

Nishat Mills (NML)

2QFY18 Consolidated EPS: Rs6.3 (+47% YoY); 1HFY18 EPS Rs11.0 (+24% YoY)

In-line with expectations

ASIAMONEY

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

 CFA Society
Pakistan

 Jama
Punji

www.jamapunji.pk Best Local Brokerage House 2015-16

Topline Research

research@topline.com.pk

Tel: +9221-35303330

Topline Securities, Pakistan

Improved margins & higher other income lift earnings

NML: Consolidated Financial Highlights

Rsmn	2QFY18	2QFY17	YoY	QoQ	1HFY18	1HFY17	YoY
Sales	20,146	19,231	5%	1%	40,104	36,270	11%
Cost of sales	16,711	16,304	2%	0%	33,358	30,509	9%
Gross profits	3,435	2,927	17%	4%	6,746	5,761	17%
Distribution cost	1,225	1,320	-7%	3%	2,413	2,293	5%
General & admin expense	579	576	1%	25%	1,043	1,065	-2%
Other income	646	572	13%	57%	1,059	1,041	2%
Profit / (loss) from operations	2,278	1,603	42%	10%	4,348	3,443	26%
Finance cost	421	405	4%	3%	829	800	4%
Profit from associate	798	970	-18%	12%	1,512	1,687	-10%
Profit / (loss) before tax	2,655	2,168	22%	12%	5,032	4,331	16%
Tax	62	353	-82%	-79%	363	550	-34%
Profit / (loss) after tax	2,593	1,814	43%	25%	4,668	3,782	23%
PAT attributable to owners	2,203	1,499	47%	33%	3,858	3,107	24%
EPS	6.3	4.3			11.0	8.8	

Source: PSX Notice, Topline Research

- NML's consolidated revenues improved by 5% YoY to Rs20bn, primarily driven by higher sales from listed Subsidiary Nishat Power (NPL) amid higher power dispatches.
- Gross margins of NML improved to 17% in 2QFY18 vs. 15% in 2QFY17 due to efficiency gains seen in Nishat Power. Margins of textile operations remained flat despite currency devaluation during Dec 2017.

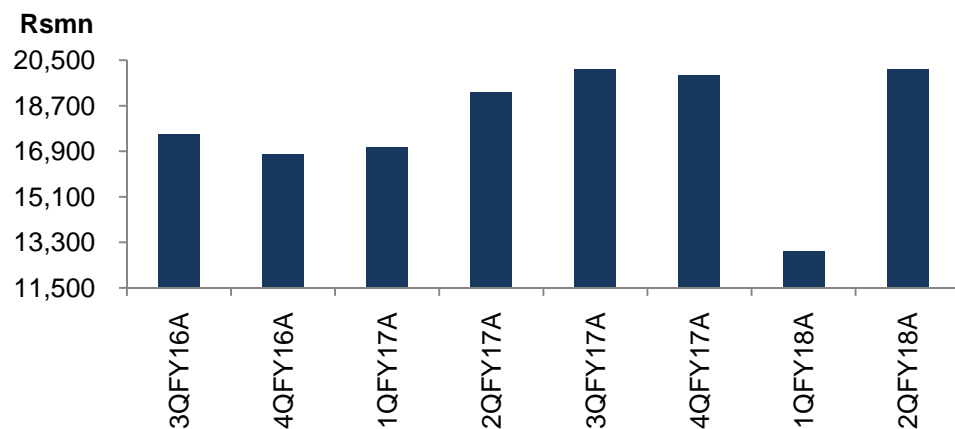
Improved margins & higher other income lift earnings

- Consolidated distribution cost of the company was down 7% YoY to Rs1.2bn as company was able to contain its expenses from textile operations. On unconsolidated basis, NML's distribution cost declined by 4% in 2QFY18.
- Other income of NML improved to Rs646mn (Rs572mn in 2QFY18) due to higher dividend income from DGKC, we believe.
- NML in its board meeting decided to dilute of its equity investment in the subsidiary Hyundai Nishat Motor (HNMPL) in favor of joint venture partners/associates from current shareholding of 76% to up to 12%. Board also approved investment of up to Rs960mn as may be offered by HNMPPL pursuant to further issue of capital. The board has also decided to enter into agreement with joint venture partners, associates and others with regard to equity participation in HNMPPL and related matters.
- Key Risks stem from 1) prolonged rupee stability, 2) fluctuation in market prices of listed co's & 3) commodity volatility.

