TRG Pakistan (TRG)

FY17 LPS at Rs8.0, down 4.3x YoY (FY16 LPS Rs1.50)

Below Expectations

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Higher admin & general expenses dent earnings

TRG: Financial Highlights (Consolidated)

Rsmn	4QFY17	4QFY16	YoY	QoQ	2017	2016	YoY
Sales	10,205	8,212	24%	24%	35,991	30,695	17%
Cost of sales	10,126	7,428	36%	36%	32,840	26,602	23%
Gross profit	78	784	-90%	-90%	3,150	4,093	-23%
Administrative expenses	5,591	261	NM	NM	11,216	4,911	128%
Other income	84	78	7%	7%	593	180	229%
Other charges	413	19	NM	NM	506	40	1152%
Share of profit/loss from associate/JV	51	(232)	NM	NM	10	(239)	NM
Finance cost	702	237	196%	196%	1,720	595	189%
Profit before tax	(6,492)	112	NM	NM	(9,688)	(1,512)	541%
Tax expense/reversal	108	(66)	NM	NM	47	(151)	NM
Profit after tax	(6,384)	46	NM	NM	(9,641)	(1,663)	480%
Profit attributable to shareholders	(3,063)	166	NM	NM	(4,378)	(810)	441%
EPS	**(5.6)**	**0.3**			**(8.0)**	**(1.5)**	

Source: Topline Research

- TRG reported FY17 LPS of Rs8.0, which is over 4x lower than LPS reported in FY16 of Rs1.5. On quarterly basis, TRG reported LPS of Rs5.6 for 4QFY17 compared to EPS of Rs0.3 last year.
- The steep decline in earnings primarily stems from higher administrative and general expenses, which were Rs11.2bn for FY17, up 1.3x over last year's Rs4.9bn. Further, the company booked Rs5.6bn under this head in 4Q alone. We await management clarity on this expense, which looks like a one-time amount. Normalizing this amount would have resulted in LPS of Rs4.0 for FY17.

Higher admin & general expenses dent earnings

- Other than higher admin and gen expenses, gross margin for FY17 also declined by around 4ppt over last year to 9%, which shows increasing competitions in its lines of businesses. To recall, TRG is a holding company and holds 46% stake in TRG International Limited (TRGIL), which in turn owns stakes in over 20 companies that offer services like Software & Artificial Intelligence (Afiniti), Call Center (IBEX Global), Market Research (iSKY) etc.
- Financial charges for FY17 markedly increased to Rs1.8bn, up around 2x over last year. This is in line with the rising trend seen in 9MFY17, where the company had booked financial charges of Rs1bn, up 3x over last year due to higher debt.
- We flag 1) delays in listing of Afiniti (listing has been in talks since 2014), 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 Rs30.78	5.4	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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