



TEEJAY LANKA PLC [TJL.N0000]

MAINTAIN BUY

PERFORMANCE STABILISING

Fair Value: [FY20E] - LKR 37.0 [+19%]

Total Return with DPS: [FY20E] - 26% [AER 32%]

TJL recorded earnings of LKR 605.8Mn (+19%YoY) in 4QFY19 and LKR 1.86Bn (+17%YoY) for full year FY19, falling in line with First Capital Research earnings target of LKR 1.82Bn. Revenue grew by +35%YoY during the quarter to LKR 8.8Bn driven by increased volumes, price revision and the exchange rate volatility. Cost reengineering, product development and stabilised cotton prices resulted in improved GP margin to 12% (11% in 4QFY18) while full year recorded at 11.6% (11.8% in FY18). First Capital maintains earnings forecast for FY20E at LKR 2.1Bn with a +12%YoY growth. However, considering the prevailing market condition with re-rated multiples we downgrade our TP to LKR 37.0 from previous LKR 40.0. At current market price of LKR 31.0, TJL provides an annualised return of 32%. **MAINTAIN BUY**

LKR (Mn)	4QFY18	4QFY19	YoY	FY18	FY19	YoY
Earnings (LKR 'Mn)						
Revenue	6,556	8,822	+35%	24,647	31,771	+29%
Gross profit	732	1,059	+45%	2,911	3,685	+27%
EBIT	487	712	+46%	1,811	2,285	+26%
PBT	502	694	+38%	1,818	2,172	+19%
Net Profit	508	606	+19%	1,596	1,862	+17%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	11,679	13,894	+19%	11,679	13,894	+19%
Borrowings	2,840	2,998	+6%	2,840	2,998	+6%
NAVPS	16.6	19.8		16.6	19.8	

Revenue growth to moderate in the long run

TJL's revenue grew by +35%YoY during 4QFY19 to LKR 8.8Bn owing to volume growth, USD:LKR rate volatility, etc. Volume growth derived from filled up capacity and volatility in USD:LKR rate accounted for +15% each, while effect of revised prices contributed +5% of the topline growth during the quarter. The first order received from Uniqlo during 4QFY19 supporting the topline growth was reflected in full year FY19 topline of LKR 31.8Bn (+29%YoY). We expect the revenue growth to moderate to around 12% with LKR 34.2Bn in FY20E amidst the plants running at near 90% utilization levels coupled with higher revenue base.

Margins to stabilise

GP Margin improved to 12.0% in 4QFY19 from 11.2% in 4QFY18 while recording at 11.6% for FY19 (11.8% in FY18). Comparatively lower cotton prices, economies of scale from higher volumes, benefit of the exchange rate volatility and effect of the continuous investment into cost efficacies and plant modernisation outweigh the increase in utility and chemical prices and the impact of lower margin products. Cotton prices averaged around Usd 73/lb during 4Q2018 compared to Usd 81/lb in 3Q2018 while further declining to Usd 68/lb in 1Q2019. Lagging effect was reflective in TJL's GP margins with appr. 3-month inventory holding period. We expect GP margin to stabilise around 12% in FY20E owing to comparatively lower cotton prices which account for 60% of revenue.

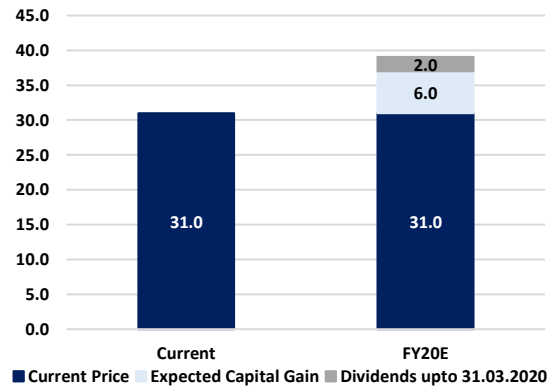
Narrow and deep strategy to support growth

At present TJL has 6 strategic customers namely Lidl, Limited, PVH, Decathlon, M&S and the latest addition; Uniqlo. TJL's order book continued to remain strong with increased volumes derived from both US and EU markets while aiming to cater to the growing Bangladeshi market through M&S. Company's largest client, PVH; posted a +33%YoY improvement in volume while Lidl grew by +37% which supported the +15% increase in overall volumes. TJL is expected to continue to focus on narrow and deep marketing strategy focusing on improving the orders from existing clientele thereby filling the expanded capacity with a better product mix to support the earnings growth. We expect earnings of LKR 2.1Bn in FY20E with a +12% growth.

