

MUGHAL

FY20 Result Review: BUY Stance Maintained

Equity Research | Engineering | Thursday, 17 September, 2020

MUGHAL has announced its 4QFY20 result where it posted a profit after tax of Rs593mn (EPS: Rs2.36) in FY20 as compared to a profit after tax of Rs1,373mn (EPS: Rs5.46) in the same period last year, down by 56.8% YoY.

The company has posted the revenue of Rs27.3bn against Rs30.8bn in SPLY, recording a decline of 11.4% YoY. We note that this decline is attributed to the COVID-19 enforced lockdowns, across the country during the period.

The gross margin has been squeezed to 9.6% in FY20 as compared to 10.3% in FY19 due to rupee devaluation and rise in input costs. SG&A expenses went down by 3.1% YoY to Rs568mn in FY20 as compared to Rs551mn during SPLY.

Despite the increase in other income by 96% YoY, the bottom line was depressed by the increase in finance cost to Rs1.5bn in FY20 as compared to Rs786mn in SPLY. Furthermore, a tax credit of Rs39mn in FY20 also supported the bottom-line.

Going forward, we expect the off-take to improve amid ease in lockdowns. MUGHAL is trading at a FY21E P/B of 1.96x which offers a discount of 25% relative to its historical 5-year average of 2.61x. We maintain our **BUY** stance on the scrip with a DCF based Jun-21 TP of Rs 80 which provides an upside potential of 20%.

| Rupees' millions | 4QFY20 | 4QFY19 | YoY | FY20 | FY19 | YoY |
|------------------------------|-------------|-------------|----------------|--------------|--------------|----------------|
| Net Sales | 6,008 | 9,890 | 39.2% ▼ | 27,305 | 30,828 | 11.4% ▼ |
| Cost of Sales | -5,379 | -9,137 | 41.1% ▼ | -24,688 | -27,639 | 10.7% ▼ |
| Gross Profit | 630 | 753 | 16.4% ▼ | 2,617 | 3,189 | 17.9% ▼ |
| SG&A Expenses | -137 | -135 | 1.4% ▲ | -551 | -568 | 3.1% ▼ |
| Other Expenses | -30 | -31 | 4.1% ▼ | -57 | -127 | 55.2% ▼ |
| Operating Profit | 462 | 586 | 21.2% ▼ | 2,010 | 2,494 | 19.4% ▼ |
| | | | | | 0 | |
| Other Income | 26 | 14 | 85.7% ▲ | 59 | 30 | 96.0% ▲ |
| Finance Cost | -263 | -202 | 30.5% ▲ | -1,515 | -786 | 92.6% ▲ |
| Profit Before Taxation | 225 | 399 | 43.5% ▼ | 554 | 1,737 | 68.1% ▼ |
| Taxation | -32 | -101 | 68.1% ▼ | 39 | -364 | 110.7% ▼ |
| Profit After Taxation | 193 | 298 | 35.2% ▼ | 593 | 1,373 | 56.8% ▼ |
| Earnings Per Share | 0.77 | 1.19 | 35.2% ▼ | 2.36 | 5.46 | 56.8% ▼ |
| Dividend | 0.00 | 0.00 | | 0.00 | 0.00 | |
| Bonus | - | - | | - | - | |
| Gross Margin | 10.5% | 7.6% | 2.9% ▲ | 9.6% | 10.3% | 0.8% ▼ |
| SG&A Expenses to Sales | -2.3% | -1.4% | 0.9% ▲ | -2.0% | -1.8% | 0.2% ▲ |
| Other Income to Sales | 0.4% | 0.1% | 0.3% ▲ | 0.2% | 0.1% | 0.1% ▲ |
| Ex. Gain / (Loss) to Sales | -2.3% | -1.4% | 0.9% ▲ | -2.0% | -1.8% | 0.2% ▲ |
| Effective Taxation | -14.3% | -25.3% | 11.0% ▼ | 7.1% | -21.0% | 13.9% ▼ |
| Net Margin | 3.2% | 3.0% | 0.2% ▲ | 2.2% | 4.5% | 2.3% ▼ |

Source: ACPL Research, Company Financials

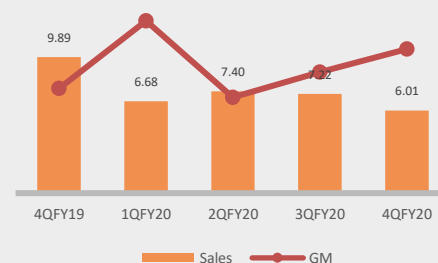
Key Statistics

| Symbol | MUGHAL |
|----------------------|--------|
| TP - Jun 21 | 80.00 |
| LDPCP | 66.80 |
| Upside (%) | 20 |
| Free Float ('mn) | 63 |
| Market Cap. (Rs.'mn) | 16,807 |

