

NCL has announced its 9MFY23 result where it posted a loss after tax of Rs1.45bn (LPS: Rs 6.03) as compared to a profit after tax of Rs6.75bn (EPS: Rs 28.10) in the same period last year, down by 1.21x YoY owing to lower profit margins in addition to higher finance cost.

The company has posted a revenue of Rs47.08bn against Rs47.21bn in SPLY, recording a decline of 0.3% YoY. The gross margin has dropped to 7.8% as compared to 22.3% in SPLY on account of the higher cost of the cotton.

SG&A expenses have increased by 9.4% YoY to Rs1.54bn as compared to Rs1.41bn during SPLY. Moreover, an increase in other Income by 2.31x YoY to Rs1.11bn amid exchange gains were recorded. Finance cost surged by 1.36x YoY to Rs3.81bn owing to higher short-term borrowing and an increase in the interest rates.

NCL is currently trading at a FY23E PB of 0.21x which offers a discount of 24% relative to its 3-year average of 0.28x. We have a **BUY** stance on the scrip with a DCF-based Dec-23 TP of Rs25 which provides an upside potential of 18%.

Rupees' millions	3QFY22	3QFY22	YoY	1HFY23	1HFY22	YoY
Net Sales	17,408	16,177	7.6% ▲	47,080	47,212	0.3% ▼
Cost of Sales	15,729	12,642	24.4% ▲	43,398	36,679	18.3% ▲
Gross Profit	1,679	3,535	52.5% ▼	3,682	10,533	65.0% ▼
SG&A Expenses	514	502	2.4% ▲	1,541	1,408	9.4% ▲
Other Expenses	32	272	88.4% ▼	390	564	30.9% ▼
Other Income	853	114	647.1% ▲	1,110	335	231.2% ▲
Operating Profit	1,986	2,875	30.9% ▼	2,861	8,896	67.8% ▼
Finance Cost	1,470	656	124.0% ▲	3,813	1,612	136.5% ▲
Profit Before Taxation	516	2,219	76.7% ▼	-952	7,284	113.1% ▼
Taxation	127	181	29.7% ▼	495	536	7.7% ▼
Profit After Taxation	389	2,038	80.9% ▼	-1,447	6,747	121.5% ▼
Earnings Per Share	1.62	8.49	80.9% ▼	-6.03	28.10	121.5% ▼
Dividend	0.00	0.00	-	0.00	3.00	100.0% ▼
Bonus	0%	0%		0%	0%	
Gross Margin	9.6%	21.9%	12.2% ▼	7.8%	22.3%	14.5% ▼
SG&A Expenses to Sales	3.0%	3.1%	0.1% ▼	3.3%	3.0%	0.3% ▲
Other Expenses to Sales	0.2%	1.7%	1.5% ▼	0.8%	1.2%	0.4% ▼
Other Income to Sales	4.9%	0.7%	4.2% ▲	2.4%	0.7%	1.6% ▲
Effective Taxation	24.6%	8.1%	16.5% ▲	-52.0%	7.4%	59.4% ▼
Net Margin	2.2%	12.6%	10.4% ▼	-3.1%	14.3%	17.4% ▼

Source: ACPL Research, Company Financials

Key Statistics

Symbol	NCL
TP - Dec 23	25
LDPC	21.14
Upside / (Downside)	18%
Free Float (mn)	108
Market Cap. (Rs.mn)	5,076

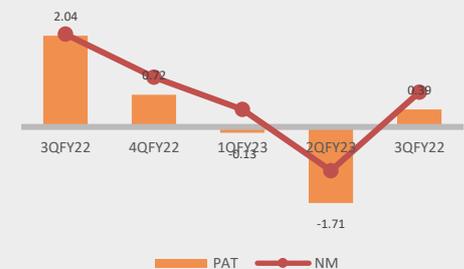
NCL vs KSE 100



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	62,774	67,715	73,090	78,940
Cost of sales	- 31,462	- 40,315	- 49,014	- 57,864	- 60,439	- 64,742	- 69,591
Gross profit	4,204	8,969	12,974	4,910	7,276	8,348	9,349
Distribution cost	- 869	- 1,161	- 1,705	- 1,590	- 1,712	- 1,826	- 1,948
Administrative expenses	- 324	- 312	- 517	- 464	- 478	- 517	- 559
Other operating expenses	- 95	- 340	- 945	- 520	- 560	- 605	- 653
Profit from operations	2,916	7,156	9,808	2,336	4,526	5,401	6,189
Other income	454	864	838	1,303	1,327	1,353	1,380
Finance cost	- 2,661	- 1,747	- 2,298	- 5,087	- 4,917	- 4,825	- 4,226
Profit before income tax	709	6,273	8,348	- 1,448	936	1,929	3,343
Income tax expense	- 444	- 674	- 880	291	- 94	- 193	- 334
Profit for the year	265	5,599	7,468	- 1,157	843	1,736	3,009
EPS	1.11	23.32	31.10	- 4.82	3.51	7.23	12.53
EBITDA	3,828	8,316	11,007	3,923	6,100	6,875	7,659

