

# GATM

## 1QFY23 Result Review: BUY Stance Maintained

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GATM has announced its 1QFY23 result where it posted a profit after tax of Rs1.37bn (EPS: Rs2.23) as compared to a profit after tax of Rs1.22bn (EPS: Rs1.97) in the same period last year, up by 12.9% YoY amid a surge in volumetric sales.

The company has posted a revenue of Rs27.50bn against Rs20.80bn in SPLY, recording a growth of 32.2% YoY. The gross margin has dropped to 13.2% as compared to 16.5% during SPLY amid higher input costs.

The operating cost has increased by 15.0% YoY to Rs1.38bn as compared to Rs1.20bn in SPLY. Finance cost has been increased by 45.7% YoY to Rs699mn as compared to Rs480mn in SPLY on account of the higher interest rate.

Going forward, we expect the profit margin of the company to remain depressed for the current year amid high cost of materials due to imported cotton since heavy rainfall and floods have severely damaged the local production of the cotton crop. GATM is currently trading at FY23E PE of 3.17x. Further, the scrip is also trading at FY23E PB of 0.36x which offers a discount of 54% relative to its 3-year historical average of 0.79x. We have a **BUY** stance on the scrip with a DCF-based Jun-23 TP of Rs40 which provides an upside potential of 41%.

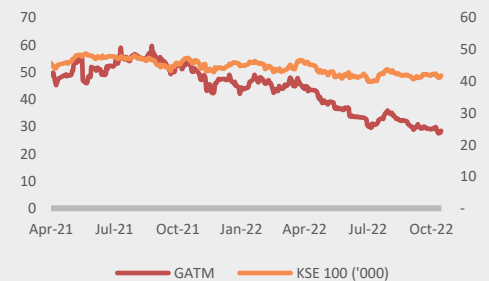
Rupees' millions	1QFY23	1QFY22	YoY	FY22	FY21	YoY
Net Sales	27,497	20,795	32.2% ▲	100,257	78,774	27.3% ▲
Cost of Sales	23,856	17,357	37.4% ▲	82,889	65,905	25.8% ▲
<b>Gross Profit</b>	<b>3,641</b>	<b>3,438</b>	<b>5.9% ▲</b>	<b>17,368</b>	<b>12,869</b>	<b>35.0% ▲</b>
Operating Cost	1,376	1,196	15.0% ▲	5,038	6,224	19.1% ▼
Other Income	132	-150	12.4% ▼	809	861	6.0% ▼
<b>Operating Profit</b>	<b>2,397</b>	<b>2,091</b>	<b>14.6% ▲</b>	<b>13,138</b>	<b>7,506</b>	<b>75.0% ▲</b>
Finance Cost	699	480	45.7% ▲	2,669	1,944	37.3% ▲
Profit Before Taxation	1,698	1,612	5.4% ▲	10,469	5,562	88.2% ▲
Taxation	325	396	17.8% ▼	1,607	1,137	41.3% ▲
<b>Profit After Taxation</b>	<b>1,372</b>	<b>1,216</b>	<b>12.9% ▲</b>	<b>8,862</b>	<b>4,425</b>	<b>100.3% ▲</b>
Earnings Per Share	2.23	1.97	12.9% ▲	14.37	7.17	100.3% ▲
Dividend	0.00	0.00		0.00	1.00	
Bonus	0%	0%		0.00	20%	
Gross Margin	13.2%	16.5%	3.3% ▼	17.3%	16.3%	1.0% ▲
Operating Cost to Sales	5.0%	5.8%	0.7% ▼	5.0%	7.9%	2.9% ▼
Other Income to Sales	0.5%	-0.7%	1.2% ▲	0.8%	1.1%	0.3% ▼
Effective Taxation	19.2%	24.6%	5.4% ▼	15.4%	20.4%	5.1% ▼
Net Margin	5.0%	5.8%	0.9% ▼	8.8%	5.6%	3.2% ▲

Source: ACPL Research, Company Financials

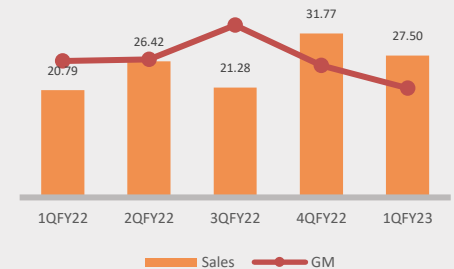
### Key Statistics

Symbol	GATM
TP - Jun 23	40.00
LDCP	28.28
Upside / (Downside)	41%
Free Float ('mn)	154
Market Cap. (Rs. 'mn)	17,484

