AKD Daily

Monday, Jun 19, 2017

Today's Daily

NML: Fundamentals remain intact

Based on its continued focus on value added segment and higher expected payout from portfolio companies, NML (TP: PkR185.3/sh, upside: 23.7%) remains our preferred play in the sector. Benefitting from its garment capacity expansion, NML registered 38%YoY sales growth in garment segment in 9MFY17, where we expect this trend to continue and support topline growth (FY18F: 11%YoY) despite declining trend in non-value added sales. In addition, textile export package (FY17/FY18F incremental EPS: PkR2.35/PkR6.5/sh) and healthy payout from associated companies (FY17/FY18F: +12%/+5%YoY) are likely to keep NML's earnings robust going forward (FY17/FY18F EPS: PkR16.71/20.01/sh). Our TP of PkR185.3/sh has room for upside given the company's recent bid to enter into automobile sector considering fast-paced growth in the sector. Given the prevailing bearish market sentiment (KSE 100 index down 7% since May'17), we believe NML presents a buying opportunity at current price levels.

KSE100 - Index	
Current	46,858.56
Previous	47,442.73
Chg.	-1.23%

Mkt Cap. (PkRbn/US$bn)	
Current	9,365 / 89.30
Previous	9,474 / 90.34
Chg.	-1.15%

Daily Turnover (mn)	
Current	129.87
Previous	355.32
Chg.	-63.5%

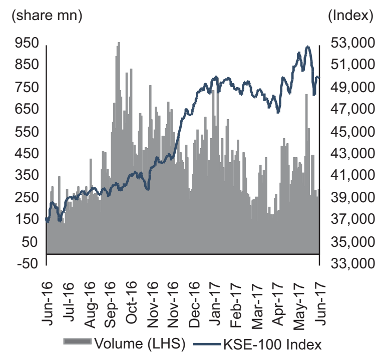
Value Traded (PkRmn/US$mn)	
Current	7,470 / 71.23
Previous	11,651/ 111.10
Chg.	-35.9%

News and Views

- The International Monetary Fund (IMF) has described Pakistan's outlook for economic growth as favorable, but warned that recent stability gains have begun to erode. It projected the country's debt to GDP ratio at 69.1% for the current FY17 (vs. gov't estimated debt to GDP ratio of 58.9%), advising the government to take fiscal measures in order to maintain economic resilience over the medium-term.

- The SECP has approved nine amendments to the regulations for in-house financing in the stock market. Key recommendations approved by the regulator were: 1) withdrawal of the requirement of collecting 10% finance participation ratio(FPR) in the form of cash and allowed the deposit of entire FPR in the form securities, 2) allow the pledging of margin financed securities in favor of bank through tripartite agreement between broker, bank, and client, 3) mark to market losses shall be collected in cash from the client.

- Large scale manufacturing (LSM) sector grew 5.58%YoY in the 10MFY17 (vs. 5.9%YoY annual target for FY17), where Iron and steel sector took the lead by registering 17.88%YoY growth, followed by electronics 15.10%YoY, food, beverages and tobacco 11.60%YoY, automobile 11.41%YoY and pharmaceuticals 9.01%YoY. On a monthly basis, LSM during Apr'17 posted growth of 9.72%YoY, while it declined 17.88%MoM.



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KATS Code	**NML**
Bloomberg Code	**NML.PA**
Price PkR	**146.17**
Market Cap (PkRmn)	51,393.34
Market Cap (US$mn)	490.11
Shares (mn)	352
3M High (PkR)	177.74
3M Low (PkR)	146.17
1Y High (PkR)	185.63
1Y Low (PkR)	104.81
3M Avg Turnover '000	1,762.30
1Y Avg Turnover '000	1,826.69
3M Avg DT Value (PkR'000)	293,872
3M Avg DT Value (US$'000)	2,802.52
1Y Avg DT Value (PkR'000)	275,704
1Y Avg DT Value (US$'000)	2,629.26

Value added segment steers topline growth: Despite declining trend in non-valued added sales, NML managed to post 38%YoY topline growth in garment segment in 9MFY17, where we expect this trend to continue supporting topline growth (FY18F: 11%YoY). The growth in garment segment was on account of capacity expansion where higher utilization level in future (presently 42% due to low utilization at new plant) is to drive topline growth. Furthermore, the textile export package (FY17/FY18F incremental EPS: PkR2.35/PkR6.5/sh) and healthy payout from associated companies (FY17/FY18F: +12%/+5%YoY) are to keep NML's earnings robust (FY17/FY18F EPS: PkR16.71/20.01/sh). While budgetary imposition of higher tax on dividend income shall negatively impact FY18F earnings by PkR0.21/sh, the impact remains limited as the company earns 40% of dividend income from power sector where tax rate stands unchanged at 7.5%.

Entry in auto space can further strengthen NML's business portfolio: NML recently signed a joint venture agreement with Hyundai Motor Company (HMC) and Sojitz Corporation Tokyo to assemble and market HMC's passenger and one-ton commercial vehicles. In this regard, an associate company Hyundai Nishat Motor (Private) Limited has been established, where news flows and our channel checks suggest Nishat Group to likely own 42% share of the associate company with remaining 40% and 18% share being held by Sojitz and MTL, respectively. While awaiting granular details to formally incorporate this into our financial estimates, we view the said development as a key upside trigger considering fast-paced growth in the auto industry as indicated by healthy growth in passenger car sales (+15%YoY in 11MFY17 (ex. Rozgar units)) and auto loans off-take (+26%YoY in 10MFY17).

Investment Perspective: We reiterate our liking for NML on the back of 1) company focus on high margin value added segment, 2) being a key beneficiary from export package with higher value added sales mix where high rebates rate applicable and 3) well diversified business portfolio (with higher payout expectations following amendment in Finance Bill 2017). At our SOTP based TP of PkR185.3/sh, NML offers 23.7% upside from current price levels.

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