



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
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### Today's Daily

#### ■ FY18 Budget lacks excitement for Textile sector

Despite widening trade deficit (+36.42% in 10MFY), focus on export-oriented sectors remained missing in the recently announced FY18 budget. While relief measures under export package (zero-rating regime, discounted EFF & LTTF and duty-free machinery import) were extended and new protectionist measures introduced (GST @10% on import of fabric and 5% RD on import of filament yarn), no solid initiatives were undertaken with regards to energy subsidy (to reduce power cost) and refund claims except allowance of payment of Refund Payment Orders (RPOs) sanctioned before Apr 30'17 (12.5% of total claims) by Aug 14'17. Moreover, the 1% increase in GST on retail sales to 6% further add to the woes of industry players having higher proportion of local sales mix should they choose to not pass on the cost increment to consumers. For NML, higher taxation on dividends (raised to 15% from 12.5% earlier) is likely to erode earnings by PkR0.21/share (1% of FY18F earnings). NML (now officially part of MSCI small-cap stocks list) has returned 9.4%MTD, where our SOTP based TP of PkR185.3/share offers 7.65% upside. Accumulate!

#### KSE100 - Index

Current 52,138.90  
Previous 52,636.66  
Chg. -0.95%

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

Current 10,343 / 98.64  
Previous 10,410 / 99.27  
Chg. -0.64%

#### Daily Turnover (mn)

Current 203.08  
Previous 431.77  
Chg. -53.0%

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

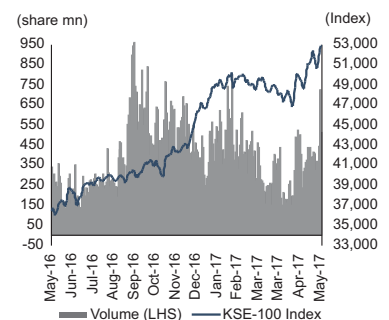
Current 12,977 / 123.75  
Previous 20,731 / 197.70  
Chg. -37.4%

AKD Daily

Tuesday, May 30, 2017

### News and Views

- As per news reports, the GoP has approved signing of another US\$1bn loan facility with China Development Bank to retire its foreign debt related obligations. Earlier, the China Development granted US\$700mn loan at an interest rate of 4.44% for three year period.
- The GoP has decided to take Liquefied Natural Gas (LNG) policy 2011 to the Council of Common Interests (CCI) to address reservations of federating units. Earlier in May'17, the chief ministers of Sindh and KPK in their separate meetings with PM have expressed reservations over policy.
- The GoP has approved the merger of Private Power and Infrastructure Board (PPIB) and Alternative Energy Development Board (AEDB), with aim to provide one window facility to the power sector investors.



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## FY18 Budget lacks excitement for Textile sector

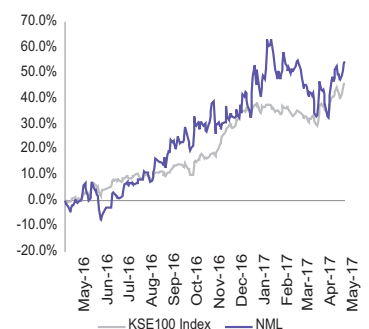
Despite widening trade deficit (+36.42% in 10MFY), focus on export-oriented sectors remained missing in the recently announced FY18 budget. While relief measures under export package (zero-rating regime, discounted EFF & LTTF and duty-free machinery import) were extended and new protectionist measures introduced (GST @10% on import of fabric and 5% RD on import of filament yarn), no solid initiatives were undertaken with regards to energy subsidy (to reduce power cost) and refund claims except allowance of payment of Refund Payment Orders (RPOs) sanctioned before Apr 30'17 (12.5% of total claims) by Aug 14'17. Moreover, the 1% increase in GST on retail sales to 6% further add to the woes of industry players having higher proportion of local sales mix should they choose to not pass on the cost increment to consumers. For NML, higher taxation on dividends (raised to 15% from 12.5% earlier) is likely to erode earnings by PkR0.21/share (1% of FY18F earnings). NML (now officially part of MSCI small-cap stocks list) has returned 9.4%MTD, where our SOTP based TP of PkR185.3/share offers 7.65% upside. Accumulate!

**FY18 budget neutral for the sector:** While maintaining relief measures under export package (zero-rating regime, discounted EFF & LTTF and duty-free machinery import), the government failed to provide any relief in the form of reduced energy cost and release of all pending refund claims (where only RPOs sanctioned before Apr 30'17, making up 12.5% of claims, are to be paid by Aug 14'17). Moreover, the 1% increase in GST on retail sales to 6% would also add to the woes of industry players with higher local sales mix, in case the cost increment is not passed through. On the positive side, the government has proposed GST @ 10% on import of fabric (presently at zero percent) and 5% RD on the import of filament yarn to protect the local industry competitiveness. Initiatives like cotton hedge trading (to keep domestic cotton prices stable), brand development fund and online B2B & B2C portal are also encouraging.

**Further tax on dividend income:** The GoP has increased tax on dividend income from 12.5% earlier to 15%. This is expected to slightly reduce NML FY18 earnings by PkR0.21/share to PkR20.01/share. While dividend income forms ~55-60% of NML's earnings, the impact remains limited on account of the company earning 40% of its dividend income from power sector where dividend tax rate stands unchanged at 7.5%.

**Investment perspective:** With Budget FY18 holding neutral implication for the sector, we reiterate our liking for NML on the back of: 1) continuing focus on high margin value-added segment (as evident from 34.25%YoY garments revenue growth in 9MFY17), 2) key beneficiary of the export package considering higher rebate rates for the value added category where NML holds a dominant position and 3) a well-diversified business

NML vs. KSE100 Index



Source: KSE & AKD Research



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portfolio. Moreover, the company's recent bid to enter into automobile sector remains a key upside trigger considering fast-paced growth in the auto sector. NML (now officially part of MSCI small-cap stocks list) has returned 9.4%MTD, where our SOTP based TP of PkR185.3/sh offers 7.65% upside from current levels. Accumulate!



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



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