COMPANY UPDATE

MUGHAL

9MFY20 Result Review: BUY Stance Maintained

Equity Research | Engineering | Thursday, 30 April, 2020

MUGHAL has announced its 3QFY20 result where it posted profit after tax of Rs400mn (EPS: Rs1.59) in 9MFY20 as compared to profit after tax of Rs11bn (EPS: Rs4.27) in same period last year, down by 62.8% YoY.

The company has posted the revenue of Rs21.3bn against Rs20.9bn in SPLY, recording a growth of 1.7% YoY. We note that this growth is attributed to the increase in the prices of steel products during the period.

Gross margin has been squeezed to 9.3% in 9MFY20 as compared to 11.6% in 9MFY19 due to rupee devaluation and increased raw material costs. SG&A expenses went down by 0.1% YoY to Rs414mn in 9MFY20 as compared to Rs433mn during SPLY.

Despite the increase in other income by 105.2% YoY, the bottom line was depressed by the increase in finance cost to Rs1.3bn in 9MFY20 as compared to Rs585mn in SPLY. Furthermore, a tax credit of Rs47mn in 3QFY20 also supported the bottomline.

Going forward, we expect the sales to remain sluggish during the fourth quarter owing to the COVID-19 crisis. However, the bottom line will get improved due to recent policy rate cuts by the SBP. Furthermore, the offtake is expected to improve from the next fiscal year. MUGHAL is currently trading at FY20E PE of 28.7x. Furthermore, the script is trading at a FY20E P/B of 1.4x which offers a discount of 30% relative to its historical 5-year average of 2x. We maintain our **BUY** stance on the script with a DCF based Jun-21 TP of Rs 55 which provides an upside potential of 29.6%.

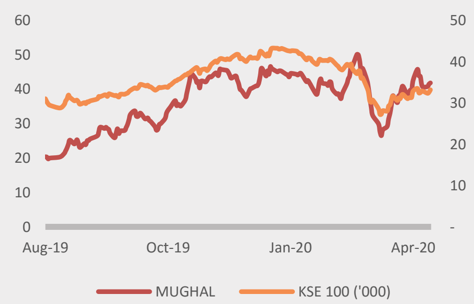
Rupees' millions	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	7,218	6,862	5.2% ▲	21,297	20,938	1.7% ▲
Cost of Sales	-6,583	-6,041	9.0% ▲	-19,309	-18,502	4.4% ▲
Gross Profit	**635**	**821**	22.6% ▼	**1,988**	**2,436**	18.4% ▼
SG&A Expenses	-153	-165	7.1% ▼	-414	-433	4.5% ▼
Other Expenses	1	-30	104.3% ▼	-27	-95	72.0% ▼
Operating Profit	**484**	**626**	22.8% ▼	**1,547**	**1,907**	18.9% ▼
Other Income	7	6	25.0% ▲	32	16	105.2% ▲
Finance Cost	-505	-211	139.6% ▲	-1,251	-585	114.1% ▲
Profit Before Taxation	-14	421	103.3% ▼	328	1,338	75.5% ▼
Taxation	47	-60	179.0% ▼	71	-264	127.0% ▼
Profit After Taxation	**33**	**362**	90.8% ▼	**400**	**1,075**	62.8% ▼
Earnings Per Share	**0.13**	**1.44**	90.8% ▼	**1.59**	**4.27**	62.8% ▼
Dividend	**0.00**	**0.00**		**0.00**	**0.00**	
Bonus	-	-		-	-	
Gross Margin	8.8%	12.0%	3.2% ▼	9.3%	11.6%	2.3% ▼
SG&A Expenses to Sales	-2.1%	-2.4%	0.3% ▼	-1.9%	-2.1%	0.1% ▼
Other Income to Sales	0.1%	0.1%	0.0% ▲	0.2%	0.1%	0.1% ▲
Ex. Gain / (Loss) to Sales	-2.1%	-2.4%	0.3% ▼	-1.9%	-2.1%	0.1% ▼
Effective Taxation	-339.3%	-14.2%	325.2% ▲	21.7%	-19.7%	2.0% ▲
Net Margin	0.5%	5.3%	4.8% ▼	1.9%	5.1%	3.3% ▼

