

# Investment Analysis Report: Hayleys PLC Stock Recommendation and Valuation Outlook (May 2026)

Hayleys PLC, a venerable and highly diversified conglomerate, stands as a pivotal entity within the Sri Lankan economic landscape. Established in 1878, the company has evolved into a multifaceted organization operating across 16 distinct business sectors, ranging from vital areas such as transportation and logistics to manufacturing, agriculture, and leisure.<sup>1</sup> This extensive portfolio, spanning over 80 international markets, underscores its significant global footprint and its foundational role in Sri Lanka's economy, contributing substantially to national export income and employment.<sup>1</sup>

The company recently concluded a robust financial year (FY25, ended March 31, 2025), demonstrating a notable recovery. Hayleys PLC achieved record-breaking revenue of Rs. 492.20 billion, representing a 13% year-on-year (YoY) increase. Profit Before Tax (PBT) surged by an impressive 40% YoY to Rs. 35.37 billion, while Profit After Tax (PAT) climbed by 52% to Rs. 22.51 billion. Earnings Per Share (EPS) also saw a significant rise to Rs. 17.93.<sup>5</sup> This performance signals a strong rebound from a period of declining profitability experienced in FY24. Hayleys maintains leading market positions in several key sectors, including transportation and logistics, consumer-durable retail, activated carbon (holding a 16% global market share), and hand protection (accounting for 5% of global demand).<sup>1</sup> The strategic breadth of its operations provides a crucial buffer against sector-specific downturns, enhancing its overall resilience.

Based on a comprehensive analysis of its diversified business model, financial performance, market positioning, and the prevailing macroeconomic environment, a **"Hold" recommendation** is issued for Hayleys PLC stock. The company demonstrates strong recovery momentum and strategic advantages, yet faces significant external headwinds and internal financial complexities that warrant a cautious approach. The projected stock value by **May 2026 is estimated to range between LKR 145 and LKR 175.**

## 2. Company Overview: Hayleys PLC

Hayleys PLC's enduring presence in Sri Lanka dates back to its founding in 1878, establishing it as one of the nation's oldest and most prominent conglomerates.<sup>2</sup> The company is publicly listed on the Colombo Stock Exchange (CSE: HAYL).<sup>2</sup> Its intricate corporate structure encompasses over 180 business units and subsidiaries, with 12 of these entities independently listed on the CSE, showcasing a deeply integrated yet

expansive operational framework.<sup>3</sup> The Group's strategic direction and governance are meticulously managed by a Board of Directors, with Mohan Pandithage serving as Chairman & Chief Executive and Dhammika Perera as Co-Chairman.<sup>14</sup>

The diversified business model of Hayleys PLC is a cornerstone of its operational philosophy, extending across 16 distinct sectors. These include Eco Solutions, Hand Protection, Purification, Textile Manufacturing, Construction Materials, Agriculture, Plantations, Tea Exports, Consumer & Retail, Leisure, Transportation & Logistics, Projects & Engineering, Industrial Solutions, Power & Energy, Business Process Outsourcing (BPO), and Investments & Services.<sup>1</sup> This broad array of interests allows the company to serve a vast network of over 80 markets globally.<sup>1</sup>

Hayleys PLC's substantial global presence is matched by its critical contribution to Sri Lanka's national economy. As a leading diversified conglomerate and one of the country's largest value-added exporters, it accounts for approximately 5% of Sri Lanka's total export income. Furthermore, its agricultural operations contribute significantly to national output, representing 4.6% of Sri Lanka's tea production and 4.1% of its rubber production.<sup>1</sup> The Group is also a major employer, providing livelihoods to over 36,000 individuals, making it one of the largest private sector employers in Sri Lanka.<sup>3</sup> Beyond its domestic base, Hayleys has strategically expanded its manufacturing facilities to Indonesia and Thailand, complementing its extensive marketing operations across Asia, Europe, and the USA.<sup>4</sup>

The extensive number of business sectors and the broad global market presence are not merely descriptive facts about Hayleys PLC; they represent a fundamental aspect of the company's risk management approach. In an economic environment as dynamic and occasionally volatile as Sri Lanka's<sup>17</sup>, a company heavily reliant on a single industry or geographic region would face amplified risks from sector-specific downturns or domestic economic shocks. Hayleys' strategic diversification allows it to strategically allocate resources and efforts, enabling growth in one sector to potentially offset challenges encountered in another.<sup>19</sup> This inherent flexibility acts as a natural hedge against localized or industry-specific risks, providing a more balanced and potentially sustainable growth trajectory.

Moreover, Hayleys' substantial contribution to Sri Lanka's economy extends beyond its direct business operations. As an entity accounting for a significant portion of the nation's export income and employing a large workforce<sup>1</sup>, it holds a systemically important position within a developing economy that has recently navigated a severe economic crisis.<sup>17</sup> This systemic importance can often translate into implicit government support or a more accommodating regulatory environment during

periods of economic fragility, as the company's stability becomes crucial for broader national economic recovery and employment. The successful oversubscription of its recent debenture issue <sup>20</sup>, alongside its 'AAA(lka)' rating from Fitch <sup>10</sup>, can be viewed, in part, as a reflection of this perceived systemic importance, contributing to enhanced investor confidence and facilitating access to capital.

### 3. Business Segments and Market Position

Hayleys PLC's diversified portfolio is strategically positioned across various sectors, each contributing uniquely to the Group's overall performance. An in-depth look at its key revenue-contributing sectors reveals a mixed but generally positive outlook.

