

PABC

We recommend to subscribe the IPO with DCF based Dec-21 TP of Rs.50

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We recommend to subscribe the IPO with a DCF based Dec-21 TP of Rs.50 which provides an upside potential of 43% relative to its floor price of Rs.35

The registration process of eligible investors has already been commenced from 17th Jun 2021 and will close at 3:00 pm on 23rd Jun 2021

Bidding dates are from 22nd Jun 2021 to 23rd Jun 2021 (From 9:00 am to 5:00 pm)

Dates of public subscription are from 29th Jun 2021 to 30th Jun 2021 from 9:00 am to 5:00 pm

Company Overview

Pakistan Aluminium Beverage Cans Limited (PABC) was incorporated by Ashmore Mauritius PABC Limited in Dec 2014. The company started its commercial operations in Sep 2017 as the sole local manufacturer of aluminum beverage cans in Pakistan. The manufacturing facility of the Company is situated in Special Economic Zone ("SEZ"), M3 Industrial City, Faisalabad and is ideally positioned in close proximity to certain major bottlers and beverages companies including Coca Cola and PepsiCo Pakistan.

Purpose of the OFS

The company is raising Rs 3.3bn by issuing 93.9mn shares at the floor price of Rs35 per share. The principal purpose of the Offer for Sale of Shares is to divest Ashmore Mauritius PABC Limited, shareholding in the company through the capital market, and list the company at Pakistan Stock Exchange Limited.

Ashmore Mauritius PABC Limited, typical of any private equity strategy is divesting its shareholding to realize returns delivered on their investment in PABC through a combination of this Offer for Sale and Private Placement.

Expansion in Production Capacity

The Company's plant can produce 700 Million cans per annum if it had to produce only one size of the can. The Company is in the process of adding capacity which is estimated to have a total cost of USD 6.92 Mn (PKR 1,080 Million @ USD/PKR exchange rate of PKR 156.). For the said purpose, the Company has been able to procure Islamic State Bank of Pakistan's long-term financing facility (ILTF) from Faysal Bank Limited. After this expansion, the rated capacity of the Company will increase to 950 million cans per annum as opposed to the current rated capacity of 700 million cans per annum. The expansion is expected to come online by June – 2022. The entire expansion will be financed through ILTF and internal cash.

Soft Drinks Market to Grow at a Rapid Pace

Pakistan soft drinks market is expected to grow at a 5-Year CAGR of 6.7% from 2020 to 2025 on the back of rising urbanization, increased consumption, and favorable demographics. The growth in the beverage market is expected to lead to an uptick in the demand for beverage containers. Hence, being a sole beverage can manufacturer in Pakistan, the company would directly be benefitted from the growth of the soft drinks market.

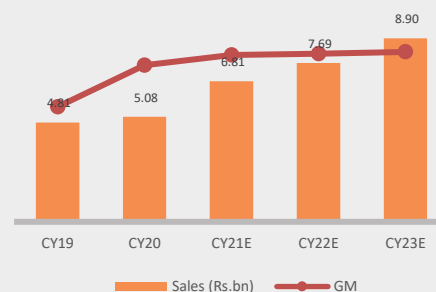
Increasing Penetration of Cans in Beverage Packaging

Amid increased environmental concerns and the rising issue of plastic waste, there

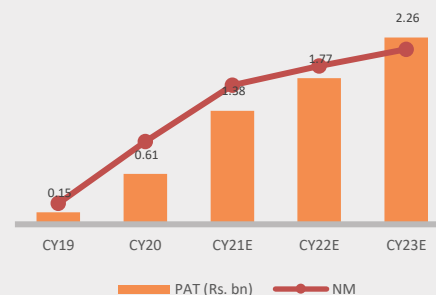
Key Statistics

Symbol	PABC
TP - Dec 21	50.00
Floor Price	35.00
Upside	43%
Free Float (mn)	94
Market Cap. (Rs.mn)	12,639

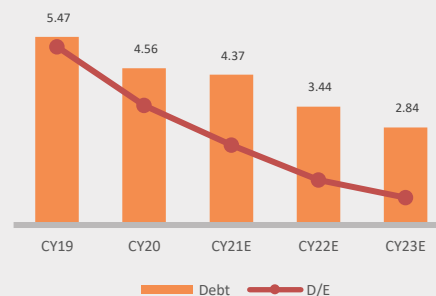
Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Debt (Rs'bn) vs D/E



Sources: ACPL Research, Company Financials, PSX.