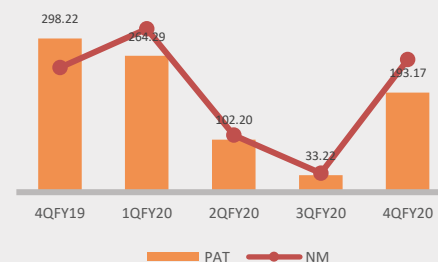
MUGHAL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

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Financial Projections

| Rupees' millions | FY15A | FY16A | FY17A | FY18A | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net sales | 12,241 | 18,983 | 18,803 | 22,226 | 30,828 | 27,305 | 29,648 | 34,589 | 39,951 |
| Cost of sale | 10,915 | 16,925 | 16,861 | 19,431 | 27,639 | 24,688 | 26,760 | 31,000 | 35,551 |
| Gross profit | 1,326 | 2,059 | 1,942 | 2,794 | 3,189 | 2,617 | 2,889 | 3,590 | 4,399 |
| Selling and promotion expenses | 62 | 95 | 164 | 246 | 202 | 144 | 156 | 182 | 211 |
| Administration expenses | 160 | 208 | 241 | 313 | 367 | 407 | 442 | 516 | 596 |
| Other operating expenses | 45 | 87 | 91 | 115 | 127 | 57 | 62 | 72 | 83 |
| Operating Profit | 1,059 | 1,670 | 1,445 | 2,120 | 2,494 | 2,010 | 2,229 | 2,820 | 3,510 |
| Other operating income | 15 | 47 | 34 | 36 | 30 | 59 | 64 | 74 | 86 |
| Finance cost | 440 | 425 | 257 | 552 | 786 | 1,515 | 1,198 | 599 | 599 |
| Profit before taxation | 634 | 1,292 | 1,222 | 1,604 | 1,737 | 554 | 1,094 | 2,295 | 2,997 |
| Taxation | - | 399 | 232 | 314 | 364 | 39 | 219 | 459 | 599 |
| Profit after taxation | 659 | 893 | 991 | 1,290 | 1,373 | 593 | 875 | 1,836 | 2,398 |
| EPS | 2.62 | 3.55 | 3.94 | 5.13 | 5.46 | 2.36 | 3.48 | 7.30 | 9.53 |

Source: ACPL Research, Company Financials

Horizontal Analysis

| | FY15A | FY16A | FY17A | FY18A | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|--------------|--------------|---------------|--------------|--------------|---------------|--------------|---------------|--------------|
| Net sales | 109.0% | 55.1% | -1.0% | 18.2% | 38.7% | -11.4% | 8.6% | 16.7% | 15.5% |
| Cost of sale | 112.7% | 55.1% | -0.4% | 15.2% | 42.2% | -10.7% | 8.4% | 15.8% | 14.7% |
| Gross profit | 82.8% | 55.2% | -5.7% | 43.9% | 14.1% | -17.9% | 10.4% | 24.3% | 22.6% |
| Selling and promotion expenses | 479.2% | 53.2% | 73.2% | 50.2% | -18.2% | -28.6% | 8.6% | 16.7% | 15.5% |
| Administration expenses | 96.4% | 29.4% | 16.4% | 29.6% | 17.2% | 11.0% | 8.6% | 16.7% | 15.5% |
| Other operating expenses | 110.3% | 91.8% | 5.5% | 26.1% | 9.9% | -55.2% | 8.6% | 16.7% | 15.5% |
| Operating Profit | 73.2% | 57.7% | -13.5% | 46.7% | 17.6% | -19.4% | 10.9% | 26.5% | 24.5% |
| Other operating income | 303.4% | 220.5% | -28.3% | 7.0% | -17.5% | 96.0% | 8.6% | 16.7% | 15.5% |
| Finance cost | 102.1% | -3.3% | -39.6% | 115.3% | 42.3% | 92.6% | -20.9% | -50.0% | 0.0% |
| Profit before taxation | 59.5% | 103.8% | -5.4% | 31.2% | 8.3% | -68.1% | 97.6% | 109.8% | 30.6% |
| Taxation | -470.3% | -1690.9% | -41.9% | 35.4% | 16.3% | -110.7% | -659.0% | 109.8% | 30.6% |
| Profit after taxation | 68.6% | 35.5% | 10.9% | 30.2% | 6.4% | -56.8% | 47.6% | 109.8% | 30.6% |
| EPS | -45.0% | 35.5% | 10.9% | 30.2% | 6.4% | -56.8% | 47.6% | 109.8% | 30.6% |

