

NCL has announced its 2QFY20 result where it posted profit after tax of Rs522mn (EPS: Rs2.17) in 6MFY20 as compared to profit after tax of Rs2bn (EPS: Rs8.40) in same period last year, down by 74.1% YoY.

The company has posted the revenue of Rs20bn against Rs19.3bn in SPLY, recording a growth of 3.7% YoY. We note that this growth is attributed to the increase in volumetric growth due to currency devaluation.

Gross margin has slightly been squeezed to 12.7% in 6MFY20 as compared to 13.4% in 6MFY19 on account of higher input cost.

SG&A expenses have increased by 5.2% YoY to Rs640mn in 6MFY20 as compared to Rs608mn during SPLY.

Other Income has significantly been reduced by 83.2% YoY to Rs220mn as compared to Rs1.3bn during SPLY on account of lower exchange gains.

Finance cost has been increased by 45.1% YoY to Rs1.3bn in 6MFY20 as compared to Rs880mn in SPLY on account of higher working capital requirement.

Lastly, higher effective taxation of 32.8% as compared to 12.2% during SPLY caused the bottom line to plunge despite growth in revenues.

NCL is currently trading at FY20E PE of 7.6x. We have a **HOLD** stance on the script with a DCF based Dec-20 TP of Rs41 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	10,479	10,093	3.8% ▲	20,028	19,320	3.7% ▲
Cost of Sales	9,129	8,996	1.5% ▲	17,482	16,736	4.5% ▲
Gross Profit	1,350	1,097	23.0% ▲	2,546	2,585	1.5% ▼
SG&A Expenses	335	301	11.4% ▲	640	608	5.2% ▲
Other Expenses	5	59	91.7% ▼	72	107	32.4% ▼
Other Income	131	1,120	88.3% ▼	220	1,308	83.2% ▼
Operating Profit	1,142	1,858	38.6% ▼	2,053	3,178	35.4% ▼
Finance Cost	658	503	30.8% ▲	1,277	880	45.1% ▲
Profit Before Taxation	484	1,355	64.3% ▼	777	2,299	66.2% ▼
Taxation	135	189	28.7% ▼	254	281	9.3% ▼
Profit After Taxation	349	1,166	70.1% ▼	522	2,018	74.1% ▼
Earnings Per Share	1.45	4.86	70.1% ▼	2.17	8.40	74.1% ▼
Dividend	0.00	1.50		0.00	1.50	
Bonus	0%	0%		0%	0%	
Gross Margin	12.9%	10.9%	2.0% ▲	12.7%	13.4%	0.7% ▼
SG&A Expenses to Sales	3.2%	3.0%	0.2% ▲	3.2%	3.1%	0.0% ▲
Other Expenses to Sales	0.0%	0.6%	0.5% ▼	0.4%	0.6%	0.2% ▼
Other Income to Sales	1.3%	11.1%	9.8% ▼	1.1%	6.8%	5.7% ▼
Effective Taxation	27.9%	13.9%	13.9% ▲	32.8%	12.2%	20.6% ▲
Net Margin	3.3%	11.6%	8.2% ▼	2.6%	10.4%	7.8% ▼

Source: ACPL Research, Company Financials

Key Statistics

Symbol	NCL
TP - Dec 20	41.00
LDGP	37.95
Upside	8%
Free Float (mn)	108
Market Cap. (Rs.mn)	9,113

NCL 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	23,780	25,799	29,816	35,560	39,338	40,297	42,415	44,648	47,002
Cost of sales	- 21,824	- 23,344	- 26,916	- 31,289	- 34,450	- 35,222	- 37,034	- 38,985	- 41,041
Gross profit	1,957	2,456	2,900	4,271	4,888	5,075	5,381	5,663	5,961
Distribution cost	- 680	- 738	- 714	- 908	- 944	- 962	- 1,014	- 1,069	- 1,128
Administrative expenses	- 179	- 169	- 235	- 222	- 278	- 326	- 344	- 362	- 382
Other operating expenses	- 81	- 96	- 200	- 129	- 274	- 145	- 153	- 161	- 169
Profit from operations	1,017	1,452	1,751	3,012	3,392	3,641	3,870	4,071	4,283
Other income	1,481	1,191	1,122	1,132	2,454	540	544	640	737
Finance cost	- 1,354	- 1,030	- 1,095	- 1,383	- 2,178	- 2,472	- 2,357	- 2,265	- 2,193
Profit before income tax	1,143	1,613	1,779	2,760	3,668	1,709	2,057	2,446	2,827
Income tax expense	- 343	- 284	- 157	- 397	- 501	- 513	- 617	- 734	- 848
Profit for the year	800	1,329	1,621	2,363	3,168	1,196	1,440	1,713	1,979
EPS	3.33	5.53	6.75	9.84	13.19	4.98	6.00	7.13	8.24
EBITDA	1,776	2,240	2,575	4,015	4,319	4,592	4,778	4,940	5,115

