



International Industries (INIL)

Beneficiary of construction and auto sector boom

Rai Omar Basharat ^{AC}
rai.omar@topline.com.pk
Tel: +9221-35303330
Topline Securities, Pakistan



www.jamapunji.pk

ASIAMONEY
Best Local Brokerage House
Brokers Poll 2011-14, 2016-17



Best Local Brokerage House 2015-16

Table of Contents

Executive Summary	-----	3
International Steel (ISL)	-----	6
International Industries (INIL)	-----	11
About the Company	-----	12
Pakistan Steel Pipes and Tubes Industry	-----	13
Diversified Product Range	-----	14
INIL Demand Drivers	-----	16
INIL Valuation	-----	20
Pakistan Cables (PCAL)	-----	22
INIL Financial Snapshot	-----	23

Executive Summary

- Investment Thesis:** We initiate coverage on International Industries (INIL), Pakistan’s leading producer of tubular steel products with a ‘Buy’ call. We expect INIL to benefit from, 1) growth in International Steel Limited (ISL), which is Pakistan’s leading flat steel manufacturer and adds 81% to INIL’s valuation, 2) rising demand from autos, construction sector, and 3) ongoing construction of Liquefied Natural Gas (LNG) pipelines. After incorporating these factors, we expect INIL to post 3-Year (FY19-21) revenues and earning CAGR of 22% and 29%, respectively. Our INIL’s Sum-Of-The-Parts (SOTP) valuation is Rs 428/share.
- INIL holds 56% of International Steel (ISL):** INIL holds 56% in ISL, which is Pakistan’s leading coated steel producer. ISL can cater to more than 50% of the coated steel demand in Pakistan. ISL is in process of boosting its Cold-Rolled Coils (CRC) capacity by 450k tons taking its total CRC capacity to 1.0mn tons by 4QFY18. This expansion and growing demand of coated steel is likely to bode well for INIL as ISL comprises around Rs348 (or 81%) of INIL’s total SOTP. ISL’s current production mix comprises of 100k tons of CRC, 350k tons of Galvanized Steel Products (GP) and 50k tons of Color Coated Steel, which are offered in coil or sheet form.

KATS Code	INIL
Bloomberg Code	INIL PA
Reuters Code	INTI.KA
Market Price	Rs302.19
Market Cap	Rs36.2bn/US\$327.7mn
Free float Market Cap	Rs16.3bn/US\$147.5mn
1-Yr Avg. Daily Vol. (mn)	0.2
1-Yr Avg. Daily Val. (mn)	Rs66.0/US\$0.6
1-Yr High/ Low	Rs400.4/201.1
Estimated free float	45%
Share outstanding (mn)	119.89
Index weight	0.77%

INIL vs KSE-100 Index



Source: PSX, Topline Research

Executive Summary

- **ISL to remain main earnings driver:** ISL in FY17 contributed around 67% revenue to INIL's sales and added 62% to INIL earnings. We anticipate INIL's earnings to grow at a 3-year (FY19-21) CAGR of 29% mainly on the back of sharp earnings growth in ISL. ISL will remain a major beneficiary of growing auto, consumer demand and construction activity in Pakistan. Pakistan's auto sales are expected to grow at 3-Year (FY19-21) CAGR of 11%. Consumer demand for appliances is also set to grow at 5-8% per year on back of macro improvement, rise in income levels & improvement in electricity supply. Construction surge from China Pakistan Economic Corridor (CPEC) & Govt. spending would require downstream products (pipes, tubes, railings, roofing, flooring, wall décor, etc) demand, which is expected to post 3-Year (FY19-21) CAGR of 10%.
- **ISL expansion to further boost INIL's earnings prospects:** ISL is undergoing expansion that aims to boost the company's CRC capacity by 450k tons to 1.0mn tons with commissioning expected in 4QFY18. We forecast ISL revenues and earnings to grow at 3-Year (FY19-FY21) CAGR of 28% and 34%, respectively; we have assumed volumetric sales to grow at 22%, while prices are expected to increase by 10% during the same period. We have kept margins stable at around 18% vs. average of 13% in last 3 years as anti-dumping duties (ADD) on CRC & GP will curtail imports. To recall, National Tariff Commission (NTC) in Jan 2017 imposed ADD on CRC imports from China & Ukraine ranging 14-19%, and Galvanized sheets from China ranging 6-40%. This duty has been imposed for 5-years (2017-2021). This will curtail imports, improve market share & boost pricing power, we believe. NTC has imposed provisional duties on color coated sheets from China (2.4-6.8%), South Africa & Others (37%). Apart from CRC and GP, color coated sheets is the third major product for ISL.

