

Pak Elektron (PAEL)

1Q2018 EPS of Rs1.1, -52% YoY (+59% QoQ)

Below expectations

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Lower sales from appliances segment dent earnings

PAEL: Financial Highlights (Consolidated)

	1Q2018	1Q2017	YoY	4Q2017	QoQ
Gross Sales	8,377	11,814	-29%	8,470	-1%
Sales tax and discount	2,065	2,967	-30%	3,530	-41%
Net sales	6,312	8,847	-29%	4,940	28%
Cost of sales	4,480	6,117	-27%	3,548	26%
Gross profit	1,832	2,730	-33%	1,392	32%
Distribution cost	472	614	-23%	755	-37%
Administrative expense	336	278	21%	273	23%
Other operating expense	38	70	-46%	14	164%
Other operating income	7	14	-48%	2	277%
Profit /(Loss) from operations	994	1,782	-44%	353	182%
Finance cost	416	386	8%	313	33%
Share of loss from associates	(1)	1	NM	(7)	-86%
Profit / (Loss) before tax	577	1,396	-59%	33	1639%
Provision for tax	41	291	-86%	(303)	-113%
Profit / (Loss) after tax	536	1,105	-52%	337	59%
EPS	1.1	2.2		0.7	

Source: PSX, Topline Research

- Pak Elektron (PAEL) announced 1Q2018 consolidated earnings of Rs536mn (EPS Rs1.1/share), below our expectations mainly owing to lower sales.
- Net sales of the company took an expected downturn during the outgoing quarter, -29% YoY primarily on the back of lower sales from appliances segment. Refrigerator which contributes more than 50% to PAEL's appliances revenues witnessed volumetric decline of more than 20%, as per channel checks.

Lower sales from appliances segment dent earnings

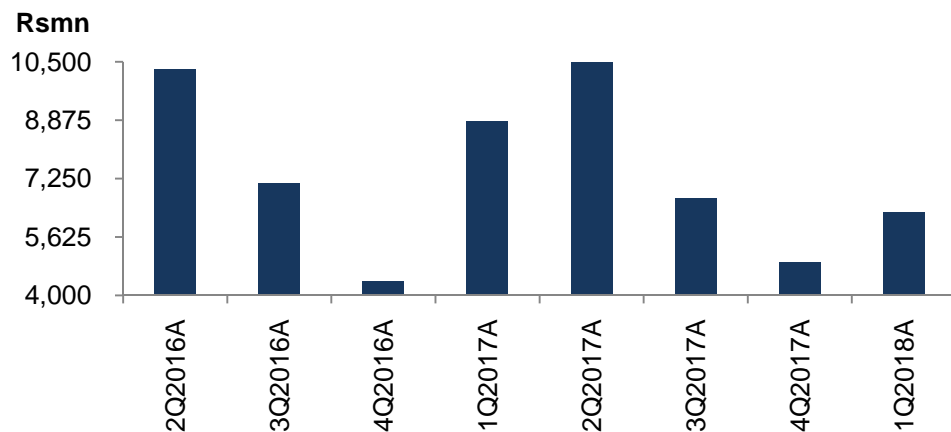
- Air conditioner, another major revenue driver of appliances segment witnessed double digit decline in volumes during 1Q2018. We believe that this was due to competition from Chinese brands like Haier and Gree. Also, the company did aggressive marketing in 1Q2017 that led to higher appliances sales, as per channel checks.
- Gross margins of the company contracted by 1.8ppts to 29% in 1Q2018, mainly on the back of higher input costs, we believe.
- We flag, 1) increase in raw material costs and the company's inability to pass it on, 2) greater than expected PKR devaluation against US\$, 3) higher financial charges to fund working capital and 4) greater competition due to new entrants key risks for PAEL.

