COMPANY UPDATE

PANTHER

We recommend to subscribe the IPO with DCF based Dec-21 TP of Rs.75

Equity Research | Automobile Parts & Accessories | Tuesday, 26 January, 2021

We recommend to subscribe the IPO with a DCF based Dec-21 TP of Rs.75 which provides an upside potential of 60% relative to its floor price of Rs.47

The registration process of eligible investors has already been commenced from 22nd Jan 2021 and will close at 3:00 pm on 28th Jan 2021

Bidding dates are from 27th Jan 2021 to 28th Jan 2021 (From 9:00 am to 5:00 pm)

Dates of public subscription are from 3rd Feb 2021 to 4th Feb 2021 from 9:00 am to 5:00 pm

Company Overview

Mian Tyre and Rubber Company Limited (now Panther Tyres Limited) was founded in 1983 as a tyres and tubes manufacturing company. The Company changed its name from Mian Tyre and Rubber Company Limited to Panther Tyres Limited on October 25, 2011. The Company's manufacturing facility is situated at 29.5KM Sheikhupura Road, Sheikhupura, spanning over an area of 168.6 kanals (freehold land).

Apart from its main business of manufacturing tubes and tyres, the Company has also ventured into trading business of automobile lubricants and motorcycle spare parts in April, 2018. In automobile lubricants, the Company sells motorcycle engine oil and diesel engine oil for tractors, heavy transport vehicles, lifters and generators.

Purpose of the Issue

The company wants to raise Rs 1.41bn by issuing 30mn shares at the floor price of Rs47 per share. The purpose of new issuance is to partially fund the Company's expansion project. The purpose of the expansion project is to enhance the production capacities of Tyre Sets and Tubes (Packed). The state of the art machinery is being imported for the purpose of this enhancement.

The total number of offered shares are 40mn out of which 30mn shares are being issued by the company and the remaining 10mn shares are being offered by sponsor of Panther Tyres Limited i.e. Mian Iftikhar Ahmed from his current shareholding.

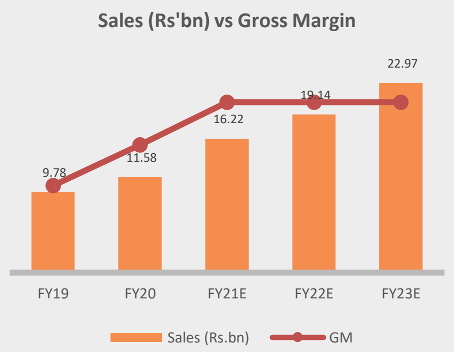
Over a period of time, the Company has reached to its optimal operational capacity in all segments of Tyre Sets and Tubes. In the tyres segment, the company is operating at 82.6% of capacity, where as in the tube segment, its operational capacity exceeds 92%. As a result of the proposed expansion, the Company's production capacity of Tyre Sets and Tubes will increase from 8.1 million Tyre Sets p.a. and 31.2 million Tubes p.a. to 9.8 million Tyre Sets p.a. and 42 million Tubes p.a., respectively. Apart from this, calendering capacity of the Company will also increase from 9 million units to 20 million units per annum. This investment will also raise the capacity of mixing department by 60%.

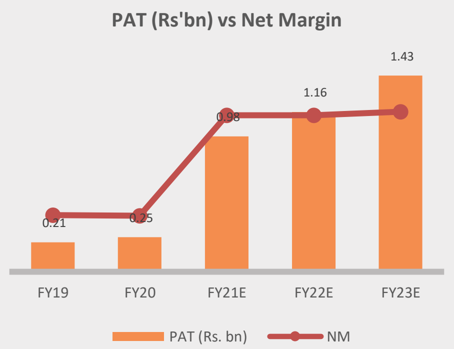
Details of the utilization of debt and equity proceeds are given below:

Particular	PKR (bn)	Usage	%
IPO Proceeds	1.41		46
L.T Debt	1.20	Expansion Project	39
Internal Financing	0.46		15
Total	**3.07**	**Total**	**100**

Key Statistics

Symbol	PANTHER
TP - Dec 21	75.00
Floor Price	47.00
Upside	60%
Free Float (mn)	40
Market Cap. (Rs.mn)	6,580





Sources: ACPL Research, Company Financials, PSX,

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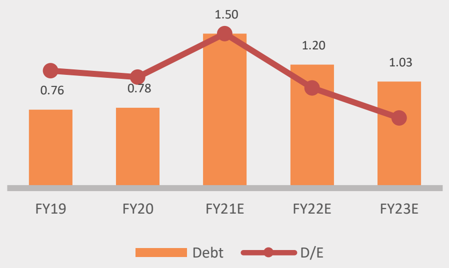
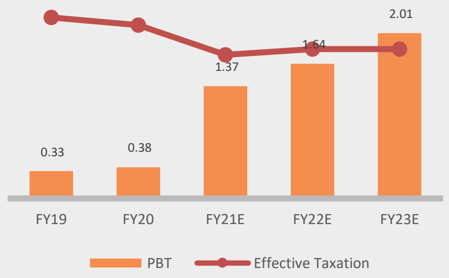
Key Statistics

Debt (Rs'bn) vs D/E



PBT (Rs'bn) vs Effective Taxation



Symbol	FY21E PE
GTYR	18.00
SRVI	16.50
Average	**17.25**
PANTHER	6.70
Discount	**61%**

Sources: ACPL Research, Company Financials,

Industry Overview

Pakistan tyre industry is broadly categorized into two & three wheelers, passenger cars, light commercial vehicles, trucks and tractors tyres. Demand for tyres is largely driven by growth in registered vehicles and automobiles manufactured. Since a major portion of demand is generated from the replacement market, growth in registered vehicles is termed as an important metric to assess demand for tyres. Overall registered vehicles in Pakistan have grown at a 4 year CAGR of c. 12% (2015 to 2019) driven by growth in two & three wheelers. Pakistan is the world's 6th most populous country with a population of over 207 million. Over 54% of the Country's population is aged below 24 years, offering a strong and growing consumer base for the auto industry. With these favorable demographics, the country's per capita consumption of tyres and tubes is expected to increase in foreseeable future.