**Transportation & Logistics:** This sector is a significant revenue driver for Hayleys. Its subsidiary, Advantis, commands a 22% market share in the Sri Lankan transport and logistics industry and handles 19% of the throughput at the Colombo Port.<sup>11</sup> For the nine months ended December 2024, this segment reported a substantial 23% revenue surge, reaching Rs. 80.78 billion. This growth was primarily driven by increased trade volumes and strategic regional expansion efforts.<sup>22</sup> The broader Sri Lankan freight and logistics market is projected to grow at a Compound Annual Growth Rate (CAGR) of over 4%, reaching USD 9.93 billion by 2029. This optimistic outlook is underpinned by Sri Lanka's strategic geographical location, ongoing port development initiatives, and the burgeoning e-commerce sector.<sup>23</sup> Hayleys Advantis is actively pursuing its ambition to become a dominant regional logistics player, with a clear focus on expanding into international markets and driving digital transformation across its operations.<sup>25</sup>

**Consumer & Retail:** This segment also demonstrated robust performance, with revenue growing by 28% to Rs. 78.85 billion for the nine months ended December 2024. This growth was fueled by strong consumer demand and a diversified product portfolio.<sup>22</sup> Hayleys' strategic acquisition of a majority stake in Singer (Sri Lanka) PLC in 2017 <sup>3</sup> has provided it with a significant advantage, as Singer is recognized as the market leader in Sri Lanka's consumer durables industry, reaching nearly 30% of the country's population.<sup>12</sup> The broader Sri Lankan retail sector is anticipated to experience steady growth as inflationary pressures stabilize post-2024, with e-commerce identified as a rapidly expanding segment offering further opportunities.<sup>26</sup>

**Hand Protection:** Dipped Products PLC (DPL), a key subsidiary in this sector, holds a prominent global position, serving approximately 5% of the worldwide demand for household and industrial gloves.<sup>9</sup> Despite this strong market presence, the sector

experienced a 12% revenue decline (to Rs. 35.31 billion for the nine months ended December 2024), primarily due to reduced export orders and the appreciation of the Sri Lankan Rupee.<sup>9</sup> However, there are positive signs, with demand strengthening towards the latter part of 2024, particularly from the industrial sector, a momentum expected to continue.<sup>9</sup> The global Personal Protective Equipment (PPE) market, which includes safety gloves, is projected to grow at a 5.7% CAGR from 2023 to 2032.<sup>28</sup> DPL's operational resilience is further enhanced by its manufacturing facilities in Sri Lanka and Thailand, complemented by a distribution arm in Italy, allowing for critical geographic diversification.<sup>9</sup>

**Textile Manufacturing:** Hayleys Fabric PLC is a pioneer and a world-class fabric manufacturer in Sri Lanka, boasting a capability of producing over 3 million meters of fabric per month.<sup>29</sup> The broader Hayleys Group's textile operations collectively produce 6 million meters of fabric monthly.<sup>1</sup> This segment, however, saw a 12% revenue decline (to Rs. 35.31 billion for the nine months ended December 2024), primarily impacted by a reduction in export orders.<sup>22</sup> The Sri Lankan apparel industry faces broader challenges, including pricing pressures and a heavy reliance on traditional export markets like the USA and EU.<sup>30</sup> Despite these headwinds, Hayleys Fabric distinguishes itself through its leadership in eco-friendly processes, having achieved "zero discharge of hazardous chemicals (ZDHC)" goals three years ahead of target. This commitment to sustainability has successfully attracted top global brands to its product portfolio.<sup>29</sup>

**Purification:** This sector is a world leader in coconut shell-based activated carbon solutions, holding a significant 16% global market share.<sup>1</sup> It is a substantial contributor to the Group's profitability, accounting for 14% of its Earnings Before Interest and Tax (EBIT).<sup>10</sup> The sector, however, faces challenges from rising charcoal prices, which are influenced by climate change impacts on the coconut supply chain, potentially exerting pressure on its margins.<sup>10</sup>

Hayleys PLC's overall market leadership and competitive advantages are rooted in its ability to command leading positions across various sectors, including logistics, consumer-durable retail, activated carbon, and hand protection.<sup>1</sup> This competitive standing is further strengthened by its vertically integrated operations, robust relationships with suppliers, and an unwavering commitment to quality, sustainability, and continuous innovation.<sup>9</sup>

The overall positive macroeconomic outlook for Sri Lanka does not uniformly benefit all of Hayleys' diverse business segments, leading to divergent growth trajectories within its portfolio. While Sri Lanka's economy is showing signs of recovery, with

projected growth rates of 3.5% to 5% <sup>32</sup>, this recovery primarily stimulates domestic-facing sectors. The strong performance of the Consumer & Retail and Transportation & Logistics segments is directly linked to improved consumer sentiment and increased local trade.<sup>6</sup> Similarly, the rebound in tourism significantly benefits Hayleys Leisure.<sup>34</sup> Conversely, export-oriented sectors, such as Textiles and Hand Protection, remain highly susceptible to global trade dynamics, currency fluctuations (e.g., Rupee appreciation impacting margins <sup>7</sup>), and protectionist policies like the recent US tariffs.<sup>36</sup> This means that while domestic growth provides a vital buffer, international headwinds can still considerably affect the Group's overall performance, particularly for segments with heavy reliance on exports to specific markets. Therefore, evaluating the company's prospects requires a nuanced understanding of each segment's exposure to both domestic and international market forces.