TP downgrade to LKR 37.0 – Maintain Buy

With earnings of LKR 2.1Bn for FY20E (+12YoY) we downgrade TP for FY20E to LKR 37.0 from previous LKR 40.0. Moderation of earnings growth and the overall decline in the index justify the PER of 12.0x. TJL provides an annualised return of 32% at current market price of LKR 31.0.

MAINTAIN BUY



FIRST CAPITAL RESEARCH

Amanda Lokugamage

+94 11 263 9868

amanda@firstcapital.lk

KEY DATA

CSE Ticker	TJL.N0000
Bloomberg Ticker	TJL SL
Share Price (LKR)	31.0
52w High (LKR)	35.0
52w Low (LKR)	27.9
Avg. Daily Volume (Shares)	117,096
Avg. Daily Turnover (LKR)	3,757,328
Issued Share Capital (Shares 'Mn)	702
Market Cap (LKR 'Mn)	21,761
Market Cap (USD 'Mn)	124

*1 USD = LKR 176

Price Performance (%)	1 mth	3 mths	12mths
TJL	3%	-2%	0%
ASPI	-1%	-7%	-17%

TJL vs ASPI



Minimum Return for BUY:

Buy Below [AER of 15% with DPS]: LKR 34.9

TJL categorized as 'Grade A' counter (Refer page 08 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:

First Capital Group do not hold shares in TJL and will not trade in this share for three trading days following the issue of this document.

Estimate Revision

In LKR Mn	FY20E - O	FY20E - R	% Change	FY21E - O	FY21E - R	% Change
Earnings Estimate						
Revenue	34,246	34,246	0%	38,433	38,433	0%
Gross profit	4,161	4,161	0%	4,689	4,689	0%
EBIT	2,572	2,572	0%	2,844	2,844	0%
Profit before tax	2,528	2,528	0%	2,815	2,815	0%
Net Profit	2,091	2,091	0%	2,303	2,303	0%
EPS	2.98	2.98		3.28	3.28	
Growth YoY	12%	12%		10%	10%	
Balance Sheet Estimate						
Shareholders' Equity	12,962	14,589	13%	13,865	15,321	10%
Borrowings	4,885	4,885	0%	5,417	5,417	0%
NAVPS	18.5	20.8		19.8	21.8	
Ratio Estimate						
ROE (%)	15.1%	14.5%		17.2%	14.7%	
PER (x)	10.4x	10.4x		9.5x	9.5x	
PBV (x)	1.7x	1.5x		1.6x	1.4x	

Valuation Table

P/E 31 March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Estimates (LKR 'Mn)							
Revenue	17,820	22,138	24,647	31,771	34,246	38,433	42,645
Gross profit	2,995	3,076	2,911	3,685	4,161	4,689	5,203
EBIT	2,185	1,992	1,811	2,285	2,572	2,844	3,162
Net Profit	2,171	1,959	1,596	1,862	2,091	2,303	2,657
Adjusted EPS (LKR)	3.1	2.8	2.3	2.7	3.0	3.3	3.8
YoY Growth (%)	63%	-10%	-19%	17%	12%	10%	15%
DPS (LKR)	1.6	2.3	1.6	2.0	2.0	2.3	2.5
Valuations							
PER (x)	10.0x	11.1x	13.6x	11.7x	10.4x	9.5x	8.2x
PBV (x)	2.1x	1.9x	1.9x	1.6x	1.5x	1.4x	1.3x
DY (%)	5.2%	7.3%	5.2%	6.5%	6.4%	7.3%	8.1%

Valuation Summary

Expected TJL price for FY20E	
PER Valuation based target price	35.7
DCF Valuation based target price	38.0
Average Target Price	36.9
Target Price after Rounding off	37.0

Return	
Target Price	37.0
Current Price	31.0
Capital Gain (LKR)	6.0
Dividends upto 31.03.2020 (LKR)	2.0
Capital Gain %	19%
Dividend Yield %	7%
Total Return %	26%
Annualized Return %	32%