PAEL: Key Numbers

	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	1.2	4.5	5.8	7.4	6.6
Earnings Growth	428%	269%	29%	27%	-10%
PE at Rs46	37.7	10.2	7.9	6.2	6.9
Dividend Yield	0%	0%	3%	7%	6%
ROE	6%	19%	20%	22%	12%
PBV	2.3	1.9	1.6	1.4	0.9

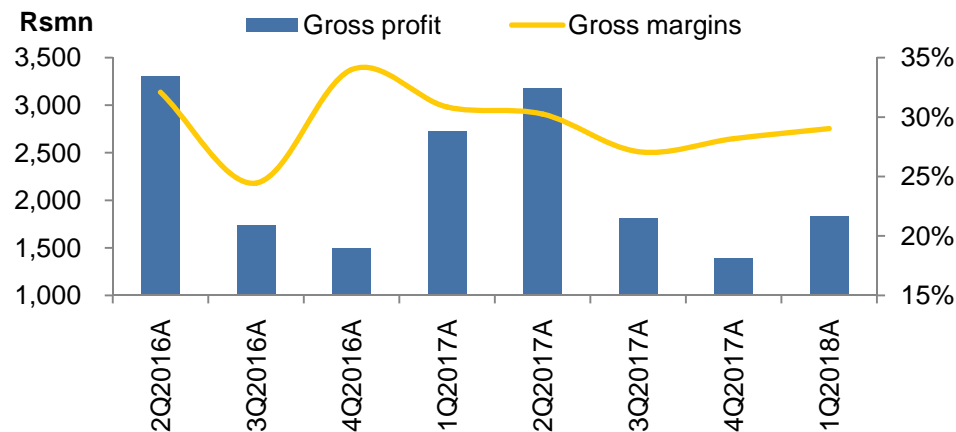
Source: Company Accounts, Topline Research

PAEL: Quarterly Sales



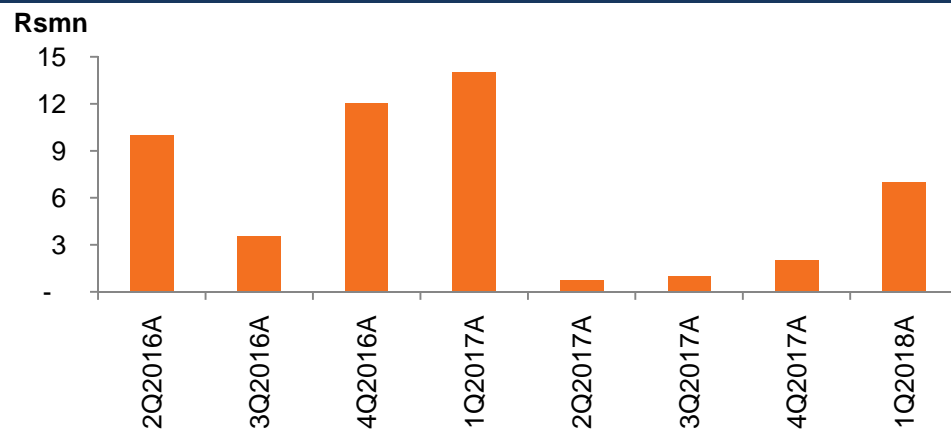
Source: Company Accounts, Topline Research

PAEL: Quarterly Gross Profit & Gross Margins



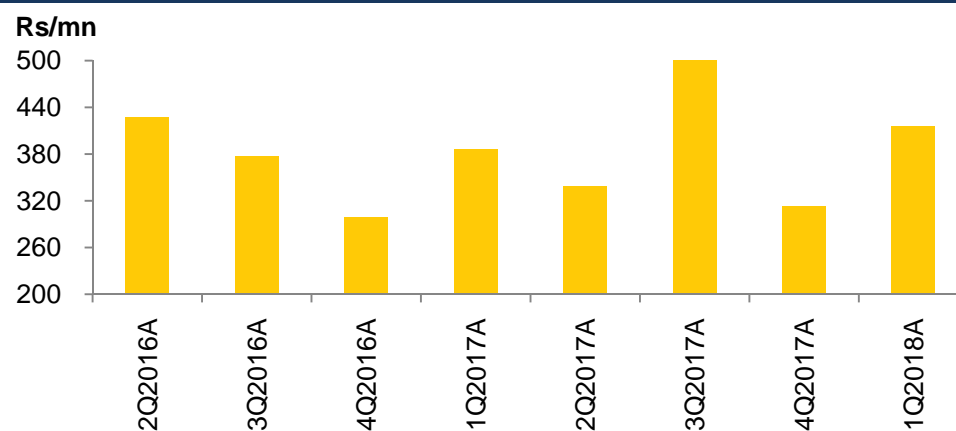
Source: Company Accounts, Topline Research

PAEL: Quarterly Other Income



Source: Company Accounts, Topline Research

PAEL: Quarterly Finance Cost



Source: Company Accounts, Topline Research

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