

**HAYLEYS FABRIC PLC [MGT.N0000]****MAINTAIN BUY****LAUDABLE PERFORMANCE !!!****Fair Value: FY20E - LKR 25.0 [+40%]**

Total Return with DPS: FY20E - 40% [AER 176%]

MGT recorded earnings of LKR 138.0Mn (+84%YoY) in 2QFY20, performing exceptionally well, exceeding our expectations. Earnings growth was mainly led by the revenue growth of +25%YoY and improvement in GP margin. Since our initiation report dated 07th Aug 2019, share provided a return of 34%, including a dividend yield of 3%. On the back of strong growth in revenue and enhancement in margins, we upgrade our earnings outlook to LKR 686.0Mn (by +27%). Liquidity discount of 5% has been removed amidst significant improvement in trading volumes. We upgrade MGT's fair value to LKR 25.0 for FY20E on stronger earnings and improved trading volumes while the counter provides an annualized return of 176%.

MAINTAIN BUY

LKR (Mn)	2QFY19	2QFY20	YoY	6MFY19	6MFY20	YoY
Earnings (LKR 'Mn)						
Revenue	2,808	3,514	+25%	5,175	6,850	+32%
Gross profit	345	508	+47%	644	1,052	+63%
EBIT	115	201	+76%	180	484	+169%
PBT	88	170	+92%	115	400	+246%
Net Profit	75	138	+84%	90	366	+306%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	3,006	3,568	+19%	3,006	3,568	+19%
Borrowings	2,832	3,403	+20%	2,832	3,403	+20%
NAVPS	14.5	17.2		14.5	17.2	

Execution of orders from Tier 1 clients drives the quarterly top line growth

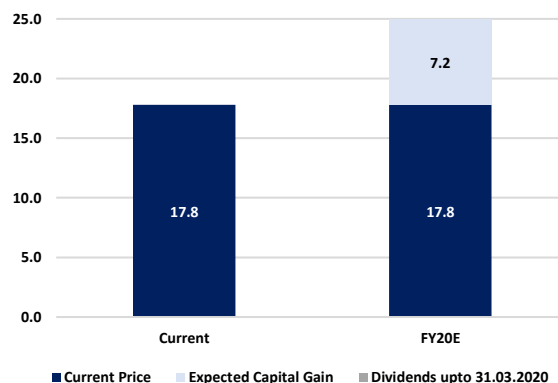
MGT's revenue grew by 25% amidst the increased orders realised from its Tier 1 clients; Nike, Victoria's Secret, Intimissimi and Decathlon. Nike, one of the main Tier 1 clients of MGT accounted for 2%-5% of revenue. As a result of manufacturing shifts from China, Nike plans to expand their purchasing from apparel vendors in Sri Lanka while MGT is one of the fabric suppliers to Nike. Accordingly, Nike contribution to MGT's revenue is expected to increase up to 15%-20% of revenue by FY21E following the expansion. To facilitate Nike's orders (which required at least 50% of their orders to be knitted in-house) MGT invested in enhancing knitting facility amounting LKR 350.0Mn while increasing the capacity by 5%-10%. However, there will not be any capacity expansions in 3-4QFY20E although a series of expansion plans are in the pipeline beyond FY20E.

GP margin expands amidst improvement in product mix and stable cotton prices

Gross profit recorded a significant growth of 47.0% amidst GP margins improving by 216bps to 14.5% vs prior year corresponding period 12.3% which was facilitated by increased focus towards high margins generating synthetic orders from Tier 1 clients and stabilised cotton prices. Moreover, increase in Decathlon's high margin generating orders also favoured GP margins during the quarter. Cost of raw materials including yarn and dyes accounts for over 70% of cost of sales of MGT. Cotton prices averaged around USD 60/lb during 2QFY20 compared to USD 78/lb in 2QFY19 and USD 70/lb in 1QFY20 although cotton recorded a slight appreciation to close at USD 64/lb as at end Oct 2019. We expect a likely decline in demand from China to result in soft cotton prices. Accordingly, we expect average GP margins for FY20E to sustain around 14% levels.

