

Pakistan Key Holding Companies

Topline Research
research@topline.com.pk
Tel: +9221-3530-3338-40
Topline Securities, Pakistan



www.jamapunji.pk

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



Best Local Brokerage House 2015-16

Pakistan Key Holding Companies

In today's note, we present latest Sum-Of-The-Parts (SOTP) valuations for the following key listed Holding Companies:



We have filtered out those listed companies as holding companies in this report where the company has a total market capitalization of at least US\$200mn and core operations constitute up to 60% of the total company value.

Our findings are that, on average, holding companies currently trade at an average discount of 26% with the maximum discount of over 50% of IGI Holdings (IGIIL) and Packages (PKGS) whereas Fauji Fertilizer (FFC) is trading at a premium of 13% to its SOTP value.

Pakistan Key Holding Companies

Lucky Cement: SOTP Valuation (Mkt. Cap US\$1,985mn)

Businesses	Rs/Share	Basis of Valuation
Cement Business	419	DCF
ICI Pakistan	138	Market price
Coal Power	123	DCF
Joint Ventures	84	Price Multiple
KIA Motors	45	DCF
Wind Farm	5	DCF
Cash & Equivalents*	20	As of Dec 2017
SOTP Valuation	834	
LUCK Market Price	711	
Market Price Discount	-15%	

Source: Company Accounts, Topline Research

*Adjusted for new ventures

Lucky Cement (LUCK) is one of the largest producers and leading exporters of quality cement in Pakistan and is owned by Yunus Brothers group which also holds investments in textile (Lucky Textile, Yunus Textile, Gadoon Textile, Fazal Textile) and Lucky Energy. The Company has also issued Global Depository Receipts (GDRs), which are listed and traded on the Professional Securities Market of the London Stock Exchange. The company has footprints in both North and South regions with combined capacity of ~9mn tons per annum. LUCK has partnered with Korea based KIA motors to set up an automobile facility in Pakistan with equity injection of Rs14bn.

Engro Corporation: SOTP Valuation (Mkt. Cap US\$1,438mn)

Businesses	Rs/Share	Basis of Valuation
Engro Fertilizer	103	Market Price
Engro Foods	61	Market Price
Engro Elengy	32	Price Multiple
Engro PowerGen Thar	30	DCF
Engro Polymer Chemical	28	Market Price
Engro Vopak	19	Price Multiple
Engro PowerGen Qadirpur	15	Market Price
Sindh Engro Coal Mining	5	DCF
Cash & Equivalents*	122	As of Dec 2017
SOTP Valuation	415	
ENGRO Market Price	319	
Market Price Discount	-23%	

Source: Company Accounts, Topline Research

* Proceeds from Engro Foods & Engro Fertilizer Divestment

Engro Corporation (ENGRO) is a holding company of Hussain Dawood group mandated to manage investments in subsidiary companies, associated companies and joint venture, engaged in fertilizers (Engro Fertilizer), PVC resin manufacturing and marketing (Engro Polymer Chemical), food (Engro Foods), energy (Engro PowerGen Qadirpur/Engro PowerGen Thar), LNG (Engro Elengy), chemical terminal and storage businesses (Engro Vopak) & Coal Mining (Sindh Engro Coal Mining).

Pakistan Key Holding Companies

Fauji Fertilizer: SOTP Valuation (Mkt. Cap US\$1,123mn)

Businesses	Rs/Share	Basis of valuation
Fertilizer Business	50	DCF
Fauji Fertilizer Bin Qasim	16	Market Price
Askari Bank	9	Market Price
Fauji Cement	2	Market Price
FFC Energy	2	At Cost
Fauji Fresh n Freeze	3	At Cost
Pakistan Maroc Phosphore	1	At Cost
Cash & Equivalents*	8	As of Dec 2017
SOTP Valuation	89	
FFC Market Price	101	
Market Price Premium	13%	

Source: Company Accounts, Topline Research

*Adjusted for GIDC Payment

Fauji Fertilizer Company Limited is the largest urea manufacturer and also holds stakes in Fauji Fertilizer Bin Qasim, Askari Bank, Fauji Cement, FFC Energy Limited and Fauji Fresh n Freeze Limited. The main activity of the FFC is manufacturing, purchasing and marketing of urea fertilizers and chemicals.