Hayleys' deep commitment to sustainability is not merely a corporate social responsibility initiative; it functions as a strategic investment that unlocks market opportunities and strengthens its competitive position. The company's achievements, such as being "ahead of the global initiative of 'zero discharge of hazardous chemicals (ZDHC)'" and its 74% reliance on renewable energy <sup>6</sup>, demonstrate a proactive approach to environmental stewardship. In industries like textiles and hand protection, global brands and consumers are increasingly prioritizing verifiable sustainability credentials. By being a recognized leader in "green manufacturing" and ethical practices <sup>29</sup>, Hayleys gains preferential access to these premium customers and markets. This not only enhances its brand image but can also translate into higher sales volumes, improved pricing power, and reduced long-term operational costs through greater energy efficiency and waste reduction. This proactive stance also effectively mitigates potential future regulatory risks related to environmental impact.

While Hayleys holds significant market shares in certain sectors, its leadership in fragmented industries presents ongoing competitive pressures that necessitate continuous adaptation. In the logistics sector, for instance, Hayleys Advantis is a market leader, but the industry is characterized by "extremely high" internal competition due to "low differentiation".<sup>11</sup> This implies that competitive advantages can be fragile and easily eroded by aggressive pricing or new market entrants. Similarly, in the retail market, the burgeoning e-commerce segment <sup>27</sup> demands that Hayleys' consumer arm (through Singer) actively expands its digital presence and omnichannel strategies to capture evolving consumer behavior, rather than solely relying on traditional retail dominance. Sustaining market leadership in such dynamic environments requires continuous investment in operational efficiency, technological

advancements (e.g., digital transformation in logistics <sup>25</sup>), and the development of differentiated, value-added services to prevent price erosion. This strategic imperative necessitates ongoing capital expenditure and agile management to maintain its competitive edge and capitalize on new growth avenues.

## 4. Financial Performance Analysis

Hayleys PLC has demonstrated a mixed but ultimately strong financial trajectory over recent years, marked by a significant rebound in profitability in the most recent fiscal year.

### Revenue, Gross Profit, Operating Profit, and Net Profit Trends

#### Fiscal Year Ended March 31:

Metric (LKR Mn)	FY23 (Audited)	FY24 (Audited)	FY25 (Unaudited)	Change FY24-FY25 (%)
Revenue	487,431	436,833	492,201	13%
Gross Profit	119,234	109,512	118,312	8%
Profit Before Tax (PBT)	42,749	25,336	35,373	40%
Profit After Tax (PAT)	27,672	14,847	22,513	52%
EPS (Basic)	21.80	9.19	17.93	95%

Sources: <sup>5</sup>

#### Quarterly Performance (LKR Mn):

Metric (LKR Mn)	9 Months Ended Dec 31, 2023	9 Months Ended Dec 31, 2024	Change (%)	3 Months Ended Dec 31, 2023	3 Months Ended Dec 31, 2024	Change (%)
Revenue	324,497	363,540	12%	122,302	127,393	4%

Gross Profit	77,786	86,414	11%	29,936	31,497	5%
Operating Profit	28,069	32,584	16%	11,205	13,406	20%
Net Profit	7,150	13,883	94%	3,994	6,875	72%

Sources: <sup>22</sup>

The financial data illustrates a strong rebound in FY25, with revenue climbing to a record high and significant improvements in profitability metrics. This follows a challenging FY24, which saw a decline in revenue and a substantial drop in PBT and PAT compared to FY23. The quarterly data for Q3 FY25 (9 months ended Dec 2024) further reinforces this positive trend, showing double-digit growth in revenue, gross profit, operating profit, and net profit.

### Analysis of Earnings Per Share (EPS) and Dividend History

EPS for FY25 (12 months) stood at Rs. 17.93, a substantial increase from Rs. 9.19 in FY24.<sup>5</sup> Hayleys PLC has a commendable history of consistent dividend payments, a streak maintained for 31 consecutive years.<sup>40</sup> For FY25, an interim dividend of Rs. 6.00 per share was declared<sup>41</sup>, building on the Rs. 5.35 paid in FY24.<sup>42</sup> The dividend yield was 6.52% in 2023 and 7.43% in 2022.<sup>15</sup> This consistent dividend policy, even through challenging periods, demonstrates a commitment to shareholder returns.

### Assessment of Debt Levels, Net Finance Costs, and Cash Flow

Metric (LKR Mn)	Mar-23	Mar-24	Dec-24
Total Debt	159,696	171,883	202,811
Total Equity	122,707	125,530	136,585
Debt-to-Equity Ratio (x)	1.30	1.37	1.49
Cash & Short-Term Invest.	44,813	51,708	52,598

Sources: <sup>40</sup>

Metric (LKR Mn)	TTM Mar-23	TTM Mar-24	TTM Dec-24	Q3 Dec-24
Cash Flow from Operations (CFO)	56,794	30,427	9,785	(1,915)
Free Cash Flow (FCF)	39,665	10,507	(10,922)	(6,367)

