

Air Link

We recommend to subscribe the IPO with DCF based Jun-22 TP of Rs.100

Equity Research | Technology & Communication | Thursday, 26 August, 2021

We recommend to subscribe the IPO with a DCF based Jun-22 TP of Rs.100 which provides an upside potential of 54% relative to its floor price of Rs.65

The registration process of eligible investors has already been commenced from 25th Aug 2021 and will close at 3:00 pm on 31st Aug 2021

Bidding dates are from 30th Aug 2021 to 31st Aug 2021 (From 9:00 am to 5:00 pm)

Dates of public subscription are from 06th Sep 2021 to 07th Sep 2021 from 9:00 am to 5:00 pm

Company Overview

Air Link Communication Limited is one of the leading distributors of mobile phone devices in Pakistan with a market share of around 20% within imported mobile phones. The Company has entered into distribution agreements with leading mobile phone manufacturers, namely Samsung, Apple, Huawei, TCL, Tecno, ITEL, and Xiaomi.

As of June 30, 2021, the Company operated fourteen retail outlets, out of which five were located in Karachi, five in Lahore, two in Bahawalpur, and one in Hyderabad and Multan. The Company has a countrywide distribution network, consisting of 16 regional hubs linked to 1,000+ wholesalers and 4,000+ retailers, to facilitate nationwide sales of mobile phones and accessories.

The Company has also set up an assembling facility of 4G and feature phones having an installed capacity of more than 400,000 units per month. The Company has commenced assembly from April-2021.

Purpose of the Issue

The company wants to raise Rs 3.9bn by issuing 60mn shares at the floor price of Rs65 per share. The proceeds would be utilized for the injection of working capital to expand the Company's distribution and retail network through procurement of inventory.

The total number of offered shares are 90mn out of which 60mn shares are being issued by the company and the remaining 30mn shares are being offered by the sponsor of Air Link i.e. Mr. Muzaffar Hayat Piracha from his current shareholding.

The company is raising equity for meeting working capital requirements because it has already exhausted short-term working capital finance facilities provided by banking channels as a Debt to Assets ratio of 0.45 times and a Debt to Equity Ratio of 2.04 times (as at FY20) represents substantial financial leverage.

Arranging equity financing for working capital would improve the company's profitability by the reduction in finance cost and gaining lost incentives from vendors due to credit financing.

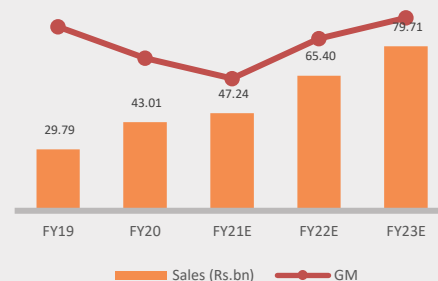
Industry Overview

Smartphones and feature phones are two categories of cellphones that are available in the market. Smartphones are any mobile phones that are similar to a mini-computer. Smartphones offer a variety of features that allows advanced computing capability and connectivity. Feature phone is a category of mobile phones that have minimal features and are moderately priced. These phones are aimed at customers that want a medium-range phone that is not overly priced and also offers some of the features of a smartphone.

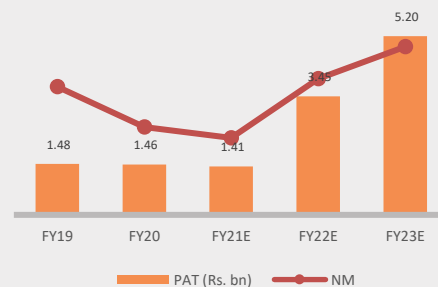
Key Statistics

Symbol	AIR LINK
TP - Jun 22	100.00
Floor Price	65.00
Upside	54%
Free Float (mn)	90
Market Cap. (Rs.mn)	23,400

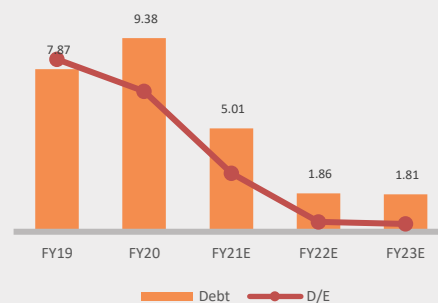
Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Debt (Rs'bn) vs D/E



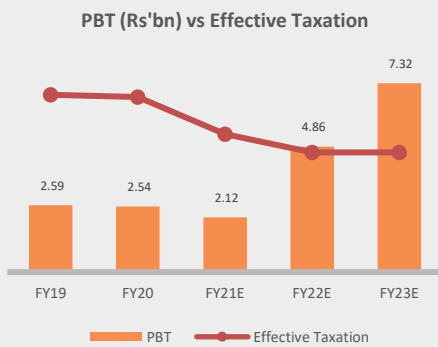
Sources: ACPL Research, Company Financials, PSX.

M. Fawad Naveed

Phone: (+92) 42 38302028; Ext: 117

Email: fawad@abbasiandcompany.com

Key Statistics



Sources: ACPL Research, Company Financials,

The major volume of Pakistan's mobile market is attributable to the feature phone space, whereas the majority of the revenue is being driven by smartphone sales. The Pakistan mobile market is expected to shift from feature phones to smartphones as cellular mobile operators roll out their networks and 4G becomes more widely available.

