

GATM

1QFY22 Result Review: BUY Stance Maintained

Equity Research | Textile Composite | Wednesday, 3 November, 2021

GATM has announced its 1QFY22 result where it posted a profit after tax of Rs1.11bn (EPS: Rs2.16) as compared to profit after tax of Rs599mn (EPS: Rs1.14) in the same period last year, up by 84.7% YoY.

The company has posted a revenue of Rs24bn against Rs20bn in SPLY, recording a growth of 23.9% YoY. We note that this growth is attributed to the surge in exports.

The gross margin has been increased to 20% as compared to 17.9% in SPLY on account of lower input cost.

The operating cost has been increased by 25.5% YoY to Rs2.4bn as compared to Rs1.9bn in SPLY. Finance cost has been increased by 10.7% YoY to Rs662mn as compared to Rs598mn in SPLY on account of higher working capital requirement.

Going forward, we expect the company to continue its growth momentum as Pakistan's textiles exports have witnessed a surge amid ease in global lockdowns. GATM is currently trading at FY22E PE of 5.19x. Further, the scrip is also trading at FY22E PB of 1.07x which offers the discount of 36% relative to its 3-year historical average of 1.68x. We have a **BUY** stance on the script with a DCF based Jun-22 TP of Rs65 which provides an upside potential of 22%.

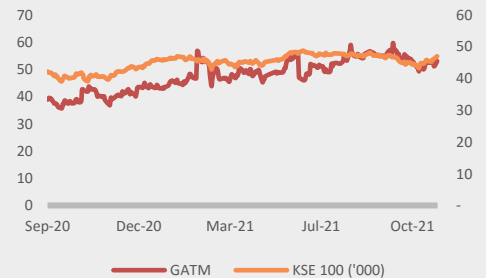
Rupees' millions	1QFY22	1QFY21	YoY	FY21	FY20	YoY
Net Sales	24,349	19,658	23.9% ▲	86,424	45,005	92.0% ▲
Cost of Sales	19,471	16,135	20.7% ▲	69,542	36,784	89.1% ▲
Gross Profit	4,878	3,523	38.4% ▲	16,883	8,221	105.4% ▲
Operating Cost	2,366	1,884	25.5% ▲	8,726	6,022	44.9% ▲
Other Income	-325	-200	62.2% ▲	302	328	7.9% ▼
Operating Profit	2,187	1,439	52.0% ▲	8,458	2,527	234.8% ▲
Finance Cost	662	598	10.7% ▲	2,341	1,430	63.7% ▲
Profit Before Taxation	1,525	841	81.4% ▲	6,117	1,096	457.9% ▲
Taxation	418	241	73.2% ▲	984	397	148.0% ▲
Profit After Taxation	1,107	599	84.7% ▲	5,133	700	633.7% ▲
Earnings Per Share	2.16	1.17	84.7% ▲	10.00	1.36	633.7% ▲
Dividend	0.00	0.00		1.00	0.00	
Bonus	0%	0%		20%	0%	
Gross Margin	20.0%	17.9%	2.1% ▲	19.5%	18.3%	1.3% ▲
Operating Cost to Sales	9.7%	9.6%	0.1% ▲	10.1%	13.4%	3.3% ▼
Other Income to Sales	-1.3%	-1.0%	0.3% ▼	0.3%	0.7%	0.4% ▼
Effective Taxation	27.4%	28.7%	1.3% ▼	16.1%	36.2%	20.1% ▼
Net Margin	4.5%	3.0%	1.5% ▲	5.9%	1.6%	4.4% ▲

Source: ACPL Research, Company Financials

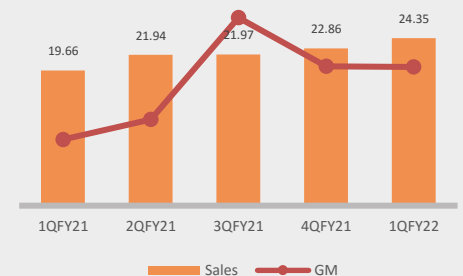
Key Statistics

Symbol	GATM
TP - Jun 22	65.00
LDCP	53.01
Upside / (Downside)	22%
Free Float ('mn)	128
Market Cap. (Rs. 'mn)	26,899

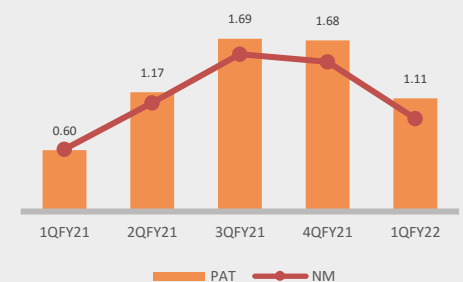
GATM vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

