

EQUITY RESEARCH REPORT- JAT HOLDINGS PLC

Industry- Capital Goods

Date- 10 January 2023



COMPANY OVERVIEW

JAT Holdings Limited (JAT) has a history of nearly three decades, commanding over 50% of market share in wood coating market with presence in decorative & performance coatings and furnishing solutions market segments. and. The Company also has established presence as a market leader in wood coating segment in Bangladesh and Maldives.

INDUSTRY OVERVIEW

Sri Lanka's construction sector is severely hit by the worst economic crisis currently facing the Country. According to the National Construction Association of Sri Lanka, 95% of the construction projects have been delayed due to the shortage of required raw materials in the local market and 70% of the state's project are on hold at the moment. These Factors aids in projecting that in medium term the industry's outlook will not favourable, this adversely impact the wood coating and paint market as well.

PAINT & COATING MARKET

JAT Holding's main source of revenue comes from new constructions and renovation of domestic dwellings. JAT holdings customers vary from government, industries and private sectors. Since the prevailing difficult economic situation of the country, it's expected that the Government spendings on construction will most likely to diminish in coming years. This will have a notable effect on JAT since revenue from the government holds approximately 25%. However when it comes to the private and industry sector (representing the wood furniture segment), management believe that they will likely to continue their activities. CBSL has imposed several import restrictions to curtail the issue of the prevailing economic crisis thus the local furniture manufacturers needs to increase their production to cater the local demand.

FINANCIAL PERFORMANCE

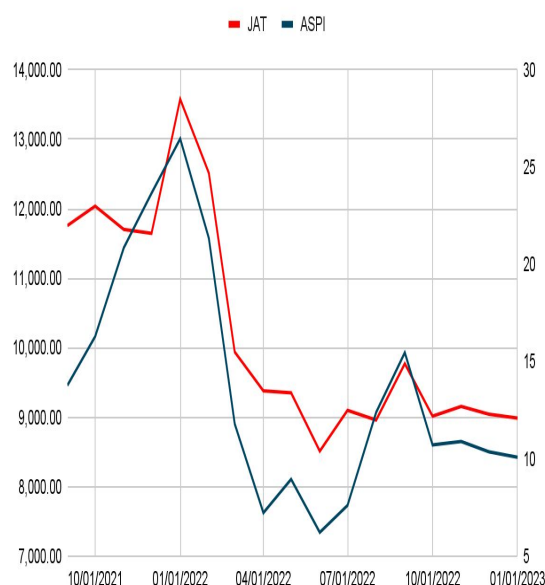
Financial Year (LKR BN)	FY20	FY21	FY22	6mFY23
Total Assets	7.12	7.06	11.54	11.77
Total Liabilities	2.20	1.72	3.80	3.68
Total Equity	4.96	5.34	7.75	8.99
Revenue	6.30	5.36	8.90	4.40
YoY Growth		-14.9 %	66.0 %	
EBIT	0.84	0.69	1.19	0.82
YoY Growth		-18.2 %	73.1 %	
Net Profit	0.71	0.60	1.21	0.60
YoY Growth		-15.1 %	101.8%	

In the fiscal year 2022, the company's topline and bottom line both saw substantial growth. JAT reported sales for the first half of FY 22/23, rising 40% from the prior year. This has been made possible in large part by rising furniture demand and renovation projects. The company's working capital management strategy of storing up inventories in advance helps to mitigate the external shock, allowed JAT to post GP margin of 35% in the 2QFY 22/23. Raw material prices, energy prices, volatile exchange rates and inflation are expected to strain margins in the year ahead. Inflation is also likely to lead to pressure on wages as disposable incomes decline. It should be noted that the rate of inventory turnover is decreasing each quarter YoY. This may indicate that demand for the paint and coating and associated products depleting, Comparing the September quarter to the March quarter, JAT's inventory value climbed by 79% to Rs. 4 billion. However, Inventory to sales ratio is significantly improved QoQ basis which achieved by the increased prices of paint and coating products.

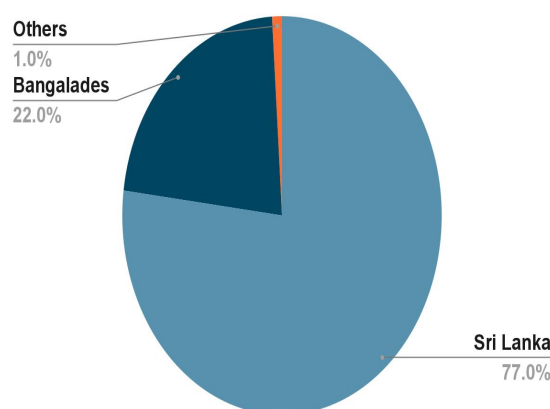
KEY STOCKS STATISTICS

CSE Ticker-	JAT
Current Market Price-	RS.12.30
Shares Outstanding-	510 mn
Market cap-	RS. 6.28 bn
52 week range-	RS. 9 - 32
P/E on EPS estimate-	4.07 x
Beta-	0.70
Public holding %-	18.66 %

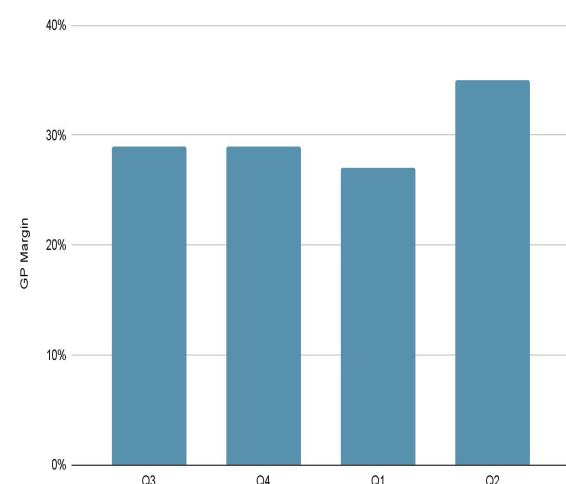
SHARE PRICE MOVEMENT



GEOGRAPHICAL DISTRIBUTION OF REVENUE



GP MARGIN



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PER VALUATION

	EPS Current	EPS Previous
Q3 2021/22	0.63	0.53
Q4 2021/22	0.97	0.84
Q1 2022/23	0.33	0.35
Q2 2022/23	0.85	0.49
Actual EPS	2.78	2.21
Q3 EPS 22/23 (assumed to be same as last Quarter)	0.85	
Forecasted EPS	3	
Current Market Price	RS. 12.30	
Current PER	4.42 x	
PER expectation	Share Price (RS)	Upside potential
PER @ 5- current EPS	13.90	13%
PER @ 6- current EPS	16.68	36%
PER @ 5- Forecasted EPS	15.00	22%
PER @ 6- Forecasted EPS	18.00	46%

FUTURE OUTLOOK

JAT Holdings expansion in Bangladesh and East Africa helps the group to diversify in to emerging economies. However, the effects of these expansion are likely to contradicted in short term due to economic hardships faced by the world economy. Given the positive development of Bangladesh reaching staff level agreement with IMF for the \$4.5 billion loan gives a significant boost to the economy and construction industry as well. Management expects the expansion in to Bangladesh will yield a market share of 35%- 40% in next 2 to 3 years. However, there is a fierce competition in the paint & coating industry in Bangladesh, in order to achieve the above market share company's aggressive expansion policy likely to play a key role.

Equity Research

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Financial analyst

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