

# INTERLOOP LIMITED

Strong fundamentals justify the premium value

Equity Research | Textile Composite | Wednesday, 13 March, 2019



Interloop Limited is all set to list its shares on Pakistan stock exchange through an IPO with the intention of utilizing the funds in expansion of its hosiery manufacturing facility and establishment of a new denim manufacturing facility

We recommend to subscribe the IPO at Rs.45 with a DCF based TP – Dec 19 of Rs.57 which provides an upside potential of 27%

In spite of challenging macroeconomic environment, the company managed to grow its revenues and earnings at a CAGR of 8.3% and 15.7% respectively over last 4 years.

Going forward, the company expects its revenues and earnings to grow at a CAGR of 16.7% by FY23 as the depreciation of exchange rate and upcoming export package would further enhance the profitability of the company

## Sector Overview

Textile sector is considered as the backbone of Pakistan's economy as it constitutes around 60% of total export revenues. Being the 4<sup>th</sup> largest cotton producer globally after India, China and USA, Pakistan contributes around 5% to the global spinning capacity. According to APTMA, textile sector contributes around 8.5% to Pakistan's total economic output.

Hosiery refers to such garments that can be worn on feet and legs i.e. socks, stockings, leggings and tights etc. The availability of variants in hosiery with various designs and colors are predicted to augment the growth of the global hosiery market with remarkable revenue of around USD 47,258.1 Million by the end of 2024 from USD 36,100.5 Million in 2016, expanding at a CAGR of 3.5% during the forecast period.

Denim sector in Pakistan has experienced a rapid growth within a short period of time. There are about 40 major players in denim industry that constitutes around 10-15% of total textile exports in Pakistan. The primary market for denim exports are USA and Europe and it is estimated that the global denim market would grow at about 6.4% annually from \$57 billion in 2016 (US accounts for 24% of this size) to \$75+ billion in 2021.

## Company Overview

Interloop started its operations in 1992 and now it is one of the largest hosiery manufacturers globally with customer base of top global brands i.e. Nike, Adidas and Puma to name a few. The company has ultramodern spinning, dyeing and knitting facilities with annual capacities of 25mn Kgs, 4.5mn kgs and 530+mn pairs respectively.

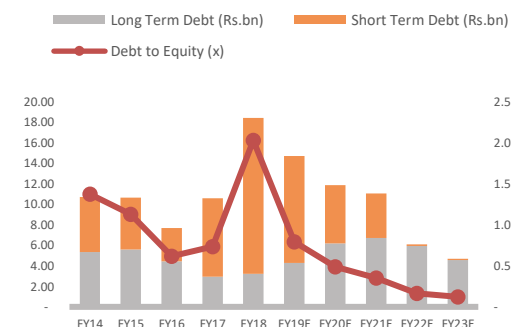
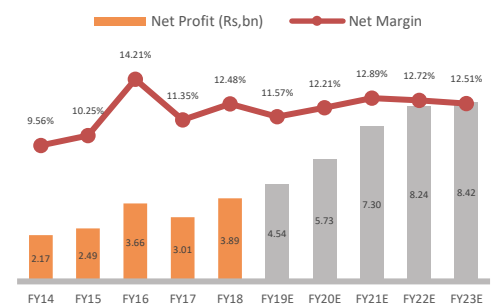
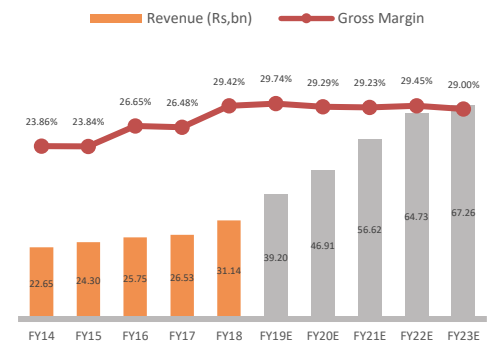
The revenue of company grew at CAGR of 8.3% over the past 4 years whereas, the gross margin has also improved in FY18 to 29.4% as compared to 23.9% in FY14. Coming to the bottom line, company's PAT grew at CAGR of 15.7% during last 4 years while maintaining net margin within the range of 10-12%. Exhibiting such performance in economic environment where the textile exports almost remained stagnant due to rising input cost and overvalued currency depicts the strong brand equity of Interloop Limited as the company was able to pass on the whole impact of rising input cost to its customers.

Going forward, the company expects its revenues to grow at CAGR of 16.7% by FY23 to Rs.67bn from Rs.31bn in FY18 while maintaining the gross margin at around 30%. In the same way, the company has projected its earnings to grow at CAGR of 16.7% by FY23 to Rs.8bn from Rs.4bn in FY18 while maintaining the net margin at around 12%.

## Key Statistics

Symbol	ILP
TP – Dec 19	Rs.57
Floor Price	Rs.45
Upside	27%
Free Float (mn)	109
Market Cap. (Rs.mn)	39,214.88

EPS Estimate	FY18	FY19E	FY20E	FY21E
EPS	4.46	5.21	6.57	8.38
P/E	10.09	8.64	6.85	5.37
P/B	4.32	2.12	1.62	1.24



## Initial Public Offering (IPO)

Interloop Limited, being one of the largest hosiery manufacturers globally is going to list its shares on Pakistan stock exchange (PSX) through IPO for which the book building process would commence on 13 Mar 2019 - 14 Mar 2019 whereas, the IPO is scheduled on 21 Mar 2019 – 22 Mar 2019. The company is going to expand its hosiery capacity along with the establishment of new denim manufacturing facility with the total capital outlay of Rs.11.2bn out of which the company intends to raise Rs.4.9bn through IPO. The company is issuing 109mn shares at the floor price of Rs.45 out of which 75% shares would be offered in book building process to institutions and high net worth investors while remaining 25% shares would be offered to retail investors in general public IPO.

## Expansion Plan

Interloop Limited intends to expand its hosiery manufacturing capacity by 23% to 650mn pairs per annum from existing capacity of 530mn pairs p.a. for which the total investment outlay of Rs.4.5bn is required. Furthermore, the company is also going to establish a new denim manufacturing facility with the capacity of 14.4mn piece per annum with an investment outlay of Rs.6.8bn. Consequently, company has decided to raise Rs.4.9bn out of total required investment of Rs.11.2bn through IPO while the remaining Rs.6.3bn would be financed through debt. New hosiery production facility is expected to commence its operations in the second half of FY20. However, the denim production facility is expected to come online by the end of CY19.

## Valuation

FY18 P/E and FY19E P/E of Interloop Limited are at 10.09x and 8.64x respectively at the floor price of Rs.45 which seems to be expensive as compared to its peer mean of FY18 P/E 8.92x. However, strong brand equity, loyal customer base, forthcoming diversification of portfolio, growing demand for hosiery and denim products, expected depreciation of PKR and having more than 90% export based topline justify the scrip to trade at a premium multiple. We recommend to subscribe the IPO at Rs.45 with a DCF based Dec-19 TP of Rs.57 which provides an upside potential of 27%.

## Key Risks

- Appreciation of PKR
- Hike in the prices of raw material
- Less than expected growth in demand
- Delay in the commencement of expansion projects

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

<b>TP</b>	Target Price	<b>DDM</b>	Dividend Discount Model	<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>JPB</b>	Justified Price to Book

#### 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 ANALYST

M. Fawad Naveed  
Phone: (+92) 42 38302028  
Ext: 117  
Email: fawad@abbasiandcompany.com

#### RESEARCH OFFICER

Saif Ali  
Phone: (+92) 42 38302028  
Ext: 116  
Email: saif.ali@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