

NCL has announced its 1HFY23 result where it posted a loss after tax of Rs1.84bn (LPS: Rs 7.65) as compared to a profit after tax of Rs4.71bn (EPS: Rs 19.61) in the same period last year, down by 139% YoY owing to lower profit margins in addition to higher finance cost.

The company has posted a revenue of Rs29.67bn against Rs31.04bn in SPLY, recording a decline of 4.4% YoY. The gross margin has dropped to 6.8% as compared to 22.5% in SPLY on account of higher cost of the cotton.

SG&A expenses have increased by 13.3% YoY to Rs1,027mn as compared to Rs906mn during SPLY. Moreover, an increase in other Income by 16% YoY to Rs256mn amid exchange gains were recorded. Finance cost has surged by 145.1% YoY to Rs2.34bn owing to higher short-term borrowing and an increase in interest rates.

NCL is currently trading at a FY23E PB of 0.22x which offers a discount of 20% relative to its 3-year average of 0.27x. We have a **BUY** stance on the scrip with a DCF-based Dec-23 TP of Rs25 which provides an upside potential of 23%.

Rupees' millions	2QFY23	2QFY22	YoY	1HFY23	1HFY22	YoY
Net Sales	14,419	16,229	11.2% ▼	29,672	31,035	4.4% ▼
Cost of Sales	14,129	12,540	12.7% ▲	27,669	24,036	15.1% ▲
Gross Profit	289	3,689	92.2% ▼	2,003	6,998	71.4% ▼
SG&A Expenses	456	506	9.9% ▼	1,027	906	13.3% ▲
Other Expenses	91	102	10.4% ▼	358	292	22.6% ▲
Other Income	140	153	8.6% ▼	256	221	16.0% ▲
Operating Profit	-118	3,233	103.7% ▼	875	6,021	85.5% ▼
Finance Cost	1,394	553	151.9% ▲	2,343	956	145.1% ▲
Profit Before Taxation	-1,513	2,680	156.4% ▼	-1,468	5,065	129.0% ▼
Taxation	193	188	2.8% ▲	368	355	3.5% ▲
Profit After Taxation	-1,706	2,492	168.4% ▼	-1,837	4,709	139.0% ▼
Earnings Per Share	-7.10	10.38	168.4% ▼	-7.65	19.61	139.0% ▼
Dividend	0.00	3.00	100.0% ▼	0.00	3.00	100.0% ▼
Bonus	0%	0%		0%	0%	
Gross Margin	2.0%	22.7%	20.7% ▼	6.8%	22.5%	15.8% ▼
SG&A Expenses to Sales	3.2%	3.1%	0.0% ▲	3.5%	2.9%	0.5% ▲
Other Expenses to Sales	0.6%	0.6%	0.0% ▲	1.2%	0.9%	0.3% ▲
Other Income to Sales	1.0%	0.9%	0.0% ▲	0.9%	0.7%	0.2% ▲
Effective Taxation	-12.8%	7.0%	19.8% ▼	-25.1%	7.0%	32.1% ▼
Net Margin	-11.8%	15.4%	27.2% ▼	-6.2%	15.2%	21.4% ▼

Source: ACPL Research, Company Financials

Key Statistics

Symbol	NCL
TP - Dec 23	25.00
LDGP	20.30
Upside / (Downside)	23%
Free Float (mn)	108
Market Cap. (Rs.mn)	4,870

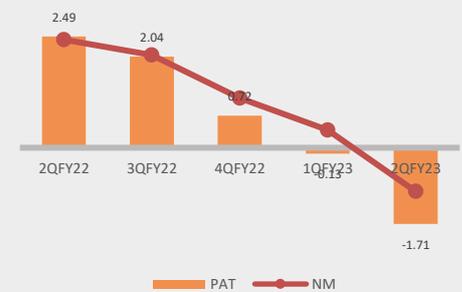
NCL vs KSE 100



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	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	35,667	49,284	61,988	59,780	64,436	69,503	75,019
Cost of sales	- 31,462	- 40,315	- 49,014	- 55,970	- 58,324	- 61,439	- 65,437
Gross profit	4,204	8,969	12,974	3,810	6,112	8,064	9,583
Distribution cost	- 869	- 1,161	- 1,705	- 1,684	- 1,796	- 1,906	- 2,024
Administrative expenses	- 324	- 312	- 517	- 451	- 466	- 503	- 544
Other operating expenses	- 95	- 340	- 945	- 721	- 594	- 641	- 692
Profit from operations	2,916	7,156	9,808	954	3,256	5,015	6,323
Other income	454	864	838	462	486	510	537
Finance cost	- 2,661	- 1,747	- 2,298	- 4,685	- 4,596	- 4,536	- 3,966
Profit before income tax	709	6,273	8,348	- 3,269	- 854	989	2,893
Income tax expense	- 444	- 674	- 880	490	85	- 99	- 289
Profit for the year	265	5,599	7,468	- 2,778	- 769	890	2,604
EPS	1.11	23.32	31.10	- 11.57	- 3.20	3.71	10.85
EBITDA	3,828	8,316	11,007	2,542	4,830	6,488	7,793