Sources: <sup>40</sup>

Hayleys PLC carries a substantial debt load, with its debt-to-equity ratio at 2.77x as reported for 9 months ended Dec 2024.<sup>22</sup> While the company successfully raised Rs. 7 billion through an oversubscribed debenture issue in Q2 2025, supported by an 'AAA(lka)' rating from Fitch <sup>20</sup>, Fitch Ratings notes that the company's free cash flow is "mostly negative".<sup>10</sup> This indicates that despite strong reported profits, the company is not consistently generating sufficient cash internally to cover its operations and investments, often necessitating external financing. Fitch anticipates EBITDAR net leverage to increase to 3.5x in FY25 (from 3.3x in FY24) due to capital expenditure and higher dividend payouts, though a decrease is projected from FY26-FY28.<sup>10</sup> As of December 2024, Hayleys held LKR 51 billion in unrestricted cash against LKR 133 billion of debt maturing within the next 12 months, relying on domestic banks to roll over short-term working capital lines.<sup>10</sup> Net finance costs declined by 30% YoY in FY25, a positive development reflecting falling interest rates.<sup>5</sup>

### **Discussion of Non-Recurring Income and its Impact on Profitability**

A critical aspect of Hayleys' recent financial performance is the significant surge in "Other Income." This line item showed a remarkable 423% increase in Q3 FY25 (to Rs. 2,678.7 million for the quarter), contributing a notable 20% to operating profit in that specific quarter.<sup>22</sup> LankaBIZ has raised concerns regarding the sustainability of this surge, explicitly stating that it "appears to be driven by one-off gains, which are non-recurring in nature".<sup>22</sup>

The divergence between strong reported profits and negative free cash flow suggests that a significant portion of Hayleys' recent profitability may not be converting into readily available cash. This situation could arise from various factors, including

increased working capital requirements (e.g., higher inventory levels or slower collection of receivables), substantial non-cash earnings (such as fair value adjustments), or significant capital expenditures. Fitch Ratings indeed points to high capital expenditure as a factor contributing to the negative free cash flow.<sup>10</sup> A sustained pattern of negative free cash flow implies that the company is not generating enough cash from its core operations to fund its investments and dividend payments, necessitating a reliance on external financing or asset sales. This raises questions about the long-term sustainability of its dividend policy and its capacity for organic growth without increasing leverage. For a discerning investor, this highlights the importance of a thorough examination of the components of working capital, the nature and necessity of capital expenditures, and the company's overall funding strategy. While the income statement presents a robust picture, the balance sheet and cash flow statement offer a more cautious perspective on operational efficiency and financial self-sufficiency.

Furthermore, the substantial increase in "Other Income" driven by "one-off gains" is a material concern for future earnings reliability. If these gains are indeed non-recurring, the impressive profit growth reported for FY25 may not accurately reflect the company's underlying operational performance. This implies that in subsequent periods, without similar extraordinary gains, Hayleys' profitability could face downward pressure unless there are significant improvements in its core business segments or aggressive cost reduction initiatives. This directly impacts the reliability of forward-looking earnings projections that might be based solely on recent headline profit figures. Investors should carefully differentiate between improvements driven by core operations and those stemming from transient financial gains, and closely monitor recurring revenue streams and core segment performance in upcoming quarters to assess the true quality and sustainability of earnings.

## **5. Industry and Macroeconomic Outlook (Sri Lanka)**

Sri Lanka's economy is currently in a recovery phase, showing promising signs of stabilization. The country recorded a 5% growth in 2024, surpassing earlier projections, with this expansion primarily driven by strong performances in the industrial and services sectors, particularly construction and tourism.<sup>33</sup> The World Bank forecasts a moderate but continued GDP growth of 3.5% in 2025 and approximately 3.1% in 2026.<sup>32</sup> This recovery is largely supported by ongoing fiscal consolidation efforts, prudent monetary policy measures, and the successful restructuring of national debt.<sup>6</sup> Inflation has shown significant improvement, easing to around 2.5% in 2024 and is expected to stabilize further.<sup>18</sup>

This stabilizing macroeconomic environment and the resultant improvement in investor and consumer sentiments are expected to provide significant tailwinds for Hayleys' domestic-facing businesses.<sup>6</sup> Specifically, the Consumer & Retail, Transportation & Logistics, and Leisure segments are particularly well-positioned to capitalize on this recovery. The tourism sector, a crucial component of the economy, has seen tourist arrivals surpass 2.0 million in 2024 and is projected to exceed pre-pandemic levels by 2025, which directly benefits Hayleys Leisure.<sup>34</sup>

Key industry trends also offer a mixed but generally positive outlook for Hayleys' major sectors:

- **Logistics:** Sri Lanka's strategic location positions it as a prime hub for logistics in South Asia. The freight and logistics market is projected to grow at a CAGR of over 4%, reaching USD 9.93 billion by 2029. This growth is bolstered by ongoing port infrastructure developments, such as the Colombo Port expansion aimed at increasing container handling capacity to 12 million TEUs per year, and the burgeoning e-commerce segment.<sup>23</sup>
- **Retail:** The stabilization of inflation is expected to foster steady growth in the retail sector. The rapid expansion of e-commerce is identified as a significant trend, presenting both opportunities and challenges for traditional retail players.<sup>26</sup>
- **Textiles:** The textile and garment industry in Sri Lanka is showing signs of recovery, driven by strong export demand from the US and EU markets and an increasing global emphasis on sustainable practices. However, the sector continues to face challenges from pricing pressures and intense competition from regional players who may benefit from lower tariffs.<sup>30</sup>
- **Hand Protection:** The global Personal Protective Equipment (PPE) market, including safety gloves, is experiencing a thriving period, with a projected CAGR of 5.7% from 2023 to 2032. The demand for industrial gloves, in particular, is strengthening, indicating a favorable market for Hayleys' Hand Protection segment.<sup>9</sup>
- **Tourism:** The recovery of the tourism sector is evident, with Hayleys Travels actively promoting Sri Lanka as a premier destination for luxury, adventure, and sustainable travel experiences, with a specific focus on the Indian market.<sup>34</sup>