Source: ACPL Research, Company Financials

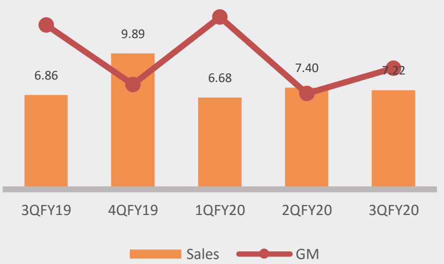
Key Statistics

Symbol	MUGHAL
TP - Jun 21	55.00
LDCP	42.44
Upside (%)	29.59
Free Float ('mn)	63
Market Cap. (Rs.'mn)	10,678

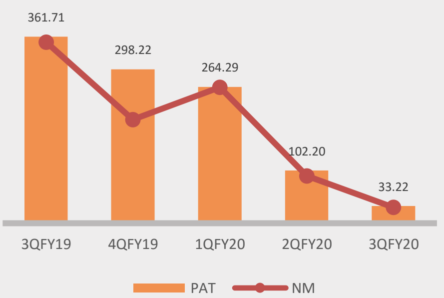
MUGHAL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

Umer Hayat
Phone: (+92) 42 38302028; Ext: 116
Email: umer.hayat@abbasiandcompany.com

Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Net sales	12,241	18,983	18,803	22,226	30,828	23,488	33,272	41,922	51,355
Cost of sale	10,915	16,925	16,861	19,431	27,639	21,274	29,638	37,102	45,138
Gross profit	**1,326**	**2,059**	**1,942**	**2,794**	**3,189**	**2,214**	**3,634**	**4,820**	**6,217**
Selling and promotion expenses	62	95	164	246	202	116	164	206	253
Administration expenses	160	208	241	313	367	341	482	608	745
Other operating expenses	45	87	91	115	127	29	42	53	64
Operating Profit	**1,059**	**1,670**	**1,445**	**2,120**	**2,494**	**1,728**	**2,946**	**3,953**	**5,155**
Other operating income	15	47	34	36	30	36	51	64	78
Finance cost	440	425	257	552	786	1,454	1,061	1,078	1,193
Profit before taxation	634	1,292	1,222	1,604	1,737	310	1,935	2,939	4,041
Taxation	-25	399	232	314	364	-62	387	588	808
Profit after taxation	**659**	**893**	**991**	**1,290**	**1,373**	**373**	**1,548**	**2,352**	**3,233**
EPS	**2.62**	**3.55**	**3.94**	**5.13**	**5.46**	**1.48**	**6.15**	**9.35**	**12.85**

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Net sales	109.0%	55.1%	-1.0%	18.2%	38.7%	-23.8%	41.7%	26.0%	22.5%
Cost of sale	112.7%	55.1%	-0.4%	15.2%	42.2%	-23.0%	39.3%	25.2%	21.7%
Gross profit	**82.8%**	**55.2%**	**-5.7%**	**43.9%**	**14.1%**	**-30.6%**	**64.1%**	**32.6%**	**29.0%**
Selling and promotion expenses	479.2%	53.2%	73.2%	50.2%	-18.2%	-42.7%	41.7%	26.0%	22.5%
Administration expenses	96.4%	29.4%	16.4%	29.6%	17.2%	-7.2%	41.7%	26.0%	22.5%
Other operating expenses	110.3%	91.8%	5.5%	26.1%	9.9%	-76.8%	41.7%	26.0%	22.5%
Operating Profit	**73.2%**	**57.7%**	**-13.5%**	**46.7%**	**17.6%**	**-30.7%**	**70.4%**	**34.2%**	**30.4%**
Other operating income	303.4%	220.5%	-28.3%	7.0%	-17.5%	19.0%	41.7%	26.0%	22.5%
Finance cost	102.1%	-3.3%	-39.6%	115.3%	42.3%	84.9%	-27.0%	1.5%	10.7%
Profit before taxation	59.5%	103.8%	-5.4%	31.2%	8.3%	-82.1%	523.3%	51.9%	37.5%
Taxation	-470.3%	-1690.9%	-41.9%	35.4%	16.3%	-117.0%	-723.3%	51.9%	37.5%
Profit after taxation	68.6%	35.5%	**10.9%**	**30.2%**	**6.4%**	**-72.9%**	**315.5%**	**51.9%**	**37.5%**
EPS	**-45.0%**	**35.5%**	**10.9%**	**30.2%**	**6.4%**	**-72.9%**	**315.5%**	**51.9%**	**37.5%**

