



Recommendation : BUY

Target Price: LKR 94.60

Sector: Materials

HAYC topline to increase by 17% in FY22E

YE 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue (LKR Mn)	15,518	20,918	22,823	25,485	29,938	35,300	42,042
YoY growth (%)	14%	35%	9%	12%	17%	18%	19%
Net Profit (LKR Mn)	774	1,081	1,766	3,566	2,622	2,957	3,460
YoY growth (%)	-18%	40%	63%	102%	-26%	13%	17%
Reported EPS (LKR)	22.6	32.1	52.5	10.3	7.5	8.5	9.9
EPS on current no. of shares(LKR)	2.3	3.2	5.2	10.3	7.5	8.5	9.9
DPS (LKR)	0.6	0.8	1.5	4.2	3.2	3.6	4.5
BVPS (LKR)	25.0	27.8	31.4	45.1	50.7	57.0	64.2
Ratios (%)							
Dividend Payout(%)	27%	25%	29%	41%	43%	43%	45%
Dividend Yield (%)	0.7%	1.0%	1.9%	5.2%	4.0%	4.5%	5.5%
ROE (%)	9%	12%	17%	23%	15%	15%	15%
PE (x)	35.6	25.0	15.3	7.9	10.7	9.5	8.1
PBV (x)	3.2	2.9	2.6	1.8	1.6	1.4	1.3

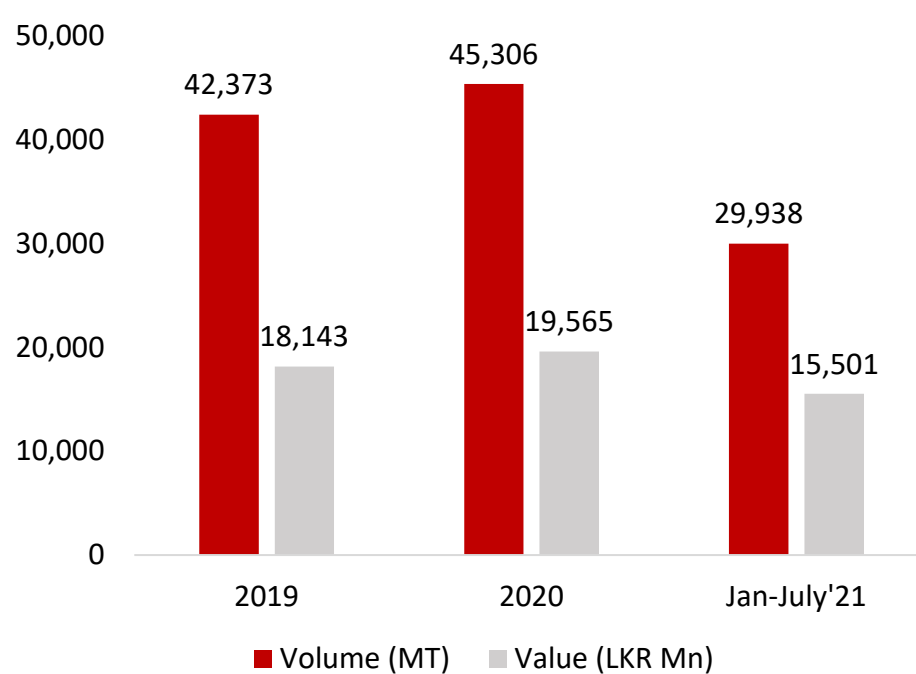
Note: BVPS & DPS are adjusted to the current number of shares

Key Statistics

Market Cap (LKR Bn)	24.2
Market Cap (USD Mn)	119.1
Issued Quantity (Mn)	297.1
Current Trading Range	80.00-83.00
52 week High/Low	30.00/159.00
YTD High/Low	57.20/159.00
Valuation	
Market PE (x)	10.5
Market PBV (x)	1.2
PE (x)	8.6
PBV (x)	1.7
Bloomberg Ticker	HAYC SL
GICS Industry Group	Materials

Note: Prices as at 14.09.2021 and adjusted for the share split of 1:10 which came into effect on 16.02.21

