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Today's Daily

■ Textiles: Cyclical Tailwinds Favor Low Value-added Players

Previewing FY18 results, we expect AKD Textile Universe to post cumulative earnings of PkR5.38bn (down 9%YoY), with earnings decline primarily attributable to: i) lower dividend income (-13%YoY) due to lower payouts from respective power portfolios and ii) input cost pressure leading to margin contraction particularly in value added segments. On a standalone basis, NML is expected to report NPAT of PkR850mn (EPS: PkR2.42) in 4QFY18 vs. PkR1,178mn (EPS: PkR3.34) in 4QFY17, down 28%YoY. Lower payouts from power holding companies and lower utilization in value added segment (i.e. garments) will keep conglomerate earnings in check. On the flip side, NCL with operations skewed towards lower end of the value chain is expected to benefit from cyclical tailwinds (i.e. widening yarn-cotton spread & rupee depreciation), with earnings expectations of PkR561mn (EPS: PkR2.33) in 4QFY18 vs. PkR221mn (EPS: PKR0.92) in 4QFY17, up 2.5xYoY.

KSE100 - Index

Current 42,731.86
Previous 42,760.13
Chg. -0.07%

Mkt Cap. (PkRbn/US\$m)

Current 8,760 / 70.52
Previous 8,766 / 70.56
Chg. -0.06%

Daily Turnover (mn)

Current 191.47
Previous 239.52
Chg. -20.1%

Value Traded (PkRmn/US\$m)

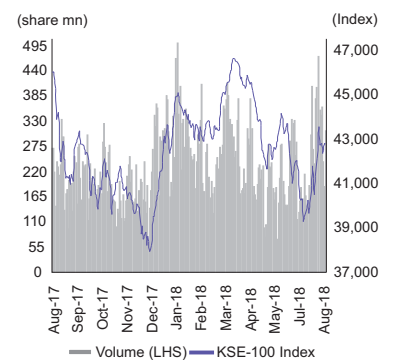
Current 9,091 / 73.18
Previous 9,936 / 79.98
Chg. -8.5%

AKD Daily

Thursday, Aug 09, 2018

News and Views

- Asad Umar has stated an aim, to separate economic matters from politics, vowing on Tuesday to give administrative independence to key government institutions and public sector enterprises in a bid to turn around their fortune.
- The SBP conducted auctions for fixed and floating coupon rate bonds worth PkR116.5bn in 5yr fixed and 10yr floating bonds. In the fixed rate auction the SBP rejected bids for the 3yr and 10yr bonds, while no bids were made for the 20 year bond. The SBP accepted PkR15bn for 5yr at a cut off yield of 9.25%.
- Caretaker Minister for Information Barrister Ali Zafar on Wednesday said the Session of National Assembly was likely to be convened from August 12 to 14, where a summary for the same had been sent to the President.



Umer Farooq

umer.farooq@akdsecurities.net

111-253-111 Ext:637

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Textiles: Cyclical Tailwinds Favor Low Value-added Players

Previewing FY18 results, we expect AKD Textile Universe to post cumulative earnings of PkR5.38bn (down 9%YoY), with earnings decline primarily attributable to: i) lower dividend income (-13%YoY) due to lower payouts from respective power portfolios and ii) input cost pressure leading to margin contraction particularly in value added segments. On a standalone basis, NML is expected to report NPAT of PkR850mn (EPS: PkR2.42) in 4QFY18 vs. PkR1,178mn (EPS: PkR3.34) in 4QFY17, down 28%YoY. Lower payouts from power holding companies and lower utilization in value added segment (i.e. garments) will keep conglomerate earnings in check. On the flip side, NCL with operations skewed towards lower end of the value chain is expected to benefit from cyclical tailwinds (i.e. widening yarn-cotton spread & rupee depreciation), with earnings expectations of PkR561mn (EPS: PkR2.33) in 4QFY18 vs. PkR221mn (EPS: PkR0.92) in 4QFY17, up 2.5xYoY.

NML - lower payouts from power holdings to keep earnings in check:

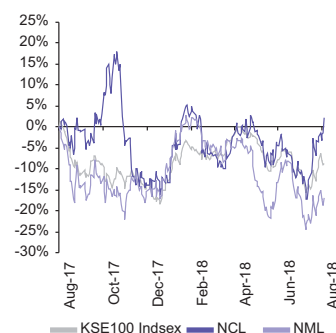
In 4QFY18, we expect NML to report NPAT of PkR850mn (EPS: PkR2.42) vs. PkR1,174mn (EPS: PkR3.34) in 4QFY17, down 28%YoY. The earnings decline is mainly attributable to lower payouts from portfolio companies (-45%YoY). However, core earnings are anticipated to witness significant improvement (core EPS: PkR0.51 in 4QFY18E vs. LPS: PkR0.12 in 4QFY17) on the back of i) double digit topline growth (+25%YoY) largely driven by macro developments (i.e. rupee depreciation and exports growth) and ii) margin accretion (+96bpsYoY) in low value added segments. On a cumulative basis, full year earnings (EPS: PkR10.28 in FY18 vs. PkR12.12mn in FY17) are expected to remain 15%YoY lower due to absence of dividend income from power holdings and cost pressures in first half of the outgoing fiscal year. Accompanying results, NML is expected to declare a final dividend of PkR5/sh (payout ratio: 48.6%).

