

Packages Limited (PKGS)

4Q2017 EPS Rs45, +367% YoY (+39% QoQ); 2017 EPS Rs109, +108% YoY

Cash dividend of Rs30/share

Above expectations

Nabeel Khursheed^{AC}

nabeel@topline.com.pk

Tel: +9221-35303330

Topline Securities, Pakistan



www.jamapunji.pk

ASIAMONEY

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



Best Local Brokerage House 2015-16

One-off, higher income and lower effective tax rate lift earnings

PKGS: 4Q2017 Financial Highlights

Rsmn	4Q2017	4Q2016	YoY	QoQ	2017	2016	YoY
Sales	10,596	6,084	74%	31%	31,891	24,496	30%
Cost of sales	9,147	4,924	86%	43%	25,852	19,062	36%
Gross profit	1,449	1,160	25%	-14%	6,039	5,434	11%
Distribution and marketing expenses	500	298	68%	16%	1,692	1,226	38%
Administrative expenses	434	381	14%	-2%	1,716	1,428	20%
Other operating expenses	231	26	804%	245%	588	444	32%
Other income	119	191	-38%	214%	246	408	-40%
Investment income	2,104	1,775	19%	239%	5,972	6,055	-1%
Gains & loss related to business combination	2,473	-	NM	-1%	4,965	-	NM
Finance cost	439	185	138%	38%	1,176	1,495	-21%
Share of profit/(loss) on investments	(67)	(558)	NM	-184%	207	(291)	-171%
Profit / (loss) before tax	2,002	1,680	19%	71%	7,293	7,013	4%
Taxation	122	735	-83%	-73%	1,458	1,662	-12%
Profit for the year	4,353	945	360%	35%	10,800	5,352	102%
Equity holders of the company	4,378	938	367%	39%	10,673	5,140	108%
EPS (Rs)	44.9	9.6			109.4	52.7	

Source: PSX, Topline Research

- Packages Limited (PKGS) announced 4Q2017 consolidated earnings (attributable to equity holders) of Rs4.4bn (EPS Rs44.9/share, up 4.7x YoY, considerably higher than our estimates thanks to 1) business combination gain of Rs2.5bn, 2) higher investment income and 3) lower effective tax rate. Though we await management clarity on business combination gain, we attribute this to revaluation of its unlisted subsidiary, Bulleh Shah Packaging (BSPL). To recall, PKGS booked a similar gain of Rs2.5bn in 3Q2017 as the company completed acquisition of 35% stake in BSPL during the quarter. However, that gain was provisional as the management was in the process of determining fair value of BSPL's assets and liabilities, as stated in the company's 3Q2017 footnotes.

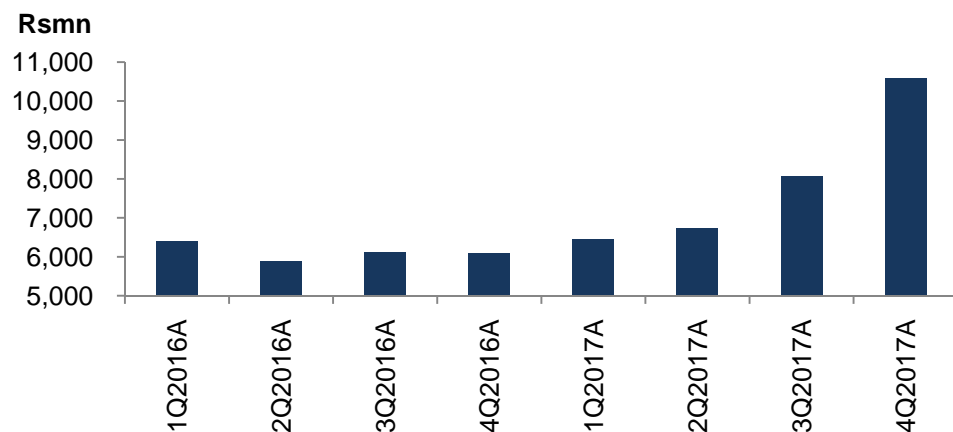
One-off, higher income and lower effective tax rate lift earnings

- Net Revenues were up 74% YoY during 4Q2017 mainly owing to BSPL’s classification as a subsidiary.
- After adjusting for business combination gain, net earnings were up 102% YoY during the outgoing quarter. This was owing to 1) higher investment income, up 19% YoY (likely due to higher dividend income received from Tetra Pak Pakistan) and 2) lower effective tax rate, down 38ppts to 6% mainly due to group taxation (please see the company’s PSX disclosure on Dec 4, 2017).
- We flag 1) BSPL’s higher cost of production 2) decline in investment income and 3) higher than expected fuel & energy costs as key risks for PKGS.