Export volume of coconut shell activated carbon grew by 20% in Jan'21-July'21

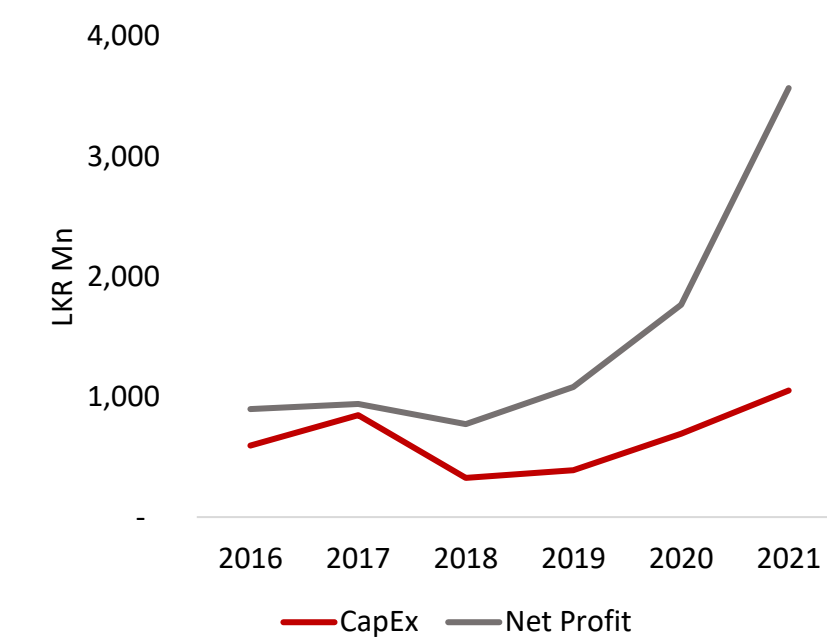


Main Shareholders as at 30.06.2021

Hayleys PLC	67.73%
Employees Provident Fund	4.45%
Mr. T. Ueda	1.21%
Dr. D. Jayantha	0.81%
Mrs. J. K. P. Singh	0.67%



HAYC added 15,000MT of manufacturing capacity since FY15



Haycarb PLC- a subsidiary of Hayleys PLC, is one of the leading manufacturers of coconut shell based activated carbon, catering to 16% of global demand. Activated carbon segment (accounts for 91% of revenue) represents activated carbon products to be used in water treatment, air purification, food and beverages industry, energy storage and gold recovery whereas environmental engineering segment (accounts for 9% of revenue) is in to designing and installing water treatment systems.

In FY21, HAYC recorded a net profit of LKR 3.5Bn which is a growth of 102%YoY driven by elevated activated carbon prices and increase in global market share due to the production disruptions faced by peers as a result of the pandemic.

We forecast a topline growth of 17%YoY in FY22E backed by high demand for water purification segment, increase in production of value added products, capacity expansions and currency depreciation.

We expect the demand for water treatment segment (accounts for 47% of HAYC's total sales) to grow due to the stringent environmental regulations in USA and China and funding programs led by the World Bank, ADB and United Nations to achieve the SDG6 which is to ensure safe drinking water and sanitation to all. We believe that the other segments would witness an organic growth in the medium to long term backed by stabilizing gold prices, increase in demand for Lithium-ion battery and increase in environmental pollution.

The six manufacturing plants in Sri Lanka, Thailand and Indonesia are currently operating at 100% capacity utilization. Hence, we believe another capacity expansion to be on the cards to meet the increasing demand along with more additions to the value added product portfolio such as energy storage, pelletized and impregnated carbon.

Further, the currency depreciation works in favor of HAYC as approximately 60% of HAYC's revenue is generated via USD, overshadowing the negative impact arising through production given a major part of raw materials is locally sourced.

However, there could be some pressure on margins as the coconut, charcoal prices and freight charges are now rising at a faster rate compared to FY21 (majority of the freight charges however can be passed down to the customers). We believe HAYC would maintain GP margins at 23% levels (cf. 30% inFY21) by increasing the product prices along with rising raw material costs, however, to have undisputed supply due to the scale and the long term relationships HAYC maintains with its clients.

Based on DCF valuation method we have derived a 12M target price of LKR 94.60, a upside of 16%, and along with a dividend yield of 4% HAYC should generate a total return of >20%. Moreover, the global peers with similar market capitalization trade at relatively higher multiple, ranging from 14.5x to 73.6x (cf. HAYC's TTM PE of 8.6x). Hence, we strongly believe that HAYC warrants to trade at relatively higher multiple. Thus, we recommend BUY.

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