NML: Income Statement

(PKR mn)	4QFY18E	4QFY17	YoY	3QFY18	QoQ	FY18E	FY17	YoY
Net Sales	14,989	11,961	25%	13,121	14%	53,630	49,248	9%
Cost of Sales	13,364	10,779	24%	11,910	12%	48,217	43,868	10%
Gross Profit	1,626	1,182	38%	1,211	34%	5,413	5,380	1%
GM	10.85%	9.88%	96	9.23%	162	10.09%	10.92%	(83)
S&A	1,004	831	21%	905	11%	3,603	3,497	3%
Operating profit	622	351	77%	306	103%	1,810	1,883	-4%
Other op. exp	78	35	-	(4)	-2320%	210	208	1%
Finance cost	288	245	18%	291	-1%	1,029	915	12%
Other Income	745	1,353	-45%	182	308%	3,672	4,260	-14%
PBT	1,000	1,425	-30%	201	397%	4,242	5,020	-15%
Tax	150	251	-40%	104	44%	627	758	-17%
NPAT	850	1,174	-28%	97	-	3,615	4,262	-15%
EPS (PkR)	2.42	3.34	-28%	0.28	-	10.28	12.12	-15%
EPS -Core (PkR)	0.51	(0.12)	-	(0.19)	-	0.88	1.22	-
EPS-Non-Core (PkR)	1.91	3.46	-	0.47	-	9.40	10.90	-

Source: Company report & AKD Research

KSE100 Index vs. AKD Textile Universe



Source: PSX & AKD Research



NCL - cyclical upswings lead to another good show: With company operations being skewed towards lower end of the value chain, NCL should continue to benefit from macro and cyclical tailwinds (i.e. rupee depreciation and widening yarn-cotton spread). Against this backdrop, we expect the NCL to post NPAT of PkR561mn (EPS: PkR2.33) in 4QFY18 against PkR221mn (EPS: PkR0.92) in 4QFY17, up 2.54xYoY. Factors contributing to another good showing include: i) 13%YoY topline growth on back of the strong domestic yarn demand and improved yarn prices and ii) margin accretion (4.57ptsYoY) largely attributable to cyclical upswings (i.e. widening yarn-cotton spread) and 3) one-off exchange gain of ~PkR258mn resulting from recent rupee depreciation. Cumulatively, FY18E earnings are expected to rest at PkR1,764mn (EPS: PkR7.34) against total earnings of PkR1,621mn (EPS: PkR6.75 in FY17, up 9%YoY). Accompanying results, NCL is anticipated to announce a final dividend of PKR3/sh (payout ratio: 41%).

NCL: Income Statement

(PKR mn)	4QFY18E	4QFY17	YoY	3QFY18	QoQ	FY18E	FY17	YoY
Net Sales	8,746	7,747	13%	8,903	-1.8%	34,486	29,816	16%
Cost of Sales	7,630	7,113	7%	7,669	-1%	30,750	26,916	14%
Gross Profit	1,116	634	76%	1,235	-10%	3,735	2,900	29%
GM	12.76%	8.19%	457	13.87%	(111)	10.83%	9.73%	111
S&A	280	232	20%	289	-3%	1,105	949	16%
Operating profit	836	402	108%	946	-12%	2,631	1,951	35%
Other op. exp	20	56	-64%	36	-44%	80	200	-60%
Finance cost	414	304	36%	370	12%	1,423	1,095	30%
Other Income	258	60	-	249	4%	986	1,122	-12%
PBT	660	102	546%	789	-16%	2,114	1,779	19%
Tax	99	(119)	-184%	77	28%	350	157	122%
NPAT	561	221	154%	711	-21%	1,764	1,621	9%
EPS (PkR)	2.33	0.92	154%	2.96	-21%	7.34	6.75	9%
EPS -Core (PkR)	1.37	0.69	-	2.03	-33%	3.65	1.85	97%
EPS-Non-Core (PkR)	0.97	0.23	-	0.93	4%	3.70	3.98	-7%

Source: Company report & AKD Research

Investment perspective: Confluence of recent positives including rupee depreciation (18.6% since Dec'17) and extension of export incentives albeit at lower rate should help the domestic textile sector to stave off competitive pressures in the export market. In the short-medium term where cyclical tailwinds favor low value added names, we recommend NCL. At current levels, the scrip offers an overall capital upside of ~10% and D/Y of 5.4%.



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