

# HAYLEYS FABRIC PLC

09 January 2023

Prev. Close	23.8	Day's Range	23.5 - 23.7	Revenue	26.05B
Open	23.5	52 wk Range	20 - 44.3	EPS	0.037
Volume	107,606	Market Cap	9.85B	Dividend (Yield)	2.50 (10.55%)
Average Vol. (3m)	226,577	P/E Ratio	1.76	Beta	0.81
1-Year Change	-45.77%	Shares Outstanding	415,481,776	Next Earnings Date	Mar 01, 2023

## Historical Background

Hayleys Fabric PLC, which started its journey in 1994, is the pioneer in fabric manufacturing in Sri Lanka specialised in innovating a wide range of knits and fabrics for quality-conscious international brands. In 2014, company became the 1st Fabric mill that launched its own fabric brand "INNO". It is the largest textile company in Sri Lanka with the capacity to offer a complete portfolio of end-to-end solutions from fabric design to manufacturing, using both natural and synthetic fibres.

## Share Price Movement of MGT



## FINANCIAL SUMMARY

LKR (Mn)

SUMMARY	2QFY22	2QFY23	YOY%	FY21	FY22	FY23E
Revenue	8,155	16,795	105.9%	14,769	31,652	66,186
Gross Profit	990	1,795	81.3%	2,019	4,121	9,266
Profit Before Tax	445	535	20.1%	730	3,155	4,817
Net Profit	393	501	27%	736	2,692	5,105

As a newly created Group, MGT went to a new growth trajectory with top line growth of 105.9% Year on Year. The overall growth in Sri Lankan apparel exports during January-October 2022 amounting to 14 per cent contributed to revenue growing to LKR 16.7 billion compared to 8.1 billion recorded in 2QFY22. Additionally, the performance growth seen here is proved to be backed by the technological enhancements made by MGT since the acquisition of SAT. Additionally, steep depreciation in LKR during the period also stimulated the rupee earnings of MGT. As raw material prices increased along with higher freight costs and import bills, combined with the economic challenges faced by Sri Lanka resulted in a Gross Profit margin contraction from 12.13% in 2QFY22 to 10.69% in 2QFY23. Further, overall increase in the in cost of Sri Lankan apparel imports during January-October 2022 amounting to 6.7 per cent reflected the increased costs. Company's financial costs also have soared due to the rise in interest rates by 33% from the previous quarter and by 50% from the same time the year prior. This increase in finance costs was primarily caused by the company's increased working capital needs as a result of the sharp depreciation of the rupee which is reflected. Moreover, Purchasing Managers Index (PMI) which indicate the manufacturing activities recorded a decrease of 10.8% percent on month to month basis with index falling to PMI 38.4.

Despite increased finance expenses, the bottomline still managed to increase by 27% to LKR 501 million mainly attributable to the increase in revenue. However, the sustainability of current earning will entirely depend on improvement of the country and global economic recovery particularly relating to the exports sector. We estimate a slight decrease in earnings for the quarter ended 31st December 2022 with improved performance in 2023.

Year ended 31st March 2022 LKR '000	Group	Group					
		6 months ended 30th September 2022 LKR '000	6 months ended 30th September 2021 LKR '000	Change % + /(-)	3 months ended 30th September 2022 LKR '000	3 months ended 30th September 2021 LKR '000	Change % + /(-)
31,652,580	Revenue from contracts with customers	31,834,196	13,963,609	>100	16,795,679	8,155,862	>100
(27,531,017)	Cost of sales	(28,090,621)	(12,143,220)	>100	(14,999,707)	(7,165,420)	>100
4,121,563	<b>Gross Profit</b>	3,743,576	1,820,389	>100	1,795,972	990,442	81
395,351	Other operating income	119,773	104,899	14	73,374	53,336	38
(2,315,535)	Administrative expenses	(1,667,737)	(936,400)	78	(874,468)	(429,060)	>100
(401,768)	Distribution expenses	(228,781)	(113,534)	>100	(46,848)	(78,299)	(40)
(43,815)	Other expenses	-	-	-	-	-	-
1,399,847	Net financing income/(expense)	574,042	(126,576)	>100	(412,419)	(90,483)	>100
3,155,643	<b>Profit before tax</b>	2,540,872	748,778	>100	535,611	445,936	20
(463,297)	Income tax expense	(429,200)	(54,991)	>100	(34,224)	(52,092)	(34)
2,692,346	<b>Profit for the period</b>	2,111,673	693,788	>100	501,387	393,844	27