Price upgraded to LKR 25.0 for FY20E– MAINTAIN BUY

With earnings of LKR 686.0Mn for FY20E (+278%YoY) and LKR 838.0Mn (+22%YoY) we upgrade TP for FY20E to LKR 25.0 from previous fair value of LKR 20.0. MGT provides

**FIRST CAPITAL RESEARCH**

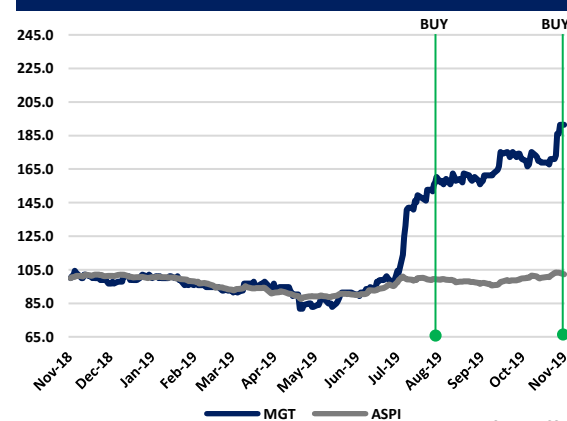
Hiruni Perera +94 11 263 9864

hiruni@firstcapital.lk**KEY DATA**

CSE Ticker	MGT.N0000
Bloomberg Ticker	MGT SL
Share Price (LKR)	17.8
52w High (LKR)	17.8
52w Low (LKR)	7.6
Avg. Daily Volume (Shares)	521,419
Avg. Daily Turnover (LKR)	7,052,103
Issued Share Capital (Shares 'Mn)	207.7
Market Cap (LKR 'Mn)	3,698
Market Cap (USD 'Mn)	21

*1 USD = LKR 180

Price Performance (%)	1 mth	3 mths	12mths
MGT	11%	21%	91%
ASPI	3%	3%	2%

Price Movement of MGT vs ASPI and Past Recommendations**Minimum Return for BUY:****Buy Below [AER of 17% with DPS]: LKR 22.8**

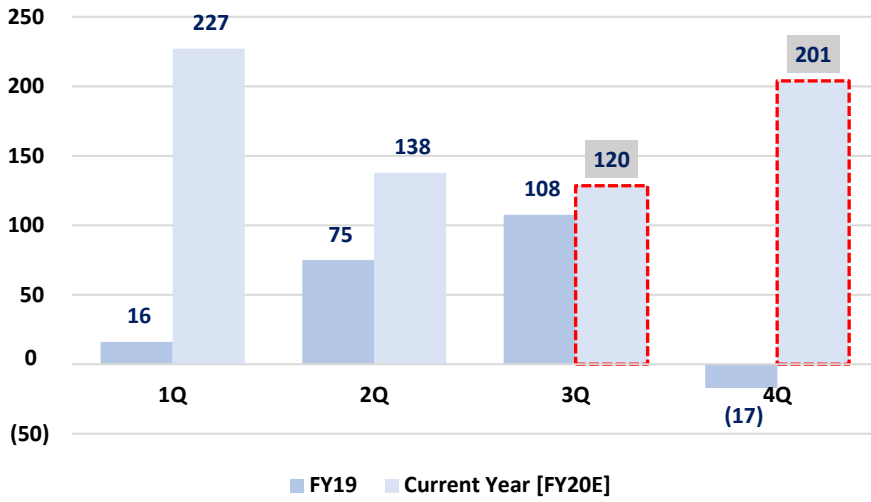
MGT categorized as 'Grade B' counter (Refer page 09 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:

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

an annualised return of 176% at the current market price of LKR 17.8. **MAINTAIN BUY**

Quarterly Earnings Forecast for FY20E



Estimate Revision

In LKR Mn	FY20E - O	FY20E - R	% Change	FY21E - O	FY21E - R	% Change
Earnings Estimate						
Revenue	13,780	14,979	9%	15,848	17,525	+11%
Gross profit	1,860	2,199	18%	2,219	2,629	+18%
EBIT	698	946	35%	865	1,128	+30%
Profit before tax	550	798	45%	712	974	+37%
Net Profit	542	686	27%	704	838	+19%
EPS	2.6	3.3		3.4	4.0	
Growth YoY	200%	278%		30%	22%	
Balance Sheet Estimate						
Shareholders' Equity	3,721	3,782	2%	4,425	4,620	4%
Borrowings	2,610	2,610	0%	2,710	2,710	0%
NAVPS	17.9	18.2		21.3	22.2	
Ratio Estimate						
ROE (%)	7.9%	4.9%		4.3%	5.0%	
PER (x)	5.2	5.4		4.0	4.4	
PBV (x)	0.8	1.0		0.6	0.8	