Executive Summary

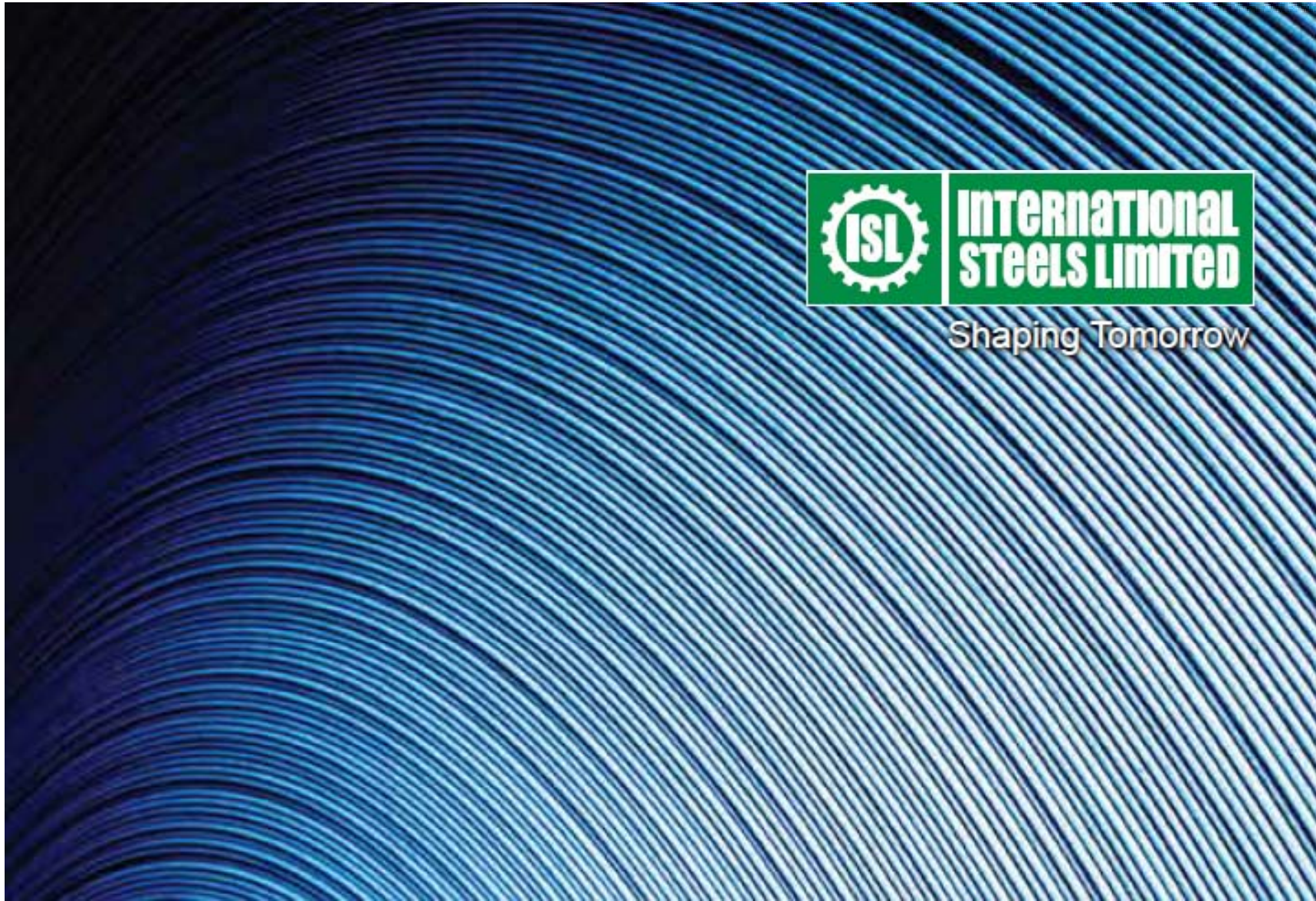
- **INIL's steel pipe to be the major beneficiary of auto & construction boom:** Along with major contribution from ISL, INIL is likely to benefit from boom in auto and construction sector. Rise in two and three wheeler auto sales will give boost to demand in steel tubes manufactured by INIL, we believe. Similarly, rise in construction activity will give boost to plumbing pipes that bodes well for INIL.
- **Construction of LNG pipeline to lift demand for API lines:** Ongoing LNG projects in the country have led to upgrade and construction of both transmission and distribution network of local gas distribution companies, which have opened large business opportunities. INIL being the largest producer of American Petroleum Institute (API) pipeline in Pakistan, is likely to benefit from expansion of distribution post construction of LNG III pipeline.
- **Trading at significant discount to its SOTP:** INIL's SOTP valuation comes to Rs428/share, which is at a 32% discount to current market price. Moreover, it is trading at FY19 PE of 6.6x versus market PE of 8.0x.
- **Risks:** Key risks for the company includes 1) exchange rate volatility, 2) delay in LNG pipeline projects, 3) surge in raw material prices, 4) slowdown in auto sales, construction activity & white good sales and 5) volatility in global margins.

