline in revenue. Admin expenses declined 21% YoY, (in 1Q FY23, TJL witnessed an increase in administrative expenses due to the TJL India expansion project, resulting in higher costs compared to 1Q FY24), while distribution costs escalated (+16% YoY) due to the establishment in Bangladesh. Higher finance cost of LKR 280mn (+45% YoY) resulted in net finance cost of LKR 119mn, further impacting bottom line during the period. Although soft demand conditions will continue to prevail during the next few quarters, we believe, the ease in inflation in USA and pause in fed rate hikes will provide a glimmer of optimism amidst challenging macroeconomic conditions. We continue to recommend buy considering a gradual improvement in order book during the forecast period.**

**Expected demand rebound ahead:** Demand continued to be lackluster during 1Q FY24, following a similar trend in the previous quarters. However, management remain optimistic on comparatively better demand conditions for 2Q FY24E. Most brands are nearing replenishing inventory levels, which we believe will gradually improve demand in the ensuing quarters. Calzedonia led in revenue contribution during the quarter, surpassing PVH, which had previously held the top position in preceding quarters.

**Strides of progress amidst headwinds:** According to the management's assessment, the contribution per unit has exhibited improvement, and we believe this positive trend may be influenced by the YoY reduction in raw material prices. Furthermore, impairment charges have decreased by 36% YoY and 24% QoQ, primarily due to stringent collection efforts. Despite a 130% YoY increase in net finance costs (compared to the previous year when TJL benefited from a significant exchange gain), we anticipate a reduction in TJL's future finance costs, possibly supported by a pause in federal rate hikes.

**Yarn prices to remain stable:** During the 1Q FY24, yarn prices, the primary raw material, remained stable. However, there has been a slight increase in yarn prices recently, driven by heightened demand from China. Despite yarn price volatility, TJL anticipates a slight reduction in prices in the upcoming months, on the anticipation of increased cotton supply from India.

**Valuation:** Based on discounted cash flow (DCF) valuation we have arrived at TP of LKR 44.80, factoring in an upswing in demand from 4Q FY24E and improvements in utilization in capacity in both Sri Lanka and India. In the interim, we believe, the company will continue to keep costs at bay to ease margin pressure. We remain positive on the establishment in Bangladesh, however, have not factored in projections due to its early stage.

**Risks:** (1) Market softness in the key markets (USA, UK & EU) (2) Rupee Appreciation (3) Raw material (yarn) prices volatility based on demand conditions

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### Trading snapshot

GICS Industry Group	Consumer Durables and Apparel
Market cap (LKR 'mn)	25,229
Market cap (USD 'mn)	78
Outstanding equity shares (mn)	717
Public Holding (%) - June '23	39.65%
52 - week High/Low (LKR)	41.40 / 29.00
YTD ASPI return (%)	32.8%
YTD Stock return (%)	11.0%
Beta	0.84
Bloomberg ticker	TJL SL

### Valuation

Valuation method	DCF
CMP (LKR)	35.20
Intrinsic value (LKR)	44.80
DPS FY24E (LKR)	0.82
TP based on total return (LKR)	45.62
Upside (%)	27.3%
Total return (%)	29.6%
Rating	BUY

### Key indicators

	FY22	FY23	FY24E	FY25E	FY26E
EBIT margin (%)	5.3%	4.3%	2.7%	4.4%	4.8%
ROE (%)	11.0%	7.1%	1.5%	9.3%	12.5%
P/E (x)	11.3x	10.8x	53.1x	8.4x	5.9x
P/B (x)	1.0x	0.7x	0.8x	0.8x	0.7x
EPS (LKR)	3.53	2.97	0.66	4.20	6.00