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 | 9.59 | 9.74 | 10.38 | 11.01 |
| OP Margin | % | 8.77 | 9.05 | 7.87 | 9.70 | 8.19 | 7.58 | 7.73 | 8.37 | 9.00 |
| NP Margin | % | 5.38 | 4.71 | 5.27 | 5.81 | 4.45 | 2.17 | 2.95 | 5.31 | 6.00 |
| ROE | % | 19.36 | 23.39 | 18.23 | 18.30 | 18.34 | 7.60 | 10.49 | 20.10 | 23.69 |
| ROCE | % | 9.36 | 14.77 | 10.64 | 12.87 | 12.58 | 9.13 | 10.85 | 14.11 | 16.02 |
| ROA | % | 5.75 | 7.69 | 7.13 | 7.70 | 6.84 | 2.62 | 4.14 | 8.95 | 10.68 |

| Liquidity Ratios | | FY15A | FY16A | FY17A | FY18A | FY19A | FY20E | FY21E | FY22E | FY23E |
|-----------------------|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Current | x | 1.19 | 1.34 | 1.34 | 1.32 | 1.23 | 1.21 | 1.23 | 1.20 | 1.21 |
| Acid-test | x | 0.28 | 0.29 | 0.43 | 0.30 | 0.58 | 0.43 | 0.32 | 0.32 | 0.32 |
| Cash to current liab. | x | 0.14 | 0.12 | 0.27 | 0.15 | 0.28 | 0.19 | 0.27 | 0.27 | 0.27 |

| Activity Ratios | | FY15A | FY16A | FY17A | FY18A | FY19A | FY20E | FY21E | FY22E | FY23E |
|--------------------|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Inventory Turnover | x | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 3 |
| Inventory Days | | 169 | 97 | 127 | 111 | 74 | 100 | 74 | 74 | 74 |
| Receivables Days | | 14 | 18 | 26 | 21 | 39 | 35 | 24 | 24 | 24 |
| Payables Days | | 153 | 49 | 43 | 9 | 7 | 15 | 40 | 40 | 40 |
| Operating Cycle | | 30 | 67 | 110 | 123 | 107 | 120 | 58 | 58 | 58 |

| Investment Ratios | | FY15A | FY16A | FY17A | FY18A | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------|------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| EPS | Rs. | 2.62 | 3.55 | 3.94 | 5.13 | 5.46 | 2.36 | 3.48 | 7.30 | 9.53 |
| DPS | Rs. | 0.50 | 3.00 | 2.60 | 2.20 | 1.20 | 0.00 | 1.50 | 3.00 | 6.00 |
| Div. Yield | % | 0.63 | 3.76 | 3.26 | 2.76 | 1.51 | 0.00 | 1.88 | 3.76 | 7.53 |
| Dividend Cover | x | 5.24 | 1.18 | 1.51 | 2.33 | 4.55 | 0.00 | 2.32 | 2.43 | 1.59 |
| BVPS | Rs. | 13.53 | 16.83 | 26.38 | 29.68 | 29.82 | 32.18 | 34.16 | 38.46 | 41.99 |
| Payout | % | 19.08 | 84.49 | 66.03 | 42.90 | 21.99 | 0.00 | 43.12 | 41.11 | 62.96 |
| Retention | % | 80.92 | 15.51 | 33.97 | 57.10 | 78.01 | 100.00 | 56.88 | 58.89 | 37.04 |
| No. of Shares | '000 | 251,600 | 251,600 | 251,600 | 251,600 | 251,600 | 251,600 | 251,600 | 251,600 | 251,600 |
| P/E | | 25.50 | 18.81 | 16.96 | 13.03 | 12.24 | 28.35 | 19.20 | 9.15 | 7.01 |
| Sales per share | | 48.65 | 75.45 | 74.73 | 88.34 | 122.53 | 108.53 | 117.84 | 137.48 | 158.79 |
| P/BV | | 4.94 | 3.97 | 2.53 | 2.25 | 2.24 | 2.08 | 1.96 | 1.74 | 1.59 |
| Price to Sales | | 1.37 | 0.89 | 0.89 | 0.76 | 0.55 | 0.62 | 0.57 | 0.49 | 0.42 |

| 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 | 1.41 | 0.69 | 0.64 | 0.64 |
| L.T. Debt to Equity | x | 0.32 | 0.25 | 0.00 | 0.11 | 0.45 | 0.37 | 0.25 | 0.13 | 0.04 |
| Interest Cover | x | 2.44 | 4.04 | 5.76 | 3.90 | 3.21 | 1.37 | 1.91 | 4.83 | 6.00 |

Source: ACPL Research, Company Financials

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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

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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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