Valuation Table

P/E 31 March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Estimates (LKR 'Mn)							
Revenue	8,495	8,333	8,965	11,983	14,979	17,525	20,154
Gross Profit	1,071	974	944	1,429	2,199	2,629	3,023
EBIT	375	202	144	470	946	1,128	1,297
Net Profit	262	74	-106	181	686	838	946
Adjusted EPS (LKR)	1.3	0.4	-0.5	0.9	3.3	4.0	4.6
YoY Growth (%)	191%	-72%	-244%	272%	278%	22%	13%
Valuations							
PER (x)	14.1x	50.3x	N/A	20.4x	5.4x	4.4x	3.9x
PBV (x)	1.4x	1.4x	1.4x	1.2x	1.0x	0.8x	0.7x
DY (%)	-	-	-	-	2.2%	-	-

Valuation Summary

Expected MGT price for FY20E	
DCF Valuation based target price	25.2
PER Valuation based target price	23.1
Average Target Price	24.2
Liquidity Discount (5%)	0.0
Target Price after Rounding off	25.0

Return	
Target Price	25.0
Current Price	17.8
Capital Gain (LKR)	7.2
Dividends upto 31.03.2020 (LKR)	0.0
Capital Gain %	40%
Dividend Yield %	0%
Total Return %	40%
Annualized Return %	176%

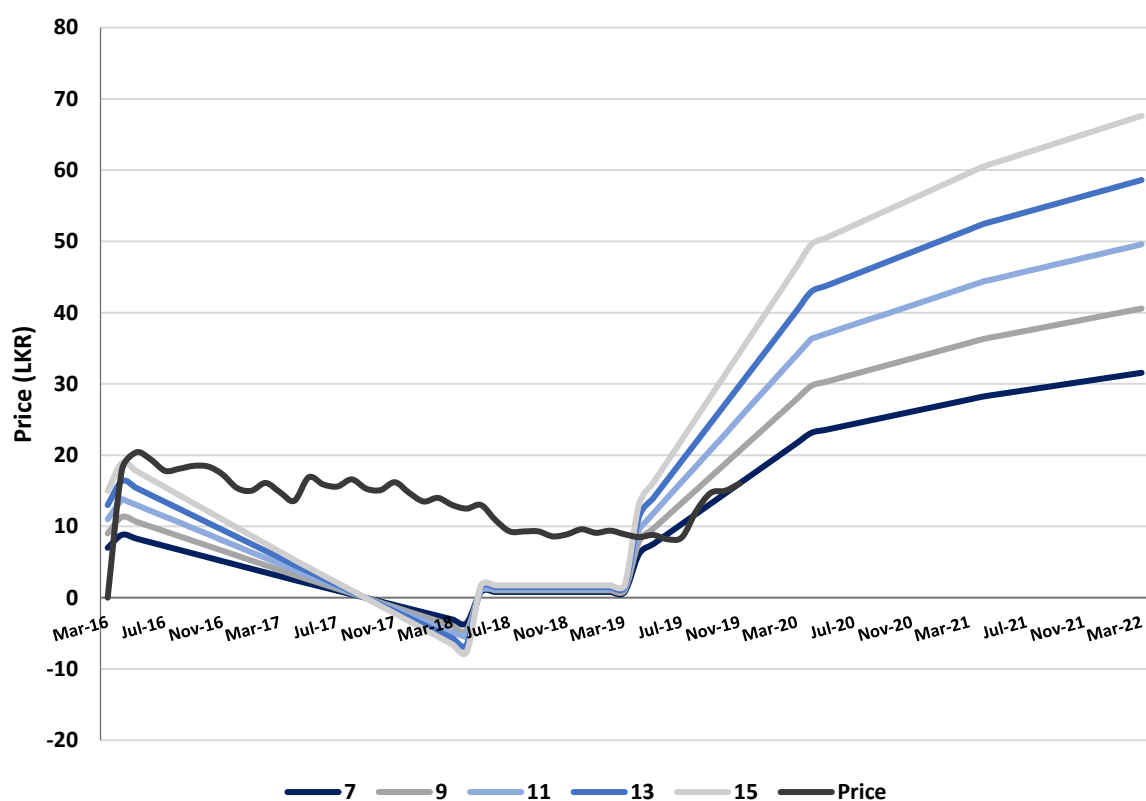
Discounted Cash flow Valuation

DCF based Valuation	
Enterprise Value	7,666
(-) Debt	2,610
(+) Cash	188
Total Value of Equity	5,244
No. of shares	208
Target Price	25.2

