

# PAKISTAN MARKET

# REP-019 MARKET VISTA

## PSMC, PAEL, NBP & NML: Result Previews

**PSMC- Losses to continue as topline growth lags:** PSMC is slated to announce 3QCY20/9MCY20 accounts on Oct'27th where we expect the OEM to report NLAT of PkR413mn (LPS:PkR5.02) continuing its recent loss making run to eight consecutive quarter, while QoQ net sales decline over four successive quarters is overcome (3QCY20 net sales growth of 2.3xQoQ). Overall, our earnings expectations are driven by: 1) absence of major price hikes during the period, relegates normalized quarterly demand (17,485 units sold vs. 7,512 in 2QCY20 and 23,147 in 3QCY19) as the only metric moving topline growth, 2) tepid GM's likely to continue where we have normalized our assumption at 3.75% for 3QCY20 vs. -0.9% for 3QCY19, and 3) below the line costs, particularly finance costs (down 14.5%QoQ, up 97.4%YoY) continue to eat into earnings as the OEM's continued reliance on borrowings (PkR32.1bn in net debt as of June'20, up PkR27.2bn or 85%FYTD). In terms of profitability, PSMC stands the most to gain from normalized business operations, where on the flipside, its capital structure and cost base allow little room to withstand prolonged business disruptions.

### PSMC: Key Forecasted Metrics

(PkRmn)	3QCY20E	2QCY20	QoQ%	9MCY20E	9MCY19	YoY%
LPS	(5.02)	(18.49)	127.2%	(34.94)	(37.6)	7.2%
NLAT	(413)	(1,521)	127.2%	(2876)	(3098.6)	7.2%
GM	3.7%	(6.3%)		0.2%	2.2%	
NM	(1.8%)	(15.6%)	-	(5.0%)	(3.5%)	-

Source: Company Report & AKD Research

**PAEL- Continuing on the path to profitability:** PAEL is slated to report results today for 3QCY20 where we expect the firm to report consolidated NPAT of PkR235mn (EPS:PkR0.45). The key determinant for a reversion back to healthy profitability for the consumer durable firm remains topline growth, where we forecast net sales at an unseasonably high of PkR7.7bn (benefitting from positive spillovers from easing lockdown restrictions which had noticeably curbed 2QCY20 sales). Other facets of reported earnings are: 1) GM's remaining range bound (expected at 22%, near 1HCY20 levels) with core cost metrics remaining stable, and 2) stable below the line expenses with finance costs tapering off, a positive spillover of monetary easing. With PAEL firmly on the path to profitability, clawing back from its 1HCY20 losses we flag gross margin augmentation as a possible catalyst where PkR appreciation may support the same for any potential upward revision in our expectations going forward.

### PAEL: Key Forecasted Metrics

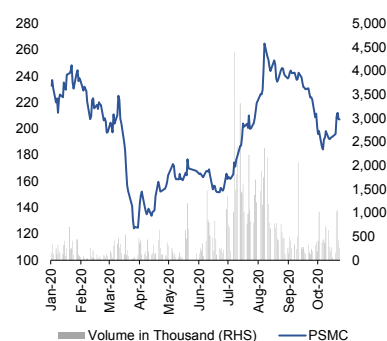
(PkRmn)	3QCY20E	2QCY20	QoQ%	9MCY20E	9MCY19	YoY%
EPS	0.45	0.19	135.4%	(0.47)	1.73	(127.2%)
NPAT	235	106	121.8%	(191)	870	(122.0%)
GM	22.0%	21.9%		22.0%	(23.6%)	
NM	3.00%	1.40%	-	(1.5%)	3.8%	-

Source: Company Report & AKD Research

**NBP; 9MCY20 earnings to clock in at PkR9.97/sh:** National Bank of Pakistan (NBP) is scheduled to announce its 9MCY20 results today. We expect bank's earnings to clock in at PkR21.3bn (EPS: PkR9.97) vis-à-vis PkR16.6bn (EPS: PkR7.80) in the same period last year. For 3QCY20, we expect earnings of PkR2.89/sh, +17.8%YoY but down 43.6%QoQ where on a PBT basis, earnings are down 30.1%QoQ. NIMs are expected to falter to 4.45% during 3Q vs. 5.1% in the previous quarter as advances book undergoes repricing effect but held up by investment book. The bank recorded an increase of 8.1%QoQ jump in NPLs with specific coverage dropping to 86.3% in 2QCY20. NPLs pile up is expected to continue with potential increase coming from classification of certain power sector loan. Additionally, improvement in coverage ratio cannot be ruled out with the management capitalizing on strong investment book returns, thereby putting cost of

