

# Pakistan Textiles

## NML 1HFY16 result preview and Jan'16 textile export numbers

Tuesday February 23, 2016

### NML - BUY

Target Price: PKR 134

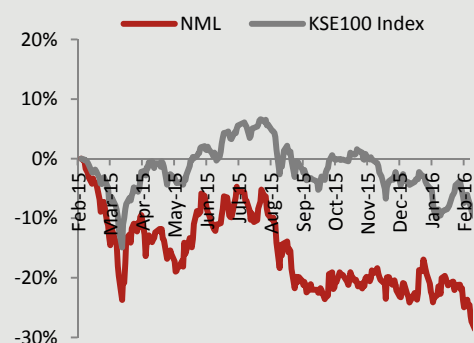
Current Price: PKR 87

#### NML Performance

	1M	3M	12M
Absolute %	-8%	-12%	-29%
Relative to KSE %	-7%	-2%	-19%
Bloomberg	NML.PA		
Reuters	NISM.KA		
MCAP (USD mn)	294		
12M ADT (USD mn)	1.2		
Shares Outstanding (mn)	352		

Source: PSX, BMA Research

#### NML vs. KSE100 Relative Chart



Source: PSX, BMA Research

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### NML: 1HFY16 EPS estimated at PKR6.1

The Board of Directors of Nishat Mills Limited (NML) is scheduled to meet on 24<sup>th</sup> Feb'16 to declare the financial results for 1HFY16. We expect the company to post NPAT of PKR2.2bn (EPS: PKR6.1) in 1HFY16 compared to PKR1.9bn (EPS: PKR5.5) in the corresponding period last year. For 2QFY16 alone, we project earnings to clock in at PKR1.8bn (EPS: PKR5.2), up 19%YoY. The uptick in earnings during 1HFY16 is primarily attributable to i) slight improvement in gross margins on the back of lower FO prices (down 47%YoY on average), ii) 13%YoY higher other income realized from subsidiaries in the 2QFY16 and iii) decline in finance cost by 40%YoY on account of lower DR and debt repayment. The topline of the company however, is expected to witness a decline of 13%YoY in 2QFY16 on account of prevalent slowdown in EU and China. A slight uptick of 7%QoQ in sales in 2QFY16, nevertheless, will be witnessed on the back of seasonality factor due to Christmas. At last closing, NML (TP: PKR134/sh) was trading at FY16F and FY17F P/E of 7.1x and 6.1x, respectively. However, it is pertinent to note that the near term performance of the sector will remain contingent on the economic health of trading partners and energy supply situation in the country.

#### Financial Summary

PKRmn	2QFY16	2QFY15	▲	1HFY16	1HFY15	▲
Sales	12,120	13,932	-13%	23,435	26,710	-12%
Gross profit	1,430	1,619	-12%	2,707	3,010	-10%
Gross margin	11.8%	11.6%	0.2%	11.6%	11.3%	0.3%
PAT	1,829	1,540	19%	2,153	1,939	11%
EPS	5.2	4.4	19%	6.1	5.5	11%

Source: PSX, BMA Research

### Jan'16 textile exports down by 10%YoY

The Pakistan Bureau of Statistics (PBS) released the textile exports data for the month of Jan'16, wherein total textile exports of the country declined by 10%YoY to clock in at USD1.1bn on account of notable decline in the non-value added exports (down by 28%YoY). The value added exports witnessed a marginal decline of 1%YoY primarily on account of slight uptick in the knitwear and the ready-made garment categories, increasing by 3%YoY and 4%YoY, respectively. On a sequential basis, textile exports exhibited an increase of 4%MoM with value added exports posting an increase of 7%MoM while the non-value added exports declining by 5%MoM hence, limiting the increase in total exports. In volumetric terms, a slight uplift was witnessed in the performance of the value added sector, with knitwear, bed-wear and ready-made garments increasing by 8%YoY, 3%YoY and 3%YoY, respectively. The non-value added sector exhibited a decline of 21%-32%YoY across all the categories, primarily on account of tapering demand from China. The limited uptick in the volumes of the value added exports despite the availability of the GSP plus status can be attributed to the prevalent slowdown in EU. Going forward, we believe the i) economic health of the trading partners, ii) energy supply situation and iii) PKR/USD parity vis-a-vis regional textile exporters will remain critical to the fundamental outlook of the sector. Amid rising concerns for Pakistan's textile exports to both EU and China due to the prevalent slowdown, we expect limited chances of any recovery in the sector in near term.

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Rating definitions	
Buy	>20% upside potential
Accumulate	>=5% to <=20% upside potential
Hold	<5% to >5% potential
Reduce	<=-5% to >=-20% downside potential
Sell	<-20% downside potential

## Valuation Methodology

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To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)