The overall positive macroeconomic outlook for Sri Lanka does not uniformly benefit all of Hayleys' diverse business segments. This leads to divergent growth trajectories within its portfolio. The domestic economic recovery directly stimulates consumer spending and local trade, providing a significant boost to Hayleys' Consumer & Retail and Transportation & Logistics segments. The robust rebound in tourist arrivals directly enhances the performance of Hayleys Leisure. Conversely, the

export-focused sectors, such as Textiles and Hand Protection, remain highly susceptible to global trade dynamics, currency fluctuations (e.g., the appreciation of the Sri Lankan Rupee impacting export margins<sup>7</sup>), and the imposition of protectionist policies like the recent US tariffs.<sup>36</sup> This creates a scenario where domestic growth acts as an important buffer, but international headwinds can still significantly impact the Group's overall performance, particularly for segments heavily reliant on exports to specific markets. Therefore, a comprehensive assessment of the company's future prospects requires a careful consideration of the relative contribution and risk exposure of each segment to both domestic economic trends and global trade tensions.

Even in growing markets where Hayleys holds a leadership position, the competitive landscape necessitates continuous adaptation and strategic evolution. For instance, while Hayleys Advantis is a market leader in logistics, the industry is characterized by "extremely high" internal competition due to "low differentiation".<sup>11</sup> This implies that maintaining market share and profitability requires ongoing investment in operational efficiency, technological advancements (such as the digital transformation initiatives in logistics<sup>25</sup>), and the development of value-added services to counteract potential price erosion. Similarly, the rapid growth of e-commerce in the retail sector<sup>27</sup> demands that Hayleys' consumer segment (through Singer) aggressively expands its digital presence and omnichannel strategies to capture this shifting consumer behavior, rather than relying solely on its traditional retail dominance. Sustaining market leadership in such dynamic environments is contingent upon continuous strategic investment and organizational agility. This implies a need for ongoing capital expenditure and a highly responsive management approach to navigate evolving market demands and competitive pressures effectively.

## 6. Key Strengths and Growth Drivers

Hayleys PLC possesses several inherent strengths and is driven by strategic initiatives that position it for continued growth, despite external challenges.

**Strategic Diversification and Resilience:** The Group's operation across 16 diverse sectors and its presence in over 80 global markets provide a robust foundation for resilience.<sup>1</sup> This extensive diversification allows the company to absorb shocks or downturns in one specific segment or geographic region by leveraging growth opportunities in others. A key aspect of this resilience is the geographic diversification of its manufacturing facilities. For example, the Hand Protection and Purification segments benefit from manufacturing operations in Thailand and Indonesia, in addition to Sri Lanka.<sup>4</sup> This global manufacturing footprint acts as a crucial buffer

against country-specific economic downturns or trade barriers, as evidenced by its potential to mitigate the impact of recent US tariffs.<sup>36</sup>

**Investments in Sustainability and Innovation:** Hayleys demonstrates a strong commitment to Environmental, Social, and Governance (ESG) principles, which is increasingly becoming a competitive differentiator. This commitment is evidenced by its impressive 74% reliance on renewable energy in FY25 and a 14% year-on-year reduction in Greenhouse Gas (GHG) emission intensity.<sup>1</sup> Hayleys Fabric stands out as a pioneer in eco-friendly textile manufacturing, having achieved "zero discharge of hazardous chemicals (ZDHC)" goals significantly ahead of target. This proactive approach to sustainability has been instrumental in attracting world-class brands to its product portfolio.<sup>29</sup> Across various sectors, there is an ongoing focus on developing value-added products and fostering innovation, including the successful launch of its own fabric brand "INNO" and the development of 35 new products in the Hand Protection segment.<sup>9</sup>

**Strategic Expansions and Digital Transformation Initiatives:** The company is actively pursuing growth through strategic expansions and digital transformation. It is expanding its regional presence and seeking new growth opportunities in export markets.<sup>31</sup> Recent inorganic growth initiatives, such as the acquisition of Horana Plantations PLC and Colombo Cargo Express, further bolster its market position and operational scale.<sup>3</sup> Concurrently, Hayleys is implementing comprehensive digital transformation initiatives across the Group, particularly in its logistics operations, aimed at enhancing efficiency and strengthening its competitive edge.<sup>22</sup> Hayleys Travels is also strategically expanding its presence in the Indian tourism market, leveraging Sri Lanka's appeal for luxury, adventure, and sustainable travel experiences.<sup>35</sup>

**Strong Credit Rating (Fitch 'AAA(lka)'):** Hayleys PLC and its proposed debentures have been assigned a National Long-Term Rating of 'AAA(lka)' with a Stable Outlook by Fitch Ratings.<sup>10</sup> This top-tier rating reflects the company's large operating scale, robust diversification, and its ability to generate sustainable operating cash flow. This external validation of its financial health and stability instills confidence among investors.<sup>10</sup>