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	-9.33%	38.18%	25.78%	1.27%	7.87%	7.94%	8.00%
Cost of sales	-8.67%	28.14%	21.58%	18.06%	4.45%	7.12%	7.49%
Gross profit	-13.98%	113.33%	44.65%	-62.16%	48.20%	14.74%	11.99%
Distribution cost	-7.94%	33.55%	46.93%	-6.75%	7.67%	6.63%	6.69%
Administrative expenses	16.58%	-3.80%	65.62%	-10.13%	2.94%	8.14%	8.22%
Other operating expenses	-65.30%	258.24%	177.47%	-45.00%	7.81%	7.94%	8.00%
Profit from operations	-14.02%	145.41%	37.05%	-76.19%	93.77%	19.34%	14.58%
Other income	-81.50%	90.31%	-3.02%	55.49%	1.87%	1.91%	2.06%
Finance cost	22.19%	-34.34%	31.52%	121.38%	-3.34%	-1.87%	-12.40%
Profit before income tax	-80.67%	784.54%	33.07%	-117.35%	-164.67%	106.00%	73.30%
Income tax expense	-11.37%	51.93%	30.45%	-66.87%	-67.87%	106.00%	73.30%
Profit for the year	-91.62%	2009.84%	33.39%	-115.49%	-172.86%	106.00%	73.30%
EPS	-91.62%	2009.84%	33.39%	-115.49%	-172.86%	106.00%	73.30%
EBITDA	-11.36%	117.22%	32.36%	-64.36%	55.49%	12.71%	11.41%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	11.79	18.20	20.93	7.82	10.74	11.42	11.84
NP Margin	%	0.74	11.36	12.05	-1.84	1.24	2.38	3.81
OP Margin	%	8.18	14.52	15.82	3.72	6.68	7.39	7.84
ROE	%	1.95	29.47	30.43	-4.89	3.47	6.77	10.75
ROCE	%	14.79	27.88	25.23	7.13	15.43	17.77	19.11
ROA	%	0.56	10.81	12.57	-1.98	1.59	3.21	5.36
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	1.04	1.25	1.76	1.57	1.52	1.57	1.65
Quick	x	0.25	0.34	0.46	0.43	0.38	0.34	0.34
Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	1.76	2.11	2.49	2.51	2.51	2.70	2.70
Inventory Days		207.13	172.94	146.67	145.64	145.49	135.35	135.12
Receivables Days		71.56	63.21	54.54	54.43	53.78	53.18	52.62
Payables Days		51.69	37.06	33.91	33.91	38.91	43.91	48.91
Operating Cycle		227.00	199.09	167.30	166.16	160.36	144.61	138.83
Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
DPS		1.00	5.00	7.00	0.00	0.00	1.50	3.00
Div. Yield	%	4.73	23.65	33.11	0.00	0.00	7.10	14.19
Dividend Cover	x	1.11	4.66	4.44	0.00	0.00	4.82	4.18
Retention	%	9.52	78.56	77.49	100.00	100.00	79.25	76.06
Payout	%	90.48	21.44	22.51	0.00	0.00	20.75	23.94
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	-4.82	3.51	7.23	12.53
BVPS		56.79	79.11	102.21	98.48	101.20	106.80	116.51
P/E	x	19.13	0.91	0.68	0.00	6.02	2.92	1.69
Sales per share		148.54	205.25	258.16	261.43	282.01	304.39	328.75
P/BV	x	0.37	0.27	0.21	0.21	0.21	0.20	0.18
P/S	x	0.14	0.10	0.08	0.08	0.07	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	1.09	0.91	0.73
L.T Debt to Equity	x	0.48	0.48	0.64	0.52	0.47	0.39	0.29
Total Debt to Assets	x	0.61	0.54	0.48	0.53	0.50	0.43	0.36
L.T Debt to Assets	x	0.14	0.18	0.27	0.21	0.21	0.18	0.15
Interest Cover	x	1.10	4.10	4.27	0.46	0.92	1.12	1.46

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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