

# UNITY

## 1QFY21 Result Review: Stance Upgraded to BUY

Equity Research | Vanaspati & Allied Industries | Tuesday, 27 October, 2020

UNITY has announced its 1QFY21 result where it posted profit after tax of Rs591mn (Diluted EPS: Rs0.59) as compared to profit after tax of Rs93mn (Diluted EPS: Rs0.09) in same period last year, up by 537% YoY.

The company has posted the revenue of Rs12.2bn against Rs4.6bn in SPLY, recording a tremendous growth of 167.1% YoY. We note that this growth is attributed to the increase in the volumetric sales.

Gross margin has been squeezed to 8.2% as compared to 9.6% in SPLY owing to rising input costs.

SG&A expenses have increased by 4.9% YoY to Rs243mn as compared to Rs232mn during SPLY.

Lastly, the finance cost has been increased by 36.2% YoY to Rs146mn as compared to Rs108mn during SPLY owing to higher working capital requirement.

Going forward, we expect the company's revenues to grow further amid rising demand of company's products in the market. UNITY is currently trading at FY21E PE of 10.59x. We recommend to **BUY** the scrip on dips with a DCF based Jun-21 TP of Rs 28 which provides an upside potential of 29%.

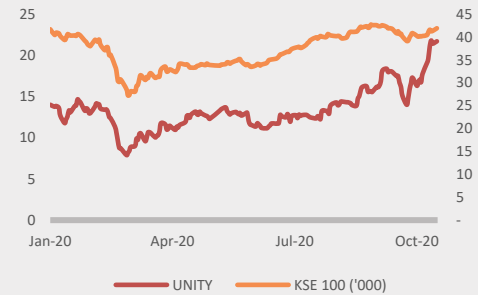
Rupees' millions	1QFY21	1QFY20	YoY	FY20	FY19	YoY
Net Sales	12,169	4,555	167.1% ▲	29,872	14,097	111.9% ▲
Cost of Sales	-11,167	-4,117	171.3% ▲	-27,843	-12,820	117.2% ▲
<b>Gross Profit</b>	<b>1,002</b>	<b>438</b>	<b>128.6% ▲</b>	<b>2,029</b>	<b>1,277</b>	<b>58.9% ▲</b>
SG&A Expenses	-243	-232	4.9% ▲	-910	-537	69.4% ▲
Other Charges	12	-7	264.8% ▼	-388	-178	118.0% ▲
<b>Operating Profit</b>	<b>771</b>	<b>199</b>	<b>286.7% ▲</b>	<b>731</b>	<b>562</b>	<b>30.1% ▲</b>
Other Income	17	11	55.8% ▲	9	1	641.8% ▲
Finance Cost	-146	-108	36.2% ▲	-545	-288	89.1% ▲
Profit Before Taxation	642	103	524.5% ▲	195	275	29.2% ▼
Taxation	-51	-10	405.3% ▲	15	-20	176.7% ▼
<b>Profit After Taxation</b>	<b>591</b>	<b>93</b>	<b>537.4% ▲</b>	<b>210</b>	<b>255</b>	<b>17.8% ▼</b>
<b>Earnings Per Share</b>	<b>0.59</b>	<b>0.09</b>	<b>537.4% ▲</b>	<b>0.21</b>	<b>0.26</b>	<b>17.8% ▼</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>		<b>0.00</b>	<b>0.10</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	
Gross Margin	8.2%	9.6%	1.4% ▼	6.8%	9.1%	2.3% ▼
SG&A Expenses to Sales	-2.0%	-5.1%	3.1% ▼	-3.0%	-3.8%	0.8% ▼
Other Income to Sales	0.1%	0.2%	0.1% ▼	0.0%	0.0%	0.0% ▲
Ex. Gain / (Loss) to Sales	-2.0%	-5.1%	3.1% ▼	-3.0%	-3.8%	0.8% ▼
Effective Taxation	-7.9%	-9.8%	1.9% ▼	7.8%	-7.2%	0.6% ▲
Net Margin	4.9%	2.0%	2.8% ▲	0.7%	1.8%	1.1% ▼

Source: ACPL Research, Company Financials

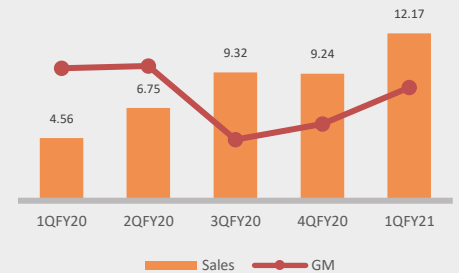
### Key Statistics

Symbol	UNITY
TP - Jun 21	28.00
LDCP	21.67
Upside (%)	29
Free Float ('mn) (Post-Right)	447
Market Cap. (Rs.'mn) (Post-Right)	21,541

