

Equity Research | Materials

Dipped Products PLC (DIPD.N)

Favorable prospects for the core hand protection business; intrinsic valuation is challenged by high WACC and possible headwinds in the plantation segment.

DIPD reported revenue growth of 16% Y/Y (11% Q/Q) and EPS growth of 5% Y/Y to LKR 1.54 in Q2 FY25 (see [here](#)). Earnings seem on track to beat our previous full year estimate of c. LKR 5.94 for FY25E notwithstanding revenue falling short on account of currency headwinds.

2Q revenue at LKR 21.3 Bn (TTM revenue of LKR 77.6 Bn), represents a commendable 16% Y/Y growth notwithstanding the negative impact from substantially higher than expected LKR appreciation of c.10% Y/Y (cf. with our earlier expectations of LKR depreciation of c. 0 to 5%) and points to robust growth in USD equivalent revenue in both the core hand protection segment and plantations, the latter benefiting from higher commodity prices YTD.

Blended operating margins expanded by 194 bps Y/Y to 10% in Q2 (10.6% TTM) surpassing our expectations for FY25E of c. 8%. Margin expansion was supported by continuing strong margins of c. 10.3% in the hand protection segment, notwithstanding the unfavorable movement in the reporting currency against the functional currency.

Prospects for the hand protection segment remain favorable driven by multiple growth drivers. Recent capacity expansion, product diversification to manufacture of sports gloves and the proposed acquisition of a second glove manufacturing factory in Thailand (see [here](#)) supports the future growth narrative.

Proposed tariff increases in the US (import tariff of 50%) on Chinese medical gloves could be a tailwind for other Asian manufacturers such as DIPD, although medical gloves currently comprise only a small proportion of DIPD's product portfolio. DIPD has also announced plans to strengthen its sales efforts for industrial/ household gloves in the fast-growing Indian market and introduced a new range of industrial gloves targeting electric vehicle manufacturers.

Plantations segment continues to present potential headwinds. However high commodity prices may offset the bulk of the proposed wage hike. We expect that the proposed 35% wage hike for plantation workers which will come into effect in 2H FY2025 may be partly offset by higher commodity prices with both tea and rubber prices having gained >20% YTD. However, a stronger USD may deflate commodity prices going forward. We expect margins in the plantation segment to erode in the longer term given seemingly limited prospects for mechanization/ efficiency growth.

We revise our full year FY25E revenue target to LKR 80.9 Bn and EPS target to LKR 6.99. Rating maintained at "Hold" as the share is fully valued based on our intrinsic valuation; however, we raise our 12M price target to LKR 44/- as low relative valuation and market rerating will likely drive share prices higher.

We forecast FY26E revenue at LKR 89.2 Bn (+10% Y/Y) considering potential incremental revenues from the proposed acquisition in Thailand. DIPD's DCF based intrinsic valuation is challenged by a lack of terminal value for the plantation segment (c. 21 years remaining lease period) and higher WACC given its low debt levels. Consequently, we derive an intrinsic value of c. LKR 41/- in line with the CMP. However, the intrinsic value will increase if market risk free rates reduce faster than we have assumed in our model and/ or if DIPD's currently elevated beta falls below 1.0 and/ or if incremental revenues in FY26E from the proposed acquisition exceed our forecast assumptions. Current beta of c. 1.0 used in our valuation is higher than the average beta of c. 0.8 in calendar year 2023. Considering the above and the currently low relative valuation at a TTM P/E of c. 5.48x, we raise our 12M price target to LKR 44/- which suggests an upside of c. 10% including expected dividends.