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Key Statistics

is a global trend of shifting towards packaging which can be effectively recycled. This is evident from announcements by Nestle, Pepsi, Coca-Cola, and others to reduce their use of virgin plastics and use environment-friendly packaging with higher recycled content. This shift is likely to accelerate in Pakistan with indigenous production in the country due to reduced costs and is expected to increase can penetration from current levels of 3-4% of total carbonated drinks sales, as per Company estimates. PABC, being the sole manufacturer of aluminum beverage cans in the country, is expected to continue to capitalize on the resultant growing demand for aluminum beverage cans in the country.

Immense Potential in Export Markets

PABC exported 35% of their total revenue in CY20 (CY19: 40%) to Afghanistan and holds the majority of the market share currently, as per Company's estimates. The Company has recently signed agreements with beverage bottlers in Tajikistan and the USA. PABC has also started sales to bottlers in North America and is continuing to explore other markets for the export of aluminum beverage cans particularly to Bangladesh and Central Asia.

Financial Performance

PABC has shown strong growth in terms of sales and has been able to achieve a sales mark of PKR 5 Billion within the third full year of its operations despite a period of lockdown and border closures due to Covid-19. The company has successfully been able to grow its revenues at a 2-year CAGR of 57% in CY20. The gross margins and net margins have also shown exponential growth.

Going forward, we expect the revenues and earnings of the company to grow at a 5-year CAGR of 16% and 40% respectively on account of the planned expansion, growth opportunities on the export front, increasing penetration of cans in beverage packaging, and rapid growth in soft drinks market.

Valuation

The CY21E and CY22E PE of the company stand at 9.18x and 7.14x respectively at a floor price of Rs.35. Therefore, we recommend to **SUBSCRIBE** the IPO with a DCF based Dec-21 TP of Rs.50 which provides an upside potential of 43% relative to its floor price of Rs.35.

Key Risks to Valuation

- Appreciation of PKR
- Delay in expansion

Financial Projections

Rupees' millions	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E	CY24E
Net sales	2,057	4,809	5,084	6,810	7,691	8,896	10,164
Cost of sale	- 2,276	- 3,737	- 3,542	- 4,609	- 5,186	- 5,967	- 6,777
Gross profit	- 219	1,072	1,542	2,201	2,505	2,930	3,388
Admin & Selling Expenses	- 291	- 270	- 246	- 355	- 271	- 285	- 299
Other operating expenses	-	- 20	- 191	- 106	- 133	- 166	- 205
Operating Profit	- 510	782	1,104	1,740	2,101	2,479	2,884
Other operating income	6	60	17	18	29	92	212
Finance cost	- 475	- 578	- 423	- 241	- 231	- 200	- 170
Profit before taxation	- 979	264	698	1,516	1,899	2,371	2,927
Taxation	181	- 118	- 87	- 140	- 130	- 107	- 105
Profit after taxation	- 799	146	611	1,376	1,769	2,264	2,821
EPS	- 2.71	0.40	1.69	3.81	4.90	6.27	7.81

Source: ACPL Research, Company Financials

Horizontal Analysis

	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E	CY24E
Net sales		133.8%	5.7%	33.9%	12.9%	15.7%	14.3%
Cost of sale		64.2%	-5.2%	30.1%	12.5%	15.1%	13.6%
Gross profit		-588.4%	43.8%	42.8%	13.8%	16.9%	15.6%
Admin & Selling Expenses		-7.1%	-8.9%	44.3%	-23.6%	5.0%	5.0%
Other operating expenses			858.6%	-44.6%	25.3%	24.9%	23.4%
Operating Profit		-253.3%	41.2%	57.6%	20.8%	18.0%	16.3%
Other operating income		948.7%	-71.5%	6.0%	60.2%	220.6%	129.7%
Finance cost		21.7%	-26.7%	-43.0%	-4.5%	-13.2%	-15.2%
Profit before taxation		-126.9%	164.7%	117.3%	25.3%	24.9%	23.4%
Taxation		-165.2%	-26.1%	60.7%	-6.9%	-17.9%	-1.5%
Profit after taxation		-118.2%	319.2%	125.4%	28.5%	28.0%	24.6%
EPS		-114.9%	319.2%	125.4%	28.5%	28.0%	24.6%

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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