INIL: Key Numbers

	FY17A	FY18E	FY19F	FY20F	FY21F
EPS	22.9	29.4	44.8	52.6	63.1
Earnings Growth	91%	28%	52%	17%	20%
PE at Rs 292.74	12.7x	10.0x	6.6x	5.6x	4.6x
Dividend Yield	3%	4%	6%	7%	9%
ROE	19%	20%	25%	23%	22%
PBV	1.9x	1.4x	1.2x	0.9x	0.8x

Source: Company Accounts, Topline Research

International Steels Limited (ISL)



International Steel – Driving Valuations

- **Production mix:** ISL's current production mix comprises of 100k tons of CRC, 350k tons of Galvanized Steel (GP) and 50k tons of Color Coated Steel, which are offered in coil or sheet form.
- **Expansion to support growth:** ISL is boosting its CRC capacity by 450k tons to 1.0mn tons by 4QFY18. Additional CRC capacity will allow ISL to fully utilize higher margin galvanizing line of ~450k tons, which is under utilized as demand mix leads to CRC bottleneck. CRC is primarily used in manufacture of bicycles, automobiles, enameled ware, steel pipes, steel furniture, oil and gas appliances, fabrication, tin plates, coated sheets etc. On the other hand, GP is used in manufacture of roofing, shuttering, paneling, fresh water tanks, domestic appliances and heating and cooling appliances.
- **Investment in autos & white-goods space to drive demand:** Car penetration in Pakistan is expected to reach 20 cars per 1000 persons by FY21, growing at 3-Year CAGR of 11%. New entrants Renault, Nissan, Kia & Hyundai are setting up their shops. While most auto-assemblers don't use local CRC, demand would stem from growing auto-part & 2-wheel industry. Consumer demand for appliances is set to grow at 5-8% per year on the back of overall macro improvement. Turkish Arcelik's Rs25bn buyout of Pak's largest appliance brand Dawlence, Pak Elektron's (PAEL) Rs3.4bn BMR & Haier becoming the first in Pakistan to assemble laptops further support this theme. Construction surge from CPEC & Govt. spending would require downstream products (pipes, tubes, railings, roofing, flooring, wall décor, etc) demand to grow at 3-Year CAGR (FY19-21) of 10% over next 3 years. INIL is one of ISL's largest customer of CRC, which it uses to manufacture CR tubes.

International Steel – Driving Valuations

- **Sales and earning to grow at 3-Year CAGR of 28% and 34% respectively:** Expansion plan by ISL and duty protection will help ISL to post 3-Year (FY19-21) revenue and earnings CAGR of 28% and 34%, respectively.
- **5-Year anti-dumping duty on CRC & GP to cushion pricing power:** In Jan 2017, NTC imposed anti-dumping duty on CRC imports from China/Ukraine ranging 14-19% and GP imports from China ranging 6-40%. Although, CRC duty is being challenged by steel merchants, we believe their case is weak.
- **Anticipated ADD on Colored Steel:** ISL has also filed a petition with NTC for dumping of color coated steel i.e. Pre-painted Galvanized Iron (PPGI) or Pre-coated Material (PCM). ISL has a coating line of 84k tons per annum whose utilization is around 25% due to the influx of cheap & substandard imports. NTC recently determined provisional duty on import of color coated sheets from China (2.4-6.8%), South Africa & Others (37%). We expect this utilization to improve going forward due to imposition of provisional duties.

International Steel – Driving Valuations

- Current demand for flat steel products in Pakistan (CRC+GP/HDGC) in FY17 stood at 1.2mn tons and expected to grow at CAGR of 10% per annum for next 3 years (FY19 to FY21).
- ISL is in the process of setting up two product service centers. This will enable the company to cater to customer specified orders, attract customers away from small/ informal segment and thereby increase sales. This project is expected to be completed by 1QFY19.

ISL: Key Numbers

	FY17A	FY18E	FY19F	FY20F	FY21F
EPS	7.0	10.0	17.1	20.1	24.2
Earnings Growth	158%	43%	71%	18%	20%
PE at Rs117.86	16.8x	11.8x	6.9x	5.9x	4.9x
Dividend Yield	3%	3%	6%	7%	8%
ROE	39%	44%	55%	48%	44%

Source: Company Accounts, Topline Research

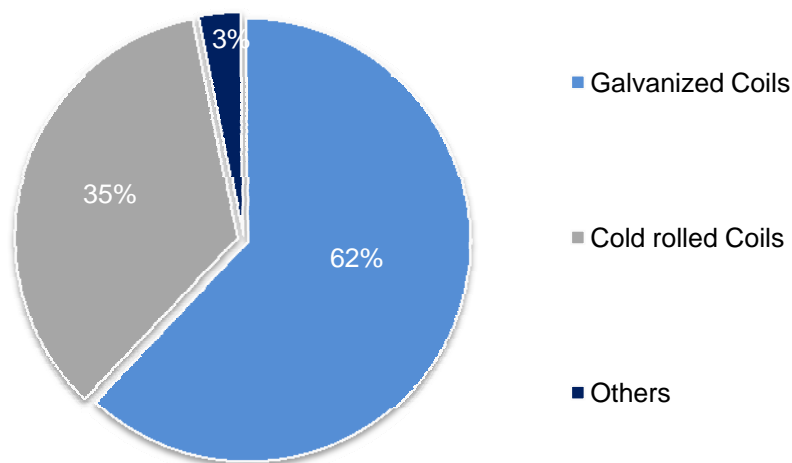
International Steel – Driving Valuations

- Total demand for flat steel products in Pakistan in FY17 is estimated to be ~1.2mn tons and expected to grow at CAGR of 10% for next 3 years. Local players in FY17 catered to ~70% of demand while remaining demand was met through imports (30%). In CRC segment in flat steel, ISL and ASL are two major players that cater to local demand. Going forward, given upcoming expansion of both ISL and ASL coupled with duty protection will lead market share of local producers to rise while share of imports to fall.