WACC	
Ke	23%
Kd	6%
D/E Assumption	41/59
Terminal Growth (%)	3.0%
WACC	15%

COE	
Rf	8.4%
Rm	16.4%
Growth %	3.0%
β	1.80
$Ke=Rf+\beta(Rm-Rf)$	22.8%

PER Valuation



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

PER based Valuation	
FY20E Earnings (LKR 'Mn)	686
No. of Shares ('Mn)	208
FY20E EPS	3.3
Expected PER	7x
Price at 7x FY20E Earnings	23.1

Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
P/E 31st March							
Revenue	8,495	8,333	8,965	11,983	14,979	17,525	20,154
Cost of sales	-7,424	-7,359	-8,020	-10,554	-12,780	-14,896	-17,131
Gross Profit	1,071	974	944	1,429	2,199	2,629	3,023
Other operating income	3	5	9	11	13	13	14
Administrative expenses	-578	-706	-734	-819	-1,024	-1,198	-1,377
Distribution expenses	-88	-71	-76	-134	-225	-299	-353
Other expenses	-33	-1	0	-18	-18	-18	-10
Operating Income	375	202	144	470	946	1,128	1,297
Net financing costs	-118	-140	-151	-153	-148	-153	-197
Profit before tax	257	62	-8	317	798	974	1,099
Income tax expense	5	12	-98	-135	-112	-136	-154
Profit for the year	262	74	-106	181	686	838	946
EPS	1.3	0.4	-0.5	0.9	3.3	4.0	4.6

Source : Company Annual Reports, First Capital Research Estimates

Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
As at 31st March							
Non-Current Assets							
Property, plant and equipment	3,404	3,785	3,940	4,418	4,515	4,754	5,654
Intangible assets	73	38	24	11	26	24	22
	3,477	3,823	3,964	4,430	4,541	4,778	5,677
Current Assets							
Inventories	1,510	1,725	1,815	2,368	2,694	3,140	3,611
Trade receivables	1,053	1,067	1,244	1,494	1,868	2,185	2,513
Other receivables	214	360	182	133	133	133	133
Cash and cash equivalents	181	226	54	51	188	574	1,086
	2,958	3,378	3,295	4,046	4,883	6,033	7,343
Total Assets	6,435	7,201	7,259	8,475	9,425	10,811	13,020
EQUITY AND LIABILITIES							
Equity							
Stated capital	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Other Reserves	678	744	774	1,159	1,159	1,159	1,159
Retained earnings	-68	-5	-59	52	655	1,493	2,438
Total Equity	2,578	2,707	2,683	3,179	3,782	4,620	5,566
Non-Current Liabilities							
Interest bearing loans and borrowings	297	957	518	188	522	542	698
Other Liabilities	486	522	534	766	878	1,014	1,168
	782	1,478	1,052	954	1,400	1,556	1,866
Current Liabilities							
Trade and other payables	712	815	1,293	1,554	1,882	2,193	2,522
Interest bearing loans and borrowings	2,235	2,074	2,114	2,515	2,088	2,168	2,793
Other Liabilities	128	126	116	273	273	273	273
	3,075	3,015	3,523	4,342	4,243	4,634	5,588
Total Liabilities	3,857	4,493	4,575	5,296	5,642	6,190	7,454
Total Equity and Liabilities	6,435	7,201	7,259	8,475	9,425	10,811	13,020
NAVPS	12.4	13.0	12.9	15.3	18.2	22.2	26.8

