

MUGHAL

9MFY22 Result Review: BUY Stance Maintained

Equity Research | Engineering | Thursday, 28 April, 2022

MUGHAL has announced its 9MFY22 result where it posted profit after tax of Rs4.37bn (EPS: Rs13.02) as compared to a profit after tax of Rs2.51bn (EPS: Rs7.47) in the same period last year, up by 74.2% YoY.

The company has posted a revenue of Rs47.22bn against Rs29.82bn in SPLY, recording a growth of 58.4% YoY. We note that this growth is attributed to the increase in volumetric sales and higher retention prices.

The gross margin has been reduced to 15.9% as compared to 16.1% during SPLY. SG&A expenses went up by 17.4% YoY to Rs715mn as compared to Rs609mn during SPLY.

Furthermore, other income has been increased by 187% YoY. Lastly, finance cost has been increased by 83.8% YoY amid an increase in working capital requirements.

MUGHAL is trading at a FY22E P/E of 4.54x. Moreover, the scrip is also trading at FY22E P/B of 1.30x which offers a discount of 54% relative to its historical 3-year average of 2.86x. We maintain our **BUY** stance on the scrip with a DCF-based Dec-22 TP of Rs 120 which provides an upside potential of 49%. Further, the scrip also provides a dividend yield of 6% which makes the total return of 54%.

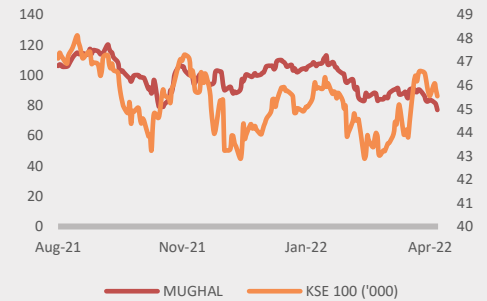
| Rupees' millions | 3QFY22 | 3QFY21 | YoY | 9MFY22 | 9MFY21 | YoY |
|------------------------------|--------------|--------------|----------------|--------------|--------------|----------------|
| Net Sales | 15,139 | 10,372 | 46.0% ▲ | 47,221 | 29,818 | 58.4% ▲ |
| Cost of Sales | -13,312 | -8,176 | 62.8% ▲ | -39,716 | -25,024 | 58.7% ▲ |
| Gross Profit | 1,828 | 2,196 | 16.8% ▼ | 7,505 | 4,793 | 56.6% ▲ |
| SG&A Expenses | -271 | -300 | 9.7% ▼ | -715 | -609 | 17.4% ▲ |
| Other Expenses | -32 | -231 | 86.2% ▼ | -452 | -352 | 28.3% ▲ |
| Operating Profit | 1,525 | 1,665 | 8.4% ▼ | 6,338 | 3,832 | 65.4% ▲ |
| Other Income | -3 | -8 | 60.0% ▼ | 172 | 60 | 186.7% ▲ |
| Finance Cost | -781 | -354 | 120.8% ▲ | -1,768 | -962 | 83.8% ▲ |
| Profit Before Taxation | 741 | 1,304 | 43.2% ▼ | 4,742 | 2,930 | 61.8% ▲ |
| Taxation | 98 | -194 | 150.6% ▼ | -372 | -422 | 188.2% ▼ |
| Profit After Taxation | 839 | 1,110 | 24.4% ▼ | 4,370 | 2,508 | 74.2% ▲ |
| Earnings Per Share | 2.50 | 3.31 | 24.4% ▼ | 13.02 | 7.47 | 74.2% ▲ |
| Dividend | 0.00 | 0.00 | | 3.00 | 3.00 | |
| Bonus | 0.00 | 0.00 | | 0.00 | 0.00 | |
| Right | 0.00 | 0.00 | | 0.00 | 16.00 | |
| Gross Margin | 12.1% | 21.2% | 9.1% ▼ | 15.9% | 16.1% | 0.2% ▼ |
| SG&A Expenses to Sales | -1.8% | -2.9% | 1.1% ▼ | -1.5% | -2.0% | 0.5% ▼ |
| Other Income to Sales | 0.0% | -0.1% | 0.1% ▲ | 0.4% | 0.2% | 0.2% ▲ |
| Ex. Gain / (Loss) to Sales | -1.8% | -2.9% | 1.1% ▼ | -1.5% | -2.0% | 0.5% ▼ |
| Effective Taxation | 13.2% | -14.9% | 1.6% ▼ | -7.8% | -14.4% | 6.6% ▼ |
| Net Margin | 5.5% | 10.7% | 5.2% ▼ | 9.3% | 8.4% | 0.8% ▲ |