## Hayleys Fabric PLC

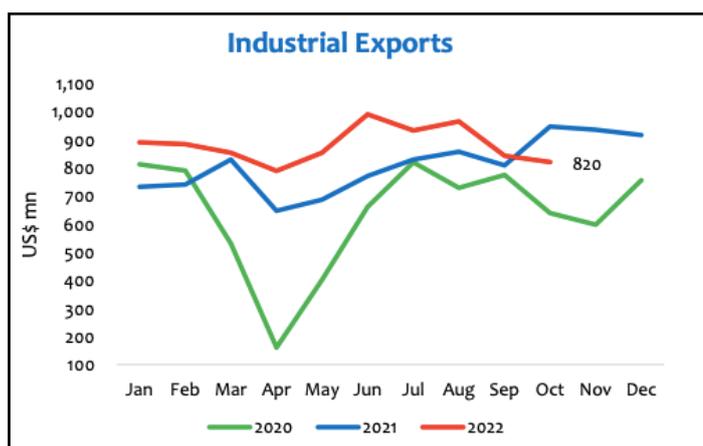
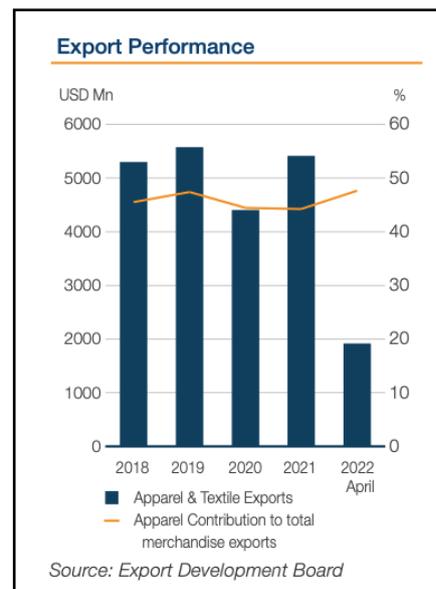
STATEMENT OF FINANCIAL POSITION  
TRANSLATED INTO LKR

Group As at 31.03.22 LKR '000	Company As at 31.03.22 LKR '000		Group		Company	
			As at 30.09.22 LKR '000	As at 30.09.21 LKR '000	As at 30.09.22 LKR '000	As at 30.09.21 LKR '000
		<b>ASSETS</b>				
		<b>Non-Current Assets</b>				
13,132,010	8,393,722	Property, plant and equipment	16,797,808	8,344,140	10,062,061	6,007,413
252,412	59,680	Right of use assets	316,223	61,131	72,527	41,236
108,689	17,184	Intangible assets	274,410	79,071	34,843	11,239
-	5,466,142	Investment in Subsidiary	-	-	6,762,477	4,054,408
3,121,643	-	Goodwill	3,861,963	2,457,881	-	-
97,772	-	Other non current receivables	-	345,077	-	-
16,712,525	13,936,728		21,250,404	11,287,300	16,931,908	10,114,295
		<b>Current Assets</b>				
11,001,501	6,223,144	Inventories	14,119,363	6,945,558	7,287,050	4,138,028
4,831,482	2,901,658	Trade receivables	7,219,526	3,319,618	4,848,797	2,189,770
417,921	187,557	Other receivables	720,592	498,190	121,155	153,026
574,505	261,427	Advances and prepayments	1,024,788	527,695	765,353	268,842
2,952,809	1,407,852	Cash and cash equivalents	2,098,362	1,909,683	653,769	1,223,978
19,778,218	10,981,638		25,182,631	13,200,745	13,676,124	7,973,645
36,490,744	24,918,365	<b>Total Assets</b>	46,433,035	24,488,044	30,608,032	18,087,940
		<b>EQUITY AND LIABILITIES</b>				
		<b>Capital and Reserves</b>				
1,968,193	1,968,193	Stated capital	1,968,193	1,968,193	1,968,193	1,968,193
189,106	189,106	Revaluation reserve	233,954	287,302	233,954	287,302
2,835,525	2,127,808	Retained earnings	4,120,318	1,014,089	3,216,916	929,351
4,992,824	4,285,107	<b>Total Equity attributable to equity holders of the company</b>	6,322,465	3,269,584	5,419,063	3,184,846
4,113,797	3,859,041	Exchange fluctuation reserve	6,111,057	1,438,106	5,626,316	1,360,479
9,106,621	8,144,148	<b>Total Equity</b>	12,433,522	4,707,690	11,045,379	4,545,325
		<b>Non-Current Liabilities</b>				
5,159,752	4,662,224	Interest bearing loans and borrowings	6,224,823	3,184,597	4,297,445	2,878,968
56,481	34,014	Right of use assets- Lease obligations	66,326	52,828	42,095	23,133
1,257,240	925,075	Deferred tax liabilities	1,684,904	578,797	1,379,659	410,169
879,514	739,083	Retirement benefit obligations	989,590	802,264	830,154	652,909
7,352,986	6,360,395		8,965,642	4,618,485	6,549,352	3,965,179
		<b>Current Liabilities</b>				
10,599,804	5,146,272	Trade and other payables	14,284,345	6,611,099	7,136,242	3,865,645
451,023	108,317	Bank overdraft	778,972	347,748	187,993	69,171
5,743,337	2,648,666	Interest bearing loans	5,252,626	6,048,749	2,622,999	4,123,694
1,483,655	1,320,044	Current portion of long term interest bearing borrowing	1,764,488	838,725	1,464,409	718,146
6,307	1,215	Current portion of Right of use assets- Lease obligations	8,021	5,749	3,034	1,862
101,485	96,453	Amounts due to Hayleys PLC	35,415	109,192	20,194	109,192
1,645,525	1,092,855	Other non financial liabilities	2,910,003	1,200,607	1,578,431	689,724
20,031,136	10,413,822		25,033,870	15,161,869	13,013,301	9,577,436
36,490,744	24,918,365	<b>Total Equity and Liabilities</b>	46,433,035	24,488,044	30,608,032	18,087,940