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	4.30%	8.49%	15.57%	19.27%	10.62%	2.44%	5.26%	5.26%	5.27%
Cost of sales	1.89%	6.96%	15.30%	16.25%	10.10%	2.24%	5.14%	5.27%	5.27%
Gross profit	41.73%	25.49%	18.09%	47.30%	14.43%	3.83%	6.03%	5.25%	5.26%
Distribution cost	2.15%	8.58%	-3.34%	27.31%	3.92%	1.93%	5.41%	5.43%	5.44%
Administrative expenses	15.72%	-5.65%	39.33%	-5.61%	25.14%	17.36%	5.36%	5.37%	5.38%
Other operating expenses	11.54%	18.88%	107.25%	-35.40%	112.11%	-47.03%	5.26%	5.26%	5.27%
Profit from operations	108.51%	42.80%	20.60%	72.00%	12.62%	7.36%	6.29%	5.19%	5.20%
Other income	-18.44%	-19.57%	-5.74%	0.84%	116.85%	-78.01%	0.75%	17.71%	15.21%
Finance cost	-1.56%	-23.95%	6.32%	26.37%	57.41%	13.52%	-4.66%	-3.91%	-3.15%
Profit before income tax	23.26%	41.08%	10.27%	55.18%	32.91%	-53.41%	20.37%	18.92%	15.54%
Income tax expense	106.21%	-17.12%	-44.65%	152.37%	26.13%	2.38%	20.37%	18.92%	15.54%
Profit for the year	5.14%	66.01%	22.02%	45.75%	34.04%	-62.23%	20.37%	18.92%	15.54%
EPS	5.14%	66.01%	22.02%	45.75%	34.04%	-62.23%	20.37%	18.92%	15.54%
EBITDA	61.30%	26.14%	14.97%	55.91%	7.57%	6.31%	4.05%	3.38%	3.56%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	8.23	9.52	9.73	12.01	12.42	12.59	12.69	12.68	12.68
NP Margin	%	3.37	5.15	5.44	6.65	8.05	2.97	3.40	3.84	4.21
OP Margin	%	4.28	5.63	5.87	8.47	8.62	9.04	9.12	9.12	9.11
ROE	%	8.03	12.09	13.50	17.24	20.65	7.40	8.37	9.32	10.02
ROCE	%	7.90	11.11	10.74	16.31	17.85	19.37	20.43	20.97	20.91
ROA	%	2.97	4.60	4.68	6.00	7.28	2.83	3.39	3.99	4.52
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	1.05	1.01	1.02	1.19	1.18	1.23	1.25	1.29	1.35
Quick	x	0.52	0.46	0.43	0.56	0.41	0.40	0.38	0.38	0.38
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Inventory Turnover	x	3.35	3.63	3.47	3.28	2.63	2.22	2.25	2.25	2.25
Inventory Days		109.01	100.67	105.15	111.39	138.63	164.74	162.49	162.40	162.39
Receivables Days		96.53	102.91	95.13	119.55	92.87	92.08	90.46	88.91	87.45
Payables Days		21.39	30.84	20.36	26.11	30.12	30.12	30.12	30.12	30.12
Operating Cycle		184.15	172.74	179.92	204.83	201.38	226.70	222.83	221.20	219.72
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
DPS		1.50	2.50	2.75	4.00	4.00	1.50	1.75	2.25	2.50
Div. Yield	%	3.95	6.59	7.25	10.54	10.54	3.95	4.61	5.93	6.59
Dividend Cover	x	2.22	2.21	2.46	2.46	3.30	3.32	3.43	3.17	3.30
Retention	%	55.00	54.82	59.27	59.35	69.68	69.89	70.82	68.45	69.66
Payout	%	45.00	45.18	40.73	40.65	30.32	30.11	29.18	31.55	30.34
No. of Shares	('m)	240.12	240.12	240.12	240.12	240.12	240.12	240.12	240.12	240.12
EPS		3.33	5.53	6.75	9.84	13.19	4.98	6.00	7.13	8.24
BVPS		41.52	45.76	50.01	57.10	63.88	67.36	71.61	76.49	82.23
P/E	x	11.38	6.86	5.62	3.86	2.88	7.62	6.33	5.32	4.61
Sales per share		99.04	107.44	124.17	148.09	163.83	167.82	176.64	185.94	195.75
P/BV	x	0.91	0.83	0.76	0.66	0.59	0.56	0.53	0.50	0.46
P/S	x	0.38	0.35	0.31	0.26	0.23	0.23	0.21	0.20	0.19
Solvency Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Total Debt to Equity	x	1.56	1.44	1.74	1.69	1.62	1.42	1.28	1.15	1.03
L.T Debt to Equity	x	0.47	0.33	0.47	0.45	0.31	0.24	0.17	0.11	0.07
Total Debt to Assets	x	0.58	0.55	0.60	0.59	0.57	0.54	0.52	0.49	0.47
L.T Debt to Assets	x	0.18	0.13	0.16	0.16	0.11	0.09	0.07	0.05	0.03
Interest Cover	x	0.75	1.41	1.60	2.18	1.56	1.47	1.64	1.80	1.95

Source: ACPL Research, Company Financials

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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

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