

# Pak Elektron (PAEL)

## Analyst Briefing 1H2018

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# Analyst Briefing 1H2018 Key Takeaways

Topline Securities conducted analyst briefing of Pak Elektron today where the company discussed its 1H2018 financial performance and outlook. Following are key takeaways:

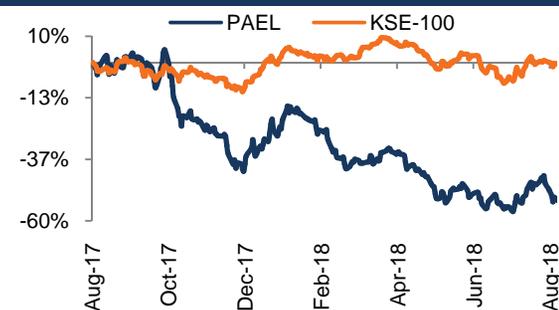
- PAEL announced consolidated earnings of Rs1,215mn (EPS Rs2.4/share), down 55% YoY during 1H2018. While sales were in line with estimates, earnings fell short of our expectation primarily on the back of lower than anticipated gross margins, down 5ppts to 25%. This was on the back of higher commodity prices and currency devaluation.

## Appliances Division:

- Appliances sales contracted by 9% YoY in 1H2018 mainly due to 16% YoY decline in refrigerators sales that constitute around 67% of total sales of appliances. Competition from Chinese players and recent row with one of its largest distributors have affected PAEL's appliances standing. For 2018, PAEL is anticipating around 10% growth in appliances sales (vs. last 3-Year CAGR of 29%).
- Refrigerator sales are expected to grow by 4% YoY in 2018 while the management expects to sell up to 475k refrigerators, up 2% YoY.
- Chinese competition has affected the company's split Air Condition (AC) sales which fell 10% YoY in 1H2018. For 2018, AC sales are anticipated to grow by 3% YoY with units sales of around 86k, almost the same level that PAEL sold in 2017.

KATS Code	PAEL
Bloomberg Code	PAEL PA
Reuters Code	PKEL.KA
Market Price	Rs35.98
Market Cap	Rs17.9bn/US\$144.4mn
Free float Market Cap	Rs9.0bn/US\$72.2mn
1-Yr Avg. Daily Vol. (mn)	6.1
1-Yr Avg. Daily Val. (mn)	Rs297.5/US\$2.8
1-Yr High/ Low	Rs78.0/31.8
Estimated free float	50%
Share outstanding (mn)	497.68
Index weight	0.44%

PAEL vs KSE-100 Index



Source: PSX, Topline Research

# Analyst Briefing 1H2018 Key Takeaways

- While sales of refrigerators and AC's are expected to fall, the management expects the company to perform better in Deep Freezer, Microwave Oven and Water Dispenser sales (which cumulatively constitute ~15% of total appliances sales) with growth of around 32%.

## **Power Division:**

- Power division (21% of total sales) of the company had 13% decline in sales during 1H2018. This was mainly owing to lower EPC contracting (~24% of power division sales), down 25% YoY and 34% YoY decline in transformers (~12% of power division sales). Overall, the management anticipates power division sales to remain almost flat in 2018. On volumetric front, PAEL is anticipating around 31% YoY growth in distribution transformers in 2018.
- CPEC remains an opportunity platform for the company as the Govt. has yet to setup Transmission and Distribution (T&D) network to connect upcoming power capacities (up to 10,000MW) to the National Grid. The Company's management is of the view that improving power generation will help power division to support revenues growing forward.

## **New Products in pipeline:**

- As part of its growth strategy, the company plans to enter into Television (TV) and Washing Machine market. While TV products are expected to be introduced by Sep 2018, Washing Machines are to be available by mid 2019.
- TV has a market of around one million units per annum with margin of 20-22% while washing Machine market is 2.5mn units per annum with margin of around 25%.

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Sell	Stock will underperform the average total return of stocks in universe

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Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

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