Demand Supply Dynamics					
000 tons	FY17A	FY18E	FY19F	FY20F	FY21F
Demand	1,200	1,320	1,452	1,597	1,757
Supply	850	970	1,202	1,397	1,607
Imports	350	350	250	200	150

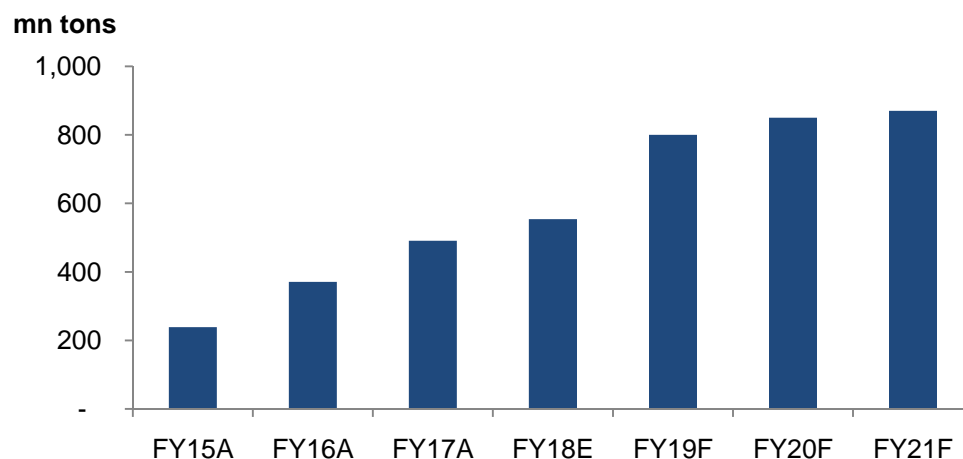
Source: Industry Sources, Topline Research

ISL – Product Sales Mix (FY17)



Source: Company Accounts

ISL – Sales Trends



Source: Topline Research



About the Company

- INIL enjoys market leader status under the four major products it produces. It has major share in pipes and tubes market in Pakistan, that is, Galvanized Pipes, API pipes, Black pipes, Cold rolled steel, Plastic pipes and Stainless steel pipes.
- The company has an advantage to produce a diversified range of products to meet the demand of its customers and cater to ever changing demand growth patterns. The company produces over 400 stock keeping unit (SKUs).
- The company's products are used for transmission of potable water (hot and cold), natural gas, petroleum, LPG, oil, other fluids, fabrication on doors, windows, gates, railings, fencing among others. The company's high-density polyethylene (HDPE water pipes) are used for municipal and industrial applications.
- INIL has 3 state of the art factories located in both South and North of country with total production capacity of 750k tons per annum. INIL has it's own 4MW electricity cogeneration plant and even sells excess electricity to grid (KEL).
- INIL sponsors, The Chinoy Group, have a long standing in the steel industry. The Chinoy Group of Companies include International Industries (INIL), International Steels Limited (ISL) and Pakistan Cables Limited (PCAL) as well as other interests in diverse businesses.
- INIL is the parent company of The Chinoy Group with a 56% stake in ISL and 17% stake in PCAL (we have assumed 19% in our forecast). Besides these key holdings, INIL holds 2 unquoted wholly owned subsidiaries including IIL Australia Pty Ltd, which represent INIL interest in Asia Pacific region and IIL Stainless Steel (pvt) Ltd which manufacturers premium quality stainless tubes in various grades and finished products.

Pakistan Steel Pipes and Tubes Industry

- The tubular industry in Pakistan comprises of 50 manufacturing units out of which 40 are based in Lahore. Tubular products include pipes, railings, tubes etc. Overall domestic steel pipe market is estimated to be around 700-800k tons with demand comprising of black pipe & Hollow Structural Sections (HSS), Cold Rolled (CR) pipe (low and prime quality), Galvanized Iron (GI) pipes and American Petroleum Institute (API) pipes.
- Apart from INIL, other listed players of the industry include Crescent Steel & Allied Products (CSAP) which produce spiral pipes of large diameter used for transmission lines and Huffaz Steel Pipes (HSPI), which produce seamless pipes used by Oil and Gas drilling industry. It is pertinent to note that each company caters to different market segments with distinct usage.
- INIL is the market leader in various product categories followed by unquoted major competitors Bashir Pipe, BBJ Pipe and Jamal Pipe.

INIL Major Competitors

Type of Pipes	Black Pipe and Hollow Structural Steel	Low Quality CR tubes	Prime CR tubes	GI	API
Market Leader	Bashir & BBJ Pipes	Bashir Pipe	INIL	INIL	INIL*
Other Players	Jamal pipes, INIL	Jamal Pipe	Asia Metals, etc	Bashir Pipe	CSAP, BBJ, Data, & Jamal Pipes

Source: Industry Sources; Topline Research

(* upto 12" diameter pipe)

Diversified Product Range

- INIL makes a variety of products in which it commands market leader status. These products' demand drivers are infrastructure spending, auto sales and growth in engineering related sectors.