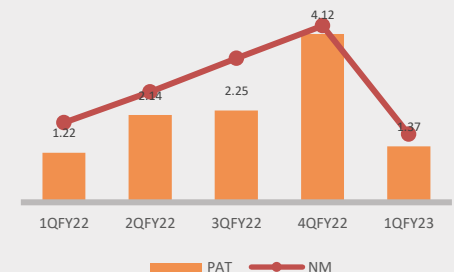
### GATM vs KSE 100



### Sales (Rs'bn) vs Gross Margin



### PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

**Muhammad Ahmed**

Phone: (+92) 42 38302028; Ext: 118  
Email: mahmed@abbasiandcompany.com

## Financial Projections

Rupees' millions	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	53,941	78,774	100,257	110,283	121,311	133,442	146,786
Cost of sales	44,872	65,905	82,889	95,681	103,114	110,757	120,365
<b>Gross profit</b>	<b>9,069</b>	<b>12,869</b>	<b>17,368</b>	<b>14,601</b>	<b>18,197</b>	<b>22,685</b>	<b>26,422</b>
SG&A Expenses	7,241	5,705	4,178	5,514	6,066	6,672	7,339
Other Expenses	264	519	860	-	-	-	-
Other Income	368	861	809	528	581	639	703
<b>Profit from operations</b>	<b>1,932</b>	<b>7,506</b>	<b>13,138</b>	<b>9,616</b>	<b>12,712</b>	<b>16,652</b>	<b>19,785</b>
Finance cost	2,008	1,944	2,669	2,802	2,770	2,736	2,738
<b>Profit before income tax</b>	<b>- 76</b>	<b>5,562</b>	<b>10,469</b>	<b>6,813</b>	<b>9,942</b>	<b>13,916</b>	<b>17,048</b>
Income tax expense	403	1,137	1,607	1,306	1,906	2,668	3,268
<b>Profit for the year</b>	<b>- 479</b>	<b>4,425</b>	<b>8,862</b>	<b>5,507</b>	<b>8,036</b>	<b>11,248</b>	<b>13,780</b>
EPS	- 0.78	7.17	14.37	8.93	13.03	18.24	22.34
EBITDA	4,103	10,141	16,112	13,040	16,657	21,159	24,899

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	-5.84%	46.04%	27.27%	10.00%	10.00%	10.00%	10.00%
Cost of sales	-0.96%	46.88%	25.77%	15.43%	7.77%	7.41%	8.67%
<b>Gross profit</b>	<b>-24.31%</b>	<b>41.89%</b>	<b>34.96%</b>	<b>-15.93%</b>	<b>24.62%</b>	<b>24.67%</b>	<b>16.47%</b>
SG&A Expenses	-1.15%	-21.22%	-26.75%	31.97%	10.00%	10.00%	10.00%
Other Expenses	-15.26%	96.49%	65.74%	-100.00%	0.00%	0.00%	0.00%
Other Income	-67.67%	134.14%	-6.02%	-34.71%	10.00%	10.00%	10.00%
<b>Profit from operations</b>	<b>-64.76%</b>	<b>288.59%</b>	<b>75.04%</b>	<b>-26.81%</b>	<b>32.20%</b>	<b>30.99%</b>	<b>18.81%</b>
Finance cost	36.26%	-3.17%	37.31%	4.97%	-1.14%	-1.22%	0.05%
<b>Profit before income tax</b>	<b>-98.10%</b>	<b>7207%</b>	<b>88.22%</b>	<b>-34.92%</b>	<b>45.92%</b>	<b>39.97%</b>	<b>22.50%</b>
Income tax expense	1.01%	182.02%	41.30%	-18.72%	45.92%	39.97%	22.50%
<b>Profit for the year</b>	<b>-113.28%</b>	<b>823%</b>	<b>100.28%</b>	<b>-37.85%</b>	<b>45.92%</b>	<b>39.97%</b>	<b>22.50%</b>
EPS	-113.28%	823%	100.28%	-37.85%	45.92%	39.97%	22.50%
EBITDA		147.17%	58.88%	-19.07%	27.74%	27.03%	17.67%

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	16.81	16.34	17.32	13.24	15.00	17.00	18.00
NP Margin	%	-0.89	5.62	8.84	4.99	6.62	8.43	9.39
OP Margin	%	3.58	9.53	13.10	8.72	10.48	12.48	13.48
ROE	%	-3.43	16.23	24.52	11.52	14.39	16.77	17.04
ROCE	%	-1.61	9.27	15.16	17.45	20.30	21.97	20.89
ROA	%	-0.70	4.82	7.73	6.28	8.02	9.63	10.03
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	1.02	1.13	1.15	0.55	0.59	0.68	0.79
Acid-test	x	0.17	0.41	0.43	-0.37	-0.32	-0.22	-0.10
Cash to current liab.	x	0.01	0.01	0.03	-0.75	-0.70	-0.59	-0.47
Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	2	2	2	2	2	2	3
Inventory Days		200	157	168	171	170	150	134
Receivables Days		37	97	90	73	72	70	69
Payables Days		0	0	0	0	0	0	0
Operating Cycle		237	254	258	244	242	219	203
Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
EPS		-0.78	7.17	14.37	8.93	13.03	18.24	22.34
DPS		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Div. Yield	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Cover		0.00	0.00	0.00	0.00	0.00	0.00	0.00
BVPS		22.64	44.21	58.59	77.52	90.55	108.79	131.13
Payout	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retention	%	100.00	100.00	100.00	100.00	100.00	100.00	100.00
No. of Shares	'mn	616.72	616.72	616.72	616.72	616.72	616.72	616.72
P/E		N/A	3.94	1.97	3.17	2.17	1.55	1.27
Sales per share		87.46	127.73	162.57	178.82	196.70	216.38	238.01
P/BV		1.25	0.64	0.48	0.36	0.31	0.26	0.22
Price to Sales		0.32	0.22	0.17	0.16	0.14	0.13	0.12
Gearing Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Debt to Equity	x	2.82	1.84	1.64	1.10	0.94	0.78	0.66
Interest Cover	x	0.96	3.86	4.92	3.43	4.59	6.09	7.23

Source: ACPL Research, Company Financials

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

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- II. Dividend Discount Model
- III. Relative Valuation Model
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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](mailto:research@abbasiandcompany.com)

web: [www.abbasiandcompany.com](http://www.abbasiandcompany.com)

#### HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: [info@abbasiandcompany.com](mailto:info@abbasiandcompany.com)

web: [www.abbasiandcompany.com](http://www.abbasiandcompany.com)