

NCL has announced its 3QFY20 result where it posted profit after tax of Rs352mn (EPS: Rs1.47) in 9MFY20 as compared to profit after tax of Rs2.4bn (EPS: Rs10.17) in same period last year, down by 85.6% YoY.

The company has posted the revenue of Rs30bn against Rs29.3bn in SPLY, recording a growth of 2.6% YoY. We note that this growth is attributed to the increase in volumetric growth due to currency devaluation.

Gross margin has been squeezed to 12.1% in 9MFY20 as compared to 13% in 9MFY19 on account of higher input cost. SG&A expenses have increased by 1.5% YoY to Rs931mn in 9MFY20 as compared to Rs917mn during SPLY. Other Income has significantly been reduced by 79.8% YoY to Rs317mn as compared to Rs1.6bn during SPLY on account of lower exchange gains and lower dividend from NCPL.

Finance cost has been increased by 34% YoY to Rs2bn in 9MFY20 as compared to Rs1.5bn in SPLY on account of higher working capital requirement. Lastly, higher effective taxation of 51.1% as compared to 12.9% during SPLY caused the bottom line to plunge despite growth in revenues.

Going forward, we expect a tough time ahead during CY20 as most of the foreign buyers have cancelled or delayed the orders owing to lockdowns on the back of COVID-19 outbreak. NCL is currently trading at FY21E PE of 11.71x. We downgrade our stance to **SELL** the script with a DCF based Jun-21 TP of Rs26 which provides a downside potential of 16%.

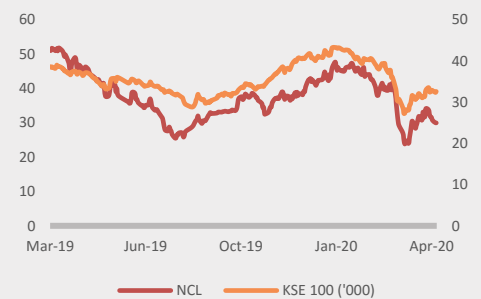
Rupees' millions	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	9,998	9,931	0.7% ▲	30,026	29,251	2.6% ▲
Cost of Sales	8,897	8,714	2.1% ▲	26,379	25,450	3.6% ▲
Gross Profit	1,101	1,216	9.4% ▼	3,647	3,801	4.0% ▼
SG&A Expenses	291	310	6.0% ▼	931	917	1.5% ▲
Other Expenses	208	24	776.9% ▲	280	130	114.6% ▲
Other Income	98	259	62.3% ▼	317	1,567	79.8% ▼
Operating Profit	700	1,142	38.7% ▼	2,754	4,320	36.3% ▼
Finance Cost	757	637	18.7% ▲	2,034	1,517	34.0% ▲
Profit Before Taxation	-56	505	111.2% ▼	720	2,803	74.3% ▼
Taxation	114	82	39.2% ▲	368	362	1.6% ▲
Profit After Taxation	-170	423	140.2% ▼	352	2,441	85.6% ▼
Earnings Per Share	-0.71	1.76	140.2% ▼	1.47	10.17	85.6% ▼
Dividend	0.00	0.00		0.00	1.50	
Bonus	0%	0%		0%	0%	
Gross Margin	11.0%	12.2%	1.2% ▼	12.1%	13.0%	0.8% ▼
SG&A Expenses to Sales	2.9%	3.1%	0.2% ▼	3.1%	3.1%	0.0% ▼
Other Expenses to Sales	2.1%	0.2%	1.8% ▲	0.9%	0.4%	0.5% ▲
Other Income to Sales	1.0%	2.6%	1.6% ▼	1.1%	5.4%	4.3% ▼
Effective Taxation	-201.9%	16.2%	218.1% ▼	51.1%	12.9%	38.2% ▲
Net Margin	-1.7%	4.3%	6.0% ▼	1.2%	1.2%	0.0% ▼

Source: ACPL Research, Company Financials

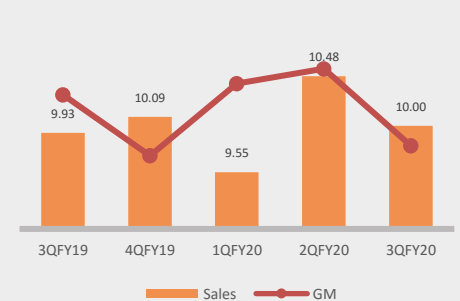
Key Statistics

Symbol	NCL
TP - Jun 21	26.00
LDCP	31.13
Upside / (Downside)	-16%
Free Float (mn)	108
Market Cap. (Rs.mn)	7,475

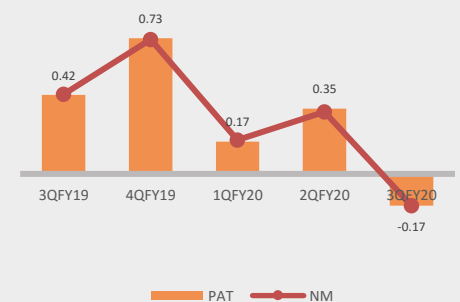
NCL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

