

GATM

1HFY23 Result Review: BUY Stance Maintained

Equity Research | Textile Composite | Monday, 27 February, 2023

GATM has announced its 1HFY23 result where it posted a profit after tax of Rs1.63bn (EPS: Rs2.64) as compared to a profit after tax of Rs3.36bn (EPS: Rs5.44) in the same period last year, down by 51.5% YoY amid drop in gross margins.

The company has posted a revenue of Rs51.01bn against Rs46.93bn in SPLY, recording a growth of 8.7% YoY. The gross margin has dropped to 12.8% as compared to 16.7% during SPLY amid higher input costs.

The operating cost has increased by 7.7% YoY to Rs2.80bn as compared to Rs2.70bn in SPLY. Finance cost has been increased by 57.4% YoY to Rs1.84bn as compared to Rs1.17bn 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 3.45x. Further, the scrip is also trading at FY23E PB of 0.27x which offers a discount of 52% relative to its 3-year historical average of 0.57x. We have a **BUY** stance on the scrip with a DCF-based Dec-23 TP of Rs25 which provides an upside potential of 24%.

Rupees' millions	2QFY23	2QFY22	YoY	1HFY23	1HFY22	YoY
Net Sales	23,511	26,417	11.0% ▼	51,008	46,926	8.7% ▲
Cost of Sales	20,713	22,002	5.9% ▼	44,488	39,073	13.9% ▲
Gross Profit	2,799	4,415	36.6% ▼	6,520	7,853	17.0% ▼
Operating Cost	1,420	1,262	12.5% ▲	2,796	2,596	7.7% ▲
Other Income	591	103	672.0% ▼	832	91	817.3% ▲
Operating Profit	1,970	3,257	39.5% ▼	4,557		289.8% ▲
Finance Cost	1,141	689	65.5% ▲	1,840	1,169	57.4% ▲
Profit Before Taxation	828	2,567	67.7% ▼	2,717	4,179	35.0% ▼
Taxation	764	427	79.0% ▲	1,090	823	32.4% ▲
Profit After Taxation	64	2,140	97.0% ▼	1,627	3,356	51.5% ▼
Earnings Per Share	0.10	3.47	97.0% ▼	2.64	5.44	51.5% ▼
Dividend	0.00	0.00		0	0.00	
Bonus	0%	0%		0	0.00	
Gross Margin	11.9%	16.7%	4.8% ▼	12.8%	16.7%	4.0% ▼
Operating Cost to Sales	6.0%	4.8%	1.3% ▲	5.5%	5.5%	0.1% ▼
Other Income to Sales	2.5%	0.4%	2.1% ▲	1.6%	0.2%	1.4% ▲
Effective Taxation	92.2%	16.6%	75.6% ▲	40.1%	19.7%	20.4% ▲
Net Margin	0.3%	8.1%	7.8% ▼	3.2%	7.2%	4.0% ▼

Source: ACPL Research, Company Financials

Key Statistics

Symbol	GATM
TP - Dec 23	25.00
LDCP	20.29
Upside / (Downside)	24%
Free Float ('mn)	154
Market Cap. (Rs. 'mn)	12,328

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	102,262	114,534	128,278	143,671
Cost of sales	44,872	65,905	82,889	89,224	98,785	109,357	121,043
Gross profit	9,069	12,869	17,368	13,038	15,748	18,921	22,628
SG&A Expenses	7,241	5,705	4,178	5,604	6,276	7,030	7,873
Other Expenses	264	519	860	-	-	-	-
Other Income	368	861	809	1,667	1,867	2,091	2,342
Profit from operations	1,932	7,506	13,138	9,101	11,339	13,982	17,097
Finance cost	2,008	1,944	2,669	3,692	3,272	2,787	2,794
Profit before income tax	- 76	5,562	10,469	5,409	8,067	11,196	14,303
Income tax expense	403	1,137	1,607	1,785	2,662	3,695	4,720
Profit for the year	- 479	4,425	8,862	3,624	5,405	7,501	9,583
EPS	- 0.78	7.17	14.37	5.88	8.76	12.16	15.54
EBITDA	4,103	10,141	16,112	12,526	14,639	17,305	20,577

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	-5.84%	46.04%	27.27%	2.00%	12.00%	12.00%	12.00%
Cost of sales	-0.96%	46.88%	25.77%	7.64%	10.72%	10.70%	10.69%
Gross profit	-24.31%	41.89%	34.96%	-24.93%	20.78%	20.15%	19.59%
SG&A Expenses	-1.15%	-21.22%	-26.75%	34.12%	12.00%	12.00%	12.00%
Other Expenses	-15.26%	96.49%	65.74%	-100.00%	0.00%	0.00%	0.00%
Other Income	-67.67%	134.14%	-6.02%	106.02%	12.00%	12.00%	12.00%
Profit from operations	-64.76%	288.59%	75.04%	-30.73%	24.58%	23.31%	22.28%
Finance cost	36.26%	-3.17%	37.31%	38.31%	-11.37%	-14.84%	0.26%
Profit before income tax	-98.10%	7207%	88.22%	-48.33%	49.12%	38.79%	27.75%
Income tax expense	1.01%	182.02%	41.30%	11.09%	49.12%	38.79%	27.75%
Profit for the year	-113.28%	823%	100.28%	-59.10%	49.12%	38.79%	27.75%
EPS	-113.28%	823%	100.28%	-59.10%	49.12%	38.79%	27.75%
EBITDA		147.17%	58.88%	-22.26%	16.87%	18.21%	18.91%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	16.81	16.34	17.32	12.75	13.75	14.75	15.75
NP Margin	%	-0.89	5.62	8.84	3.54	4.72	5.85	6.67
OP Margin	%	3.58	9.53	13.10	8.90	9.90	10.90	11.90
ROE	%	-3.43	16.23	24.52	7.89	10.53	12.75	14.01
ROCE	%	-1.61	9.27	15.16	12.59	16.36	18.91	19.75
ROA	%	-0.70	4.82	7.73	4.19	5.64	6.92	7.73
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	1.02	1.13	1.15	0.52	0.63	0.74	0.84
Acid-test	x	0.17	0.41	0.43	-0.22	-0.10	0.01	0.10
Cash to current liab.	x	0.01	0.01	0.03	-0.56	-0.45	-0.35	-0.25
Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	2	2	2	3	3	3	3
Inventory Days		200	157	148	145	145	129	115
Receivables Days		37	97	90	71	73	72	72
Payables Days		0	0	0	0	0	0	0
Operating Cycle		237	254	238	216	219	202	186
Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
EPS		-0.78	7.17	14.37	5.88	8.76	12.16	15.54
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	74.47	83.23	95.39	110.93
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	2.83	1.41	3.45	2.32	1.67	1.31
Sales per share		87.46	127.73	162.57	165.82	185.72	208.00	232.96
P/BV		0.90	0.46	0.35	0.27	0.24	0.21	0.18
Price to Sales		0.23	0.16	0.12	0.12	0.11	0.10	0.09
Gearing Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Debt to Equity	x	2.82	1.84	1.64	1.18	1.05	0.92	0.81
Interest Cover	x	0.96	3.86	4.92	2.47	3.47	5.02	6.12

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