

TGL

A scrip with promising growth potential, offering a return of 38%

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We initiate our coverage on Tariq Glass Limited (TGL) with a DCF based Dec-22 TP of Rs.175 which provides an upside potential of 38%. It also offers a dividend yield of around 9% which makes a total return of 47%

In spite of challenging macroeconomic conditions the company still managed to grow its revenues at a 5-year CAGR of 19% with stable margins in FY21. Going forward, we expect the company's revenues and earnings to grow at a 5-year CAGR of 15% and 26% respectively due to an increase in demand and strong pricing power

Furthermore, the potential venture with ICI Pakistan will further enhance the growth prospects of the company

Company Overview

Tariq Glass Industries Ltd. is principally engaged in the manufacturing and sale of, tableware and float glass with the production capacities of 275 and 1050 tons per day respectively. The company's production facility is situated in Sheikhpura, Pakistan. Glass & Ceramics is considered as one of the cyclic sectors along with the construction, cement, and steel sectors. However, this sector is not as vulnerable to the economic slowdown as the other sectors.

Promising Growth in Topline Despite Economic Slowdown

Despite economic ups and downs, the company's revenue has shown a growth of 64% YoY to Rs14.8bn in 1HFY22 followed by a growth of 41% YoY in FY21. The growth in revenues is attributed to a hike in prices and increased volumes. Going forward, we expect the company's revenues to grow at a 5-year CAGR of 15% to Rs38bn by FY26 due to the recent expansion. Furthermore, the housing projects initiated by the PM of Pakistan will also bolster the demand for Float glass products.

Upcoming Potential Venture to Boost Up the Profitability

The company's potential joint venture with ICI Pakistan is currently at the feasibility stage and waiting for regulatory and corporate approvals. ICI Pakistan is one of the major suppliers of soda ash in Pakistan and this will sufficiently reduce the cost of the TGL as soda ash is one of the major cost components of glass. We expect that the funds for this venture will be generated via a mix of debt and equity. However, we will wait for further confirmation from the management of the company in order to fully incorporate this venture in our estimates.

Ability to Raise Debt for Greenfield Expansion

The company's debt-to-equity ratio swelled to 1.16x in FY20 due to the recent brownfield expansion. However, the company has recently paid off a major part of its debt after which the debt to equity ratio has dropped down 0.47x. Therefore, the company has now sufficient capacity to add on more debt for the upcoming greenfield project with ICI Pakistan which will eventually boost up the top line of the company.

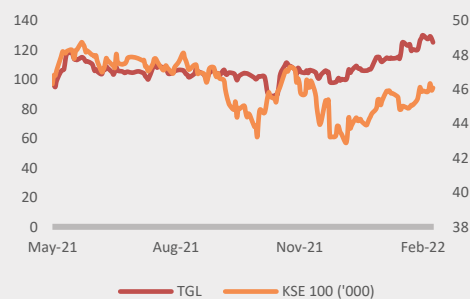
Diversified Product Portfolio

TGL has a diversified product portfolio, ranging from float glass to tableware. It allows the company to target various sectors and have diversified exposures. The company also exports its products to various countries. The revenue stream for FY21 stood at 56% and 44% for float glass and tableware respectively.

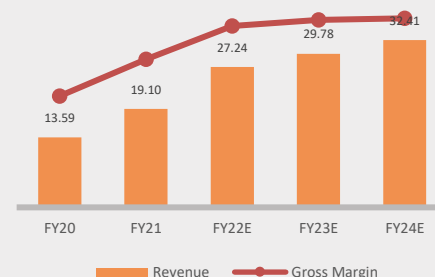
Key Statistics

Symbol	TGL
TP - Dec 22	175.00
LDPC	127.00
Upside (%)	38
Free Float ('mn)	55
Market Cap. (Rs.'mn)	17,492

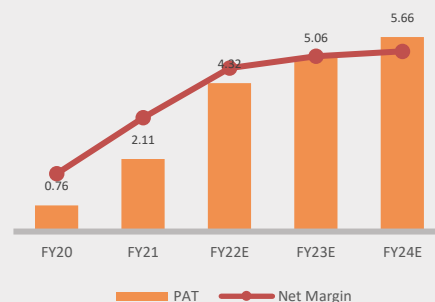
TGL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



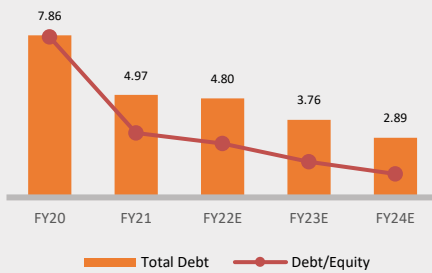
Sources: ACPL Research, Company Financials, PSX,

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Key Statistics

Total Debt (Rs'bn) vs Debt/Equity



Sources: ACPL Research, Company Financials,

Consistent Margins Amid No Reliance on Imports

The gross profit margin of TGL remained consistent at around 20% during the period of FY16 to FY21. In fact, it has surged to around 29% in 1HFY22. It is evident from the data that despite drastic changes in the economic cycle and surge in fuel prices, its GP margin remained almost stable and got improved over time due to the company's ability to adjust the prices of its products accordingly without affecting the demand. Furthermore, the company doesn't have to bear exchange rate risk as it is not dependent on imported raw material which makes it the most lucrative company within the construction sector amid an ongoing free float exchange rate regime.