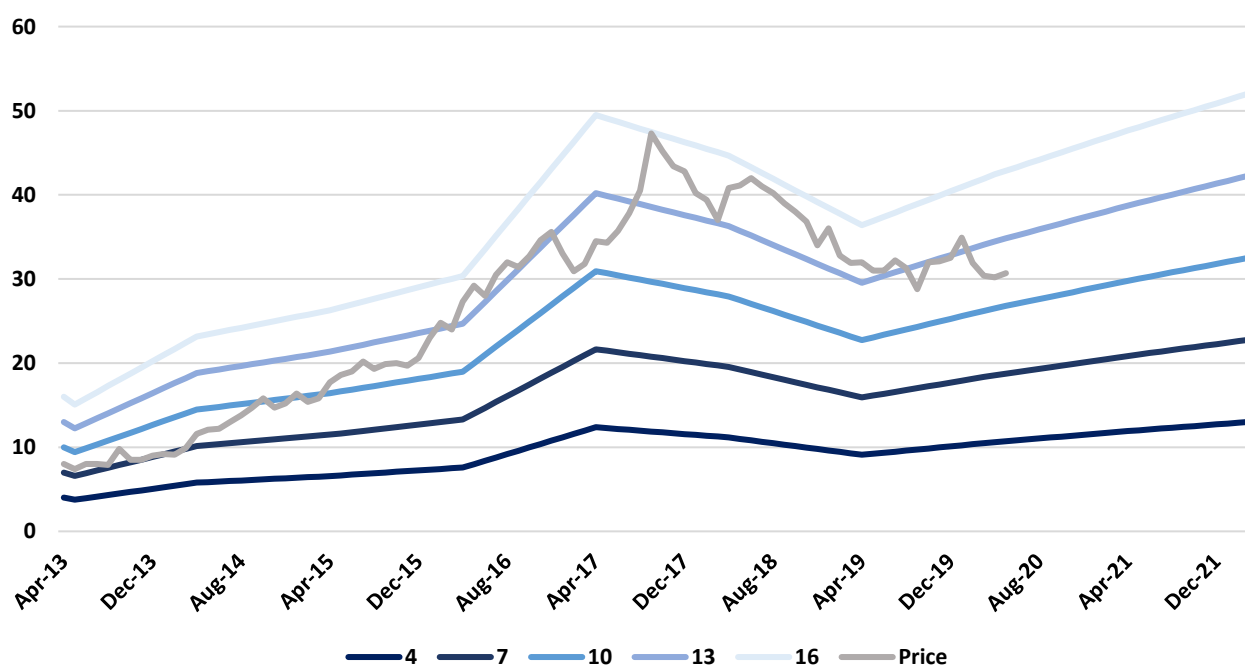
Discounted Cash flow Valuation

DCF based Valuation	
Enterprise Value	30,805
Debt (-)	(4,885)
Cash (+)	2,069
Total Value of Equity	27,990
No. of Shares (Mn)	702
Target Price	38.0

COE	
Rf	10.5%
Rm	18.5%
Growth %	3.0%
β	0.60
$Ke=Rf+\beta(Rm-Rf)$	15.3%

WACC	
Ke	15.3%
Kd	3.9%
D/E Assumption	40/60
Terminal Growth (%)	3.0%
WACC	10.8%

PER Valuation



Source: CSE, Company Annual Reports and First Capital Research Estimates

PER based Valuation	
FY20E Earnings (LKR 'Mn)	2,091
No. of Shares ('Mn)	702
FY20E EPS	3.0
Expected PER	12.0x
Price at 12.0x FY20E Earnings	35.7

Appendix I: Statement of Income & Expenses

Statement of Income and Expenses (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
P/E 31st Mar							
Revenue	17,820	22,138	24,647	31,771	34,246	38,433	42,645
Cost of sales	-14,825	-19,062	-21,736	-28,086	-30,085	-33,744	-37,442
Gross profit	2,995	3,076	2,911	3,685	4,161	4,689	5,203
Other income	110	195	238	243	329	365	411
Selling, Distribution & Admin expenses	-937	-1,278	-1,338	-1,643	-1,918	-2,210	-2,452
Operating profit	2,168	1,992	1,811	2,285	2,572	2,844	3,162
Non operating income	18	0	0	0	0	0	0
EBIT	2,185	1,992	1,811	2,285	2,572	2,844	3,162
Finance Income	77	89	106	70	91	93	93
Less : Finance Cost	-34	-70	-99	-183	-134	-122	-128
Net finance income	43	19	7	-114	-44	-29	-35
Profit before tax	2,229	2,011	1,818	2,172	2,528	2,815	3,126
Income tax expense	-58	-52	-222	-310	-437	-512	-469
Profit for the Year	2,171	1,959	1,596	1,862	2,091	2,303	2,657
Minority Interest	1	2	3	4	5	6	7
Profit attributable to Equity Holders	2,170	1,957	1,593	1,858	2,086	2,297	2,650
EPS	3.1	2.8	2.3	2.6	3.0	3.3	3.8