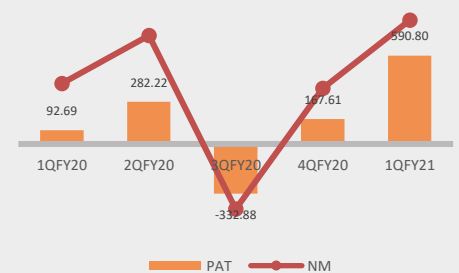
### UNITY vs KSE 100



### Sales (Rs'bn) vs Gross Margin



### PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
Revenue	2,782	14,097	29,872	48,723	58,392	66,978	76,842
Cost of sales	-2,534	-12,820	-27,843	-44,825	-53,137	-60,280	-68,389
<b>Gross profit</b>	<b>248</b>	<b>1,277</b>	<b>2,029</b>	<b>3,898</b>	<b>5,255</b>	<b>6,698</b>	<b>8,453</b>
Distribution cost	-56	-357	-691	-731	-876	-1,005	-1,153
Administrative expenses	-55	-181	-220	-292	-350	-402	-461
Other operating expenses	-22	-178	-388	-244	-292	-335	-384
<b>Profit from operations</b>	<b>116</b>	<b>562</b>	<b>731</b>	<b>2,631</b>	<b>3,737</b>	<b>4,956</b>	<b>6,455</b>
Other income	34	1	9	49	58	67	77
Finance cost	-52	-288	-545	-468	-468	-417	-367
<b>Profit before income tax</b>	<b>98</b>	<b>275</b>	<b>195</b>	<b>2,212</b>	<b>3,327</b>	<b>4,606</b>	<b>6,165</b>
Income tax expense	24	-20	15	-177	-266	-368	-493
<b>Profit for the year</b>	<b>122</b>	<b>255</b>	<b>210</b>	<b>2,035</b>	<b>3,061</b>	<b>4,237</b>	<b>5,672</b>
EPS	<b>0.12</b>	<b>0.26</b>	<b>0.21</b>	<b>2.05</b>	<b>3.08</b>	<b>4.26</b>	<b>5.71</b>
EBITDA	<b>138</b>	<b>624</b>	<b>855</b>	<b>2,870</b>	<b>4,011</b>	<b>5,269</b>	<b>6,813</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
Revenue		406.7%	111.9%	63.1%	19.8%	14.7%	14.7%
Cost of sales		405.9%	117.2%	61.0%	18.5%	13.4%	13.5%
<b>Gross profit</b>		<b>414.8%</b>	<b>58.9%</b>	<b>92.1%</b>	<b>34.8%</b>	<b>27.4%</b>	<b>26.2%</b>
Distribution cost		541.3%	93.7%	5.8%	19.8%	14.7%	14.7%
Administrative expenses		228.5%	21.5%	33.0%	19.8%	14.7%	14.7%
Other operating expenses		715.0%	118.0%	-37.2%	19.8%	14.7%	14.7%
<b>Profit from operations</b>		<b>386.1%</b>	<b>30.1%</b>	<b>259.9%</b>	<b>42.0%</b>	<b>32.6%</b>	<b>30.2%</b>
Other income		-96.6%	641.8%	470.9%	19.8%	14.7%	14.7%
Finance cost		456.0%	89.1%	-14.1%	0.0%	-10.8%	-12.1%
<b>Profit before income tax</b>		<b>180.9%</b>	<b>-29.2%</b>	<b>1036.8%</b>	<b>50.4%</b>	<b>38.4%</b>	<b>33.8%</b>
Income tax expense		-17.2%	-23.3%	1073.4%	50.4%	38.4%	33.8%
<b>Profit for the year</b>		<b>109.9%</b>	<b>-17.8%</b>	<b>870.7%</b>	<b>50.4%</b>	<b>38.4%</b>	<b>33.8%</b>
EPS		<b>109.9%</b>	<b>-17.8%</b>	<b>870.7%</b>	<b>50.4%</b>	<b>38.4%</b>	<b>33.8%</b>
EBITDA		<b>350.9%</b>	<b>36.9%</b>	<b>235.9%</b>	<b>39.7%</b>	<b>31.4%</b>	<b>29.3%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
GP Margin	%	8.92	9.06	6.79	8.00	9.00	10.00	11.00
NP Margin	%	4.37	1.81	0.70	4.18	5.24	6.33	7.38
OP Margin	%	4.15	3.99	2.45	5.40	6.40	7.40	8.40
ROE	%	6.85	4.48	3.58	16.84	20.75	22.98	24.27
ROCE	%	6.51	9.87	12.05	22.11	26.17	27.97	28.73
ROA	%	2.66	2.44	1.11	6.48	8.43	10.09	11.50
Liquidity Ratios		FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
Current	x	1.08	1.54	1.17	1.40	1.44	1.52	1.62
Quick	x	0.43	0.65	0.62	0.86	0.90	0.97	1.07
Activity Ratios		FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
Inventory Turnover	x	1.71	5.48	6.75	6.80	5.98	5.86	5.86
Inventory Days		213.07	66.63	54.07	53.65	61.01	62.26	62.26
Receivables Days		4.07	0.03	0.12	0.12	0.12	0.12	0.12
Payables Days		251.31	56.48	115.86	115.86	115.86	115.86	115.86
Operating Cycle		-34.18	10.18	-61.67	-62.10	-54.74	-53.48	-53.48
Investment Ratios		FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
DPS		0.50	0.10	0.00	0.30	0.40	0.55	0.75
Div. Yield	%	2.31	0.46	0.00	1.38	1.85	2.54	3.46
Dividend Cover	x	0.24	2.57	0.00	6.82	7.70	7.75	7.61
Retention	%		61.03	100.00	85.34	87.01	87.10	86.85
Payout	%		38.97	0.00	14.66	12.99	12.90	13.15
No. of Shares	('m)	0.99	0.99	0.99	0.99	0.99	0.99	0.99
EPS		0.12	0.26	0.21	2.05	3.08	4.26	5.71
BVPS		1.78	5.73	5.88	12.16	14.84	18.55	23.51
P/E	x	177.27	84.45	102.76	10.59	7.04	5.08	3.80
Sales per share		2.80	14.18	30.05	49.02	58.74	67.38	77.30
P/BV	x	12.14	3.78	3.68	1.78	1.46	1.17	0.92
P/S	x	7.74	1.53	0.72	0.44	0.37	0.32	0.28
Solvency Ratios		FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
Total Debt to Equity	x	0.35	0.45	0.71	0.44	0.35	0.28	0.22
L.T Debt to Equity	x	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover	x	2.23	1.95	1.34	5.62	7.98	11.87	17.60

Source: ACPL Research, Company Financials

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<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	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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