Source : Company Annual Reports, First Capital Research Estimates

Appendix III: Statement of Cash flow

Cash Flow Statement (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
P/E 31st March							
Profit before tax	257	62	-8	317	798	974	1,099
Adjustments for;							
Depreciation on PPE	257	289	304	346	353	361	380
Amortization of intangible assets	34	36	22	16	1	2	2
Other	109	165	195	222	0	0	0
	656	552	513	901	1,153	1,338	1,482
Changes in Working Capital							
Increase in trade and other receivables	-44	-3	-198	-32	-374	-318	-328
Increase in inventories	140	-197	-61	-319	-327	-446	-471
Increase in trade and other payables	-287	106	465	170	328	312	329
Other	16	-12	114	20	0	0	0
Cash generated from operations	482	446	834	740	780	886	1,012
Taxes paid	-5	-41	-33	-56	0	0	0
Other	-107	-118	-143	-183	0	0	0
Net cash generated from operating act.	369	287	658	502	780	886	1,012
Purchase and construction of PPE	-386	-680	-362	-252	-466	-600	-1,281
Other	-3	2	-7	0	0	0	0
Net cash generated from investing act.	-390	-678	-369	-251	-466	-600	-1,281
Proceeds from new term loans	237	1200	0	53	2,450	1,600	2,281
Repayment of term loans	-600	-759	-400	-464	-2,543	-1,500	-1,500
Net cash generated from financing act.	-363	441	-400	-411	-93	100	781
Net Decrease in Cash and Cash Equivalents	-383	50	-111	-161	138	386	512
Cash and Cash Equivalents at the beg.	-1,118	-1,501	-1,502	-1,778	51	188	574
Cash and cash equivalents at the end	-1,118	-1,501	-1,502	-1,778	188	574	1,086

Source : Company Annual Reports, First Capital Research Estimates

Appendix IV: Top 20 Shareholders

Top Voting 20 shareholders - (% held)	2QFY20	1QFY20	QoQ	2QFY19	YoY
Hayleys PLC No 3 Share Investment Account	59.0%	59.0%	-	59.0%	-
The Ceylon Guardian Investment Trust PLC. A/C No 02	3.1%	4.1%	-0.9%	4.2%	-1.0%
Employees Provident Fund	2.7%	2.7%	-	2.7%	-
The Ceylon Investment PLC. A/C No 02.	2.6%	4.0%	-1.4%	4.1%	-1.5%
Hayleys Advantis Limited	2.4%	2.4%	-	2.4%	-
Hayleys Agriculture Holdings Limited	1.7%	1.7%	-	1.7%	-
Mrs. V. Saraswathy	1.2%	1.0%	0.2%	0.3%	0.9%
J.B.Cocoshell (Pvt) Ltd.	1.0%	0.6%	0.4%	0.0%	1.0%
Mr. A.M.Weerasinghe	0.9%	0.9%	-	0.9%	-
Sampath Bank PLC/ Dr. T. Senthiverl	0.6%	0.0%	0.6%	0.0%	0.6%
Dialog Finance PLC/ K.E.H.De Alwis	0.5%	0.0%	0.5%	0.0%	0.5%
Bank Of Ceylon No.01 Account	0.4%	0.4%	-	0.4%	-
Mr. G. Dangampola & Mrs. N.P. Dangampola	0.4%	0.4%	-	0.4%	-
Mr. S. Vasudevan	0.4%	0.0%	0.4%	0.0%	0.4%
Mr.R.E.Rambukwella	0.4%	0.3%	0.1%	0.0%	0.4%
Bank Of Ceylon A/C NDB Wealth Growth Fund	0.3%	0.4%	0.0%	0.4%	0.0%
Mr. K.A.S.R Nissanka	0.3%	0.3%	-	0.3%	-
Commercial Credit and Finance PLC	0.3%	0.0%	0.3%	0.0%	0.3%
Hatton National Bank PLC- Astrue Alpha Fund	0.3%	0.5%	-0.2%	0.0%	0.3%
South Asian Investment (Pvt) Ltd.	0.3%	0.0%	0.3%	0.0%	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: 8.38%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	13.38%	9.38%	9.38%
Grade B	Rest of the Companies	16.38%	11.38%	11.38%
Grade C	Companies less than LKR 1Bn Market Cap	19.38%	14.38%	14.38%



First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

First Capital

RESEARCH

Dimantha Mathew	+94 11 2639 853	Nisansala Kuruppumudali	+94 11 2639 866
Atchuthan Srirangan	+94 11 2639 863		
Hiruni Perera	+94 11 2639 864		

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardana	+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
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 Abeygunawardana	+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.