Hayleys' global manufacturing footprint is a deliberate and effective strategy to mitigate geopolitical and trade risks, rather than merely a result of its expansion. The recent imposition of a 44% US tariff on Sri Lankan exports, effective April 2025<sup>36</sup>, poses a significant threat to export-oriented sectors. However, Hayleys' existing manufacturing capacity in countries like Thailand and Indonesia, which face

comparatively lower tariffs (e.g., 36% for Thailand/Indonesia versus 44% for Sri Lanka<sup>36</sup>), becomes a critical strategic advantage. This operational flexibility allows the company to potentially re-route orders, shift production, or prioritize exports from these lower-tariff regions, thereby limiting the adverse impact on its export revenues and profitability. This demonstrates a proactive and well-executed risk management strategy embedded within its operational structure. This operational agility enhances the company's resilience to external trade shocks, making its export-oriented businesses more robust in a volatile global trade environment. This directly supports the 'AAA(lka)' rating by Fitch, which explicitly acknowledges the benefits of geographic diversification.<sup>10</sup>

The deep commitment to sustainability is a strategic investment that unlocks market opportunities and strengthens Hayleys' competitive position. The company's achievements, such as its early adherence to ZDHC goals, 74% reliance on renewable energy, and a reduction in GHG emissions intensity<sup>6</sup>, are not merely compliance measures. In industries like textiles and hand protection, global brands and consumers are increasingly demanding verifiable sustainability credentials. By being a leader in "green manufacturing" and ethical practices<sup>29</sup>, Hayleys gains preferential access to these premium customers and markets. This not only enhances its brand image but can also lead to higher sales volumes, improved pricing power, and reduced long-term operational costs through greater energy efficiency. Furthermore, this proactive approach effectively addresses potential future regulatory risks related to environmental impact. Hayleys' ESG efforts are deeply integrated into its business model to drive sustainable growth and competitive advantage, making the company more attractive to a growing pool of socially responsible investors and ensuring long-term market relevance.

## 7. Key Risks and Challenges

Despite its strengths and strategic positioning, Hayleys PLC faces several significant risks and challenges that warrant careful consideration.

**Impact of US Tariffs on Export-Oriented Sectors:** The most immediate and severe challenge is the US imposition of a 44% reciprocal tariff on Sri Lankan exports, effective April 9, 2025.<sup>36</sup> This tariff significantly erodes Sri Lanka's cost competitiveness in the US market.<sup>48</sup> Hayleys Fabric PLC (MGT) is particularly vulnerable, with its shares plunging 12.9% following the announcement, owing to its 100% Sri Lankan manufacturing base and heavy reliance on major US brands like Nike and Victoria's Secret. This situation could lead to substantial order relocations.<sup>36</sup> While other export-oriented subsidiaries, such as Dipped Products (DIPD) and HayCarb PLC

(HAYC), possess manufacturing facilities in lower-tariff countries like Thailand and Indonesia, offering some mitigation, the overall impact on the Group's export earnings (which constitute 54% of revenue) could be substantial.<sup>10</sup> The apparel sector, a major Sri Lankan export, is expected to be severely impacted, facing significant margin pressure and potential job losses across the industry.<sup>36</sup>

**Currency Volatility and Inflationary Pressures:** The appreciation of the Sri Lankan Rupee has already adversely affected margins in Hayleys' export-oriented sectors in FY25.<sup>7</sup> Conversely, currency dealers have warned of potential rupee depreciation if reduced export earnings due to the new tariffs lead to dollar shortages.<sup>36</sup> While headline inflation is currently stabilizing, Sri Lanka's recent history of hyperinflation (2022) and high inflation (2023) indicates a persistent susceptibility to price instability.<sup>18</sup>

**High Debt Levels and Liquidity Management:** Hayleys carries a high debt-to-equity ratio of 2.77x.<sup>22</sup> Despite a successful Rs. 7 billion debenture issue, Fitch Ratings notes that the company's free cash flow is "mostly negative," pointing to tight margins and high capital expenditure.<sup>10</sup> As of December 2024, Hayleys had LKR 51 billion in unrestricted cash against LKR 133 billion of debt maturing within the next 12 months, indicating a reliance on domestic banks to roll over short-term working capital lines.<sup>10</sup>

**Competition within Diversified Sectors:** Intense competition persists in key sectors where Hayleys operates, particularly in logistics, characterized by "low differentiation".<sup>11</sup> The consumer retail market is also rapidly evolving with the significant growth of e-commerce, necessitating continuous adaptation and investment to maintain market share.<sup>27</sup>

**Political Stability and Policy Uncertainty in Sri Lanka:** Sri Lanka continues to navigate out of an economic crisis that triggered political upheaval in 2022.<sup>17</sup> Presidential elections slated for late 2024 introduce an element of uncertainty, as any unforeseen political instability could disrupt the ongoing reform agenda, potentially leading investors to adopt a "wait-and-see" approach.<sup>17</sup> Historically, frequent policy changes in Sri Lanka's foreign investment policies have caused uncertainty for investors.<sup>17</sup>

**Sustainability of "Other Income":** As highlighted in the financial analysis, the significant surge in "other income" (a 423% increase in Q3 FY25) is a concern due to its explicitly non-recurring nature.<sup>22</sup> If these gains are indeed one-off, future profitability could be negatively impacted without sustained improvements in core

operations, raising questions about the quality of earnings.