Galvanized Iron Pipes

- GI pipes are corrosion and rust resistant pipes that are ideal for the transmission of potable water, natural gas, oil and other fluids. They are also used in fencing, low cost shelters and general fabrication. The company produced GI pipes are certified as European Conformity Standards (CE).

Cold Rolled Steel Tubes

- CR steel tubes are predominantly used in the auto automotive, motorcycle, bicycle, transformer industries and in the manufacturing of fans, furniture, tents and other mechanical and general engineering items. CRC steel tubes are available in round, square, rectangle, oval and elliptical shapes in various sizes.



Diversified Product Range

Black Pipes

- Black pipes (IIL 1B) including scaffolding pipes are ideal for straight use and are most commonly used in the fabrication of gates, grills, railings, charpoys, furniture and scaffolding. These pipes are available in various thicknesses ranging from 0.9mm to 1.8mm.

American Petroleum Institute (API) Pipes

- API Line pipes are used in distribution of natural gas and petroleum. API Line pipes are available in diameter ranging from ¾” to 12 ¾” with the length ranging from 6 meters to 12.20 meters

Hollow Structural Section (HSS) Pipes

- HSS are ideal for construction of buildings, bridges, pedestrian walk ways, stadiums and structures of all kind.

Plastic Pipes and Fittings

- Plastic pipes and fittings are used for transmission of hot and cold water in all residential, commercial and industrial setting. The company produces Medium-density polyethylene (MDPE) used for gas distribution and has been able to win number of gas tenders. INIL has recently setup a new Polypropylene Random Copolymer (PPRC) manufacturing facility near Lahore to cater to growing demand.



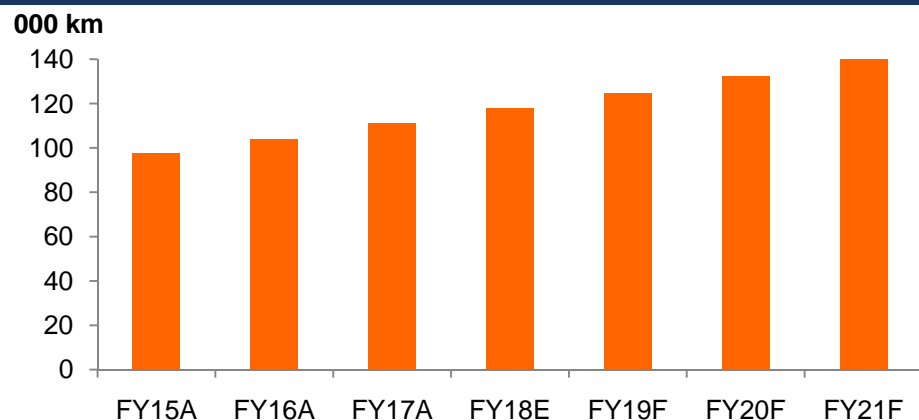
Demand Drivers: Manufacturing and Construction

- Per capita consumption of steel in Pakistan is 45kg (2016) compared to India with consumption of 63kgs and China consumption of 493kgs. This indicates immense potential for growth in the domestic steel manufacturing and processing industry.
- The ongoing construction and infrastructure boom in the country is key factor stimulating demand for iron and steel products. Growing steel demand led by economic & construction activity stemming from onset of China-Pakistan Economic Corridor (CPEC), housing projects (State Bank of Pakistan estimated a shortfall of 10mn units), along with investment in the automotive sector and mechanical/engineering and surge in construction activities would require downstream galvanized products. These galvanized products includes the likes pipes, tubes, railings, roofing, flooring.
- Investment in auto's & white-goods space to drive demand as car penetration in Pakistan is expected to reach 20 cars per 1000 persons by FY21, growing at CAGR of 11%. New entrants Renault, Nissan, Kia & Hyundai are setting up shop. While most auto-assemblers don't use local CRC, demand would stem from growing 2-wheeler and auto parts industry (INIL's stainless steel products are also used in 4-wheeler by local OEM's). Consumer demand for appliances is set to grow at 8% per year on the back of improvement in economy, income levels & electricity supply. Turkish Arcelik's Rs25bn buyout of Pak's largest appliance brand Dawlence, Pak Elektron's (PAEL) Rs3.4bn BMR & Haier becoming the first in Pakistan to assemble laptops further support this theme.