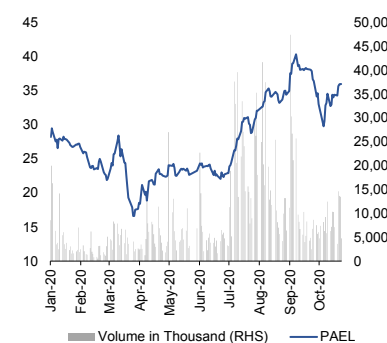
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### PSMC Performance



Source: PSX & AKD Research

### PAEL Performance



Source: PSX & AKD Research



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provisioning at an elevated level of 1.2% in 3QCY20 vs. 1.0% in the previous quarter. Non-funded income is expected to decline by 6.1%QoQ as fee income faces seasonal downtick. Further, we expect normalization in tax charge in 3QCY20 at 39.0% vs. 24.5% in 2QCY20.

#### NBP: Key Forecasted Metrics

(Pkrmn)	9M CY20E	9M CY19	YoY(%)	3QCY20E	QoQ(%)	YoY(%)
NII	76,687	54,039	41.9%	28,102	(12.0%)	53.0%
NPAT	21,304	16,638	28.0%	6,193	(43.6%)	17.8%
EPS(PkR)	9.97	7.8	-	2.89	-	-

Source: Company Report & AKD Research

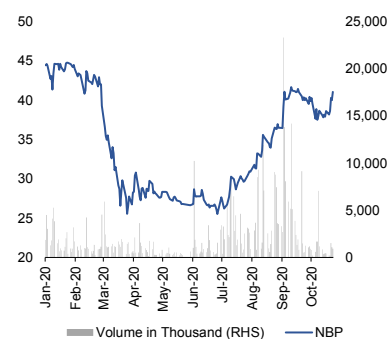
**NML – lower payouts to drive earnings decline:** NML is scheduled to announce its 1QFY21 result tomorrow (Oct 28'20), where we expect the company to report a net profit of Pkr705mn (EPS: Pkr2.01) vs. Pkr924mn (EPS: Pkr2.63) in 1QFY20, down 24%YoY. The expected earnings decline is primarily on account of 40% decline in other income, which is due to the absence of dividend income from MCB following the SBP's moratorium on payouts. (MCB contributed Pkr1.0 per sh to NML's pre-tax earnings in 1QFY20). Core earnings are likely to remain largely flat (Pkr1.13 per sh vs. Pkr1.18 per sh), with a decline in topline (-5%YoY) and gross margin (-54bpsYoY) offset by normalization of other operating expenses (-82%YoY). Sequentially, earnings are likely to increase by 19%QoQ from a low base, where core earnings recovery (Pkr1.13 per sh vs. Pkr0.47 per sh) will be partially offset by a decline in other income (-48%QoQ).

#### NML: Income Statement

(PKR mn)	1QFY21E	1QFY20	YoY	4QFY20	QoQ
Net Sales	15,207	15,933	(4.6%)	10,856	40.1%
Cost of Sales	13,229	13,776	(4.0%)	9,579	38.1%
Gross Profit	1,977	2,157	(8.3%)	1,277	54.8%
GM	13.00%	13.54%	(54)	11.77%	124
S&A	1,038	1,045	(0.7%)	871	19.2%
Operating profit	940	1,112	(15.5%)	407	131.1%
Other op. exp	38	215	(82.3%)	(69)	(154.7%)
Finance cost	329	324	1.6%	383	(14.1%)
Other Income	361	597	(39.5%)	690	(47.7%)
PBT	933	1,170	(20.2%)	783	19.2%
Tax	228	246	(7.3%)	192	18.8%
NPAT	705	924	(23.7%)	591	19.3%
EPS(PkR)	2.01	2.63	-	1.68	-

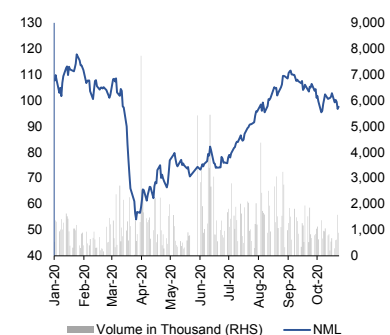
Source: Company Report & AKD Research

#### NBP Performance



Source: PSX & AKD Research

#### NML Performance



Source: PSX & AKD Research

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Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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