Pakistan's telecom sector witnessed significant growth after the introduction of 3G and 4G in 2014. 3G and 4G supported the growth of e-commerce which in turn led to an increase in demand for smartphones. Mobile network operators based in Pakistan have completed successful testing of 5G technology. This presents an opportunity for smartphone growth.

Lastly, the pandemic of Covid-19 has resulted in a shift in global buying behavior in the mobile handset market as organizations have adapted to work-from-home scenarios and schools have shifted to e-learning models. This has somewhat catalyzed the shift from feature phones to smartphones as smartphones have become a necessity of the time.

Financial Performance

Air Link has a promising track record of financial performance with consistent growth in revenues and profitability. The business revenues grew exponentially from PKR 5,897 million in FY15 to PKR 43,008 million in FY20, depicting a remarkable 5-Year CAGR of 49%, whereas revenues during 1HFY21 stood at PKR 28,124 million, with a growth of 54% compared to last year.

Going forward, we expect the revenues and earnings of the company to grow at a 5-year CAGR of 22% and 42% as the company intends to increase its outreach by injecting more working capital to expand its distribution and retail network in more cities of Pakistan. Furthermore, reduced debt levels and the establishment of a mobile phone assembling plant would further contribute to the upsurge of the bottom line.

Valuation

The FY22E PE of the company stands at 7.04x at a floor price of Rs.65. We recommend to **SUBSCRIBE** the IPO with a DCF based Jun-22 TP of Rs.100 which provides an upside potential of 54% relative to its floor price of Rs.65.

Key Risks to Valuation

- Higher than expected depreciation of PKR
- Decrease in demand as a result of currency devaluation
- Future changes in import policy by the government

Financial Projections

Rupees' millions	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
Net sales	24,151	29,786	43,008	47,235	65,399	79,712	95,992	117,892	142,497
Cost of sale	- 21,004	- 25,799	- 38,238	- 42,693	- 57,211	- 68,536	- 82,784	- 100,021	- 120,885
Gross profit	3,147	3,986	4,770	4,542	8,188	11,176	13,208	17,871	21,612
Administration expenses	- 247	- 433	- 477	- 972	- 1,942	- 2,598	- 3,300	- 4,116	- 4,819
Selling and promotion expenses	- 269	- 307	- 519	- 653	- 1,048	- 1,058	- 1,263	- 1,535	- 1,841
Operating Profit	2,632	3,246	3,774	2,917	5,198	7,520	8,645	12,220	14,952
Other operating income	46	176	168	49	69	84	88	90	90
Finance cost	- 388	- 827	- 1,398	- 848	- 407	- 287	- 255	- 249	- 268
Profit before taxation	2,290	2,595	2,544	2,118	4,860	7,318	8,478	12,061	14,774
Taxation	- 1,056	- 1,115	- 1,080	- 709	- 1,409	- 2,122	- 2,459	- 3,498	- 4,285
Profit after taxation	1,234	1,480	1,464	1,409	3,451	5,195	6,019	8,564	10,490
EPS	3.30	3.96	3.92	3.77	9.23	13.90	16.10	22.91	28.06

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
Net sales	23.3%	44.4%	9.8%	38.5%	21.9%	20.4%	22.8%	20.9%
Cost of sale	22.8%	48.2%	11.7%	34.0%	19.8%	20.8%	20.8%	20.9%
Gross profit	26.7%	19.7%	-4.8%	80.3%	36.5%	18.2%	35.3%	20.9%
Administration expenses	75.7%	10.1%	103.9%	99.8%	33.8%	27.0%	24.7%	17.1%
Selling and promotion expenses	14.2%	69.2%	25.7%	60.6%	1.0%	19.3%	21.6%	19.9%
Operating Profit	23.3%	16.3%	-22.7%	78.2%	44.7%	15.0%	41.3%	22.4%
Other operating income	279.4%	-4.6%	-70.9%	42.1%	21.7%	4.3%	2.8%	0.0%
Finance cost	113.3%	69.0%	-39.3%	-52.0%	-29.5%	-11.0%	-2.4%	7.8%
Profit before taxation	13.3%	-2.0%	-16.7%	129.5%	50.6%	15.9%	42.3%	22.5%
Taxation	0.0%	0.0%	0.0%	98.9%	50.6%	15.9%	42.3%	22.5%
Profit after taxation	19.9%	-1.1%	-3.7%	144.8%	50.6%	15.9%	42.3%	22.5%
EPS	19.9%	-1.1%	-3.7%	144.8%	50.6%	15.9%	42.3%	22.5%

Source: ACPL Research, Company Financials

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DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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RESEARCH DEPARTMENT

6 - Shadman, Lahore
 Phone: (+92) 42 38302028; Ext 116, 117
 Email: research@abbasiandcompany.com
 web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore
 Phone: (+92) 42 38302028
 Email: info@abbasiandcompany.com
 web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore
 Phone: (+92) 42 37320707
 Email: info@abbasiandcompany.com
 web: www.abbasiandcompany.com