



Today's Daily

■ NML: Improvements all around

In line with the broader textile sector that has been in limelight on account of the 1) upcoming textile policy, 2) inclusion in the zero-rated tax regime and 3) implementation of new efficient refund mechanism, we reiterate our liking for NML. Our revised Dec'17 SOTP-based target price for the scrip works out to PkR167.4/sh where the company's portfolio (at 40% discount) contributes PkR110.5/share to the total value. In this regard, we have lowered the portfolio discount to 40% (from 50%) on the back of improved trading volumes and betas of portfolio companies that has lowered volatility while improving the liquidity of NML's portfolio. The earnings profile remains encouraging with earnings growth of 26%YoY in FY16. Going forward, we expect profitability to remain strong (medium term 3yr CAGR of 13%) that includes 22%YoY growth in FY17 underpinned by: 1) marked improvement in core operations on expected improvement in GM's (up 173bpsYoY to 14.8%) on account of improved production efficiencies & grant of zero-rated regime, along with 2% growth in topline and 2) substantial growth in dividend income (up 12%YoY) on expectation of continuation of strong dividend payouts from associate companies.

KSE100 - Index

Current	46,185.27
Previous	45,857.89
Chg.	0.71%

Mkt Cap. (PkRbn/US\$bn)

Current	9,269 / 88.45
Previous	9,215 / 87.93
Chg.	0.59%

Daily Turnover (mn)

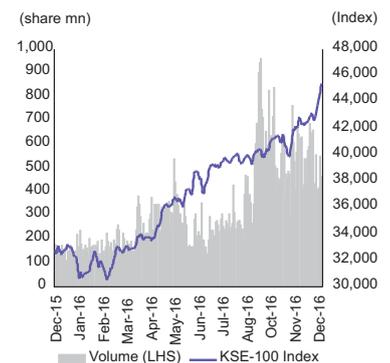
Current	360.78
Previous	383.05
Chg.	-5.8%

Value Traded (PkRmn/US\$m)

Current	18,973 / 181.04
Previous	21,817 / 208.17
Chg.	-13.0%

News and Views

- The US Federal Reserve raised rates by a 0.25 bps yesterday (see recently released note) and signaled a faster pace of increases in 2017 as the Trump administration takes over with promises to boost growth through tax cuts, spending and deregulation. The greenback rallied against major Emerging Market currencies with the JpY losing ~1.6% against the US\$ to trade at a ten month low of 117.4.
- Pakistan Association of Automotive Parts and Accessories Manufacturers (PAAPAM) Wednesday conveyed its serious reservations to the GoP on inclusion of the auto sector in Pakistan-Thailand Free Trade Agreement (FTA).
- Domestic sugar mills have sought permission for export of 0.5mn tons of surplus sugar without any rebate in order to ensure timely payment to the farmers.
- Germany-based engineering company Siemens has offered a credit facility of around \$2.5 billion on the supply of compressors for TAPI gas pipeline, a vital development in efforts to press ahead with the project at a fast pace.



Waqas Imdad Ali
waqas.imdad@akdsecurities.net
111-253-111 Ext:637

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.



NML: Improvements all around

In line with the broader textile sector that has been in limelight on account of the 1) upcoming textile policy, 2) inclusion in the zero-rated tax regime and 3) implementation of new efficient refund mechanism, we reiterate our liking for NML. Our revised Dec'17 SOTP-based target price for the scrip works out to PkR167.4/sh where the company's portfolio (at 40% discount) contributes PkR110.5/share to the total value. In this regard, we have lowered the portfolio discount to 40% (from 50%) on the back of improved trading volumes and betas of portfolio companies that has lowered volatility while improving the liquidity of NML's portfolio. The earnings profile remains encouraging with earnings growth of 26%YoY in FY16. Going forward, we expect profitability to remain strong (medium term 3yr CAGR of 13%) that includes 22%YoY growth in FY17 underpinned by: 1) marked improvement in core operations on expected improvement in GM's (up 173bpsYoY to 14.8%) on account of improved production efficiencies & grant of zero-rated regime, along with 2% growth in topline and 2) substantial growth in dividend income (up 12%YoY) on expectation of continuation of strong dividend payouts from associate companies.

1QFY17 result review: NML posted unconsolidated NPAT of PkR640mn (EPS: PkR1.82) in 1QFY17 vs. NPAT of PkR324mn (EPS: PkR0.92) in 1QFY16, an increase of 98%YoY. This impressive growth in earning resulted from, 1) 123bpsYoY increase in GP margin to 12.5% on account of growth in its value added textile segment (home textile and garments), further devaluation benefits of PkR against US\$ (down 2%YoY) and stable furnace oil prices (up ~1%YoY in 1QFY17), 2) 29%YoY decline in finance costs to PkR204mn due to a relatively lower interest rate environment (refinancing of old debt at lower rates) and improved D/E ratio and 3) 61%YoY increase in other income due to better payout from associated companies.

Zero-rated tax regime: The GoP reintroduced zero-rating tax regime for five export-oriented sectors including textiles in the budget FY17 through major amendments in (S.R.O. 1125(I)/2011) under which 5% GST was chargeable on supplies of locally-made finished article to retailers only. Moreover, the amendments also granted zero-rated tax on local & imported inputs of textile sector from previous charge of 3%. In this regard, we expect GM for FY17F to improve by 120bps to 14.8%.

Investment Perspective: Having gained 38%FYTD, NML has benefitted from GoP's focus to export oriented industries where positive developments included: 1) soon to be announced textile policy and 2) further improvement in margins post inclusion in zero-rated tax regime. Additional positives remain in the form of its diversified business portfolio, focus on high value added goods, an efficient product mix and new ventures (new Denim Garments plant is online). NML currently trades at a forward P/E of 8.7x where our TP of PkR167.4/sh implies a total return of 17.3% which includes a dividend yield of 4.5%. Accumulate!

NML: EPS & TP Revision

EPS (PkR)	FY17F	FY18F	TP-Dec'17
New	17.11	18.73	167.37
Old	16.05	17.12	140.10
change	7%	9%	19%

Source: Co. Reports & AKD Research

S.R.O. 1125(I)/2011 Amendments

Sales tax	New	Old
Input-Local	0%	3%
Input-Imported	0%	3%
Toll manufacturing	0%	3%
Local supplies	5%	5%

Source: Co. Reports & AKD Research



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.