

PAKISTAN  
CABLE

REP-019

MARKET  
VISTA

## PAEL: Pressed for profits by poor macros

- We expect PAEL to announce CY18 NPAT of Pkr1.23bn (EPS:Pkr2.46/sh) cratering 63% YoY as a weakened appetite for consumer durables spending and lack of major power T&D CAPEX after a lengthy political transition sap topline growth
- Profitability was further burdened by the launch of LED TV range, where associated strains on below the line expenses and working capital in a down-cycle for demand, exacerbates an already tenuous financial situation for the firm
- Our Dec'19 TP of Pkr28.2/sh implies a Neutral call on the scrip, where clarity on macro-prospects, project specific funding for power distribution CAPEX (followed by the latest round of circular debt clearances) would make us revisit our stance.

**CY18 result preview:** The appliance and power distribution equipment manufacturer is expected to announce CY18 NPAT of Pkr1.23bn (EPS:Pkr2.46/sh) cratering 63%YoY where major dampeners emanate from: 1) slowing demand for appliances while power division sales crater with expected movement of -6/-20%YoY lowering gross sales by 10%YoY, 2) cost of sales remaining relatively elevated largely from adverse Pkr moves, resulting in lower gross margins (GM expected at 24% vs. 29% in CY17), and 3) below the line expenses persist, contrary to expectations of slower sales or down cycles in demand translating into cuts in these items (distribution, admin and marketing expenses down 4%YoY vs. net/gross sales dip of -8/-10%YoY) as the launch of LED line keeps variable cost items heady. Other major features of the result include 28%YoY increase in finance cost as monetary tightening and increasing reliance on short term borrowing (Pkr12.4bn as of Sep'18 vs. Pkr7.28bn in Dec'17) are a drag on profitability.

## PAEL: Income Statement

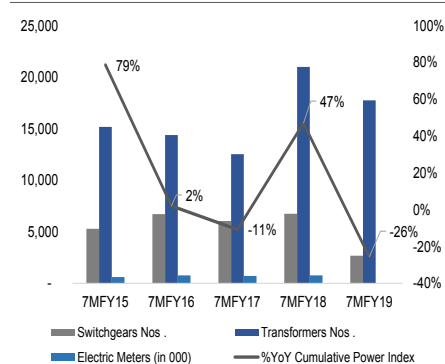
| (Pkrmn)                              | CY18E  | CY17   | YoY%  | 4QCY18E | 4QCY17 | YoY%   | QoQ%  |
|--------------------------------------|--------|--------|-------|---------|--------|--------|-------|
| Gross Sales                          | 38,250 | 42,347 | -10%  | 7,338   | 8,470  | -13%   | -13%  |
| Total Deductions                     | 9,857  | 11,347 | -13%  | 2,666   | 3,530  | -24%   | 92%   |
| Net Sales                            | 28,393 | 31,000 | -8%   | 4,672   | 4,940  | -5%    | -33%  |
| Cost of Sales                        | 21,577 | 21,884 | -1%   | 3,690   | 3,548  | 4%     | -32%  |
| Gross profit                         | 6,816  | 9,116  | -25%  | 982     | 1,392  | -29%   | -38%  |
| Other income                         | 19     | 18     | 5%    | 5       | 2      | 180%   | 29%   |
| Distribution Cost                    | 2,441  | 2,684  | -9%   | 701     | 755    | -7%    | 18%   |
| Administrative and general expense s | 1,192  | 1,119  | 7%    | 259     | 273    | -5%    | -15%  |
| Other expenses                       | 77     | 176    | -56%  | 12      | 14     | -15%   | 29%   |
| Profit from operations               | 3,125  | 5,155  | -39%  | 15      | 353    | -96%   | -98%  |
| Finance cost                         | 1,973  | 1,547  | 28%   | 363     | 313    | 16%    | -37%  |
| Share of profit/(loss) of associate  | -      | (5)    | -100% | 1       | (7)    | -116%  | 70%   |
| PBT                                  | 1,152  | 3,603  | -68%  | (347)   | 33     | -1146% | -432% |
| Taxation                             | (74)   | 295    | -125% | (241)   | (303)  | -21%   | 1862% |
| Profit after tax                     | 1,226  | 3,308  | -63%  | (106)   | 337    | -131%  | -191% |
| EPS (Pkr)                            | 2.46   | 6.65   | -     | (0.21)  | 0.68   | -      | -     |

Source: Company Report &amp; AKD Research

**Investment Perspective:** Near term hiccups to consumer durable spending are prominent, while the long term outlook remains upbeat, propagated by rapid urbanization and favorable demographics, slated to amplify White Goods purchases while distribution focused CAPEX push power equipment demand, but after CY20F as the new government makes distribution a priority. Exploring the medium to long term outlook for demand, we highlight our moderate view on power segment sales, concentrating on tepid margins, reduced pricing power in the equipment's business. All in all, our Dec'19 TP of Pkr28.2/sh implies a Neutral stance on the stock, where clarity on macro-prospects, project specific funding for power distribution CAPEX (followed by the latest round of circular debt clearances) would make us revisit our stance.

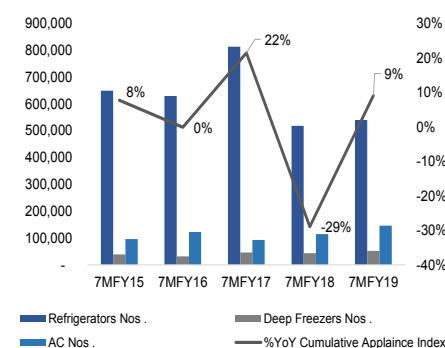
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## LSM Power Equipment Snapshot



Source: PBS &amp; AKD Research

## LSM Appliances Snapshot



Source: PBS &amp; AKD Research



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### New Rating Definitions

|         |  |
|---------|--|
| Buy     | > 19% expected total return (Rf: 13% + Rp: 6%) |
| Neutral | > 13% to < 19% expected total return           |
| Sell    | < 13% expected total return (Rf: 13%)          |

### Old Rating Definitions (Discontinued)

|            |   |
|------------|---|
| 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               |
| Not Rated  | No investment opinion or recommendation |

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To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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