NML: Key Numbers					
	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	16.6	15.7	19.2	17.3	17.5
Earnings Growth	66%	-6%	22%	-10%	1%
PE at Rs160.8	9.7	10.3	8.4	9.3	9.2
Dividend Yield	2%	2%	3%	3%	3%
ROE	13%	11%	8%	7%	9%
PBV	1.3	1.2	0.6	0.6	0.8

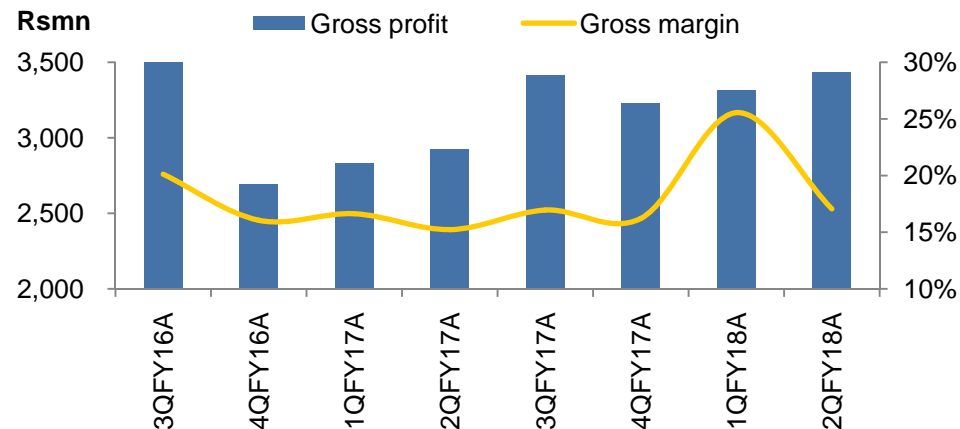
Source: Company Accounts, Topline Research

NML: Quarterly Sales



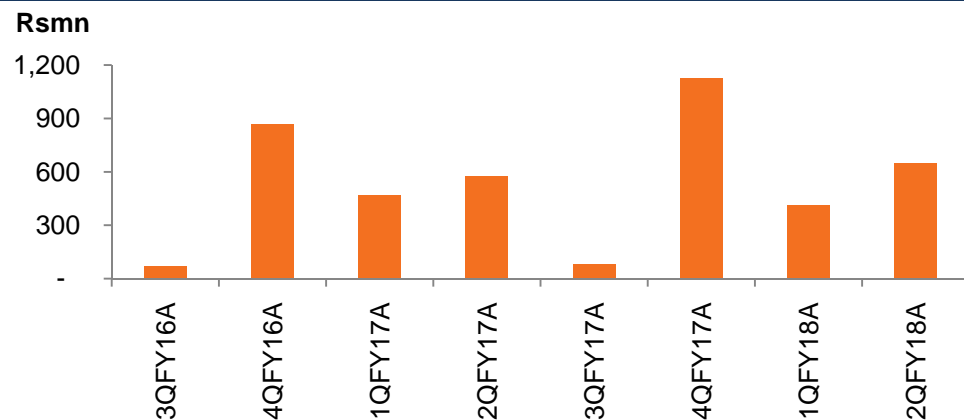
Source: Company Accounts, Topline Research

NML: Quarterly Gross Profit & Gross Margins



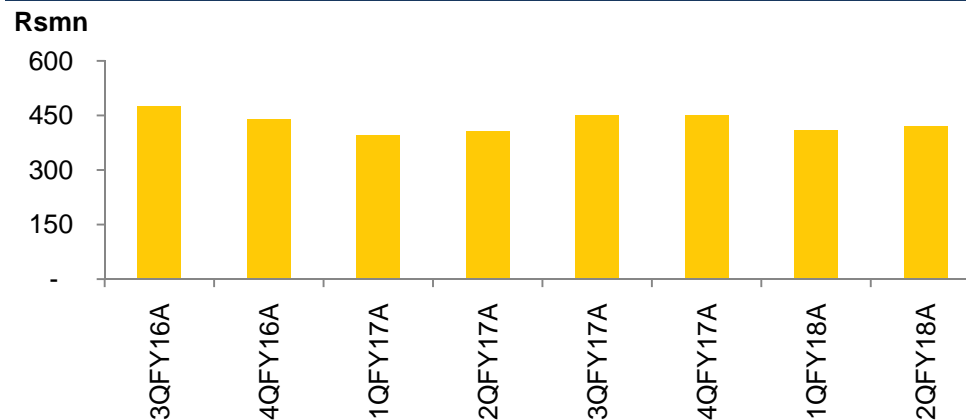
Source: Company Accounts, Topline Research

NML: Quarterly Other Income



Source: Company Accounts, Topline Research

NML: Quarterly Finance Cost



Source: Company Accounts, Topline Research

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.