

Pak Elektron (PAEL)

2Q2018 EPS of Rs1.3, -58% YoY (+27% QoQ)

Below expectations

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Lower gross margins dent earnings

PAEL: Financial Highlights (Consolidated)

	2Q2018	2Q2017	YoY	QoQ	1HFY18	YoY
Gross Sales	14,127	14,022	1%	69%	22,504	-13%
Sales tax and discount	3,739	3,506	7%	81%	5,804	-10%
Net sales	10,388	10,515	-1%	65%	16,700	-14%
Cost of sales	7,974	7,334	9%	78%	12,453	-7%
Gross profit	2,414	3,181	-24%	32%	4,246	-28%
Distribution cost	673	650	4%	43%	1,144	-9%
Administrative expense	292	268	9%	-13%	628	15%
Other operating expense	18	71	-75%	-52%	56	-61%
Other operating income	2	1	128%	-76%	9	-39%
Profit /(Loss) from operations	1,433	2,192	-35%	44%	2,427	-39%
Finance cost	615	338	82%	48%	1,031	42%
Share of loss from associates	(1)	0	NM	-13%	(2)	NM
Profit / (Loss) before tax	817	1,854	-56%	42%	1,394	-57%
Provision for tax	138	228	-39%	237%	179	-66%
Profit / (Loss) after tax	679	1,626	-58%	27%	1,215	-55%
EPS	1.3	3.2			2.4	

Source: PSX, Topline Research

- Pak Elektron (PAEL) announced consolidated earnings of Rs681mn (EPS Rs1.3/share), down 58% YoY during the outgoing quarter. While sales were in line with estimates, earnings fell short of our expectation primarily on the back of lower gross margins.
- In 2Q2018, the company was able to improve its volumetric sales in appliances division on sequential basis. To note, the company recorded substantial YoY decline in its refrigerator and air conditioner sales in 1Q2018.

Lower gross margins dent earnings

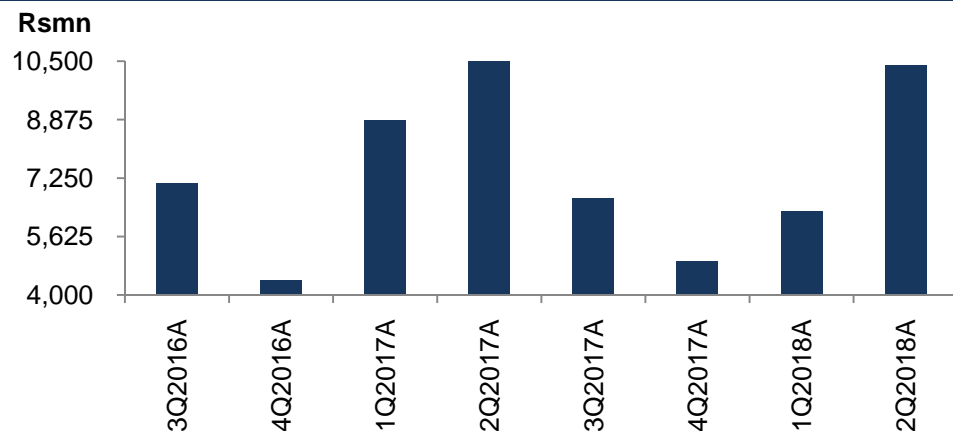
- Gross margins of the company significantly contracted by 7ppts to 23% in 2Q2018, mainly owing to currency devaluation and higher commodity prices in the international market which led to higher input costs.
- Further dent in profitability came from higher financial charges, up 82% YoY. We attribute this to increase in debt and higher interest rates.
- In 1H2018, net sales were down 14% YoY while net earnings declined by 55%. Decline in net sales was on the back of poor appliances performance where refrigerator and air conditioner sales were down by ~20% and ~8% YoY to around 264k and 66k, respectively. We believe that this was due to competition from Chinese brands like Haier and Gree.
- We flag, 1) increase in raw material costs and the company's inability to pass it on, 2) greater than expected PKR devaluation against US\$, 3) higher financial charges to fund working capital and 4) greater competition due to new entrants key risks for PAEL.

