

# GATM

## 6MFY20 Result Review: Stance Downgraded to HOLD

Equity Research | Textile Composite | Wednesday, 26 February, 2020

GATM has announced its 2QFY20 result where it posted profit after tax of Rs1.1bn (EPS: Rs2.5) in 6MFY20 as compared to profit after tax of Rs2.1bn (EPS: Rs4.8) in same period last year, down by 47.9% YoY.

The company has posted the revenue of Rs30.8bn against Rs26.5bn in SPLY, recording a growth of 16.2% YoY. We note that this growth is attributed to the increase in volumetric growth due to currency devaluation.

Gross margin has been squeezed to 20.5% in 6MFY20 as compared to 22.7% in 6MFY19 on account of higher input cost.

Despite increase of 11.4% YoY in the operating cost to Rs4bn in 6MFY20 as compared to Rs3.6bn in SPLY, the operating cost to sales ratio has been declined to 13.1% as compared to 13.7% during SPLY.

The company has reported other loss of Rs24mn as compared to the other income of Rs325mn during SPLY on account of exchange losses.

Finance cost has been increased by 56% YoY to Rs923mn in 6MFY20 as compared to Rs592mn in SPLY on account of higher working capital requirement and higher interest rates. Lastly, higher effective taxation of 19.5% as compared to 3.7% during SPLY caused the bottom line to plunge despite growth in revenues.

GATM is currently trading at FY20E PE of 7.43x. We have a **HOLD** stance on the script with a DCF based Dec-20 TP of Rs46 which provides an upside potential of 8%. Furthermore, it also offers a dividend yield of 4% which makes a total return of 12%.

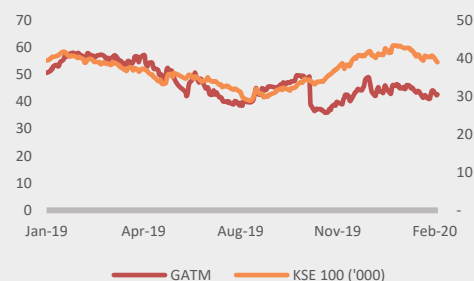
Rupees' millions	2QFY20	2QFY19	YoY	6MFY20	6MFY19	YoY
Net Sales	16,565	14,534	14.0% ▲	30,767	26,469	16.2% ▲
Cost of Sales	13,166	11,210	17.4% ▲	24,459	20,451	19.6% ▲
Gross Profit	3,399	3,325	2.2% ▲	6,307	6,018	4.8% ▲
Operating Cost	2,104	1,916	9.8% ▲	4,033	3,620	11.4% ▲
Other Income	54	313	82.9% ▼	-24	325	107.4% ▼
Operating Profit	1,349	1,722	21.7% ▼	2,250	2,723	17.3% ▼
Finance Cost	551	331	66.3% ▲	923	592	56.0% ▲
Profit Before Taxation	798	1,391	42.6% ▼	1,328	2,131	37.7% ▼
Taxation	93	-11	975.0% ▼	258	78	229.5% ▲
Profit After Taxation	705	1,401	49.7% ▼	1,069	2,052	47.9% ▼
Earnings Per Share	1.65	3.28	49.7% ▼	2.50	4.80	47.9% ▼
Dividend	0.00	0.00		0.00	0.00	
Bonus	0%	0%		0%	0%	
Gross Margin	20.5%	22.9%	2.4% ▼	20.5%	22.7%	2.2% ▼
Operating Cost to Sales	12.7%	13.2%	0.5% ▼	13.1%	13.7%	0.6% ▼
Other Income to Sales	0.3%	2.2%	1.8% ▼	-0.1%	1.2%	1.3% ▼
Effective Taxation	11.7%	-0.8%	12.4% ▲	19.5%	3.7%	15.8% ▲
Net Margin	4.3%	9.6%	5.4% ▼	3.5%	7.8%	4.3% ▼