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	10.84	10.85	10.33	12.57	10.34	9.43	10.92	11.50	12.11
OP Margin	%	8.77	9.05	7.87	9.70	8.19	7.51	9.01	9.58	10.19
NP Margin	%	5.38	4.71	5.27	5.81	4.45	1.59	4.65	5.61	6.29
ROE	%	19.36	23.39	18.23	18.30	18.34	4.93	18.86	24.51	28.72
ROCE	%	9.36	14.77	10.64	12.87	12.58	8.13	13.72	16.21	18.28
ROA	%	5.75	7.69	7.13	7.70	6.84	1.72	7.09	9.49	11.29

Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	1.19	1.34	1.34	1.32	1.23	1.20	1.18	1.19	1.23
Acid-test	x	0.28	0.29	0.43	0.30	0.58	0.42	0.27	0.27	0.28
Cash to current liab.	x	0.14	0.12	0.27	0.15	0.28	0.19	0.22	0.23	0.23

Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Inventory Turnover	x	2	2	2	2	2	2	2	2	2
Inventory Days		169	97	127	111	74	100	100	100	100
Receivables Days		14	18	26	21	39	35	35	35	35
Payables Days		153	49	43	9	7	15	15	15	15
Operating Cycle		30	67	110	123	107	120	120	120	120

Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
EPS	Rs.	2.62	3.55	3.94	5.13	5.46	1.48	6.15	9.35	12.85
DPS	Rs.	0.50	3.00	2.60	2.20	1.20	1.00	1.50	3.00	6.00
Div. Yield	%	0.91	5.44	4.72	3.99	2.18	1.81	2.72	5.44	10.89
Dividend Cover	x	5.24	1.18	1.51	2.33	4.55	1.48	4.10	3.12	2.14
BVPS	Rs.	13.53	16.83	26.38	29.68	29.82	30.31	34.96	41.31	48.15
Payout	%	19.08	84.49	66.03	42.90	21.99	67.53	24.38	32.10	46.70
Retention	%	80.92	15.51	33.97	57.10	78.01	32.47	75.62	67.90	53.30
No. of Shares	'000	251,600	251,600	251,600	251,600	251,600	251,600	251,600	251,600	251,600
P/E		16.20	11.95	10.78	8.28	7.78	28.66	6.90	4.54	3.30
Sales per share		48.65	75.45	74.73	88.34	122.53	93.36	132.24	166.62	204.11
P/BV		3.14	2.52	1.61	1.43	1.42	1.40	1.21	1.03	0.88
Price to Sales		0.87	0.56	0.57	0.48	0.35	0.45	0.32	0.25	0.21

Gearing Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Debt to Equity	x	0.92	1.07	1.01	1.12	1.67	1.32	1.22	1.21	1.20
L.T. Debt to Equity	x	0.32	0.25	0.00	0.11	0.45	0.39	0.24	0.12	0.03
Interest Cover	x	2.44	4.04	5.76	3.90	3.21	1.21	2.82	3.73	4.39

Source: ACPL Research, Company Financials

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