



August 22, 2022

Pakistan Textiles

GATM : Multiple triggers hint at stock performance

| | | | |
|---|---|---|--|
| Price Target PKR50/Sh LDCP PKR 34.95/Sh | Upside/Downside PKR42% June 2023 | Market Cap PKR21.6bn 52 week Hi/Low PKR 29.20/60.80 | Shares Outstanding 616.7mn Free Float PKR154mn (25%) |
|---|---|---|--|

With the weight of ~18.16% in LSM and ~40% of total industrial labor force, Pakistan's textile industry remains the economy's most important sector, generating more than ~60% of its export revenue from the sector. However, recent increase in energy prices followed by burgeoning inflation in global markets, rising financing rates (LTFF & EFS) and relative strength of local currency are expected to hit the sector in form of falling export orders.

In FY22, Textile sector recorded exports of US\$19.3bn vs. US\$15.39bn, up by 25.6% YoY, mainly contributed by value added textile which shows a tremendous growth of 27%. The rise in textile export is mainly attributable by government supportive policies, PKR devaluation against greenback, and rise in global textile demand. However, In 1MFY23, textile exports has declined drastically to clocked in at \$1.48bn due to aforementioned reasons. In this uncertain environment, we believe GATM would tend to have less impact due to its versatile consumer base and strong presence in both local and global markets with a share of 48% & 52%, respectively. Moreover, as cotton prices have recently plummeted amid lower global demand, GATM has procured the cotton inventory at lower rates, preventing company from inventory losses.

During 9MFY22, company posted a consolidated PAT of PKR6.14bn vs. PKR3.59bn in SPLY. Whereas sales soared by 23.71% to clock in at PKR82.95bn vs. PKR67.05bn in SPLY.

We initiate our 'BUY' stance on GATM with a June'23 DCF-based TP of PKR50/sh, offering 42% upside. Our liking for the stock emanates from the following facts i) Addition of new segments, ii) continuous upgradation to improve operational efficiency, iii) value added segment to lead growth, iv) superior gross margins compared to its peers, and v) IPO of IDEAS to thrive and prosper

Key risks to our valuation: i) Slowdown in global demand, ii) Appreciation of PKR against greenback, iii) High cotton prices coupled with declining output, iv) Change in regulatory regime, and v) Discontinuation of government supportive incentives.

Addition of new segment

In recent analyst briefing GATM has announced that they are launching two new product lines i.e. medical textile and Air-spun yarn. Medical textile products will have a capacity of 20TPD which will further enhance to 50TPD going forward. With that, company is also planning to launch air spun yarn facility by Oct'22 which will further increase company's footprints into value added segments.

Continuous upgradation to improve operational efficiency

GATM currently holds the highest PPE 5-year CAGR of 26% as company is committed towards continuous innovation and technology-driven machinery. Moreover, due to inconsistent and rising energy prices company has planned to install 20MW solar plant by FY23 shielding company from abrupt rising energy prices. To note, project will require a capex of PKR3bn which will be financed under TERF.

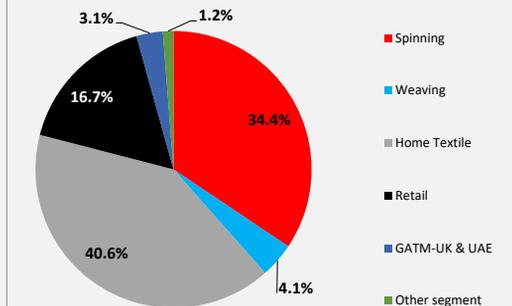
**Target Price –PKR50/Sh
Initiate "Buy"**

Textile Exports (In \$Mn) Vs USD/PKR



Source:PBS, AAH Research

GATM: 9MFY22 Segmental Analysis



Source: Company Accounts, AAH Research

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INDUSTRY UPDATE

August 22, 2022

INDUSTRY UPDATE

Value Added segment to lead growth

Value added segment contributes to more than 50% of textile exports posted a growth of 27% YoY in FY22. On the flipside, GATM value added witnessed a growth of 18% YoY in 9MFY22 which continues to grow at a 5-year CAGR of 12% which is mainly due to strong demand in USA and European countries. With that, company has heavily invested in value added segment which will yield positive returns for long term growth.

Superior Gross margins

Recently, a steep decline in cotton prices was witnessed amid slowdown in global demand and inflationary pressure, which is likely to result in inventory loss for the textile industry as most companies have stockpiled cotton in Dec'21 as per their annual cotton requirement (at higher prices). However, as per management of GATM, due to their efficient and timely procurement strategy, company was able to secure cotton at a lower rate in July'22, shielding company from inventory loss. Currently, cotton prices are crawling back to their original level, which will support company from rising cotton prices and provide them inventory gains which will keep company's gross margins elevated. To note, GATM has 5-year average gross margins of 20% vs. 17% (5-year average) compared to its peers.