INIL Demand Drivers: Expansion of LNG Pipeline

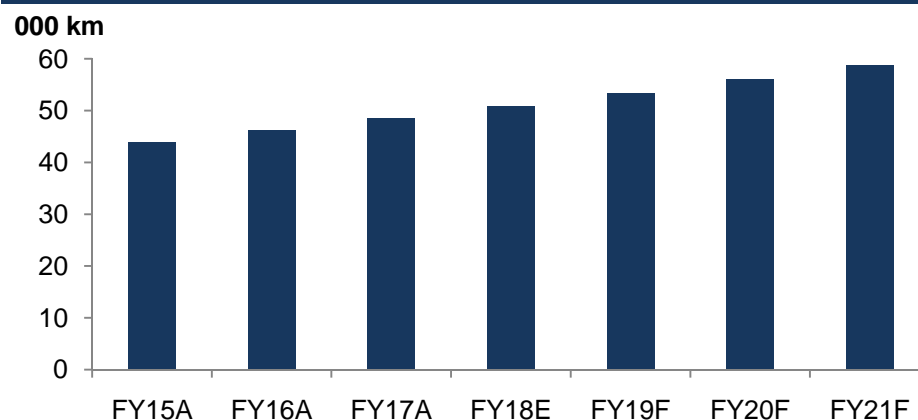
- INIL produces pipes, which are used for distribution of gas, by Sui Northern Gas Pipeline (SNGP) and Sui Southern Gas Company (SSGC). The ongoing LNG projects in the country have led to upgrade and construction of both transmission and distribution network of gas distribution companies (SNGP, SSGC) which have opened large tender business opportunities for the company. Keeping this growth potential, INIL plans to expand their distribution network going forward which will also drive demand of the company's API line Pipes in forthcoming years. The company has the capacity to produce up to 500k tons of API pipes per annum.
- According to the company, it is currently executing a large order of ~50k tons of API line pipes during FY18 amounting to Rs2.6bn, being carried out for SNGP. We have assumed around 33k tons of tender business on annual basis from FY19-FY21 as Sui companies are expected to carry out a total capex of Rs160bn for LNG III.

SNGP: Growth in Gas Distribution Infrastructure



Source: Topline Research

SSGC: Growth in Gas Distribution Infrastructure

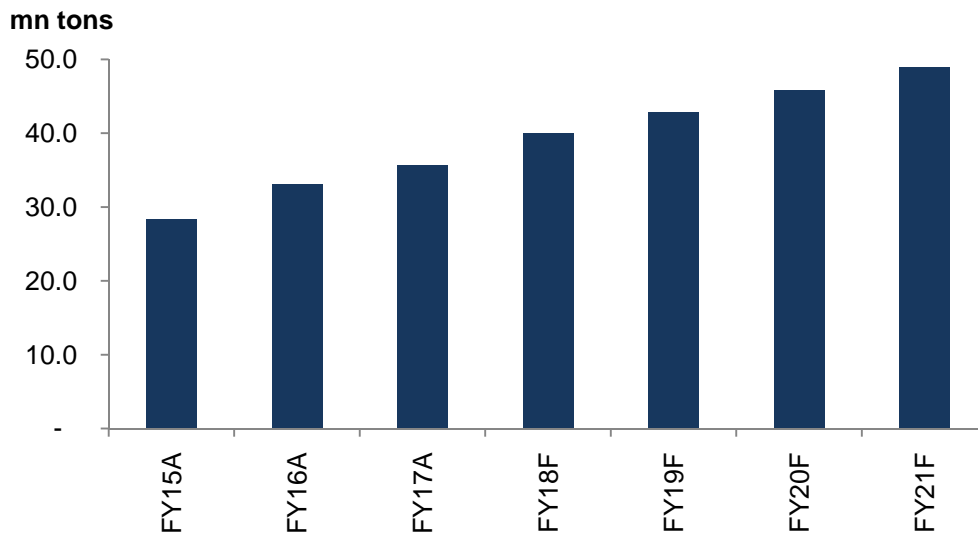


Source: Topline Research

INIL Demand Drivers: Manufacturing and Construction

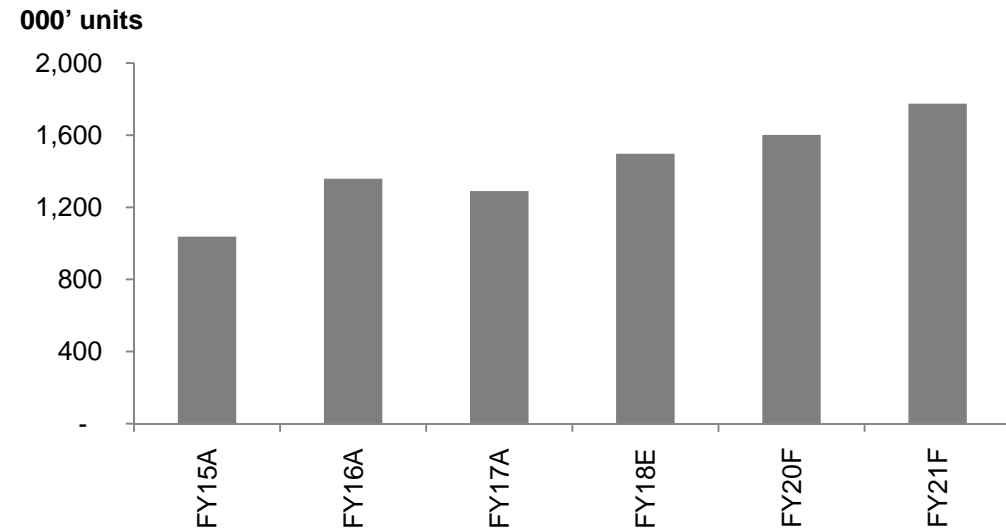
- Going forward, INIL along with ISL is expected to have a dominant position in the steel industry of Pakistan. Demand for ISL and INIL products are further augmented from manufacturing of fans, furniture, tents and other mechanical and general engineering items. Strong growth has been seen in these segments, evident from strong growth in Large Scale Manufacturer (LSM), which has grown at a 3-Year (FY15-FY17) CAGR of 8%. LSM growth is anticipated to remain well above 5% going forward which is likely to keep the demand strong for INIL products, we believe.