Furthermore, a large number of commercial importers are involved in the imported segment of the industry. In order to discourage import and promote localization, heavy duties in the form of custom, additional and regulatory duties are in place for import of tyre and tubes.

Lastly, the Initiatives taken by the Government of Pakistan to curb the menace of money laundering, illicit movement of commodities and black economy will provide a window of growth to local tyre manufacturers to capture grey market share of tyres and tubes which caters to around one third of the total demand of tyres in Pakistan.

Financial Performance

PANTHER has a promising track record of financial performance with consistent growth in revenues and profitability. The company has successfully been able to grow its revenues at a 4-year CAGR of 20% in FY20 as compared to its listed competitors GTYR (-1.9%) and SRVI (14.7%) during same period last year. The company in 1QFY21, has also outperformed its competitors by posting a net profit margin of 5.8% as compared to the net profit margin of GTYR (0.71% YoY) and SRVI (4.2% YoY) during SPLY. Furthermore, as per the financials of 1HFY21, shown at the IPO briefing session, the gross profit margin of the company has reached to 6.1% along with a tremendous growth in revenues.

Going forward, we expect the revenues and earnings of the company to grow at a 5-year CAGR of 30% and 72% respectively on account of the planned expansion, higher cost-efficiency, and growing demand amid the post-COVID-19 scenario.

Valuation

The superior performance of the company allows it to trade at a premium multiple as compared to its listed competitors. However, the FY21E PE of PANTHER stands at 6.7x at a floor price of Rs.47 as compared to the peers' average of 17.25x. Therefore, we recommend to **SUBSCRIBE** the IPO with a DCF based Dec-21 TP of Rs.75 which provides an upside potential of 60% relative to its floor price of Rs.47.

Key Risks to Valuation

- Higher than expected depreciation of PKR
- Prolonged Covid-19 scenario

Financial Projections

Rupees' millions	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
Net sales	8,574	9,779	11,585	16,219	19,138	22,966	27,559
Cost of sale	7,442	8,441	9,908	13,737	16,210	19,452	23,342
Gross profit	**1,133**	**1,338**	**1,677**	**2,481**	**2,928**	**3,514**	**4,217**
Selling And Distribution	259	306	415	487	574	689	827
Administrative Expenses	197	259	261	292	344	413	496
Other Expenses	31	40	29	41	49	58	70
Other Income	75	2	6	9	11	13	15
Operating Profit	**721**	**735**	**978**	**1,671**	**1,971**	**2,366**	**2,839**
Finance cost	288	404	598	305	335	358	332
Profit before taxation	432	331	380	1,365	1,636	2,008	2,507
Taxation	70	116	128	381	474	582	727
Profit after taxation	**362**	**214**	**252**	**984**	**1,162**	**1,426**	**1,780**
EPS	**2.58**	**1.53**	**1.80**	**7.03**	**8.30**	**10.18**	**12.71**

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
Net sales	18.1%	14.1%	18.5%	40.0%	18.0%	20.0%	20.0%
Cost of sale	19.2%	13.4%	17.4%	38.7%	18.0%	20.0%	20.0%
Gross profit	11.3%	**18.2%**	**25.3%**	**48.0%**	**18.0%**	**20.0%**	**20.0%**
Selling And Distribution	-8.5%	18.3%	35.4%	17.4%	18.0%	20.0%	20.0%
Administrative Expenses	26.5%	31.5%	0.8%	11.8%	18.0%	20.0%	20.0%
Other Expenses	15.3%	30.0%	-26.7%	40.0%	18.0%	20.0%	20.0%
Other Income	18756.8%	-97.3%	221.7%	40.0%	18.0%	20.0%	20.0%
Operating Profit	**30.4%**	**2.0%**	**33.1%**	**70.8%**	**18.0%**	**20.0%**	**20.0%**
Finance cost	36.5%	40.2%	48.0%	-49.0%	9.9%	6.7%	-7.3%
Profit before taxation	26.6%	-23.5%	14.9%	259.5%	19.8%	22.7%	24.9%
Taxation	48.6%	65.2%	10.1%	197.6%	24.5%	22.7%	24.9%
Profit after taxation	23.1%	-40.8%	**17.5%**	**290.9%**	**18.0%**	**22.7%**	**24.9%**
EPS	**23.1%**	**-40.8%**	**17.5%**	**290.9%**	**18.0%**	**22.7%**	**24.9%**

Source: ACPL Research, Company Financials

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DEFINITION OF TERMS

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

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

I. Discounted Cash Flow Model
II. Dividend Discount Model
III. Relative Valuation Model
IV. Sum of Parts Valuation

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Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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