IPO of IDEAS to thrive and prosper

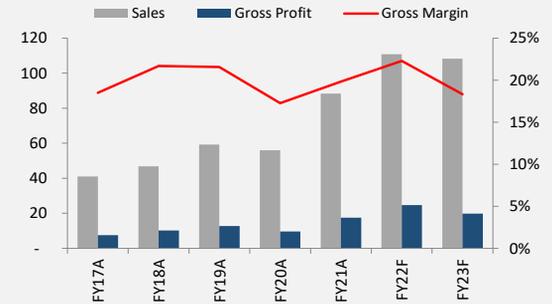
Company is planning an IPO of IDEAS which will help the company to focus on its core business operations with high potential to grow and prosper. Meanwhile, it will also create value for investors as they will tend to get better understanding of the business. To note, in 9MFY22, company retail business grew by 2.73x YoY, contributing ~20% to company's total sales. Moreover, with the plan to add 20 new outlets (existing 108) will likely increase revenue for the company.

| PKR mn | FY18 | FY19 | FY20 | FY21 | FY22F | FY23F | FY24F |
|---------------|--------|--------|--------|--------|---------|---------|---------|
| Sales | 46,570 | 59,190 | 55,933 | 88,356 | 110,781 | 108,276 | 127,806 |
| Gross Profit | 9,885 | 12,758 | 9,670 | 17,509 | 24,695 | 19,857 | 25,328 |
| Other Income | 473 | 1,168 | 316 | 899 | 297 | 260 | 123 |
| Interest Exp. | 990 | 1,503 | 2,054 | 2,338 | 2,535 | 3,794 | 3,079 |
| PBT | 2,422 | 4,031 | (223) | 6,291 | 8,878 | 5,447 | 10,455 |
| PAT | 2,160 | 3,631 | (626) | 5,266 | 6,884 | 4,361 | 8,416 |

| Key Ratios | FY18 | FY19 | FY20 | FY21 | FY22F | FY23F | FY24F |
|---------------|-------|------|------|-------|-------|-------|-------|
| EPS - Cons. | 5.1 | 8.5 | N.M | 8.5 | 11.2 | 7.1 | 13.6 |
| DPS | 0.8 | 0.8 | 0.8 | 0.8 | 1.1 | 1.1 | 2.0 |
| P/E | 6.9 | 4.1 | N.M | 4.1 | 3.1 | 4.9 | 2.6 |
| P/Bv | 1.7 | 1.4 | 1.3 | 1.0 | 0.6 | 0.6 | 0.5 |
| Div. Yield | 2% | 2% | 2% | 2% | 3% | 3% | 6% |
| Gross Margins | 22% | 22% | 17% | 20% | 22% | 18% | 20% |
| ETR | 10.8% | 9.9% | N.M | 16.3% | 22.5% | 19.9% | 19.5% |

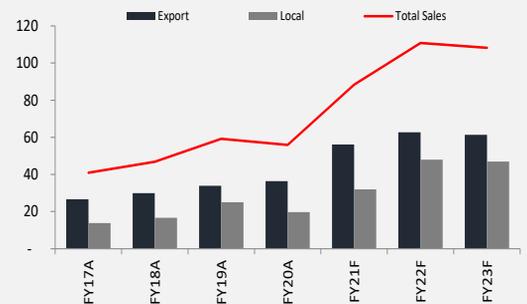
Source: Company Accounts, AAH Research

Revenue vs Gross profit (PKRbn)



Source: Company Accounts, AAH Research

GATM: Local vs Exports Revenue (PKR bn)



Source: Company Accounts, AAH Research

| PPE (PKRbn) | FY17 | FY18 | FY19 | FY20 | FY21 | FY22** | 5-Yr CAGR |
|-------------|------|------|------|------|------|--------|-----------|
| ANL | 132 | 132 | 102 | 103 | 102 | 106 | -4% |
| GATM* | 160 | 161 | 190 | 263 | 343 | 516 | 26% |
| NCL | 120 | 114 | 111 | 167 | 173 | 206 | 11% |
| NML | 278 | 282 | 290 | 313 | 359 | 396 | 7% |
| KTML | 82 | 86 | 89 | 97 | 107 | 118 | 7% |
| ILP | 136 | 155 | 183 | 227 | 262 | 329 | 19% |
| FML | 83 | 108 | 135 | 176 | 203 | 246 | 24% |
| GADT | 74 | 78 | 99 | 102 | 103 | 107 | 8% |
| SERT | 60 | 69 | 75 | 76 | 106 | 123 | 16% |

Source: Company Accounts, AAH Research

*Consolidated

**Based on 3QFY22

| Company | 5-Year Average G.M |
|---------|--------------------|
| NML | 12% |
| GATM | 20% |
| NCL | 13% |
| KTML | 17% |
| ILP | 27% |

Source: Company Accounts, AAH Research



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Rating Criteria

- Rating** - Expected Total Return
- Buy** - Greater than 10%
- Hold** - Neither Buy nor Sell
- Sell** - Less than and equal to -10%

Valuation Methodology

To arrive at our 12-months Price Target, ABA Ali Habib Research uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology. In this report, our PT is founded on FCFF based DCF methodology.

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