DG Khan Cement: SOTP Valuation (Mkt. Cap US\$624mn)

Businesses	Rs/Share	Basis of valuation
Cement Business	120	DCF
MCB Banks	51	Market price
Nishat Mills	11	Market price
Nishat Dairy	5	At cost
Adamjee Insurance	3	Market price
Nishat Hotels	2	At cost
Nishat Chunian	1	Market price
Nishat Paper	1	At cost
Others	6	DCF
SOTP Valuation	200	
DGKC Market Price	167	
Market Price Discount	-17%	

Source: Company Accounts, Topline Research

DG Khan Cement (DGKC) is principally engaged in production and sale of Clinker, Ordinary Portland and Sulphate Resistant Cement. The company is part of Nishat Group which is one of Pakistan's largest conglomerates with holdings in MCB Bank, Nishat Mills, Nishat Chunian, Adamjee Insurance, Nishat Hotels, Nishat Power, PakGen Power and Lalpir Power etc. DGKC currently has two cement plants, one in D.G. Khan and the other in Chakwal with a total cement production capacity of 4.2mntpa. Both plants are situated in North. The company is also investing upto Rs850mn in Hyundai Nishat Motor.

Pakistan Key Holding Companies

Dawood Hercules : SOTP Valuation (Mkt. Cap US\$539mn)

Businesses	Rs/Share	Basis of Valuation
Engro Corporation	129	Market Price
Edotco	59	DCF
SOTP Valuation	188	
DAWH Market Price	128	
Market Price Discount	-32%	

Source: Company Accounts, Topline Research

Dawood Hercules Corporation Limited (DAWH) is a holding company whose principal activity is to manage investments in subsidiary & associate companies of Dawood Group of Companies. Company investments include a 37% ownership of associated company Engro Corporation Limited (ENGRO) and a 45% stake in Edotco Pakistan which is providing end-to-end solutions in the cellular tower services sector from tower leasing to cellular companies, co-locations, and operations and maintenance (O&M).

Nishat Mills : SOTP Valuation (Mkt. Cap US\$494mn)

Businesses	Rs/share	Basis of Valuation
D.G. Khan Cement	65	Market Price
Textile Business	62	Price Multiple
MCB Bank	51	Market Price
Nishat Power	17	Market Price
Hyundai Nishat Motor	11	DCF
Lalpir Power	7	Market Price
PakGen Power	6	Market Price
Others	10	At cost
SOTP Valuation	229	
NML Market Price	160	
Market Price Discount	-30%	

Source: Company Accounts, Topline Research

Nishat Mills Limited (NML) is a vertically integrated textile mill & the flagship company of Nishat Group. Besides textiles manufacturing & retail, NML through its investments in subsidiaries and associates has exposure to power (Nishat Power/Lalpir Power/PakGen Power), cement (D.G.Khan Cement), financials (MCB Bank/Adamjee Insurance), dairy & real-estate/hospitality.

Pakistan Key Holding Companies

Packages Limited : SOTP Valuation (Mkt. Cap US\$426mn)

Businesses	Rs/share	Basis of valuation
Nestle Pakistan	485	Market Price
Packaging & Consumer Business	174	Price Multiple
Land	141	Price from Property Brokers
Packages Construction (Mall)	135	Income Capitalization
Bulleh Shah Packaging	111	At Cost
IGI insurance	42	Market price
Tri-Pack films	25	Market Price
Tetra Pak Pakistan	23	PV of dividends
Others	10	At Cost
SOTP Valuation	1,146	
PKGS Market Price	548	
Market Price Discount	-52%	

Source: Company Accounts, Topline Research

Packages Ltd. (PKGS) was established in 1956 as a joint venture between the Ali Group of Pakistan and Akerlund and Rausing of Sweden. The company is involved in the business of providing a complete range of packaging solution to individuals and businesses. PKGS has a diverse investment portfolio which includes Nestle Pakistan, TetraPak Pakistan, IGI Insurance and Tri-Pack Films. The company is also involved in the real estate business, which it operates under the name of Packages Construction.