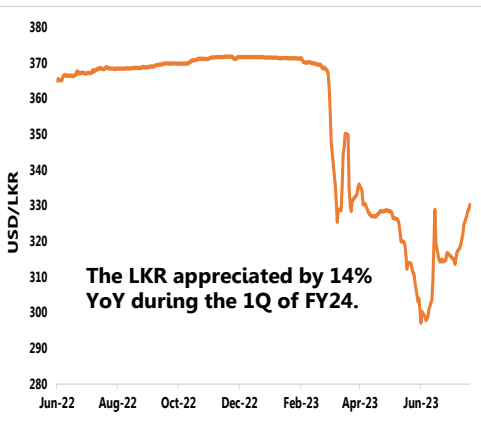
### ASPI vs TJL



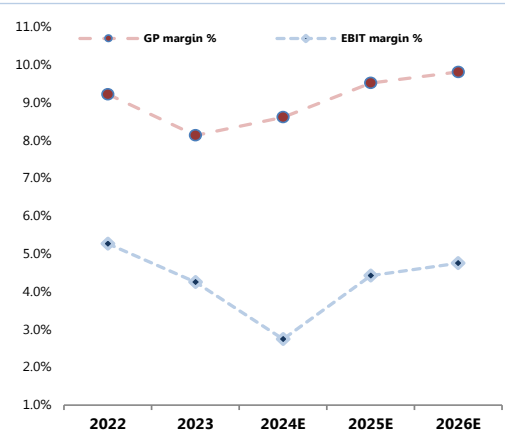
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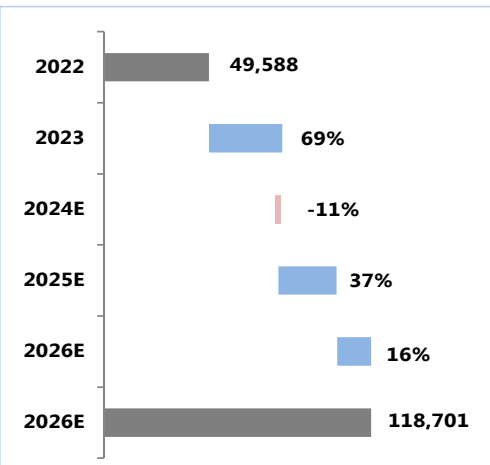
## USD / LKR Movement



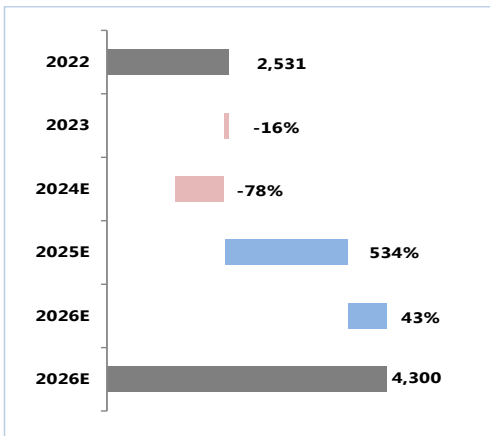
## GP and EBIT Margins



## Revenue growth - LKR 'mn



## PAT growth - LKR 'mn



Summary Information	2022	2023	2024E	2025E	2026E
BRS EPS as adjusted (LKR)	3.53	2.97	0.66	4.20	6.00
P/E (x)	11.3 x	10.8 x	53.1 x	8.4 x	5.9 x
Reported EPS (LKR)	3.54	2.97	-	-	-
Sector PE (x)	12.42x	9.1x	na	na	na
NAV per share (LKR)	39.38	44.71	43.89	46.31	49.64
P/BV (x)	1.0 x	0.7 x	0.8 x	0.8 x	0.7 x
Sector PBV (x)	2.0x	0.9x	na	na	na
DPS (LKR)	2.35	0.75	0.82	1.26	3.00
Dividend yield (%)	5.9%	2.3%	2.3%	3.6%	8.5%
FCFF (LKR)	(4,293)	11,786	2,036	2,903	5,642
FCFE (LKR mn)	121	11,459	(83)	2,039	5,110
CFPS (LKR mn)	0.72	1.87	(2.42)	0.80	5.61
P/CFPS (x)	55.2 x	17.1 x	nm	44.2 x	6.3 x
Mkt price (LKR)	39.80	32.00	35.20	35.20	35.20
Weighted average shares (mn)	717	717	717	717	717
Average mkt cap (LKR mn)	28,526	22,936	25,229	25,229	25,229
Enterprise value (LKR mn)	30,967	22,496	23,938	22,332	18,122
EV/Sales (x)	0.6 x	0.3 x	0.3 x	0.2 x	0.2 x
EV/EBITDA (x)	7.7 x	3.3 x	5.2 x	4.1 x	2.8 x

