



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
www.jamapunji.pk

### Today's Daily

#### ■ PAEL: Power division remains a pain in 1HCY18

Management of PAEL conducted an analyst briefing going over 1HCY18 operational parameters, coupled with guidance on CY18 results and outlook for additional business lines. Key highlights were: 1) the company has issued gross sales guidance aiming to reach topline of PkR44.95bn (+6%YoY) where tepid growth results from both segments undergoing heightened competition, 2) power division continuing to lag, expected to constitute 32% of Gross sales for CY18 arising from a slowdown in power transformer/energy meter/switchgear business revenues to punch through 2/3/6%YoY growth, and 3) incremental CAPEX to initiate additional business lines in the appliances business, where PEL intends on expanding its brand to the mid-tier LED and washing machine segments. We retain a BUY stance on the stock where at present levels the stock trades at CY18/19F P/E of 5.9/4.9x.

#### KSE100 - Index

Current 42,544.47  
Previous 42,745.78  
Chg. -0.47%

#### Mkt Cap. (PkRbn/US\$bn)

Current 8,712 / 70.12  
Previous 8,777 / 70.64  
Chg. -0.73%

#### Daily Turnover (mn)

Current 183.67  
Previous 217.59  
Chg. -15.6%

#### Value Traded (PkRmn/US\$m)

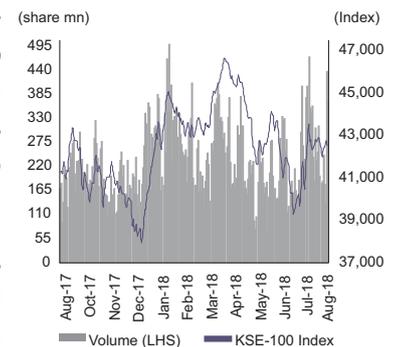
Current 7,709 / 62.05  
Previous 9,017 / 72.57  
Chg. -14.5%

AKD Daily

Wednesday, Aug 29, 2018

### News and Views

- A visiting delegation of the World Bank has ensured full support towards macroeconomic stabilisation, inclusive growth and human capital development under the next five-year Country Assistance Strategy 2019-24. The Bank has committed an indicative financing of US\$11bn to Pakistan under the program. The delegation emphasised that for Pakistan to achieve faster growth, it would need to focus on private sector policies for a longer time horizon in order to encourage private investors to unleash their true potential.
- ECC of the cabinet is scheduled to meet today where broad agendas include: 1) power division is set to table its funding requirement aimed at sorting out liquidity requirement and circular debt issues. The division would request for release of PkR106bn due on subsidy and PkR50bn loan from the commercial banks already approved by Abbasi-led ECC. 2) Fertilizer availability position in the country and discussion on possibility of import of the commodity or restart of older plants. 3) Consumer gas pricing for SSGC and SNGP.



**Ali Asgar Poonawala**  
ali.poonawala@akdsecurities.net  
111-253-111 Ext:646

**Important disclosures**, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

Find AKD research on Bloomberg (AKDS<GO>), firstcall.com and Reuters Knowledge UAN: 111-253-111

Copyright©2018 AKD Securities Limited. All rights reserved. The information provided on this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKD Securities or its affiliates to any registration requirement within such jurisdiction or country. Neither the information, nor any opinion contained in this document constitutes a solicitation or offer by AKD Securities or its affiliates to buy or sell any securities or provide any investment advice or service. AKD Securities does not warrant the accuracy of the information provided herein.



## PAEL: Power division remains a pain in 1HCY18

Management of PAEL conducted an analyst briefing going over 1HCY18 operational parameters, coupled with guidance on CY18 results and outlook for additional business lines. Key highlights were: 1) the company has issued gross sales guidance aiming to reach topline of PkR44.95bn (+6%YoY) where tepid growth results from both segments undergoing heightened competition, 2) power division continuing to lag, expected to constitute 32% of Gross sales for CY18 arising from a slowdown in power transformer/energy meter/switchgear business revenues to punch through 2/3/6%YoY growth, and 3) incremental CAPEX to initiate additional business lines in the appliances business, where PEL intends on expanding its brand to the mid-tier LED and washing machine segments. We retain a BUY stance on the stock where at present levels the stock trades at CY18/19F P/E of 5.9/4.9x.