Thal Limited : SOTP Valuation (Mkt. Cap US\$370mn)

Businesses	Rs/share	Basis of valuation
Auto Parts Business	270	Price multiple
Investment property	183	Income Capitalization
Indus Motor Company	111	Market price
Sindh Engro Coal Mining Company	11	At cost
Agriauto Industries	8	Market price
Habib Sugar Mills	1	Market price
Habib Insurance Company	1	Market price
Cash & Equivalents*	39	As of Dec 2017
Others	3	At Cost
SOTP	627	
THALL Market Price	525	
Market Price Discount	-16%	

Source: Company Accounts, Topline Research

*Proceeds from Habib Metro Sale

Thal Limited (THALL), a Habib Group company, incorporated in 1966, completed its 50 years of operations in 2016. THALL is a diversified conglomerate engaged in the manufacturing of Auto Parts & Engineering products, Jute products, Laminate sheets and Paper sacks. The company recently ventured into the energy sector, through 12% equity stake in Singh Engro Coal Mining and established Thal Power (Pvt) Limited, a wholly owned subsidiary of THALL, for the development of 330 MW coal-fired power generation plant located at Thar, Sindh.

Pakistan Key Holding Companies

Fauji Fert. Bin Qasim: SOTP Valuation (Mkt. Cap. US\$362mn)

Businesses	Rs/share	Basis of valuation
Core	23	DCF
FFBL Power Company	15	DCF
Fauji Foods	10	Market price
Askari Bank	7	Market price
Fauji Meat	6	DCF
Wind Power	5	DCF
Pakistan Maroc Phosphore	2	At Cost
Fauji Cement	1	Market price
Cash & Equivalents*	8	As of Dec 2017
SOTP Valuation	76	
FFBL Market Price	43	
Market Price Discount	-44%	

Source: Company Accounts, Topline Research

* Adjusted for GIDC Payment

Fauji Fertilizer Bin Qasim Limited's (FFBL) principal activity is manufacturing, purchasing and marketing of urea fertilizer and Di-Ammonium Phosphate (DAP) fertilizer. FFBL's subsidiaries include Fauji Meat Limited, Fauji Foods Limited, FFBL Foods Limited and FFBL Power Company Limited. FFBL is the flagship holding company of Fauji Foundation.

IGI Insurance : SOTP Valuation (Mkt. Cap US\$328mn)

Businesses	Rs/Share	Basis of valuation
Nestle Pakistan	453	Market Price
Packages Ltd	107	Market Price
IGI Life	35	Market Price
Sanofi Aventis	20	Market Price
Insurance Business	12	Price Multiple
Tri-Pack Films	6	Market Price
Others	16	At Cost/Market Price
SOTP Valuation	646	
IGIIL Market Price	311	
Market Price Discount	-52%	

Source: Company Accounts, Topline Research

IGI Holdings (IGIIL), formerly IGI Insurance, is a Babar Ali/Packages Group of companies with holdings in IGI General, IGI Life Insurance, IGI Investments and IGI Securities. The company has recently gone through restructuring where IGI Investment Bank, previously an associated of IGI Insurance, was merged with IGI Insurance. Post amalgamation, general insurance business was transferred and amalgamated to IGI General Insurance whereas investment business was transferred and amalgamated with IGI Investments. Now listed Holdings have IGI General, IGI Life, IGI Investments and IGI Securities under its umbrella.

Pakistan Key Holding Companies

International Industries: SOTP Valuation(Mkt. Cap US\$299mn)

Businesses	Rs/Share	Basis of Valuation
International Steel Limited	252	Market Price
Tubes and Pipes Business	65	Price Multiple
Pakistan Cables	12	Market Price
Others	1	At Cost
SOTP Value	331	
INIL Market Price	289	
Market Price Discount	-13%	

Source: Company Accounts, Topline Research

INIL is the holding company of The Chinoy Group with a 56% stake in International Steel and 17% stake in Pakistan Cables. 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. INIL is Pakistan's leading producer of tubular steel products and has major share in pipes and tubes market in Pakistan.

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	Database Officer	+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