## APPAREL SECTOR OUTLOOK

### The Sri Lankan Textile and Apparel Industry

The apparel and textile sector plays a significant role in the Sri Lankan economy, contributing to 47.66% of the country's total merchandise exports in April 2022.. The country is a socially responsible and is a preferred destination for apparel sourcing. The local clothing sector functions responsibly, offering workers fair wages and strongly opposing child labor and sweatshops. Due to this, the nation has become a trusted source for global fashion brands such as Nike, Next, Gap, Victoria's Secret and Speedo as their clients have become more conscious of ethical standards and environmental sustainability. By paying close attention to ethical and environmental regulations and practices, Sri Lanka's internationally known "Garments without guilt" brand is the top revenue-earner in the nation's exports basket and a key differentiator globally.



However, the shortage of labor, which is caused by migration to other sectors, differing professional objectives of the younger generations, and rising urbanisation, is one of the major reasons that is, nevertheless, adversely affecting the industry. This can lead to increased labor expenses and a fall in productivity.

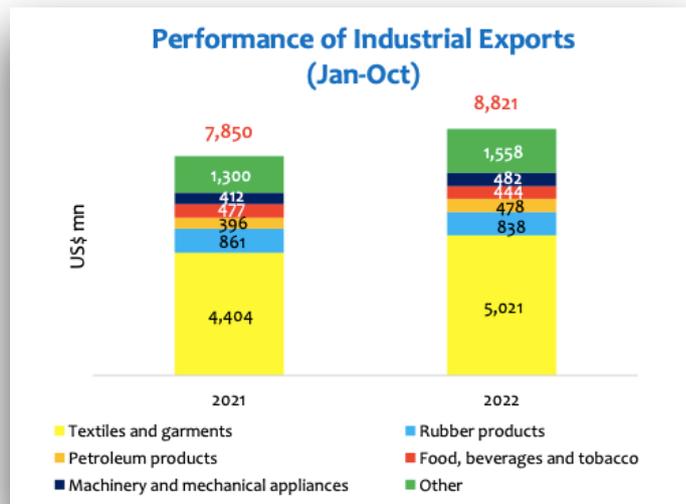
### Summary of External Trade Statistics (a)

#### Export Performance (US\$ mn)

Item	Oct 2021	Oct 2022	Y-O-Y Change (%)	Jan-Oct 2021	Jan-Oct 2022	Y-O-Y Change (%)
<b>Industrial Exports</b>	<b>946.8</b>	<b>819.9</b>	<b>-13.4</b>	<b>7,849.9</b>	<b>8,820.5</b>	<b>12.4</b>
o/w						
Textiles and garments	510.6	443.5	-13.1	4,403.9	5,020.7	14.0
Rubber products	88.7	82.9	-6.5	861.3	838.0	-2.7
Petroleum products	47.7	37.8	-20.7	396.3	477.7	20.5
Food, beverages and tobacco	79.0	38.5	-51.3	476.7	444.3	-6.8
Machinery and mechanical appliances	45.5	53.9	18.4	412.0	481.8	16.9
Gems, diamonds and jewellery	26.1	41.6	59.1	225.7	367.2	62.7
Leather, travel goods and footwear	5.2	8.3	60.2	44.5	71.9	61.5

The projected global demand for Apparel over the next decade spells massive growth opportunities for the export Apparel sector in Sri Lanka. The increase in earnings from exports of textiles and garments during the ten months ending in October 2022 was principally the result of an increase in earnings from industrial exports on a year-on-year basis.