**Earnings guidance for CY18:** Management re-iterated a terse FX situation as being a dampener to earnings (~70% of material COGS are imported) where every 1% depreciation in the PkR vs. US\$ translated to a PkR100mn reduction in gross profits. Timing of devaluation are crucial as increased cost of imported inventory materials are difficult to pass-on for products past their prime selling season, with the company aiming to raise appliance prices to maintain margins by Jan'19 on inventory sources in the latter half of CY18.

### Product-wise Gross Sales CY16-18P

DESCRIPTION	2018P		2017		2016	
	Amount	%age of Total	Amount	%age of Total	Amount	%age of Total
<b>POWER DIVISION</b>						
Trans former	6357	14%	6,219	18%	6,594	19%
Energy Meter	1404	3%	1,508	4%	1,092	3%
Power Transformer	735	2%	867	3%	3,414	10%
Switch Gear	2545	6%	2,214	6%	2,513	7%
EPC	3256	7%	3,784	11%	1,057	3%
<b>Total</b>	<b>14,297</b>	<b>32%</b>	<b>14,592</b>	<b>43%</b>	<b>14,670</b>	<b>43%</b>
<b>APPLIANCES DIVISION</b>						
Refrigerator	19370	43%	18,592	54%	15,914	47%
Split A.C	5454	12%	5,159	15%	1,532	4%
Deep Freezers	3345	7%	2,574	8%	1,563	5%
Others	2482	6%	1,430	2%	490	1%
<b>Total</b>	<b>30,651</b>	<b>68%</b>	<b>27,755</b>	<b>81%</b>	<b>19,499</b>	<b>57%</b>

Source: PAEL & AKD Research

### Product-wise Sales Quantity

Product	2018 P	YoY%	1HCY18	YoY%
Refrigerator	475,000	2%	264,244	-20%
AC	86,778	-1%	66,141	-8%
Deep Freezer	80,000	18%	43,837	18%
Others	152,517	68%	48,438	74%
Distr. Trans.	15,798	31%	8,975	-2%
Power Trans.	20	-39%	11	-8%
Energy Meter	971,635	-8%	362,280	-26%

Source: PAEL & AKD Research

**Balance sheet improvement is ongoing:** PAEL remained adamant on its debt re-payment plans, aiming to continue the trend set in CY17 (PKR2.25bn reduction in short term loans), while limiting CAPEX plans to low value, staggered outlays, avoiding an capital raising exercises over the medium term. In the case of commencing LED and washing machine business, PAEL intends on committing PkR10mn and PkR500mn for



CY18-19. This sum is paltry when compared to PkR1.83bn in CAPEX over CY17 and our 5yr average projected annual CAPEX of PkR1.45bn. Only in the second phase of LED manufacturing does PAEL plan on manufacturing printed circuit boards (PCB), leading to CAPEX of PkR100mn. Due to provision of tax credits for CAPEX activity undertaken in previous years, the company stands to utilize tax credits of PkR2.5bn till CY20.

**Competition is heady:** On the competitive front, both business lines are undergoing intensifying pressures, where Arcerlik (post assimilation of Dawlance business operations) has aggressively pushed products to market. Additionally on plans by its listed peer WAVES to expand its sales footprint, PAEL management were largely dismissive of the company making inroads to market in any segments apart from deep freezers, their traditional home ground (28% market share for WAVES vs 11% for PAEL). As to news flows showcasing additional entrants in domestic appliance manufacturing, management postured for headway on JV's with technically competent foreign players to manufacture goods in the country.

**Investment Perspective:** Issues of working capital, PkR depreciation and a general slowdown in power division sales make for a tough investment environment, at least till some clarity on the external front emerges (IMF program, future of public sector power division spend). Entry into the mid-tier TV (LEDs from 32-55inches) and washing machines (auto & semi-automatic) may not be the answer here, particularly when matching imported or Chinese offerings. That said, we retain a fundamental Buy stance on the stock, despite which, citing structural deficiencies in the demand scenario, our short term outlook on the stock remains largely sanguine.



## Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

### Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

#### *Rating Definitions*

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



### **Analyst Certification of Independence**

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

### **Disclosure of Interest Area**

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

### **Regional Disclosures (Outside Pakistan)**

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.