M. Fawad Naveed

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

Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	23,780	25,799	29,816	35,560	39,338	32,519	34,231	36,035	37,937
Cost of sales	- 21,824	- 23,344	- 26,916	- 31,289	- 34,450	- 28,579	- 29,930	- 31,508	- 33,172
Gross profit	1,957	2,456	2,900	4,271	4,888	3,941	4,301	4,527	4,765
Distribution cost	- 680	- 738	- 714	- 908	- 944	- 725	- 763	- 804	- 848
Administrative expenses	- 179	- 169	- 235	- 222	- 278	- 283	- 298	- 314	- 331
Other operating expenses	- 81	- 96	- 200	- 129	- 274	- 302	- 318	- 335	- 353
Profit from operations	1,017	1,452	1,751	3,012	3,392	2,631	2,921	3,073	3,234
Other income	1,481	1,191	1,122	1,132	2,454	532	348	444	541
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	690	912	1,253	1,581
Income tax expense	- 343	- 284	- 157	- 397	- 501	- 207	- 274	- 376	- 474
Profit for the year	800	1,329	1,621	2,363	3,168	483	639	877	1,107
EPS	3.33	5.53	6.75	9.84	13.19	2.01	2.66	3.65	4.61
EBITDA	1,776	2,240	2,575	4,015	4,319	3,581	3,829	3,942	4,067

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%	-17.33%	5.26%	5.27%	5.28%
Cost of sales	1.89%	6.96%	15.30%	16.25%	10.10%	-17.04%	4.73%	5.27%	5.28%
Gross profit	41.73%	25.49%	18.09%	47.30%	14.43%	-19.38%	9.15%	5.26%	5.26%
Distribution cost	2.15%	8.58%	-3.34%	27.31%	3.92%	-23.23%	5.35%	5.36%	5.37%
Administrative expenses	15.72%	-5.65%	39.33%	-5.61%	25.14%	1.71%	5.37%	5.38%	5.39%
Other operating expenses	11.54%	18.88%	107.25%	-35.40%	112.11%	10.43%	5.26%	5.27%	5.28%
Profit from operations	108.51%	42.80%	20.60%	72.00%	12.62%	-22.44%	11.05%	5.21%	5.22%
Other income	-18.44%	-19.57%	-5.74%	0.84%	116.85%	-78.33%	-34.59%	27.55%	21.83%
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%	-81.18%	32.12%	37.31%	26.23%
Income tax expense	106.21%	-17.12%	-44.65%	152.37%	26.13%	-58.64%	32.12%	37.31%	26.23%
Profit for the year	5.14%	66.01%	22.02%	45.75%	34.04%	-84.74%	32.12%	37.31%	26.23%
EPS	5.14%	66.01%	22.02%	45.75%	34.04%	-84.74%	32.12%	37.31%	26.23%
EBITDA	61.30%	26.14%	14.97%	55.91%	7.57%	-17.09%	6.92%	2.96%	3.17%

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	12.12	12.56	12.56	12.56
NP Margin	%	3.37	5.15	5.44	6.65	8.05	1.49	1.87	2.43	2.92
OP Margin	%	4.28	5.63	5.87	8.47	8.62	8.09	8.53	8.53	8.52
ROE	%	8.03	12.09	13.50	17.24	20.65	3.13	4.07	5.47	6.70
ROCE	%	7.90	11.11	10.74	16.31	17.85	14.55	16.76	18.01	18.74
ROA	%	2.97	4.60	4.68	6.00	7.28	1.18	1.58	2.20	2.78
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	1.05	1.01	1.02	1.19	1.18	1.20	1.19	1.19	1.22
Quick	x	0.52	0.46	0.43	0.56	0.41	0.51	0.47	0.43	0.41
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Inventory Turnover	x	3.35	3.63	3.47	3.28	2.63	1.99	2.24	2.25	2.25
Inventory Days		109.01	100.67	105.15	111.39	138.63	183.68	162.81	162.40	162.39
Receivables Days		96.53	102.91	95.13	119.55	92.87	99.84	97.83	95.91	94.09
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	253.40	230.52	228.19	226.37
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	%	4.82	8.03	8.83	12.85	12.85	4.82	5.62	7.23	8.03
Dividend Cover	x	2.22	2.21	2.46	2.46	3.30	1.34	1.52	1.62	1.84
Retention	%	55.00	54.82	59.27	59.35	69.68	25.47	34.19	38.38	45.76
Payout	%	45.00	45.18	40.73	40.65	30.32	74.53	65.81	61.62	54.24
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	2.01	2.66	3.65	4.61
BVPS		41.52	45.76	50.01	57.10	63.88	64.39	65.30	66.70	68.81
P/E	x	9.34	5.63	4.61	3.16	2.36	15.47	11.71	8.53	6.75
Sales per share		99.04	107.44	124.17	148.09	163.83	135.43	142.56	150.07	157.99
P/BV	x	0.75	0.68	0.62	0.55	0.49	0.48	0.48	0.47	0.45
P/S	x	0.31	0.29	0.25	0.21	0.19	0.23	0.22	0.21	0.20
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	1.49	1.40	1.32	1.24
L.T Debt to Equity	x	0.47	0.33	0.47	0.45	0.31	0.25	0.19	0.13	0.08
Total Debt to Assets	x	0.58	0.55	0.60	0.59	0.57	0.56	0.55	0.53	0.51
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	1.06	1.24	1.36	1.47

Source: ACPL Research, Company Financials

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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

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- III. Relative Valuation Model
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SELL	Less than and equal to -5%

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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