Valuation

TGL is currently trading at a FY22E P/E of 4.05x. Furthermore, the scrip is also trading at a FY22E P/B of 1.39x which offers a discount of 41% relative to its historical 3-year average of 2.36x. We have a **BUY** stance on the script with a DCF based Dec-22 TP of Rs.175 which provides an upside potential of 38%. It also offers a dividend yield of around 9% which makes a total return of 47%.

Key Risks to Valuation

- Hike in prices of raw material
- Less than expected growth in demand

Financial Projections

Rupees' millions	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Net sales	14,389	13,587	19,103	27,245	29,776	32,407	35,145
Cost of sale	11,571	11,387	14,988	20,065	21,661	23,500	25,450
Gross profit	2,818	2,200	4,115	7,180	8,115	8,907	9,695
Selling and promotion expenses	318	251	320	334	365	397	431
Administration expenses	238	272	296	313	342	373	404
Other operating expenses	136	94	243	458	500	544	590
Operating Profit	2,126	1,584	3,257	6,074	6,907	7,593	8,269
Other operating income	38	30	15	150	164	178	193
Finance cost	310	568	313	465	319	224	142
Profit before taxation	1,855	1,045	2,959	5,759	6,752	7,547	8,320
Taxation	531	284	849	1,440	1,688	1,887	2,080
Profit after taxation	1,324	762	2,109	4,319	5,064	5,660	6,240
EPS	9.61	5.53	15.31	31.36	36.77	41.10	45.31

Source: ACPL Research, Company Financials

Horixontal Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Net sales	17.0%	-5.6%	40.6%	42.6%	9.3%	8.8%	8.4%
Cost of sale	16.0%	-1.6%	31.6%	33.9%	8.0%	8.5%	8.3%
Gross profit	21.3%	-21.9%	87.1%	74.5%	13.0%	9.8%	8.8%
Selling and promotion expenses	-28.0%	-21.3%	27.6%	4.6%	9.3%	8.8%	8.4%
Administration expenses	11.9%	14.2%	8.9%	5.9%	9.3%	8.8%	8.4%
Other operating expenses	29.8%	-30.7%	157.9%	88.5%	9.3%	8.8%	8.4%
Operating Profit	35.9%	-25.5%	105.7%	86.5%	13.7%	9.9%	8.9%
Other operating income	165.1%	-23.2%	-50.7%	928.8%	9.3%	8.8%	8.4%
Finance cost	102.0%	83.1%	-44.8%	48.5%	-31.4%	-29.9%	-36.4%
Profit before taxation	30.1%	-43.6%	183.0%	94.7%	17.2%	11.8%	10.2%
Taxation	61.9%	-46.5%	199.2%	69.5%	17.2%	11.8%	10.2%
Profit after taxation	20.6%	-42.5%	177.0%	104.8%	17.2%	11.8%	10.2%
EPS	20.6%	-42.5%	177.0%	104.8%	17.2%	11.8%	10.2%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
GP Margin	%	19.59	16.19	21.54	26.35	27.25	27.49	27.59
OP Margin	%	15.04	11.87	17.13	22.85	23.75	23.98	24.08
NP Margin	%	9.20	5.61	11.04	15.85	17.01	17.47	17.76
ROE	%	23.20	11.83	24.33	37.27	36.50	34.20	32.05
ROCE	%	19.50	10.52	18.19	32.46	35.05	36.06	36.39
ROA	%	11.93	4.97	11.72	22.53	25.10	26.27	26.83

Liquidity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Current	x	1.00	1.01	1.54	1.13	1.39	1.61	2.18
Acid-test	x	0.59	0.56	0.97	0.46	0.70	0.93	1.37

Activity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Inventory Turnover	x	7.77	6.67	7.59	6.88	5.41	5.43	5.42
Inventory Days		22.85	31.47	24.17	35.00	35.00	35.00	35.00
Receivables Days		78.01	95.00	60.22	80.00	80.00	80.00	80.00
Payables Days		44.08	56.01	51.88	51.88	51.88	51.88	51.88
Operating Cycle		56.78	70.46	32.50	63.12	63.12	63.12	63.12

Investment Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
EPS	Rs.	9.61	5.53	15.31	31.36	36.77	41.10	45.31
DPS	Rs.	4.00	0.00	12.00	16.00	18.00	21.00	23.00
Div. Yield	%	2.28	0.00	6.85	9.13	10.28	11.99	13.13
Dividend Cover	x	2.40	0.00	1.28	1.96	2.04	1.96	1.97
BVPS	Rs.	44.57	48.95	76.96	91.34	110.11	130.21	152.51
Payout	%	41.62	0.00	78.36	50.00	50.00	50.00	50.00
Retention	%	58.38	100.00	21.64	50.00	50.00	50.00	50.00
No. of Shares	mn	137.73	137.73	137.73	137.73	137.73	137.73	137.73
P/E		13.21	22.97	8.29	4.05	3.45	3.09	2.80
Sales per share		104.47	98.65	138.70	197.81	216.19	235.29	255.16
P/BV		2.85	2.59	1.65	1.39	1.15	0.98	0.83
Price to Sales		1.22	1.29	0.92	0.64	0.59	0.54	0.50

Gearing Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Debt to Equity	x	0.87	1.16	0.47	0.38	0.25	0.16	0.10
L.T. Debt to Equity	x	0.36	0.59	0.39	0.31	0.18	0.09	0.02
Interest Cover	x	6.98	2.84	10.45	13.39	22.16	34.73	59.47

Source: ACPL Research, Company Financials

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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

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
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