Key ratios	2022	2023	2024E	2025E	2026E
Revenue growth (%)	56.0%	69.5%	-10.5%	36.5%	15.7%
EBIT growth (%)	8.7%	36.8%	-42.2%	119.9%	24.3%
Gross profit margin (%)	9.2%	8.1%	8.6%	9.5%	9.8%
EBITDA margin (%)	8.1%	8.0%	6.1%	5.3%	5.4%
EBIT margin (%)	5.3%	4.3%	2.7%	4.4%	4.8%
Net profit margin (%)	5.1%	2.5%	0.6%	2.9%	3.6%
ROCE (%)	8.4%	8.2%	4.7%	10.6%	12.7%
ROE (%)	11.0%	7.1%	1.5%	9.3%	12.5%
Payout ratio (%)	66.5%	25.3%	123.9%	30.0%	50.0%
Debt/equity (%)	44.2%	43.8%	35.2%	30.3%	27.7%
Net debt/equity (%)	15.1%	8.9%	5.9%	0.8%	-11.1%
Gearing (%)	30.6%	30.5%	26.0%	23.2%	21.7%
Interest cover (x)	17.5 x	3.6 x	2.2 x	6.3 x	13.5 x

## KPI Dashboard for 1Q FY24

### GP Margin

**2.0%**

-6.9 pp from 4Q FY23

### LKR/USD (June end)

**316.67**

14.0% YoY

### Cotton (June end) US ¢/Pound

**82.84**

Cotton Futures

### EBIT Margin

**-4.2%**

-8.8 pp from 4Q FY23

### Filling rate (Group Avg)

**62%**

1Q FY24

### Volume Growth

**-28%**

YoY Basis

## 1Q FY24 vs. 1Q FY23

Income Statement (LKR mn)	1Q FY24	1Q FY23	Var %	Comments
Revenue	13,997	23,858	<b>-41.3%</b>	Rupee appreciation, decrease in average selling prices & low order book conditions
Gross profit	283	2,122	<b>-86.7%</b>	Margin pressure remained due to underutilized capacity
Operating expenses	(913)	(1,121)	<b>-18.6%</b>	
EBIT recurring	(582)	1,115	<b>-152.2%</b>	
Finance income	161	584	<b>-72.4%</b>	1Q FY23 TJL group had a massive exchange gain
Finance expense	(280)	(193)	<b>44.9%</b>	Due to the rate increases YoY
Tax expense	(152)	(259)	<b>-41.4%</b>	Value of profits reduced
Net profits recurring	(853)	1,247	<b>-168.4%</b>	
EPS (LKR)	(1.19)	1.74	<b>-168.4%</b>	

## Cotton Futures Price Movement



Source : Yahoo Finance

## Valuation estimates

**DCF based valuation** results in a TP of LKR 44.80, with an upside of 27.3% on CMP. Key assumptions used in the valuation are as follows;

- WACC - Computed based on the risk free rate considered for each respective forecast year
- Terminal growth rate - 2.0%
- Risk free rate - We have considered different rates for each forecast year (taking in to consideration the real risk free rate and inflation)
- Equity risk premium - 7.0%
- Beta - 0.84 (based on TJL share price Vs. ASPI movement)

## Valuation sensitivity

### Eight Year Treasury Bond Rate

	10.00%	12.00%	15.67%	18.00%	20.00%	25.00%
<b>Terminal Growth rate</b>						
<b>1%</b>	49.31	46.71	43.12	41.39	40.15	37.72
<b>2%</b>	52.24	49.04	44.77	42.76	41.32	38.57
<b>3%</b>	55.86	51.87	46.70	44.32	42.66	39.51

