

# TRG Pakistan (TRG)

1QFY18 LPS Rs1.3 vs. LPS of Rs0.4 in 1QFY17

**Topline Research**  
research@topline.com.pk  
Tel: +9221-35303330  
**Topline Securities, Pakistan**



www.jamapunji.pk

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# Higher admin expenses and margin contraction dent earnings

TRG: Financial Highlights (Consolidated)					
Rsmn	1QFY18	1QFY17	YoY	4QFY17	QoQ
Sales	10,800	8,645	25%	10,205	6%
Cost of sales	8,934	6,704	33%	10,126	-12%
Gross profit	1,866	1,941	-4%	78	NM
Administrative expenses	3,252	2,262	44%	5,591	-42%
Other income	56	72	-23%	84	-34%
Other charges	34	18	92%	413	-92%
Share of profit/loss from associate/JV	4	42	-90%	51	-91%
Finance cost	417	309	35%	702	-41%
Loss before tax	(1,777)	(534)	NM	(6,492)	NM
Tax expense/reversal	153	(45)	NM	108	42%
Loss after tax	(1,624)	(579)	NM	(6,384)	NM
Loss attributable to shareholders	(710)	(208)	NM	(3,063)	NM
<b>LPS</b>	<b>(1.3)</b>	<b>(0.4)</b>		<b>(5.6)</b>	

Source: Company Accounts, Topline Research

- TRG reported 1QFY18 LPS of Rs1.3 which is over 2.4x higher than LPS reported in same period last year while sales grew by 25% YoY.
- The steep decline in earnings in 1QFY18 stems from 1) higher administrative expenses, up 44% YoY and 2) lower margins, down 5ppts to 17%.
- We believe that significant increase in admin expenses was related to preparation for listing of its two portfolio companies, Afiniti and IBEX in US equity market. Please refer to our TRG AGM notes, dated 31 Jan 2018.

# Higher admin expenses and margin contraction dent earnings



- On the other hand, we attribute lower gross margin to increase in fixed costs of companies under its subsidiary The Resource Group International Limited (TRGIL).
- Financial charges in 1QFY18 increased by 35% YoY due to increase in the companies 'long term debt' - which the company borrowed to fund its growth initiatives (purchase of software licenses and properties & equipments), we believe.
- We flag 1) delay in listing of Afiniti and IBEX, 2) investors' lack of appetite/understanding for the stock due to its unique ownership structure, 3) lack of data to value subsidiaries, and 4) inherent risk in technology companies, as key risks.

TRG: Key Numbers					
	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	5.5	(3.0)	(3.1)	(1.5)	(8.0)
Earnings Growth	NM	NM	4%	-53%	441%
PE at Rs35.47	6.4	NM	NM	NM	NM
Dividend Yield	0%	0%	0%	0%	0%
ROE	NM	NM	NM	NM	NM
PBV	5.0	8.2	8.2	5.6	NM

Source: Company Accounts, Topline Research

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Market Weight	= Weight in KSE-100 Index
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