M. Fawad Naveed

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

Email: fawad@abbasiandcompany.com

Financial Projections

Rupees' millions	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Revenue	57,288	53,941	86,424	95,541	108,434	123,802	142,206
Cost of sales	45,306	44,872	69,542	76,116	86,137	98,069	112,350
Gross profit	11,982	9,069	16,883	19,424	22,298	25,733	29,856
SG&A Expenses	7,326	7,241	8,726	9,863	12,036	13,913	16,148
Other Expenses	312	264	582	860	813	929	1,067
Other Income	1,137	368	884	191	217	248	284
Profit from operations	5,482	1,932	8,458	8,893	9,665	11,139	12,926
Finance cost	1,473	2,008	2,341	2,647	2,517	2,349	2,118
Profit before income tax	4,008	- 76	6,117	6,246	7,148	8,791	10,808
Income tax expense	399	403	984	1,005	1,150	1,415	1,739
Profit for the year	3,609	- 479	5,133	5,241	5,998	7,376	9,068
EPS	7.03	- 0.93	10.00	10.21	11.68	14.37	17.66
EBITDA	7,442	4,103	11,173	11,944	13,020	14,767	16,800

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY22E	FY23E
Revenue	25.56%	-5.84%	60.22%	10.55%	13.50%	14.17%	14.87%
Cost of sales	25.67%	-0.96%	54.98%	9.45%	13.16%	13.85%	14.56%
Gross profit	25.13%	-24.31%	86.15%	15.05%	14.79%	15.41%	16.02%
SG&A Expenses	17.19%	-1.15%	20.51%	13.03%	22.04%	15.59%	16.06%
Other Expenses	49.86%	-15.26%	120.24%	47.78%	-5.42%	14.17%	14.87%
Other Income	472.56%	-67.67%	140.35%	-78.38%	13.50%	14.17%	14.87%
Profit from operations	65.34%	-64.76%	337.91%	5.13%	8.69%	15.25%	16.04%
Finance cost	49.27%	36.26%	16.61%	13.05%	-4.90%	-6.70%	-9.81%
Profit before income tax	72.16%	-101.90%	-8137.34%	2.10%	14.44%	22.98%	22.94%
Income tax expense	57.54%	1.01%	144.13%	2.10%	14.44%	22.98%	22.94%
Profit for the year	73.94%	-113.28%	-1170.77%	2.10%	14.44%	22.98%	22.94%
EPS	73.94%	-113.28%	-1170.77%	2.10%	14.44%	22.98%	22.94%
EBITDA		-44.87%	172.32%	6.90%	9.01%	13.42%	13.76%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
GP Margin	%	20.92	16.81	19.53	20.33	20.56	20.79	20.99
NP Margin	%	6.30	-0.89	5.94	5.49	5.53	5.96	6.38
OP Margin	%	9.57	3.58	9.79	9.31	8.91	9.00	9.09
ROE	%	23.54	-3.43	24.84	20.66	19.45	19.67	19.85
ROCE	%	14.82	-1.61	-119.28	-542.01	156.70	71.19	48.01
ROA	%	6.63	-0.70	9.34	7.76	8.18	9.18	10.19
Liquidity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Current	x	1.16	1.02	0.42	0.50	0.54	0.60	0.69
Acid-test	x	0.26	0.17	-0.40	-0.27	-0.31	-0.35	-0.38
Cash to current liab.	x	0.02	0.01	-0.53	-0.39	-0.44	-0.50	-0.55
Activity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Inventory Turnover	x	2	1	2	2	2	2	2
Inventory Days		190	268	220	224	225	225	212
Receivables Days		50	37	38	32	33	33	33
Payables Days		39	39	39	39	39	39	39
Operating Cycle		201	266	219	217	218	219	206
Investment Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
EPS		7.03	-0.93	10.00	10.21	11.68	14.37	17.66
DPS		2.50	0.00	1.50	1.50	2.00	2.50	3.00
Div. Yield	%	4.72	0.00	2.83	2.83	3.77	4.72	5.66
Dividend Cover		2.81	0.00	6.67	6.81	5.84	5.75	5.89
BVPS		29.87	27.20	40.25	49.42	60.06	73.04	88.97
Payout	%	35.56	0.00	15.00	14.69	17.12	17.40	16.98
Retention	%	64.44	100.00	85.00	85.31	82.88	82.60	83.02
No. of Shares	'mn	513.35	513.35	513.35	513.35	513.35	513.35	513.35
P/E		7.54	-56.77	5.30	5.19	4.54	3.69	3.00
Sales per share		111.60	105.08	168.35	186.11	211.23	241.16	277.01
P/BV		1.77	1.95	1.32	1.07	0.88	0.73	0.60
Price to Sales		0.48	0.50	0.31	0.28	0.25	0.22	0.19
Gearing Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Debt to Equity	x	1.89	2.82	2.39	2.17	1.69	1.28	0.94
Interest Cover	x	3.72	0.96	3.61	3.36	3.84	4.74	6.10

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

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

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

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

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

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