PKGS: Key Numbers					
	2013A	2014A	2015A	2016A	2017A
EPS	17.8	24.7	33.8	52.7	109.4
Earnings Growth	NM	39%	-45%	56%	108%
PE at Rs525.3	27.0	19.5	4.4	9.1	4.4
Dividend Yield	20%	2%	3%	5%	6%
ROE	4%	5%	7%	10%	18%
PBV	1.1	0.9	1.0	0.9	0.8

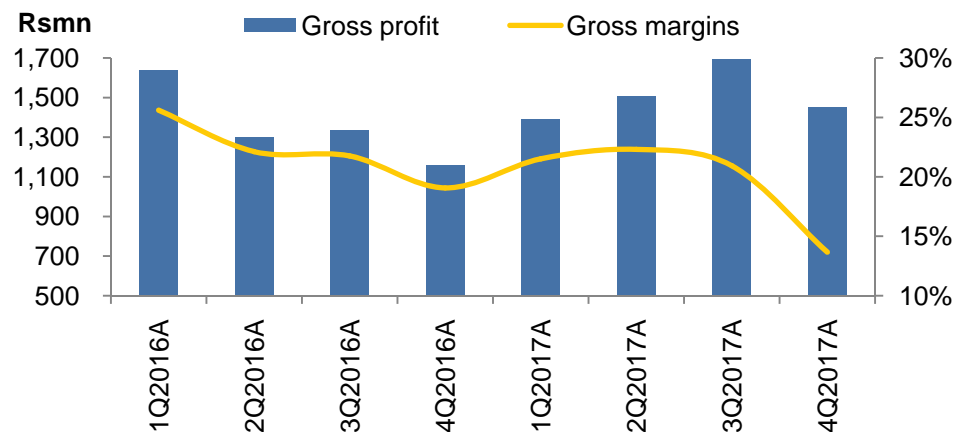
Source: Company Accounts, Topline Research

PKGS: Quarterly Sales



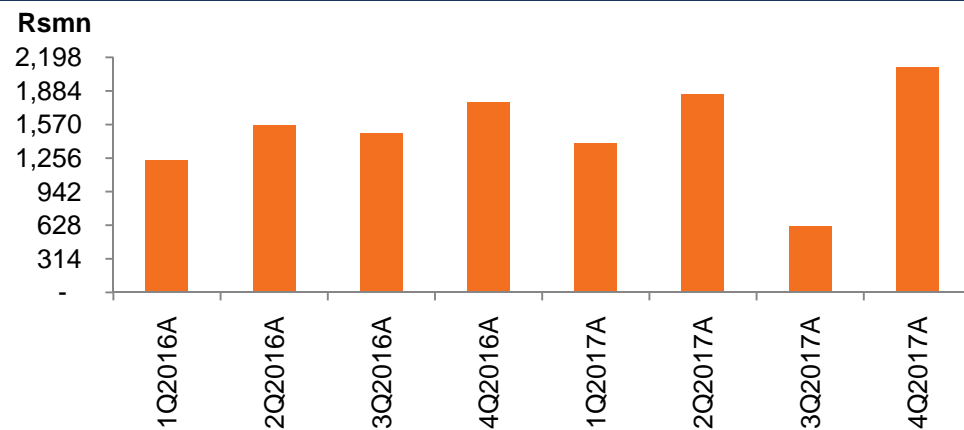
Source: Company Accounts, Topline Research

PKGS: Quarterly Gross Profit & Gross Margins



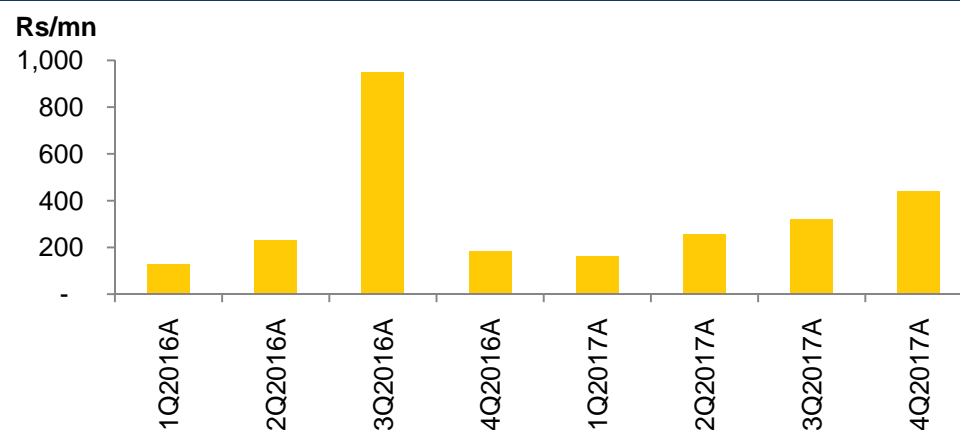
Source: Company Accounts, Topline Research

PKGS: Quarterly Investment Income



Source: Company Accounts, Topline Research

PKGS: 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.