Analyst

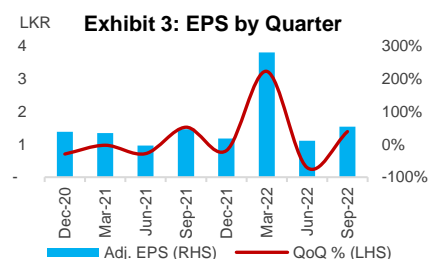
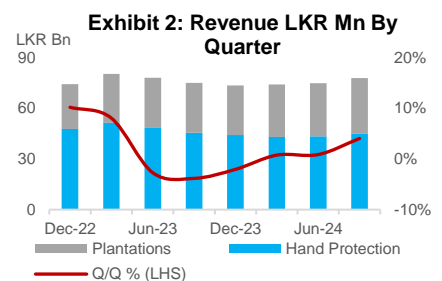
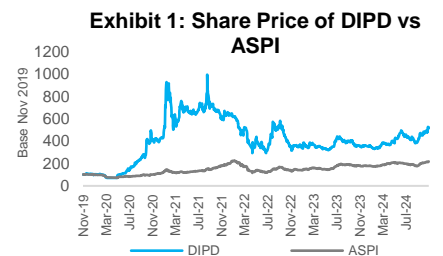
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Maintains at Hold

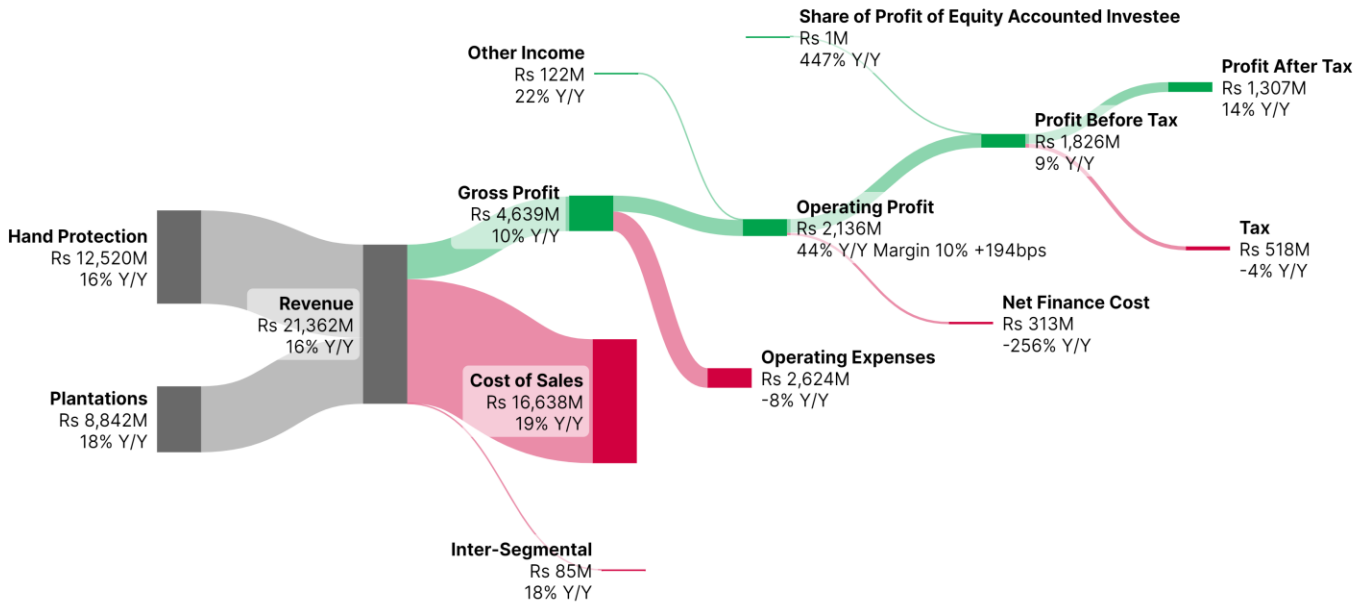
12M Target Price	LKR 44.00
Previous Price	LKR 35.62
CMP	LKR 41.80
Dividend	LKR 2.00
Upside/ Downside	10%

Market Cap (LKR Bn)	25.02 Bn
No. of Shares (Mn)	598.6
52w High Low (LKR)	42.8 25.60
Beta Sharpe Ratio	1.00 0.20
TTM P/E	5.48x
TTM Div Yield	3.49%



For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Dipped Products PLC Q2 FY25 Income Statement



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