

NCL has announced its 1QFY23 result where it posted a loss after tax of Rs131mn (LPS: Rs 0.54) as compared to a profit after tax of Rs2.22bn (EPS: Rs 9.23) in the same period last year, down by 105.9% YoY owing to lower profit margins in addition to higher finance cost and higher effective taxation.

The company has posted a revenue of Rs15.25bn against Rs14.80bn in SPLY, recording a growth of 3% YoY due to devaluation of PKR. The gross margin has depressed to 11.2% as compared to 22.4% in SPLY on account of higher cost of the cotton.

Furthermore, SG&A expenses have increased by 42.7% YoY to Rs570mn as compared to Rs400mn during SPLY. Moreover, an increase in other Income by 71.4% YoY to Rs117mn amid exchange gains supported the bottom line. In addition, finance cost has surged by 135.8% YoY to Rs949bn owing to higher short-term borrowing and an increase in interest rates.

NCL is currently trading at a FY23E PB of 0.28x which offers a discount of 25% relative to its 3-year average of 0.37x. We have a **BUY** stance on the scrip with a DCF-based Jun-23 TP of Rs38 which provides an upside potential of 36%.

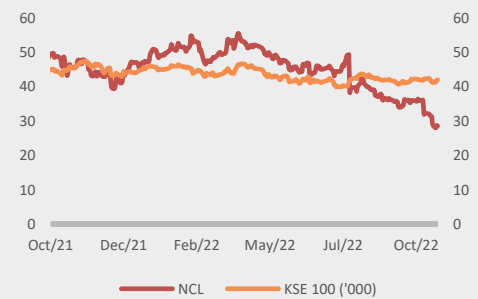
Rupees' millions	1QFY23	1QFY22	YoY	FY22	FY21	YoY
Net Sales	15,254	14,805	3.0% ▲	61,988	49,284	25.8% ▲
Cost of Sales	13,540	11,496	17.8% ▲	49,014	40,315	21.6% ▲
Gross Profit	1,714	3,309	48.2% ▼	12,974	8,969	44.7% ▲
SG&A Expenses	570	400	42.7% ▲	2,222	1,473	50.9% ▲
Other Expenses	267	190	40.3% ▲	945	340	177.5% ▲
Other Income	117	68	71.4% ▲	838	864	3.0% ▼
Operating Profit	993	2,787	64.4% ▼	10,646	8,020	32.7% ▲
Finance Cost	949	403	135.8% ▲	2,298	1,747	31.5% ▲
Profit Before Taxation	44	2,385	98.2% ▼	8,348	6,273	33.1% ▲
Taxation	175	168	4.3% ▲	880	674	30.5% ▲
Profit After Taxation	-131	2,217	105.9% ▼	7,468	5,599	33.4% ▲
Earnings Per Share	-0.54	9.23	105.9% ▼	31.10	23.32	33.4% ▲
Dividend	0.00	0.00	-	7.00	5.00	40.0% ▲
Bonus	0%	0%		0%	0%	
Gross Margin	11.2%	22.4%	11.1% ▼	20.9%	18.2%	2.7% ▲
SG&A Expenses to Sales	3.7%	2.7%	1.0% ▲	3.6%	3.0%	0.6% ▲
Other Expenses to Sales	1.7%	1.3%	0.5% ▲	1.5%	0.7%	0.8% ▲
Other Income to Sales	0.8%	0.5%	0.3% ▲	1.4%	1.8%	0.4% ▼
Effective Taxation	396.9%	7.0%	389.8% ▲	10.5%	10.7%	0.2% ▼
Net Margin	-0.9%	15.0%	15.8% ▼	12.0%	11.4%	0.7% ▲

Source: ACPL Research, Company Financials

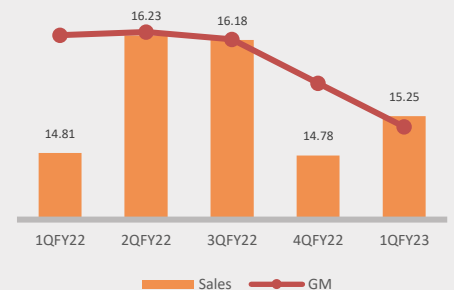
Key Statistics

Symbol	NCL
TP - Jun 23	38.00
LDPC	27.88
Upside / (Downside)	36%
Free Float (mn)	108
Market Cap. (Rs.mn)	6,694