Cement Demand over the years



Source: APCMA, Topline Research

Two and Three Wheelers Demand



Source: PAMA, Topline Research

Demand Driver for INIL: Export Potential

- INIL owing to its various renowned quality certifications including ISO, API, CE Mark, UL, Pakistan Standards and ASTM has long track record of exporting to various countries. The company has on-the-ground presence in Australia, Sri Lanka, Afghanistan and Canada and an export network that spans over 60 countries. INIL to date has exported 800k tons of steel pipes and tubes to various countries. It should be noted that export sales offer lower margins compared to domestic sales.
- As per our channel checks, INIL has received export order from Americas region for FY18. The company's exports contributed around 17% to its consolidated revenue in FY17.
- INIL has been successful in overturning the 64.6% Countervailing Duty (CVD) imposed by US Department of Commerce (USDOC) on INIL. Currently the company's appeal against final determination of ADD is in process.
- We have assumed around 20% of export sales in our estimates going forward. However, the company has immense potential to export after meeting local demand as it serves in various diversified industries such as oil and gas, construction, architecture and has large product range coupled with large markets where it has proven itself.

INIL Valuation – SOTP

- We have valued INIL on SOTP which comes to around Rs428/share, providing upside of 46% from current levels.
- We have valued the company’s core business using PE multiple valuation, giving value of Rs65/share. ISL’s contribution to INIL’s SOTP comes to around Rs348/share whereas Pakistan Cables (PCAL) contribute around Rs13/share.

INIL: SOTP Valuation		
Investments	Rs/Share	Valuation Methodology
ISL	348	DCF Valuation
PCAL	13	Market Price
Core Operations	65	Price Multiple
International Industries Australia	0.1	At Cost
International Stainless Steel	1.0	At Cost
SOTP Value	428	
INIL Market Price	293	
Market Price discount	-32%	

Source: Topline Research

INIL Valuation – Peer Comparison

- INIL is trading at attractive EV/EBITDA multiple of 5.2x, ~19% discount to regional peers. On PE basis, the company is trading at 10x, which is at 27.5% discount to regional average.

INIL's PEER VALUATION				
Name	Country	Mkt.Cap	FY18E PE	EV/EBITDA
Jindal Steel & Power Ltd	INDIA	48,178	26.1	6.7
Steel Authority Of India	INDIA	70,593	23.3	9.3
Jsw Steel Ltd	INDIA	156,003	13.3	7.3
International Industries	PAKISTAN	36,263	10	5.2
Tata Steel Ltd	INDIA	142,474	9.4	6.3
Jindal Stainless Ltd	INDIA	9,738	8.8	5.8
Ann Joo Resources BHD	MALAYSIA	6,254	8.6	6.2
Lion Industries Corp BHD	MALAYSIA	3,111	7.0	3.3
Average		62,336	13.8	6.4

Source: Bloomberg, Topline Research

Pakistan Cables : PCAL supporting valuations

- PCAL is Pakistan's first manufacturer of copper cables and wirings and the only listed company in the cable industry. The company's product portfolio includes cables and wires, copper rods, aluminum profile sections, as well as PVC compound. The company has a state-of-the-art manufacturing facility dedicated to manufacturing wires for the automobile industry. It also manufactures telephone, intercom, coaxial and numerous types of special cable. The company products are primarily used in construction projects of all kinds, buildings and in residential and commercial construction. Cable and conductors are also used in the transmission and distribution of electricity by the country's utility companies.
- PCAL uses an extensive trade network spread over 170 locations across Pakistan to distribute its products to end users. Over the years the company successfully won large orders from the projects in several industries. Moreover, the Company was successful in winning selective tenders from utility companies and won export orders from various customers.
- Currently the market size of Pakistan's cable and wiring is estimated to be around US\$285 million of which domestic players hold ~70% of share with remaining market split between importers and unregulated manufacturers. PCAL holds market share of 25%.
- Potential for growth is based upon major investments being done in the power, automotive and construction sectors.

International Industries (INIL) – Financial Snapshot*

Consolidated Income Statement

Rsmn	FY17A	FY18E	FY19F	FY20F	FY21F
Net sales	44,118	68,021	96,549	111,173	124,490
Cost of Sales	35,301	56,945	80,744	92,901	103,074
Gross profit	5,424	11,076	15,805	18,272	21,416
Distribution expense	1,236	1,388	1,640	1,836	2,021
Admin expense	522	582	763	844	919
Other expenses	605	659	753	807	860
Other income	266	1,391	2,110	2,427	2,851
Operating profit	7,682	9,838	14,758	17,212	20,468
Finance cost	680	928	1,177	1,257	1,329
Profit before tax	7,002	8,910	13,581	15,955	19,139
Tax	2,011	2,661	4,061	4,772	5,726
Profit after tax	4,886	6,249	9,520	11,183	13,413
Owners of Holding Co.	2,746	3,521	5,364	6,302	7,558
EPS (Rs)	22.9	29.4	44.8	52.6	63.1