# Income statement - Annual

All numbers in LKR 'mn	2022	2023	2024E	2025E	2026E
<b>Net revenue</b>	<b>49,588</b>	<b>84,037</b>	<b>75,176</b>	<b>102,636</b>	<b>118,701</b>
<i>YoY growth %</i>	<i>56.0%</i>	<i>69.5%</i>	<i>-10.5%</i>	<i>36.5%</i>	<i>15.7%</i>
<b>Cost of Sales</b>	<b>(45,010)</b>	<b>(77,194)</b>	<b>(68,693)</b>	<b>(92,857)</b>	<b>(107,045)</b>
<i>YoY growth %</i>	<i>60.8%</i>	<i>71.5%</i>	<i>-11.0%</i>	<i>35.2%</i>	<i>15.3%</i>
<b>Gross Profit</b>	<b>4,578</b>	<b>6,843</b>	<b>6,484</b>	<b>9,779</b>	<b>11,656</b>
<i>YoY growth %</i>	<i>20.8%</i>	<i>49.5%</i>	<i>-5.3%</i>	<i>50.8%</i>	<i>19.2%</i>
Gross profit margin %	9.2%	8.1%	8.6%	9.5%	9.8%
Other operating Income	151	532	327	411	680
Total SG & A expenses	(2,113)	(3,796)	(4,743)	(5,645)	(6,685)
Total depreciation	(1,386)	(3,173)	(2,534)	(861)	(770)
EBIT including non-recurring items	2,616	3,579	2,067	4,545	5,651
EBITDA excluding non-recurring items	4,002	6,751	4,601	5,406	6,421
<i>YoY growth %</i>	<i>7.3%</i>	<i>68.7%</i>	<i>-31.9%</i>	<i>17.5%</i>	<i>18.8%</i>
EBITDA margin %	8.1%	8.0%	6.1%	5.3%	5.4%
<b>EBIT excluding non-recurring items</b>	<b>2,616</b>	<b>3,579</b>	<b>2,067</b>	<b>4,545</b>	<b>5,651</b>
<i>YoY growth %</i>	<i>8.7%</i>	<i>36.8%</i>	<i>-42.2%</i>	<i>119.9%</i>	<i>24.3%</i>
EBIT margin %	5.3%	4.3%	2.7%	4.4%	4.8%
Finance Income / (Cost)	291	(179)	(346)	(243)	492
<b>Profit after taxation</b>	<b>2,531</b>	<b>2,127</b>	<b>475</b>	<b>3,011</b>	<b>4,300</b>
<i>YoY growth %</i>	<i>18.3%</i>	<i>-16.0%</i>	<i>-77.7%</i>	<i>533.6%</i>	<i>42.8%</i>
NP Margin %	5.1%	2.5%	0.6%	2.9%	3.6%
Earnings per share - unadjusted (1)	3.54	2.97	-	-	-
Earnings per share - BRS adjusted (2)	3.53	2.97	0.66	4.20	6.00

**Source: Company Financial Reports and BRS Equity Research**

**Note 1: Based on earnings as reported (unadjusted for non-recurring) share data adjusted for splits and consolidations**

**Note 2: EPS adjusted for share split, consolidations and non recurring information**

# Balance sheet - June ended

All numbers in LKR 'mn	2022	2023	2024E	2025E	2026E
<b>Non Current Assets</b>					
Property Plant & Equipment	14,715	20,259	18,861	19,026	19,102
Capital work in progress	5,269	1,836	1,859	1,859	1,859
Intangible Assets	143	161	85	43	22
Goodwill	96	106	100	100	100
Right of use assets	1,341	1,740	1,552	1,467	1,386
Deferred Tax Asset	432	1,856	1,792	1,792	1,792
	21,996	25,958	24,248	24,287	24,262
<b>Current Assets</b>					
Inventories	16,356	13,383	14,575	15,894	15,016
Receivables and Prepayments	12,859	9,026	11,660	14,128	13,765
Current Tax Receivable	477	497	470	470	470
Short-term investment	1,822	3,281	3,156	3,156	3,156
Cash and Cash Equivalents	6,383	7,914	6,058	6,628	10,652
	37,897	34,100	35,919	40,276	43,058
<b>Total Assets</b>	<b>59,894</b>	<b>60,058</b>	<b>60,168</b>	<b>64,563</b>	<b>67,320</b>
<b>Equity</b>					
Stated Capital	4,442	4,442	4,442	4,442	4,442
ESOP Fund	153	153	153	153	153
Foreign Exchange Equalisation Reserves	15,220	18,048	16,339	16,339	16,339
Retained Earnings	8,410	9,400	10,526	12,260	14,645
	28,226	32,043	31,461	33,195	35,580
<b>Non Current Liabilities</b>					
Borrowings	5,581	6,239	5,622	5,022	4,913
Lease liabilities	930	1,341	1,265	1,265	1,265
Deferred Tax	919	2,364	2,217	2,217	2,217
Retirement Benefit Obligation	425	569	568	591	628
	7,855	10,512	9,672	9,095	9,024
<b>Current Liabilities</b>					
Trade and Other payables	17,623	10,556	14,575	18,249	18,770
Tax payable	233	490	269	269	269
Lease liabilities	43	114	108	108	108
Borrowings	5,914	6,343	4,083	3,647	3,568
	23,813	17,503	19,035	22,273	22,715
<b>Total Equity and Liabilities</b>	<b>59,894</b>	<b>60,058</b>	<b>60,168</b>	<b>64,563</b>	<b>67,320</b>