The US tariffs are not merely a general economic headwind; they represent a direct, severe, and immediate threat to Hayleys' export-focused segments. The imposition of a 44% US tariff on Sri Lankan exports, effective April 2025<sup>36</sup>, effectively eliminates Sri Lanka's cost competitiveness against regional peers.<sup>48</sup> This could lead to "massive order cancellations"<sup>48</sup> and "order relocations"<sup>36</sup> for Hayleys Fabric, given its 100% manufacturing base in Sri Lanka. While other subsidiaries benefit from overseas manufacturing capabilities in lower-tariff countries<sup>36</sup>, the overall impact on the Group's substantial export earnings could be significant. The company's ability to swiftly implement mitigation strategies, such as accelerating market diversification (e.g., leveraging EU GSP+ benefits, and penetrating Japanese, GCC, East Asian, and Middle Eastern markets<sup>48</sup>), enhancing product innovation to justify higher prices, or strategically utilizing its geographically diversified manufacturing footprint<sup>36</sup>, will be paramount to limit revenue and margin erosion. The success of Hayleys' short-to-medium term financial performance hinges significantly on its agility and effectiveness in responding to these tariffs. The broader investor "wait-and-see" approach due to political uncertainty<sup>17</sup> will undoubtedly be influenced by the perceived success of these critical mitigation efforts. This tariff risk is arguably the most pressing challenge and requires continuous, close monitoring.

The combination of high debt and negative cash flow, even with a favorable credit rating, creates a financial vulnerability that could be amplified by macroeconomic or political instability. Hayleys' high debt-to-equity ratio (2.77x<sup>22</sup>) and "mostly negative" free cash flow<sup>10</sup> indicate a reliance on external financing. Despite Fitch's 'AAA(Ika)' rating<sup>10</sup> and the successful debenture issuance<sup>20</sup>, this financial structure makes the company susceptible to adverse shifts in interest rates, tightening credit conditions, or a loss of lender confidence. If the Sri Lankan economy experiences renewed instability<sup>17</sup> or if the upcoming elections<sup>17</sup> lead to unfavorable policy changes, the ability to roll over existing debt or access new capital at reasonable rates could be severely hampered. Such a scenario could force the company to curtail capital expenditures, reduce dividends, or even divest assets, which would directly impact its long-term growth prospects and shareholder returns. While the current macroeconomic environment is stabilizing, the underlying financial structure of Hayleys makes it sensitive to future economic or political shocks. Investors must carefully weigh the benefits of the company's diversification against this financial vulnerability, especially given the explicit mention of "unforeseen political instability" as a risk factor.<sup>17</sup>

## **8. Stock Valuation and Price Target (May 2026)**

## Discussion of Current Market Price and Historical Performance

Hayleys PLC (HAYL) is traded on the Colombo Stock Exchange (CSE).<sup>2</sup> Recent trading prices for HAYL have shown some volatility, with a closing price of LKR 135.75 as of February 13, 2025<sup>22</sup>, LKR 140.25 as of February 21, 2025<sup>50</sup>, and LKR 143.75 as of March 19, 2023.<sup>15</sup> The stock's 52-week range has been between LKR 80.00 and LKR 109.00.<sup>2</sup> Notably, Hayleys PLC has demonstrated a significant recovery in its stock price, with a 1-year change of +81.91% as of February 21, 2025.<sup>50</sup>

Hayleys Fabric PLC (MGT), a subsidiary, traded at LKR 43.0 as of February 21, 2025, within its 52-week range of LKR 40.00 to LKR 53.80.<sup>52</sup>

## Consideration of Analyst Consensus and Fair Value Models

Analyst sentiment for Hayleys PLC is mixed but generally positive, with some caution. LankaBIZ provided a bullish scenario target of Rs. 157.28 and a bearish scenario target of Rs. 98.28 for Hayleys PLC.<sup>22</sup> Morningstar indicates that HAYL.N0000 is currently trading within a "fairly valued" range.<sup>53</sup> For Hayleys Fabric PLC (MGT), analysts show an overall "Strong Buy" consensus, with price targets ranging from a minimum of LKR 48.56 to a maximum of LKR 61.08.<sup>52</sup> TradingView's technical analysis for HAYLEYS PLC (HAYL.N0000) indicates a "strong buy" signal currently, with "buy" trends observed for 1-week and 1-month ratings.<sup>55</sup> Fitch Ratings has assigned an 'AAA(lka)' rating to Hayleys' proposed debentures, which reflects strong financial health and stability.<sup>10</sup> This top-tier rating suggests a low default risk for its debt obligations. From a broader market perspective, First Capital Research set an ASPI (All Share Price Index) target of 14,500-15,500 for 2025, reflecting optimism for the overall Sri Lankan market.<sup>56</sup>

## Projection of Stock Value by May 2026

A robust price target for May 2026 necessitates a blend of fundamental analysis, considering the company's financial forecasts, industry growth prospects, and a thorough assessment of the identified risks and mitigation strategies. Given the limited explicit long-term analyst targets for HAYL itself, a bottom-up approach, factoring in segmental performance and macroeconomic factors, is critical.

## Methodology and Factors for Projection:

1. **Revenue Growth:** Fitch Ratings forecasts Hayleys' revenue to increase by 10% in FY25 and 8% in FY26.<sup>10</sup> This projection is underpinned by expectations of a stronger domestic economy and a recovery in export markets.
2. **Profitability Margins:** The analysis will consider the sustainability of "other income" (which significantly boosted recent profits but is flagged as

non-recurring <sup>22</sup>) and the potential impact of rising costs (e.g., charcoal prices in the purification segment <sup>10</sup>). Fitch expects EBITDAR margins to stabilize around 12.5% after FY25. <sup>10</sup>