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	-9.33%	38.18%	25.78%	-3.56%	7.79%	7.86%	7.94%
Cost of sales	-8.67%	28.14%	21.58%	14.19%	4.21%	5.34%	6.51%
Gross profit	-13.98%	113.33%	44.65%	-70.63%	60.39%	31.95%	18.83%
Distribution cost	-7.94%	33.55%	46.93%	-1.26%	6.66%	6.11%	6.19%
Administrative expenses	16.58%	-3.80%	65.62%	-12.76%	3.34%	8.05%	8.14%
Other operating expenses	-65.30%	258.24%	177.47%	-23.63%	-17.65%	7.86%	7.94%
Profit from operations	-14.02%	145.41%	37.05%	-90.27%	241.11%	54.02%	26.10%
Other income	-81.50%	90.31%	-3.02%	-44.83%	5.06%	4.99%	5.23%
Finance cost	22.19%	-34.34%	31.52%	103.91%	-1.92%	-1.30%	-12.56%
Profit before income tax	-80.67%	784.54%	33.07%	-139.15%	-73.87%	#####	192.66%
Income tax expense	-11.37%	51.93%	30.45%	-44.26%	-82.58%	15.77%	192.66%
Profit for the year	-91.62%	2009.84%	33.39%	-137.20%	-72.33%	#####	192.66%
EPS	-91.62%	2009.84%	33.39%	-137.20%	-72.33%	#####	192.66%
EBITDA	-11.36%	117.22%	32.36%	-76.91%	90.02%	34.34%	20.12%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	11.79	18.20	20.93	6.37	9.48	11.60	12.77
NP Margin	%	0.74	11.36	12.05	-4.65	-1.19	1.28	3.47
OP Margin	%	8.18	14.52	15.82	1.60	5.05	7.21	8.43
ROE	%	1.95	29.47	30.43	-12.41	-3.53	3.96	10.63
ROCE	%	14.79	27.88	25.23	3.19	13.04	20.14	24.01
ROA	%	0.56	10.81	12.57	-5.15	-1.63	1.89	5.37
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	1.04	1.25	1.76	1.50	1.36	1.36	1.43
Quick	x	0.25	0.34	0.46	0.32	0.18	0.11	0.10
Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	1.76	2.11	2.49	2.47	2.51	2.67	2.69
Inventory Days		207.13	172.94	146.67	147.90	145.67	136.45	135.72
Receivables Days		71.56	63.21	54.54	54.87	54.20	53.57	52.98
Payables Days		51.69	37.06	33.91	33.91	38.91	43.91	48.91
Operating Cycle		227.00	199.09	167.30	168.86	160.96	146.11	139.79
Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
DPS		1.00	5.00	7.00	0.00	0.00	1.00	2.50
Div. Yield	%	4.93	24.63	34.48	0.00	0.00	4.93	12.32
Dividend Cover	x	1.11	4.66	4.44	0.00	#DIV/0!	3.71	4.34
Retention	%	9.52	78.56	77.49	100.00	100.00	73.01	76.95
Payout	%	90.48	21.44	22.51	0.00	0.00	26.99	23.05
No. of Shares	('m)	240.12	240.12	240.12	240.12	240.12	240.12	240.12
EPS		1.11	23.32	31.10	-11.57	-3.20	3.71	10.85
BVPS		56.79	79.11	102.21	93.25	90.77	93.64	102.04
P/E	x	18.37	0.87	0.65	0.00	-6.34	5.48	1.87
Sales per share		148.54	205.25	258.16	248.96	268.35	289.45	312.43
P/BV	x	0.36	0.26	0.20	0.22	0.22	0.22	0.20
P/S	x	0.14	0.10	0.08	0.08	0.08	0.07	0.06
Solvency Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Total Debt to Equity	x	2.13	1.48	1.17	1.32	1.15	0.99	0.79
L.T Debt to Equity	x	0.48	0.48	0.64	0.55	0.52	0.44	0.33
Total Debt to Assets	x	0.61	0.54	0.48	0.55	0.53	0.47	0.40
L.T Debt to Assets	x	0.14	0.18	0.27	0.23	0.24	0.21	0.17
Interest Cover	x	1.10	4.10	4.27	0.20	0.71	1.11	1.59

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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SELL	Less than and equal to -5%

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