Source: ACPL Research, Company Financials

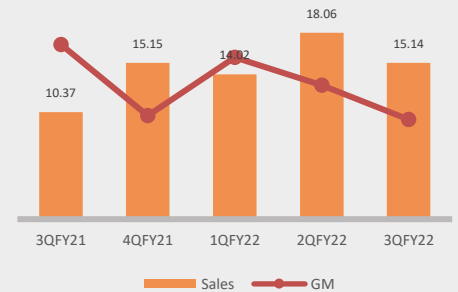
Key Statistics

| Symbol | MUGHAL |
|----------------------|--------|
| TP - Dec 22 | 120.00 |
| LDCP | 80.71 |
| Upside (%) | 49 |
| Free Float ('mn) | 83 |
| Market Cap. (Rs.'mn) | 25,743 |

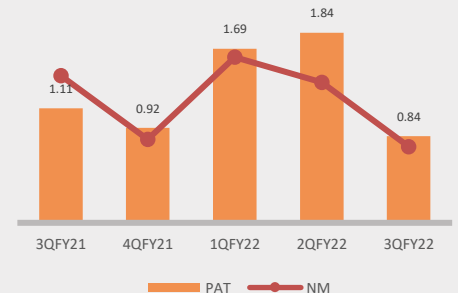
MUGHAL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

Muhammad Nauman Naeem

Phone: (+92) 42 38302028; Ext: 116

Email: nauman@abbasiandcompany.com

Financial Projections

| Rupees' millions | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E | |
|--------------------------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|-----|
| Net sales | 30,828 | 27,305 | 44,972 | 63,593 | 66,773 | 70,111 | 73,617 | |
| Cost of sale | 27,639 | 24,688 | 38,280 | 53,279 | 56,685 | 59,790 | 63,098 | |
| Gross profit | 3,189 | 2,617 | 6,691 | 10,314 | 10,088 | 10,322 | 10,519 | |
| Selling and promotion expenses | 202 | 144 | 254 | 191 | 200 | 210 | 221 | |
| Administration expenses | 367 | 407 | 538 | 680 | 714 | 750 | 788 | |
| Other operating expenses | 127 | 57 | 434 | 700 | 735 | 771 | 810 | |
| Operating Profit | 2,494 | 2,010 | 5,465 | 8,743 | 8,439 | 8,590 | 8,701 | |
| Other operating income | 30 | 59 | 67 | 382 | 401 | 421 | 442 | |
| Finance cost | 786 | 1,515 | 1,370 | 2,492 | 2,543 | 2,601 | 2,674 | |
| Profit before taxation | 1,737 | 554 | 4,161 | 6,632 | 6,296 | 6,409 | 6,469 | |
| Taxation | 364 | - | 39 | 663 | - | 445 | - | 457 |
| Profit after taxation | 1,373 | 593 | 3,429 | 5,969 | 6,741 | 6,862 | 6,926 | |
| EPS | 4.09 | 1.77 | 10.22 | 17.78 | 20.08 | 20.45 | 20.64 | |

Source: ACPL Research, Company Financials

Horizontal Analysis

| | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|--------------------------------|--------------|---------------|---------------|--------------|--------------|-------------|-------------|
| Net sales | 38.7% | -11.4% | 64.7% | 41.4% | 5.0% | 5.0% | 5.0% |
| Cost of sale | 42.2% | -10.7% | 55.1% | 39.2% | 6.4% | 5.5% | 5.5% |
| Gross profit | 14.1% | -17.9% | 155.6% | 54.1% | -2.2% | 2.3% | 1.9% |
| Selling and promotion expenses | -18.2% | -28.6% | 76.7% | -25.0% | 5.0% | 5.0% | 5.0% |
| Administration expenses | 17.2% | 11.0% | 32.2% | 26.5% | 5.0% | 5.0% | 5.0% |
| Other operating expenses | 9.9% | -55.2% | 664.4% | 61.1% | 5.0% | 5.0% | 5.0% |
| Operating Profit | 17.6% | -19.4% | 171.9% | 60.0% | -3.5% | 1.8% | 1.3% |
| Other operating income | -17.5% | 96.0% | 13.7% | 471.0% | 5.0% | 5.0% | 5.0% |
| Finance cost | 42.3% | 92.6% | -9.5% | 81.9% | 2.0% | 2.3% | 2.8% |
| Profit before taxation | 8.3% | -68.1% | 651.5% | 59.4% | -5.1% | 1.8% | 0.9% |
| Taxation | 16.3% | -110.7% | -1970.8% | -9.4% | -167.1% | 1.8% | 0.9% |
| Profit after taxation | 6.4% | -56.8% | 478.4% | 74.1% | 12.9% | 1.8% | 0.9% |
| EPS | 6.4% | -56.8% | 478.4% | 74.1% | 12.9% | 1.8% | 0.9% |