3. **Debt Management and Cash Flow:** The company's high debt-to-equity ratio and "mostly negative" free cash flow remain concerns. <sup>10</sup> While Fitch anticipates a decrease in EBITDAR net leverage from FY26-FY28 <sup>10</sup>, the reliance on rolling over short-term debt poses a liquidity risk if market conditions tighten or political stability falters.
4. **Impact of US Tariffs:** The 44% US tariff on Sri Lankan exports is a significant headwind, particularly for the textile segment. <sup>36</sup> The effectiveness of Hayleys' mitigation strategies, such as leveraging its diversified manufacturing base outside Sri Lanka and expanding into new export markets, will be crucial in offsetting this impact. <sup>36</sup>
5. **Domestic Economic Tailwinds:** The recovering Sri Lankan economy, with stabilizing inflation and growth in sectors like consumer retail, logistics, and tourism, is expected to provide a positive environment for Hayleys' domestic-facing businesses. <sup>6</sup>
6. **Valuation Multiples:** Current valuation multiples (e.g., P/E ratio, Price/Sales) will be considered in conjunction with growth forecasts. Morningstar indicates the stock is "fairly valued". <sup>53</sup>

### **Projection:**

Considering the projected revenue growth for FY26, the anticipated stabilization of margins, and the ongoing efforts to manage debt and mitigate tariff impacts, Hayleys PLC is expected to continue its recovery. However, the uncertainties surrounding the long-term impact of US tariffs on export volumes, the sustainability of non-recurring income, and the inherent financial leverage warrant a cautious but optimistic outlook.

Based on these factors, and extrapolating from the existing analyst targets and Fitch's forecasts, the projected stock value for Hayleys PLC by **May 2026 is estimated to range between LKR 145 and LKR 175**. This range accounts for the potential for continued operational improvements and benefits from a recovering domestic economy, while also incorporating the risks associated with global trade tensions and the company's financial structure.

## **9. Conclusions and Recommendation**

Hayleys PLC presents a complex investment profile, characterized by significant strengths tempered by notable challenges. The company's deep diversification across

16 business sectors and its global reach across 80 markets provide a robust foundation for resilience, enabling it to navigate sector-specific and regional economic fluctuations. This strategic breadth, coupled with its systemic importance to the Sri Lankan economy, offers a degree of stability and potential implicit support. Hayleys' proactive investments in sustainability and innovation are not merely compliance efforts but strategic imperatives that enhance its competitive advantage and market access, particularly in increasingly environmentally conscious global supply chains. The recent strong financial rebound in FY25, marked by record revenue and substantial profit growth, underscores its operational agility and ability to capitalize on a stabilizing domestic macroeconomic environment. Furthermore, its 'AAA(Ika)' credit rating from Fitch reflects a strong financial standing and access to capital.

However, significant headwinds persist. The imposition of a 44% US tariff on Sri Lankan exports poses a severe and immediate threat to Hayleys' export-oriented segments, particularly textiles, potentially leading to order relocations and margin pressure. While the company's geographically diversified manufacturing base offers some mitigation, the full impact of these tariffs remains uncertain. Furthermore, the company's high debt levels and "mostly negative" free cash flow present a financial vulnerability. Although it has successfully managed recent debt issuances, sustained negative cash generation necessitates ongoing reliance on external financing, which could be challenging if macroeconomic conditions or political stability in Sri Lanka deteriorate. The reliance on non-recurring "other income" for a portion of its recent profit growth also raises questions about the sustainability of its core earnings trajectory.

### **Recommendation:**

Given the balanced assessment of strengths, growth drivers, and significant risks, a **"Hold"** recommendation is issued for Hayleys PLC stock.

### **Rationale:**

- **Positive Momentum and Domestic Tailwinds:** The company has demonstrated a strong financial recovery in FY25, driven by robust performance in its domestic-facing sectors (Consumer & Retail, Transportation & Logistics, Leisure) which are benefiting from Sri Lanka's economic stabilization.
- **Strategic Resilience:** Its diversified business model and geographically dispersed manufacturing assets provide a crucial buffer against localized and global economic shocks, including the impact of US tariffs.
- **Sustainability as a Differentiator:** Hayleys' leadership in sustainable

manufacturing practices enhances its appeal to global brands and mitigates future regulatory risks.

- **Significant External Risks:** The immediate and substantial impact of US tariffs on key export segments (Textiles, Hand Protection) introduces considerable uncertainty regarding future export volumes and profitability. The company's ability to effectively implement its mitigation strategies is paramount.
- **Financial Leverage and Cash Flow Concerns:** High debt levels and persistently negative free cash flow indicate a reliance on external funding. While currently manageable, this financial structure could become a constraint if market liquidity tightens or interest rates rise unexpectedly.
- **Political Uncertainty:** The upcoming presidential elections in Sri Lanka introduce an element of political uncertainty that could influence policy and investor sentiment.

### **Price Target (May 2026):**

The projected stock value by **May 2026 is estimated to range between LKR 145 and LKR 175**. This target reflects the expectation of continued, albeit potentially uneven, growth driven by the domestic economic recovery and strategic initiatives, partially offset by the ongoing challenges in export markets and the need for prudent financial management. The upper end of the range is contingent on the successful implementation of tariff mitigation strategies and a sustained improvement in core operational cash flow. The lower end reflects a scenario where external headwinds prove more persistent than anticipated, or if the reliance on non-recurring income becomes more pronounced.

Investors currently holding Hayleys PLC stock are advised to maintain their positions to benefit from the ongoing domestic economic recovery and the company's long-term strategic resilience. Potential investors should exercise caution, closely monitor the company's quarterly performance, particularly focusing on recurring revenue streams, the effectiveness of tariff mitigation efforts, and improvements in free cash flow generation, before making a significant investment.

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