Source: Company Accounts, Topline Research

Consolidated Balance Sheet

Rsmn	FY17A	FY18E	FY19F	FY20F	FY21F
Non-Current Assets	19,185	22,579	24,170	23,634	23,238
Current Assets	23,368	27,430	36,154	51,599	62,916
Total Assets	42,553	50,010	60,324	75,233	86,154
Equity	14,116	17,529	21,383	27,318	34,285
Non-Current Liabilities	6,608	6,558	9,183	8,345	7,259
Current Liabilities	21,829	25,923	29,758	39,570	44,610
Total Equity & Liabilities	42,553	50,010	60,324	75,233	86,154

Source: Company Accounts, Topline Research;

* Our financial forecasts do not incorporate intra-company transactions

Assumptions

	FY17A	FY18E	FY19F	FY20F	FY21F
INIL					
Capacity mn tons	0.7	0.7	0.7	0.7	0.7
Utilization (%)	37%	40%	42%	45%	47%
Volume mn tons	0.2	0.3	0.3	0.3	0.3
ISL					
ISL CRC Capacity mn tons	0.6	0.7	1.0	1.0	1.0
Utilization (%)	85%	83%	80%	85%	87%
Volume mn tons	0.5	0.6	0.8	0.9	0.9

Key Ratios

	FY17A	FY18E	FY19F	FY20F	FY21F
DuPont Analysis:					
Tax Burden	0.7	0.7	0.7	0.7	0.7
Interest Burden	0.9	0.9	0.9	0.9	0.9
EBIT Margin	17%	14%	15%	15%	16%
Total Asset Turnover	1.0	1.4	1.6	1.5	1.4
Financial Leverage	3.0	2.9	2.8	2.8	2.5
ROE	35%	36%	45%	41%	39%
Others:					
Gross Margin	12%	16%	16%	16%	17%
Net Margin	6%	5%	6%	6%	6%
Effective Tax Rate	29%	30%	30%	30%	30%
Return on Assets	6%	7%	9%	8%	9%
Debt to Equity	2.0	1.9	1.8	1.8	1.5

Analyst Certification and Disclosures

The research analyst(s), denoted by an “AC” on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities/sectors and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Furthermore, it is stated that the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Additionally, as per regulation 8(2)(i) of the Research Analyst Regulations, 2015, we currently do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company.

Rating System

Topline Securities employs three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Stock will outperform the average total return of stocks in universe
Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

For sector rating, Topline Securities employs three tier ratings system, depending upon the sector’s proposed weight in the portfolio as compared to sector’s weight in KSE-100 Index:

Rating	Sector’s Proposed Weight in Portfolio
Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

Ratings are updated daily to account for the latest developments in the economy/sector/company, changes in stock prices and changes in analyst’s assumptions or a combination of any of these factors.

Valuation Methodology

To arrive at our 12-months Target Price, Topline Securities uses different valuation methods which include: 1). Present value methodology, 2). Multiplier methodology, and 3). Asset-based methodology.

Research Dissemination Policy

Topline Securities endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time.

Disclaimer

This report has been prepared by Topline Securities and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Topline Securities and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Topline Securities accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Topline Research Department and do not necessarily reflect those of Topline or its directors. Topline as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report.

All rights reserved by Topline Securities. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Topline Securities. Action could be taken for unauthorized reproduction, distribution or publication.

CONTACT US



Mr. Mohammed Sohail	CEO	Dir: +92 (21) 35303333-4	sohail@topline.com.pk
Research Team:			
Mr. Saad Hashemy	Chief Economist & Director Research	Dir: +92 (21) 35303346	saad@topline.com.pk
Mr. Umair Naseer	Deputy Head of Research	+92 (21) 35303330-2	umair.naseer@topline.com.pk
Mr. Nabeel Khursheed	Senior Research Analyst	+92 (21) 35303330-2	nabeel@topline.com.pk
Mr. Rai Omar Basharat	Research Analyst	+92 (21) 35303330-2	rai.omar@topline.com.pk
Mr. Shankar Talreja	Research Analyst	+92 (21) 35303330-2	shankar@topline.com.pk
Mr. Fahad Qasim	Manager Research	+92 (21) 35303330-2	fahad.qasim@topline.com.pk
Mr. Asif Habib	Assistant Database Manager	+92 (21) 35303330-2	asif@topline.com.pk

Equity Sales Team:

Mr. Muhammad Rizwan	Head of Sales	Dir: +92 (21) 35303337	muhammad.rizwan@topline.com.pk
Ms. Samar Iqbal	Head of International Equity Sales	Dir: +92 (21) 35370799	samar.iqbal@topline.com.pk
Mr. Muhammad Hammad Aman	Senior Manager Equity Sales	Dir: +92 (21) 353030297	hammad@topline.com.pk
Mr. Kumail Raza	Senior Manager Equity Sales	Dir: +92 (21) 353030297	kumail@topline.com.pk
Mr. Haris Kunda	Senior Manager Equity Sales	Dir: +92 (21) 35303323	haris@topline.com.pk

Corporate Office:

508, Continental Trade Center,
Block-8, Clifton, Karachi, Pakistan
Tel: +9221-35303330-2
Fax: +9221-35303349