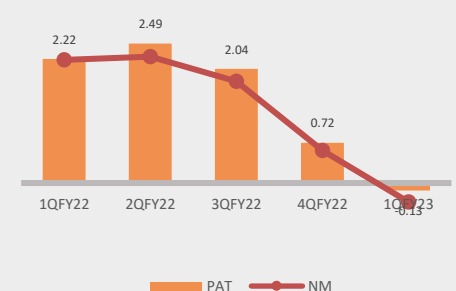
NCL vs KSE 100



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	61,016	65,780	70,965	76,610
Cost of sales	- 31,462	- 40,315	- 49,014	- 53,283	- 56,331	- 60,767	- 65,597
Gross profit	4,204	8,969	12,974	7,733	9,449	10,198	11,013
Distribution cost	- 869	- 1,161	- 1,705	- 1,883	- 1,821	- 1,932	- 2,052
Administrative expenses	- 324	- 312	- 517	- 398	- 466	- 505	- 548
Other operating expenses	- 95	- 340	- 945	- 1,067	- 696	- 751	- 810
Profit from operations	2,916	7,156	9,808	4,385	6,467	7,010	7,603
Other income	454	864	838	467	490	515	542
Finance cost	- 2,661	- 1,747	- 2,298	- 3,796	- 3,752	- 3,795	- 3,392
Profit before income tax	709	6,273	8,348	1,056	3,205	3,730	4,753
Income tax expense	- 444	- 674	- 880	- 1,583	- 321	- 373	- 475
Profit for the year	265	5,599	7,468	- 528	2,885	3,357	4,278
EPS	1.11	23.32	31.10	- 2.20	12.01	13.98	17.82
EBITDA	3,828	8,316	11,007	5,972	8,040	8,572	9,153

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	-9.33%	38.18%	25.78%	-1.57%	7.81%	7.88%	7.95%
Cost of sales	-8.67%	28.14%	21.58%	8.71%	5.72%	7.88%	7.95%
Gross profit	-13.98%	113.33%	44.65%	-40.39%	22.19%	7.92%	7.99%
Distribution cost	-7.94%	33.55%	46.93%	10.44%	-3.30%	6.10%	6.18%
Administrative expenses	16.58%	-3.80%	65.62%	-22.94%	17.05%	8.39%	8.55%
Other operating expenses	-65.30%	258.24%	177.47%	12.99%	-34.82%	7.88%	7.95%
Profit from operations	-14.02%	145.41%	37.05%	-55.29%	47.48%	8.40%	8.45%
Other income	-81.50%	90.31%	-3.02%	-44.30%	5.09%	5.03%	5.27%
Finance cost	22.19%	-34.34%	31.52%	65.19%	-1.16%	1.15%	-10.63%
Profit before income tax	-80.67%	784.54%	33.07%	-87.35%	203.64%	16.37%	27.43%
Income tax expense	-11.37%	51.93%	30.45%	80.01%	-79.76%	16.37%	27.43%
Profit for the year	-91.62%	2009.84%	33.39%	-107.07%	#####	16.37%	27.43%
EPS	-91.62%	2009.84%	33.39%	-107.07%	#####	16.37%	27.43%
EBITDA	-11.36%	117.22%	32.36%	-45.75%	34.64%	6.61%	6.78%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	11.79	18.20	20.93	12.67	14.37	14.37	14.38
NP Margin	%	0.74	11.36	12.05	-0.87	4.39	4.73	5.58
OP Margin	%	8.18	14.52	15.82	7.19	9.83	9.88	9.92
ROE	%	1.95	29.47	30.43	-2.19	10.94	11.59	13.25
ROCE	%	14.79	27.88	25.23	14.03	21.74	21.81	21.60
ROA	%	0.56	10.81	12.57	-1.01	5.83	6.44	7.70
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	1.04	1.25	1.76	1.63	1.60	1.72	1.86
Quick	x	0.25	0.34	0.46	0.34	0.32	0.35	0.41
Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	1.76	2.11	2.49	2.41	2.52	2.71	2.71
Inventory Days		207.13	172.94	146.67	151.39	144.59	134.89	134.85
Receivables Days		71.56	63.21	54.54	54.68	54.02	53.41	52.83
Payables Days		51.69	37.06	33.91	33.91	38.91	43.91	48.91
Operating Cycle		227.00	199.09	167.30	172.16	159.70	144.38	138.76
Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
DPS		1.00	5.00	7.00	0.00	2.50	3.00	4.00
Div. Yield	%	3.59	17.93	25.11	0.00	8.97	10.76	14.35
Dividend Cover	x	1.11	4.66	4.44	0.00	4.81	4.66	4.45
Retention	%	9.52	78.56	77.49	100.00	79.19	78.54	77.55
Payout	%	90.48	21.44	22.51	0.00	20.81	21.46	22.45
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	-2.20	12.01	13.98	17.82
BVPS		56.79	79.11	102.21	100.51	109.82	120.65	134.46
P/E	x	25.23	1.20	0.90	0.00	2.32	1.99	1.56
Sales per share		148.54	205.25	258.16	254.11	273.95	295.54	319.05
P/BV	x	0.49	0.35	0.27	0.28	0.25	0.23	0.21
P/S	x	0.19	0.14	0.11	0.11	0.10	0.09	0.09
Solvency Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Total Debt to Equity	x	2.13	1.48	1.17	1.11	0.87	0.70	0.54
L.T Debt to Equity	x	0.48	0.48	0.64	0.51	0.43	0.34	0.25
Total Debt to Assets	x	0.61	0.54	0.48	0.51	0.46	0.39	0.32
L.T Debt to Assets	x	0.14	0.18	0.27	0.24	0.23	0.19	0.15
Interest Cover	x	1.10	4.10	4.27	1.16	1.72	1.85	2.24

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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HOLD	Between -5% to 15%
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