Source: Company Financial Reports and BRS Equity Research

# Cash flow statement

All numbers in LKR 'mn	2022	2023	2024E	2025E	2026E
EBIT	2,616	3,579	2,067	4,545	5,651
Depreciation	1,386	3,173	2,534	861	770
Amortisation of Intangible Assets	52	84	73	42	21
Depreciation on right-of-use-assets	65	125	89	85	80
(Reversal)/Provision for slow moving items	326	857	-	-	-
Provision for impairment of trade receivables	43	284	-	-	-
Provision for defined benefit obligation	99	240	119	120	140
<b>Operating cash flow before changes in working capital</b>	<b>5,400</b>	<b>14,535</b>	<b>4,883</b>	<b>5,653</b>	<b>6,662</b>
Changes in working capital	(2,034)	9,411	192	(113)	1,763
<b>Cash generated from operations</b>	<b>3,367</b>	<b>8,837</b>	<b>4,281</b>	<b>5,540</b>	<b>8,425</b>
Interest received	440	811	594	476	909
Interest paid	(149)	(990)	(919)	(719)	(417)
Gratuities paid	(69)	(97)	(120)	(97)	(102)
Tax paid	(267)	(740)	(1,519)	(1,291)	(1,843)
<b>Net cash from operating activities</b>	<b>3,321</b>	<b>7,822</b>	<b>2,316</b>	<b>3,909</b>	<b>6,971</b>
<b>Investing Activities</b>					
Additions to capital work in progress	(5,963)	(3,334)	(1,261)	(1,026)	(846)
Investment in fixed deposit	(143)	(1,459)	-	-	-
<b>Net cash used in investing activities</b>	<b>(6,105)</b>	<b>(4,794)</b>	<b>(1,261)</b>	<b>(1,026)</b>	<b>(846)</b>
<b>Financing Activities</b>					
Net movement in borrowings	4,672	(454)	(2,214)	(1,035)	(188)
Proceeds from issuance of ordinary shares	193	-	-	-	-
Dividends paid	(1,433)	(1,075)	(573)	(1,277)	(1,915)
<b>Net cash in financing activities</b>	<b>3,301</b>	<b>(1,687)</b>	<b>(2,787)</b>	<b>(2,312)</b>	<b>(2,102)</b>
<b>Increase/ (decrease) in cash and cash equivalents</b>	<b>517</b>	<b>1,341</b>	<b>(1,732)</b>	<b>571</b>	<b>4,023</b>

Source: Company Financial Reports and BRS Equity Research

# Top 20 Shareholders as of 30.06.2023

	Name of the Shareholder	No. of Shares	%
1	BRANDIX LANKA LTD-NUMBER 1 ACCOUNT	233,079,844	32.52%
2	PACIFIC TEXTURED JERSEY HOLDINGS LIMITED	195,926,217	27.34%
3	BBH - FIDELITY FUNDS	47,101,753	6.57%
4	CITIBANK NEWYORK S/A NORGES BANK ACCOUNT 2	22,518,426	3.14%
5	JPMCB NA-FIDELITY ASIAN VALUES PLC	19,300,949	2.69%
6	MR. H. YUSOOF	8,245,062	1.15%
7	PEMBERTON ASIAN OPPORTUNITIES FUND	7,000,000	0.98%
8	EMPLOYEE'S PROVIDENT FUND	6,979,333	0.97%
9	RUBBER INVESTMENT TRUST LTD A/C NO 01	4,907,389	0.68%
10	CITIBANK HONG KONG S/A HOSTPLUS POOLED SUPERANNUATION TRUST	4,363,163	0.61%
11	HATTON NATIONAL BANK PLC-SENFIN GROWTH FUND	4,354,594	0.61%
12	J.B. COCOSHELL (PVT) LTD	4,077,715	0.57%
13	UNION ASSURANCE PLC-UNIVERSAL LIFE FUND	3,944,913	0.55%
14	SSBT-SUNSUPER PTY. LTD. AS TRUSTEE FOR SUNSUPER SUPERANNUATION FUND	3,870,432	0.54%
15	STANDARD CHARTERED BANK DIFC BRANCH S/A EFG HERMES UAE L.L.C	3,814,630	0.53%
16	DEUTSCHE BANK AG-NATIONAL EQUITY FUND	2,866,519	0.40%
17	GF CAPITAL GLOBAL LIMITED	2,826,050	0.39%
18	EMPLOYEES TRUST FUND BOARD	2,677,561	0.37%
19	SAM INNOVATORS (PVT) LTD	2,500,000	0.35%
20	MR. L. K. M FERNANDO	2,351,546	0.33%

Source: Company quarterly financial statements

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## **Stock Ratings**

### **Recommendation**

#### **Expected absolute returns (%) over 12 months**

##### **Buy**

More than 10%

##### **Hold**

Between 10% and 0

##### **Sell**

Less than 0%

Expected absolute returns are based on the share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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