Source : Company Annual Reports and First Capital Research Estimates

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn) as at 31st Mar	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Assets							
Property, plant and equipment	5,954	6,961	7,534	8,408	10,001	11,334	11,996
Capital work-in-progress	283	338	445	104	460	460	460
Intangible Assets	84	66	54	94	9	4	2
Deferred tax assets	92	242	125	241	241	241	241
Inventories	2,641	2,878	4,091	4,489	4,691	5,265	5,842
Trade and other receivables	2,703	3,370	3,494	3,961	4,457	4,791	5,316
Cash and cash equivalents	967	1,494	2,743	2,386	2,069	1,618	1,154
Other Assets	2,253	1,531	1,078	2,546	2,546	2,546	2,546
Total Assets	14,977	16,879	19,565	22,229	24,473	26,258	27,555
Liabilities							
Trade and other payables	3,509	3,044	4,487	4,623	4,286	4,807	4,924
Borrowings	945	2,086	2,836	2,998	4,885	5,417	5,688
Tax liability	244	364	333	408	408	408	408
Retirement benefit obligations	191	208	208	305	305	305	305
Total Liabilities	4,889	5,702	7,864	8,335	9,884	10,937	11,325
Shareholders Funds							
Stated capital	3,853	3,943	4,057	4,057	4,057	4,057	4,057
Exchange equalisation reserve	2,090	2,446	2,587	4,169	4,169	4,169	4,169
Retained earnings	4,151	4,725	4,972	5,583	6,278	7,009	7,919
Share option scheme	42	64	86	86	86	86	86
Shareholders Funds	10,136	11,177	11,701	13,894	14,589	15,321	16,231
Total Liabilities & Shareholders' Funds	15,025	16,879	19,565	22,229	24,473	26,258	27,555
NAVPS	14.4	15.9	16.7	19.8	20.8	21.8	23.1

Source : Company Annual Reports and First Capital Research Estimates

Appendix III: Statement of Cash flow

Cash flow Statements (LKR Mn) as at 31st Mar	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Profit before tax	2,229	2,011	1,818	2,172	2,528	2,815	3,126
Adjustments for:							
Depreciation & Amortisation	750	963	1,110	846	950	1,072	1,460
Interest income	-63	-87	-65	-70	-91	-93	-93
Interest expenses	34	70	99	183	134	122	128
Profit on disposal of PPE	0	7	1	0	0	0	0
Other	89	83	80	10	0	0	0
	3,040	3,049	3,044	3,142	3,522	3,916	4,622
Changes in working capital:							
Inventories	446	-173	-1,257	-398	-202	-574	-577
Trade and other receivables	-174	-672	49	-466	-496	-334	-525
Trade and other payables	400	-424	1,275	136	-337	521	116
Other	33	0	0	1,582	0	0	0
Cash generated from operations	3,744	1,780	3,111	3,996	2,487	3,530	3,636
Net Interest Income	29	16	-34	-114	-44	-29	-35
Income Tax paid	-34	-70	-99	-128	-134	-122	-128
Retirement benefit obligations paid	-5	31	-36	-35	0	0	0
Net cash generated from operating activities	3,734	1,756	2,942	3,718	2,309	3,379	3,473
Cash flows from investing activities:							
Purchase of PPE	-1,754	-1,774	-1,673	-795	-2,549	-2,400	-2,120
Purchase of intangible assets	0	0	0	0	0	0	0
Proceeds from sale of PPE	0	5	0	0	0	0	0
Other	-33	717	450	-1,519	665	0	0
Net cash used in investing activities	-1,787	-1,052	-1,223	-2,315	-1,884	-2,400	-2,120
Cash flows from financing activities:							
Proceeds from issue of shares	0	90	0	0	0	0	0
Dividend paid	-946	-1,397	-1,369	-1,228	-1,396	-1,572	-1,747
Net Borrowings	-265	1,233	714	-251	1,012	532	271
Other	0	0	114	0	0	0	0
	-1,212	-75	-541	-1,479	-384	-1,039	-1,476
Net increase in cash and cash equivalents	736	629	1,178	-75	42	-61	-123
Cash and cash equivalents at beginning of year	150	919	1,490	2,737	2,331	2,069	1,618
Cash and cash equivalents at end of year	885	1,548	2,668	2,661	2,373	2,009	1,495