Source: ACPL Research, Company Financials

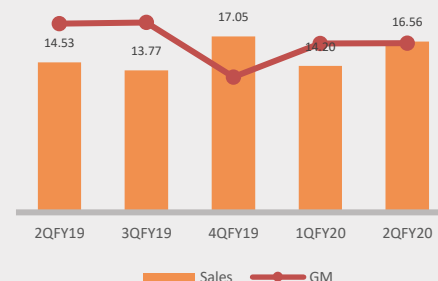
### Key Statistics

Symbol	GATM
TP - Dec 20	46.00
LDCP	42.58
Upside (%)	8.03
Free Float ('mn)	128
Market Cap. (Rs. 'mn)	18,215

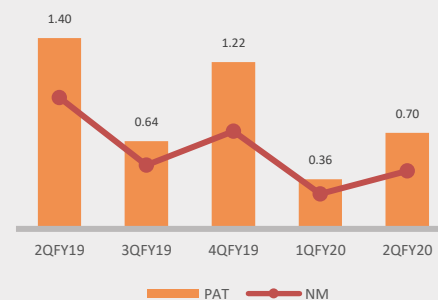
### GATM vs KSE 100



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



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



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	33,355	32,275	39,904	45,626	57,288	61,312	65,758	69,902	74,720
Cost of sales	27,260	24,968	32,858	36,050	45,306	48,420	51,443	54,825	58,786
<b>Gross profit</b>	<b>6,094</b>	<b>7,306</b>	<b>7,046</b>	<b>9,576</b>	<b>11,982</b>	<b>12,892</b>	<b>14,315</b>	<b>15,077</b>	<b>15,935</b>
SG&A Expenses	4,134	5,076	5,789	6,251	7,326	8,063	8,946	9,391	9,885
Other Expenses	185	138	58	208	312	-	-	-	-
Other Income	343	153	487	199	1,137	61	197	210	224
<b>Profit from operations</b>	<b>2,118</b>	<b>2,245</b>	<b>1,686</b>	<b>3,315</b>	<b>5,482</b>	<b>4,890</b>	<b>5,566</b>	<b>5,895</b>	<b>6,273</b>
Finance cost	1,334	910	877	987	1,473	1,846	1,833	1,774	1,678
<b>Profit before income tax</b>	<b>783</b>	<b>1,335</b>	<b>809</b>	<b>2,328</b>	<b>4,008</b>	<b>3,044</b>	<b>3,733</b>	<b>4,122</b>	<b>4,595</b>
Income tax expense	178	193	- 10	253	399	592	494	545	608
<b>Profit for the year</b>	<b>605</b>	<b>1,141</b>	<b>818</b>	<b>2,075</b>	<b>3,609</b>	<b>2,452</b>	<b>3,239</b>	<b>3,576</b>	<b>3,987</b>
EPS	1.41	2.67	1.91	4.85	8.44	5.73	7.57	8.36	9.32
EBITDA	3,094	3,371	3,267	5,186	7,442	6,683	7,699	8,335	8,991

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	1.04%	-3.24%	23.64%	14.34%	25.56%	7.02%	7.25%	6.30%	6.89%
Cost of sales	0.83%	-8.41%	31.60%	9.71%	25.67%	6.87%	6.24%	6.57%	7.22%
<b>Gross profit</b>	<b>1.98%</b>	<b>19.89%</b>	<b>-3.56%</b>	<b>35.91%</b>	<b>25.13%</b>	<b>7.59%</b>	<b>11.04%</b>	<b>5.32%</b>	<b>5.69%</b>
SG&A Expenses	20.31%	22.78%	14.03%	7.99%	17.19%	10.07%	10.95%	4.98%	5.26%
Other Expenses	59.55%	-25.81%	-57.56%	256.38%	49.86%				
Other Income	45.65%	-55.54%	219.49%	-59.25%	472.56%	-94.61%	221.75%	6.30%	6.89%
<b>Profit from operations</b>	<b>-20.36%</b>	<b>6.02%</b>	<b>-24.89%</b>	<b>96.63%</b>	<b>65.34%</b>	<b>-10.79%</b>	<b>13.83%</b>	<b>5.91%</b>	<b>6.41%</b>
Finance cost	14.74%	-31.76%	-3.63%	12.50%	49.27%	25.31%	-0.70%	-3.27%	-5.39%
<b>Profit before income tax</b>	<b>-47.64%</b>	<b>70.36%</b>	<b>-39.40%</b>	<b>187.90%</b>	<b>72.16%</b>	<b>-24.07%</b>	<b>22.64%</b>	<b>10.42%</b>	<b>11.49%</b>
Income tax expense	-31.70%	8.24%	-105.00%	-2723.40%	57.54%	48.29%	-16.57%	10.42%	11.49%
<b>Profit for the year</b>	<b>-51.01%</b>	<b>88.68%</b>	<b>-28.30%</b>	<b>153.53%</b>	<b>73.94%</b>	<b>-32.07%</b>	<b>32.11%</b>	<b>10.42%</b>	<b>11.49%</b>
EPS	-51.01%	88.68%	-28.30%	153.53%	73.94%	-32.07%	32.11%	10.42%	11.49%
EBITDA	-12.08%	8.95%	-3.07%	58.73%	43.50%	-10.19%	15.21%	8.26%	7.86%