The Sri Lankan apparel manufacturers' support for sustainability initiatives, soaring investments in R & D and advanced manufacturing technologies, the abundance of local fashion design talent and advanced education programs to develop that talent, the skilled workforce, and the country's visionary leadership all work together to help the country enhance its market share both by attracting more customers in the country's current markets and by breaking into new markets through marketing endeavours and high quality and innovative offerings.



The active intervention and multidisciplinary support led by the BOI and the other government agencies in charge of the development of the export apparel sector will encourage the local entrepreneurs and the foreign investors further to capitalise on the emerging opportunities and double or even quadruple Sri Lanka's current apparel export earnings. The Apparel Manufacturers and Exporters in Sri Lanka including the company is likely pay closer attention to the emerging trends and benchmark and their products to suit what's sought by the global fashion labels and explore the possibilities of innovation, capacity expansion and productivity gains.

However, Purchasing Managers' Indices for both Manufacturing and Services activities remained contracted in November 2022 indicating a setback in manufacturing activities on a month-on-month basis, Manufacturing PMI recorded an index value of 42.1 in November 2022. New Orders and Production remained contracted in November mainly due to the subdued demand conditions. Export-oriented manufacturers, particularly in the textile & apparel sector, highlighted that the subdued demand was due to the economic slowdown in major export destination and shifting of orders to other countries amidst stiff competition. Besides these, acquiring required raw materials was an issue for certain manufacturers due to a shortage of foreign exchange. Furthermore, Employment and Stock of Purchases declined in-line with the decline in New Orders and Production. Meanwhile, Suppliers' Delivery Time lengthened in November 2022 compared to the previous month.

If this pattern were to be continued, there is a possibility of seeing a contraction in the coming quarter which will be reflected in the forecast earning 31st December 2022.

## PER Based Valuation

MGT	EPS (LKR)		
Q3 2021/2022	0.96		
Q4 2021/2022	3.85		
Q1 2022/2023	3.88		
Q2 2022/2023	1.21		
<b>Total EPS (Actual)</b>	<b>9.90</b>		
<b>Forecasted EPS for next Q</b>			
<b>Q3F 2022/2023</b>	<b>2.00</b>		
<b>Total EPS (Forecast)</b>	<b>10.94</b>		
<b>Price Expectation</b>	<b>Actual</b>		<b>Forecast</b>
PER @ Market Price 24	23.96		24.51
PER @ 3	29.70		32.82
PER @ 4	39.60		43.76
PER @ 5	49.50		54.70

As per the past earnings recorded by the company, for the 6 months ended 30th September 2022, company recorded an earnings per share of LKR 5.09/- Further, if you take into consideration total Trailing earning of the company for the 12 months ended 30 September 2022 is LKR 9.9/- Company is currently trading at a price of LKR 24. Based on Trailing earnings, current market PER multiple Rate is 2.5 times, which is attractive. Further, company has recorded an earnings growth of 10.5% YoY. Accordingly, PEG ratio is 0.23 which is below 1, reflecting that the stock is fairly priced or even undervalued at the current market price of LKR 24 or future growth may not be sustainable. In contrast to company's growth of 10.5%, the export sector grew by 14% during the nine months period ended October 2022.

## Asset Based Valuation

MGT	NAVPS	PBV	
Q3 2021/2022	11.89	2.02	
Q4 2021/2022	21.92	1.09	
Q1 2022/2023	29.51	0.81	
Q2 2022/2023	29.93	0.80	
<b>Forecast BV based Q3 F Earnings</b>			
<b>Q3F Earning 2022/2023</b>	<b>2.00</b>		
<b>Forecast BV</b>	<b>31.51</b>	<b>0.76</b>	
<b>Price Expectation</b>	<b>Actual</b>		<b>Forecast</b>
BV @ 1.0	29.93		31.51
BV @ 1.5	44.90		47.27
BV @ 2.0	59.86		63.02

Total Asset value of the company as at 30th September 2022 amounts to LKR 46.4Bn and total liabilities of the company amounts to LKR 25 Bn. Total equity value of the company is LKR 12.4 Bn. Accordingly, Net Asset Value Per Share (NAVPS) is LKR 29.93/- Current market trading price of the share is LKR 24. Therefore company is trading to the Book Value of the company at Multiple of 0.80 x. Therefore, market price fairly reflects the asset value of the company.