PAEL: Key Numbers

	2013A	2014A	2015A	2016A	2017A
EPS	1.2	4.5	5.8	7.4	6.6
Earnings Growth	428%	269%	29%	27%	-10%
PE at Rs36.4	29.8	8.1	6.3	4.9	5.5
Dividend Yield	0%	0%	3%	8%	7%
ROE	6%	19%	20%	22%	12%
PBV	1.8	1.5	1.3	1.1	0.7

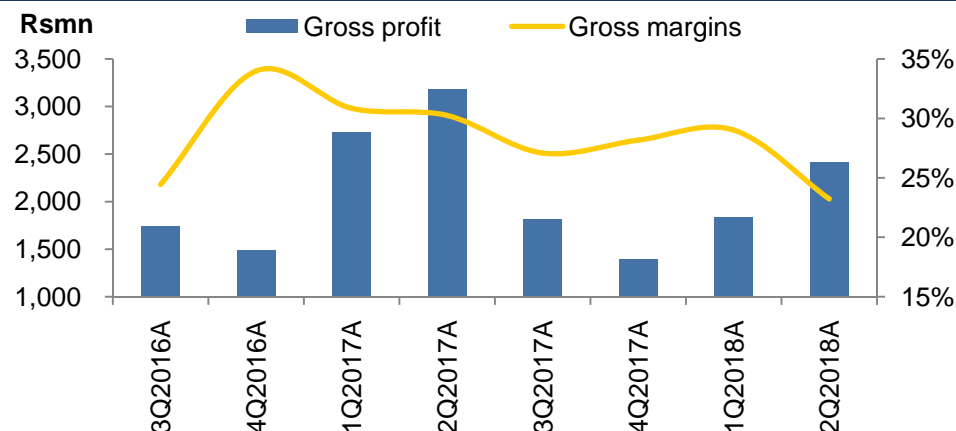
Source: Company Accounts, Topline Research

PAEL: Quarterly Sales



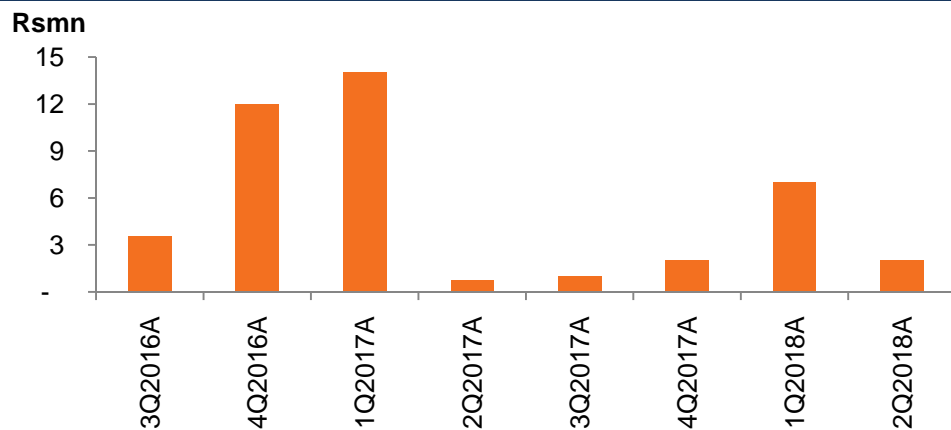
Source: Company Accounts, Topline Research

PAEL: Quarterly Gross Profit & Gross Margins



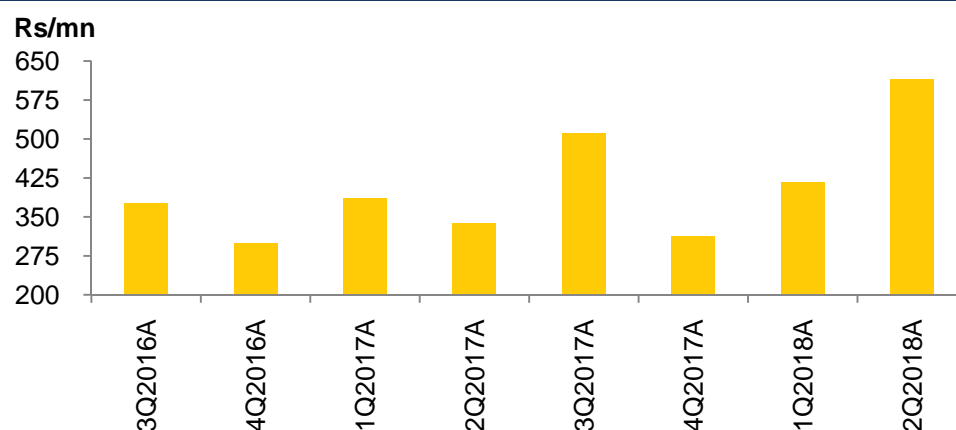
Source: Company Accounts, Topline Research

PAEL: Quarterly Other Income



Source: Company Accounts, Topline Research

PAEL: Quarterly Finance Cost



Source: Company Accounts, Topline Research

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