

March 30, 2015

## Company Profile & Financial Results

We initiate our buy stance on Nishat Mills Limited. Nishat Mills Ltd is Flagship Company of Nishat Group and one of the largest, vertically integrated textile company operating in Pakistan. With gross sales of Rs 54.4 billion in FY14. Nishat Mills Limited (NML) announced 1HFY15 earnings of Rs1.9bn (EPS Rs5.5), down 49.7 % YoY, compared to Rs3.9 billion (EPS Rs: 10.9) last year in same half. Further, the company posted profits of Rs 1.5 billion (EPS Rs: 4.38) in 2Q15, down 32%, compared to Rs 2.2 billion (EPS Rs6.49) in 2Q14 while up by 285% when compared to last Quarter.

PKR` Millions	FY14	HFY15 Jul-Dec	FY15 (P)
Sales	54,444,091	26,709,556	53,419,112
G.P	7,863,774	3,009,723	8,547,058
Total Operating Cost	3,931,381	1,964,607	3,929,232
Other Income	3,653,041	1,998,908	3,997,816
Profit from Operations	7,585,434	3,044,024	6,088,030
Profit before tax	5,975,552	2,039,669	6,606,932
Profit after tax	5,512,552	1,939,669	6,406,932
EPS	15.68	5.52	17

## The Review

- Company's Net Book Value/Share is Rs: 212 as on HFY15 and Equity Portfolio of company is 153.70/Share. It is vital to understand that total EPS in FY14 was 15.68 & on proportionate basis, only 7.30 was from core operation and rest of 8.38 was from other income(Dividend Mainly).
- In 2Q15, sales of the company declined by 4% to Rs13.9 billion versus Rs14.5 billion in of 2Q14 while it increased by 9% on QoQ of FY15. This is due to appreciation of dollar against Pakistan rupee and overall decline in demand of textile products due to cotton price reduction.
- Gross Profit Margins of the company has dropped by 11.27% in 1HFY15 compared to 18.6% in the corresponding period last year. This may be due to Company's purchase price for cotton was much higher than the competitors, because overall cotton price had declined in first half of FY15 & company maintain high level of inventory it might have suffer huge loss because of this.
- Bottom-line earnings of the company declined by 32.5% YoY but increased by 285% QoQ to Rs 1.5bn (EPS Rs: 4.4) in 2Q15 because of other income.
- Other Income of the company has increased by 204% QoQ basis of same FY15. Huge chunk of other income represent dividend from MCB & DGKC.

## Recommendation

- In first half company suffered low profit because of high cost of inventory and now cotton in both local and international market are at lowest cost, therefore the company should enjoy high G.P Margins in second half of FY15 because company maintain high level of inventory for production and all losses pertaining to high cost of inventory has been absorbed in last 2 quarter of FY15.
- Rapid decline in inflation will result in control of expenses.
- As a result of severe energy crises, company has recently commissioned two dual-fuel and highly efficient Wartsila Generators at Power Division, Lahore and Power Division, Ferozewan. The 9 MW extension of coal fired power plant is in progress and will be completed by April 2015. In addition to electricity, it will also produce 25 tons of steam per hour.
- In current situation where dollar is strengthening against Pakistan rupee, inflation rate is declining and GSP plus status combined with favorable textile policy, Nishat mills is expected to perform well at the end of FY15 and in FY15-16.
- At current price, we advice to buy this share with target of price 150/Share and 175/share for FY-16

NML: BUY

Current Price: 102

Target Price: 150

## Key Data

Ticker	NML
Current Price (PKR/sh)	102
52-Week High (PKR/sh)	138.40
52-Week Low(PKR/sh)	96.80
Market Cap.(PKR Bn)	39.85

	EPS	Book Value
2010	10.5	89.2
2011	13.7	100.6
2012	10.4	107.4
2013	16.6	166.8
2014	15.6	195.1

## Equity Portfolio

NPL	51%	NCL	14%
DGKC	31%	MCB	7%
LPL	29%	PPL	0.02%
PKGP	28%	UBL	0.03%

Research Desk

Email: [equitydesk@iconcapital.net](mailto:equitydesk@iconcapital.net)Website: [www.iconcapital.net](http://www.iconcapital.net)

Tel: +92 21 32432316-20