# RATIO ANALYSIS

For 6 months ended 30th September 2022

Turnover	31,834,196,000
Operating Profits	3,743,576,000
Net Profits	2,111,673,000
Net Profits (Trailing 12 Months)	4,113,269,582
Total Assets	46,433,035,000
Total Liabilities	33,999,512,000
Total Equity	12,433,522,000
Cash and Cash Equivalent	2,098,362,000
Enterprise Value (EV) (Market Cap + Total Debt - Cash and Cash Equivalent)	41,872,712,624
Total Number of Shares	415,481,776
Earning Per share (EPS) TTM EPS	9.90
Market Price	24.00
Market Capitalisation	9,971,562,624
Book Value (BV) /Net Asset Value Per Share (NAVPS)	29.93
Price to Earnings Ratio*	2.42
Price to Book Value Ratio	0.80
Price Earnings to Growth Ratio (PEG Ratio)	0.23
Annual Growth %	10.5
Return on Investment (ROI)*	41.25%
Return on Equity (ROE)*	33.08%
Return on Assets (ROA)*	8.86%
Net Cashflow per Share	5.05
Total Assets Per Share	111.76
Total Liabilities per Share	81.83
Enterprise Value per Share (EVPS)	100.78

\* Annualised

## FUTURE OUTLOOK

In the medium run, we believe Hayleys Fabric is well-positioned to maintain above-market growth rates.

The demand for apparel sector is expected to be driven by a recovery in the global fashion and apparel industry, which is expected to increase at a Compound Annual Growth Rate of e.4.5%. This is likely due to a shift in consumer preference towards branded products.

The acquisition of Hayleys fabrics' first subsidiary, South Asia Textiles Limited (SAT) on the 23rd April 2021, for USD 18.2 Mn set the tone and pace for the rest of the year as the manufacturing capacity increased by more than 45% making MGT the country's largest fabric manufacturer. Despite the possibility of a modest drop in orders during FY24E due to fears of a global economic downturn, MGT has the ability to benefit from the progressive diversion of US business from China to other regions, such as South Asia. Moreover, with MGT's sustainability and effective cost-cutting measures, they would be able to offset the cost pressures caused by rising domestic costs. Setting up Sri Lanka's largest single rooftop project with a generation capacity of 4.6 MW, delivers electricity equivalent to 22% of the requirement of the Company leading to a considerable annual saving of approximately USD 540,000 (LKR 194,400,000) in 2021/22 on energy costs. Additionally, investing in a second knitting plant has enabled the company to reduce its dependency on imported greige fabric, thereby reducing costs and ensuring compliance standards and audits by the international Tier-1 customers. Recently, the company initiated a project to use natural dyes extracted from waste Mahogany timber sourced from local furniture businesses and saw mills to dye fabric as an alternative to synthetic dyes. With the ongoing energy crisis in Europe, Hayleys Fabrics sees an opportunity to produce and market thicker textile for European countries.

However, rising expenses and inflationary pressures faced domestically and globally, are a major source of concern. Russia's invasion of Ukraine has extensively impacted the global economies, energy structures, disrupted supply and demand patterns, and international trade. Cost increases in the production chain have challenging impacts on the energy-intensive textile and apparel industry, especially in spinning, dyeing, and finishing. It is difficult to pass on these increased costs on to customers as it would reduce the company's competitiveness in the international market. The global textile and apparel industry has been affected by the soaring cost of energy and fuels affecting the prices of synthetic yarn and other production costs. Despite impressive exports so far in 2022, industry envisages a 25%-30% decline in the remainder of the year mainly due to the economic downturn's impact on future orders from the US and EU, whilst the war in Ukraine has pushed up logistics and energy costs. Moreover, apparel exporters forecast a reduction of up to 25% in export revenue in the first half of 2023 due to the reduction in global demand and the cost increases within Sri Lanka through increases in taxes and electricity tariffs. As the Rupee stabilises against the US Dollar, the exchange gains seen by MGT would not be attainable in the upcoming quarter.

Therefore, after taking all these factors into consideration, in the next quarter, the earnings of the company would not significantly improve compared to this quarter.

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