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	18.27	22.64	17.66	20.99	20.92	21.03	21.77	21.57	21.33
NP Margin	%	1.81	3.54	2.05	4.55	6.30	4.00	4.93	5.12	5.34
OP Margin	%	6.35	6.96	4.23	7.27	9.57	7.98	8.46	8.43	8.40
ROE	%	8.44	13.09	7.50	16.44	23.54	13.92	15.95	15.43	15.28
ROCE	%	6.07	8.34	4.45	10.58	14.82	-339.23	453.22	125.17	70.29
ROA	%	2.43	3.55	2.23	4.80	6.63	5.03	6.27	6.63	7.09
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	1.05	1.08	1.11	1.14	1.16	0.54	0.52	0.51	0.51
Acid-test	x	0.16	0.18	0.27	0.26	0.26	-0.04	-0.07	-0.12	-0.16
Cash to current liab.	x	0.01	0.02	0.01	0.02	0.02	-0.17	-0.20	-0.26	-0.31
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Average Inventory		11,599	12,569	13,162	14,307	22,104	23,551	25,062	26,794	28,844
Inventory Turnover	x	2	2	2	3	2	2	2	2	2
Inventory Days		155	184	146	145	178	178	178	178	179
Receivables Days		21	26	34	46	50	37	36	36	37
Payables Days		49	34	24	25	39	39	39	39	39
Operating Cycle		127	176	157	165	189	175	175	176	177
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
EPS		1.41	2.67	1.91	4.85	8.44	5.73	7.57	8.36	9.32
DPS		1.50	3.00	1.00	2.50	2.50	1.50	2.00	3.00	4.00
Div. Yield	%	3.52	7.05	2.35	5.87	5.87	3.52	4.70	7.05	9.39
Dividend Cover		0.94	0.89	1.91	1.94	3.37	3.82	3.79	2.79	2.33
BVPS		16.76	20.38	25.51	29.50	35.84	41.16	47.48	54.17	60.99
Payout	%	106.07	112.44	52.27	51.54	29.63	26.17	26.42	35.88	42.92
Retention	%	-6.07	-12.44	47.73	48.46	70.37	73.83	73.58	64.12	57.08
No. of Shares	'mn	427.79	427.79	427.79	427.79	427.79	427.79	427.79	427.79	427.79
P/E		30.11	15.96	22.26	8.78	5.05	7.43	5.62	5.09	4.57
Sales per share		77.97	75.44	93.28	106.65	133.91	143.32	153.71	163.40	174.66
P/BV		2.54	2.09	1.67	1.44	1.19	1.03	0.90	0.79	0.70
Price to Sales		0.55	0.56	0.46	0.40	0.32	0.30	0.28	0.26	0.24
Gearing Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Debt to Equity	x	1.67	2.06	1.81	1.85	1.89	2.61	2.23	1.87	1.56
Interest Cover	x	1.59	2.47	1.92	3.36	3.72	2.65	3.04	3.32	3.74

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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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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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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