Source : Company Annual Reports and First Capital Research Estimates

Appendix IV: Top 20 Shareholders

Top 20 shareholders - (% held)	4QFY19	3QFY19	QoQ	4QFY18	YoY
Brandix Lanka Ltd-Number 1 Account	33.1%	33.1%	-	33.1%	-
Pacific Textured Jersey Holdings Limited	27.9%	27.9%	-	27.9%	-
HSBC Intl Nom Ltd - BBH - Fidelity Funds	4.9%	4.4%	0.5%	3.8%	1.1%
HSBC Intl Nom Ltd-BBH-Matthews Emerging Asia Fund	4.2%	4.2%	-	2.7%	1.5%
Citibank Newyork S/A Norges Bank Account 2	3.0%	3.0%	-	3.0%	-
Bnymstanv Re-CF Ruffer Investment Funds : CF Ruffer Pacific Fund	2.7%	2.3%	0.4%	3.2%	-0.3%
HSBC Intl Nom Ltd-JPCMB NA-Fidelity Asian Values PLC	2.1%	2.1%	-	1.6%	0.5%
Melstacorp PLC	1.8%	1.8%	-	1.8%	-
Mr. L.K.M.Fernando	0.7%	0.7%	-	0.7%	-
HSBC Intl Nom Ltd-State Street Luxembourg C/O SSBT - Alliance bernstein Next 5	0.7%	0.7%	-	0.7%	-
Deutsche Bank AG-National Equity Fund	0.7%	0.6%	0.1%	0.6%	0.1%
Union Assurance PLC/Account No. 05 (Unit-Linked Life Insurance Fund-Equity F	0.7%	0.8%	-0.1%	0.8%	-0.1%
East India Holding (Pvt) Ltd	0.6%	0.6%	-	0.6%	-
J.B. Cocoshell (Pvt) Ltd	0.6%	0.6%	-	0.4%	0.1%
Sri Lanka Insurance Corporation Ltd-Life Fund	0.5%	0.0%	0.5%	0.0%	0.5%
JPMBL SA-KAPITALFORENINGEN INSTITUTIONEL INVESTOR,ASIATISKE SMID CAP A	0.4%	0.0%	0.4%	0.0%	0.4%
Union Assurance PLC/No-01A/C	0.4%	0.4%	-	0.4%	-
Periceyl (Private) Limited A/C No. 03	0.4%	0.4%	-	0.4%	-
Deutsche Bank AG As Trustee For Namal Acuity Value Fund	0.4%	0.4%	-	0.3%	0.0%
Nuwara Eliya Property Developers (Pvt) Ltd	0.3%	0.3%	-	0.3%	-

Appendix V: 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%

Weighted Average 1-year T-bill rate during Mar 2019: 10.54%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	15.54%	11.54%	11.54%
Grade B	Rest of the Companies	18.54%	13.54%	13.54%
Grade C	Companies less than LKR 1Bn Market Cap	21.54%	16.54%	16.54%



First Capital

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	Hiruni Perera	+94 11 2639 864
Atchuthan Srirangan	+94 11 2639 863	Nisansala Kuruppumudali	+94 11 2639 866
Amanda Lokugamage	+94 11 2639 868		

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Sewwandi Kathriarachchi	+94 77 3461 734	Mahesh Amarasinghe	+94 77 0073 684
Nethalie De Mel	+94 11 2639 854	Dharshanie Vasanthajothy	+94 77 9159 878

EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
Damian Le Grand		+94 70 2910 032		
Nishantha Mudalige		+94 70 2910 041		
Isuru Jayawardana		+94 70 2910 034		
Ifadh Marikar		+94 77 9625 679		
Thushara Pathiraja		+94 70 2910 037		
Anushka Buddhika		+94 70 2910 030		

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Deepal Pathmaperuma	+94 77 9159 878
Imali Abeygunawardena	+94 77 1764 799		

BRANCHES

Kandy	Kurunegala	Matara	Negombo
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagarika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, Negombo 11500.
Manager: Salinda Samarakoon Tel: +94 81 2236 010	Manager: Tel: +94 37 2222 930	Manager: Rohana Jayakody Tel: +94 41 2222 988	Manager: Tel: +94 31 2233 299

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 correctness, 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 its principal, their respective Directors, or Employees 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.