Source: ACPL Research, Company Financials

Key Ratios

| Profitability Ratios | | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|----------------------|---|-------|-------|-------|-------|-------|-------|-------|
| GP Margin | % | 10.34 | 9.59 | 14.88 | 16.22 | 15.11 | 14.72 | 14.29 |
| OP Margin | % | 8.19 | 7.58 | 12.30 | 14.35 | 13.24 | 12.85 | 12.42 |
| NP Margin | % | 4.45 | 2.17 | 7.63 | 9.39 | 10.10 | 9.79 | 9.41 |
| ROE | % | 18.34 | 7.57 | 27.81 | 32.00 | 29.11 | 24.55 | 21.10 |
| ROCE | % | 12.58 | 8.57 | 16.41 | 20.95 | 19.13 | 18.77 | 18.35 |
| ROA | % | 6.84 | 2.46 | 33.41 | 13.71 | 14.59 | 14.30 | 13.90 |

| Liquidity Ratios | | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|-----------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Current | x | 1.23 | 1.12 | 1.37 | 1.32 | 1.34 | 1.36 | 1.37 |
| Acid-test | x | 0.58 | 0.33 | 0.45 | 0.23 | 0.23 | 0.24 | 0.24 |
| Cash to current liab. | x | 0.28 | 0.17 | 0.12 | 0.17 | 0.18 | 0.18 | 0.19 |

| Activity Ratios | | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|--------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Inventory Turnover | x | 2 | 2 | 2 | 2 | 1 | 1 | 1 |
| Inventory Days | | 74 | 120 | 106 | 130 | 130 | 130 | 130 |
| Receivables Days | | 39 | 29 | 25 | 25 | 25 | 25 | 25 |
| Payables Days | | 7 | 18 | 46 | 25 | 25 | 25 | 25 |
| Operating Cycle | | 107 | 132 | 84 | 130 | 130 | 130 | 130 |

| Investment Ratios | | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|-------------------|------|---------|---------|---------|---------|---------|---------|---------|
| EPS | Rs. | 4.09 | 1.77 | 10.22 | 17.78 | 20.08 | 20.45 | 20.64 |
| DPS | Rs. | 1.20 | 0.00 | 3.00 | 5.00 | 6.00 | 6.00 | 6.00 |
| Div. Yield | % | 1.49 | 0.00 | 3.72 | 6.20 | 7.43 | 7.43 | 7.43 |
| Dividend Cover | x | 3.41 | 0.00 | 3.41 | 3.56 | 3.35 | 3.41 | 3.44 |
| BVPS | Rs. | 22.36 | 24.30 | 49.18 | 61.96 | 76.04 | 90.49 | 105.13 |
| Payout | % | 29.34 | 0.00 | 29.36 | 29.36 | 29.36 | 29.36 | 29.36 |
| Retention | % | 70.66 | 100.00 | 70.64 | 70.64 | 70.64 | 70.64 | 70.64 |
| No. of Shares | '000 | 335,634 | 335,634 | 335,634 | 335,634 | 335,634 | 335,634 | 335,634 |
| P/E | | 19.73 | 45.69 | 7.90 | 4.54 | 4.02 | 3.95 | 3.91 |
| Sales per share | | 91.85 | 81.35 | 133.99 | 189.47 | 198.95 | 208.89 | 219.34 |
| P/BV | | 3.61 | 3.32 | 1.64 | 1.30 | 1.06 | 0.89 | 0.77 |
| Price to Sales | | 0.88 | 0.99 | 0.60 | 0.43 | 0.41 | 0.39 | 0.37 |

| Gearing Ratios | | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|---------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Debt to Equity | x | 1.67 | 1.84 | 1.26 | 0.92 | 0.77 | 0.66 | 0.59 |
| L.T. Debt to Equity | x | 0.45 | 0.42 | 0.28 | 0.05 | 0.03 | 0.01 | 0.00 |
| Interest Cover | x | 3.21 | 1.37 | 4.04 | 3.66 | 3.48 | 3.46 | 3.42 |

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