November 20, 2020

PAKISTAN CHEMICALS

REP-019
MARKET VISTA

GGL & GGGL—Analyst Briefing Notes

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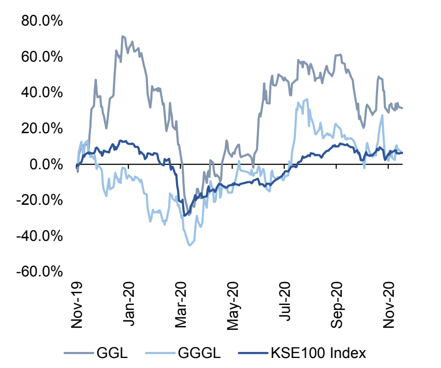
- **Ghani Global Holdings Limited (GGL), and Ghani Global Glass Limited (GGGL) held their analyst briefing yesterday. By way of background, GGL is a holding company with a stake of, 99.4% in Ghani Chemicals Limited (GCIL) and 50.1% in Ghani Global Glass Limited (GGGL). The company reported consolidated earnings of PkR0.66/sh in 1QFY21 compared to PkR0.21/sh in the same period last year and –ve PkR0.34/sh in the previous quarter.**
- **Turnaround in performance is attributable to, i) uptick in average volumes of gases (GCIL) as a result of COVID (+35-40%YoY/month) of which ~50% is sustainable in the near term, and ii) penetration by glass segment (GGGL) in the local market which along with diversification to exports and value added segments contributed in pulling up margins to 31.2% in 1QFY21 from 29.5% same period last year.**
- **Furthermore, GCIL has locked in long term contracts with EPCL and ATRL (supply of Liquid Nitrogen), providing additional thrust and sustainability to earnings going forward. The contract with EPCL will result in 20% increase in share of Argon gas (premium product) in the overall sales mix (currently 12%) thereby improving margins.**
- **GGL is currently trading at a P/E of 4.5x, where volumetric growth in gas segment through uptick in economic activity as well as organic factors (as highlighted above) could drive stock performance in the near term. GGGL has gained 12.0% CYTD to trade at a P/E of 9.9x where management's plan of raising a mix of equity and debt to finance expansion plans could open up valuations.**

GGGL — on expansion spree as penetration deepens in local market….: Ghani Global Glass Limited (GGGL) held its analyst briefing yesterday. The company is in the business of manufacturing tube glass where major competition arises from imports from Europe and China. To recall, the company reported an earnings of PkR0.35/sh, +2.2xYoY where improvement in GMs (31.2% in 1QFY21 from 29.5% same period last year), contraction in finance costs (down 26.8%YoY) on account of steep decline in interest rates, and lower effective tax rate of 7.4% as a result of brought forward losses and tax credit played major part. GGGL has a share of 90% in Chinese glass tube market whereas market share in European glass tube market stands at 15-20%. The latter is used mainly by high end National companies and MNCs. Current melting capacity is slated at 80-90tpd where viable production stands at 15-16tpd where with the addition of second furnace, total viable production would reach to 20-22tpd. The management plans BMR of first furnace once second furnace comes online. The company is expected to set up another glass furnace (in addition to second which is already in process) for which the company plans to raise a mix of debt and equity. In the first phase, the expansion would include a CAPEX of PkR600-700mn.

….. and diversification in exports and value added segment continues: The Company has started production of Ampoules and Vials (value added segment) from in house glass which has contributed in increasing margins. Production capacity for Ampoules stands at ~50mn/month, and is slated to increase to 60mn with refurbishment of 7 additional Ampoule machines. Total market size for Ampoules and vials stands at 2.5bn/annum and 1bn/annum respectively. The management is currently exporting mainly to Bangladesh, Argentina, Mexico, and Egypt while it is further exploring Russian, MENA, and African markets. The company earns higher margins in exports vs. local sales since no duty protection currently exists on local products.

GCIL – building on COVID-related turnaround: On a standalone basis, GCIL reported operating profit of PkR186.7mn, +41.7%YoY as revenues jumped 56.0%YoY in 'Industrial and Medical gases' segment offsetting the impact of marginal decline in GMs (41.6% in 1QFY21 vs. 43.2% in the same period last year). The company recorded 35-40%YoY increase in avg. volume of gases/month, out of which 15-20%YoY is expected to be sustainable in near term, thereby also increasing pricing power of GCIL. Earnings would gain additional impetus from long term contract with EPCL for supply of gas for which pipeline has already been laid. The contract does not entail distribution costs and guaranteed cash flows while it can potentially increase Argon gas's (high

GGL, GGGL vs KSE100 Index



Source: PSX & AKD Research

GGGL: Key financial stats

(PkRmn)	FY18	FY19	FY20	1QFY21
Net Sales	496	792	1,297	313
Gross Profit	9	52	287	97
GM%	1.9	6.6	22.1	31.2
Profit from Ops	(49)	(45)	182	64
NPAT	(123)	(148)	40	35
EPS	(1.2)	(1.5)	0.4	0.3
Current Ratio (x)	7.5	6.7	6.4	5.0

Source: Company Report & AKD Research

GGL: Key financial stats

(PkRmn)	FY18	FY19	FY20	1QFY21
Net Sales	2,049	3,075	3,312	1,027
Gross Profit	639	641	781	383
GM%	31.2	20.8	23.6	37.3
Profit from Ops	281	142	274	248
NPAT	126	(212)	(120)	119
EPS (pre right shares)	0.8	(0.9)	(0.9)	0.7
Current Ratio(x)	7.1	6.0	3.7	3.9

Source: Company Report & AKD Research

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premium product) contribution in total sales by 20%. At present, Oxygen, Nitrogen, and Argon contribute 60%, 25%, and 12% respectively to overall sales. Total market for liquid gases stands at 11mn cm3/month, of which GCIL occupies 40% share. The company has also entered into a 5 year contract with Attock Refinery Limited for supply of Liquid Nitrogen where GCIL would supply 100-120 liters of Liquid Nitrogen on monthly basis. Overall, Healthcare segment contributes 35-40% to total sales with gases supplied mostly to Govt. and Army Hospitals followed by Steel sector in South (including Gadani). GCIL is in the phase of getting listed on PSX by way of merger with Carim Silk Mills Limited, the case of which is pending at adjudication in honorable Sindh High Court. Tentative timeline for completion of the said merger is 3-4M.

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