

September 03, 2010

Pakistan Market

PKGS: Earnings review/'Buy' maintained

MORNING BRIEFING



KSE100 Index: Closing 9,762.89 ↑ (+27.51)

Packages Limited (PKGS) in its 2Q2010 results reported a loss of Rs41.7mn (loss per share Rs0.49) as low margins kept profits at bay; taking the cumulative 1H2010 profits to Rs279mn (EPS Rs3.30). This is in stark comparison to the PAT of Rs4.2bn (EPS Rs49.38) in 1H2009, when earnings grew abnormally on the back of a Rs6.5bn (EPS impact of Rs77) gain made on the sale of its Tetra Pak holding which was somewhat offset by a Rs1.8bn impairment charge booked on its Nestle holding. Going forward, we believe earnings would continue to remain under pressure, at least in 2H2010. However, we expect the company to bounce back to profitability in 3Q2010 courtesy slight recovery in margins. We currently recommend a 'Buy' stance on the scrip, which offers a 33% upside to our target price of Rs154.

Stellar sales growth in 1H2010

Increased capacity utilization coupled with price pass through's helped the company register a stellar sales growth of 36%YoY to arrive at Rs5.5bn in 2Q2010, taking 1H2010 sales to Rs11.4bn (up 45%YoY). Encouragingly, the exports' share too rose to 6.5% in 1H2010 compared to 2.9% in 1H2009. The paper & board production and conversion utilization stands at 62% and 79% in 1H2010, respectively.

Rising material costs kept margins under pressure

Although gross profit improved by 225%YoY to Rs 295mn in the 2Q2010, it shrunk by 14%QoQ on rising material costs. Resultantly gross margins came down to 6.2% in 2Q2010 compared to 6.8% in 1Q2010. Going forward, we expect these to improve again as the company continues to focus on price pass through's & better inventory management.

Investment income subdued in 2Q2010

As expected the investment income remained subdued at Rs48mn in the 2Q2010 in comparison to Rs742mn in the 1Q - which was higher because of ~Rs520mn dividend income received from Tetra Pak. However, in 2H2010, we may see an upswing in the trend, as dividend income from its strategic

investments (Nestle already announced an interim dividend of Rs20/ share) will be accounted for in 2H2010 by PKGS.

Result review - PKGS

(Rs mn)	2Q2010	1Q2010	Δ%
Net sales	4,718	5,043	-6%
Less cost of Sales	(4,423)	(4,701)	-6%
Gross Profit	295	342	-14%
Admin expenses	(144)	(116)	24%
Distribution & mktg costs	(149)	(145)	3%
Other op. expenses	15	(42)	-136%
Other op. income	58	53	10%
Profit/ loss from operations	75	93	NM
Finance costs	(296)	(300)	-1%
Investment Income	48	742	-93%
Profit before taxation	(173)	534	-132%
Taxation	131	(214)	-161%
Profit after taxation	(42)	320	-113%
EPS (Rs)	(0.49)	3.80	-113%

Source: Company Accounts

Interestingly, the company recorded a reversal of Rs15mn as Other Operating expenses (mainly owing to adjustments in the provident fund) as against an expense of Rs 1.8bn in 2Q2009 on account of an impairment charge booked on its Nestle holding.

Outlook: 'Buy' recommended

We have a 'Buy' recommendation on the scrip as the company's EPS is expected to improve to Rs9.3 in 2011 from the estimated Rs5.8 in 2010. We anticipate the company's topline to grow at a 3 year CAGR (2009-2012) of 17.6%. Furthermore, we expect the company to continue to receive higher dividend income from its key strategic investments (Nestle, Tri Pak and IGI Insurance amongst others). Our SoTP valuation breaks up into Rs58 contributed by core operations, Rs62 streaming from the company's investment portfolio and Rs34 from the 10yr Tetra Pak dividend flows. However, rising material & power costs and competition from

the international market remain key risks to our investment thesis.

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Packages Limited

Market Price:	Kats Code:
Rs112.38	PKGS
Market Cap:	Bloomberg Code:
Rs9.5bn (US\$110.8mn)	PKGS PA
1-yrs Avg. Daily Volume:	Reuters Code:
0.1mn shares, Rs9.0mn (US\$0.1mn)	PACK.KA
1-year High/Low:	
Rs175.89/109.50	

Also in focus

IMF to provide US\$450mn as emergency financing

In a major development yesterday, IMF announced the allotment of US\$450mn in immediate emergency funding to Pakistan to help the country manage the aftermath of the devastating floods. The funding is likely to be provided later this month, subject to the board's approval, and is expected to be released under the Emergency Natural Disaster Assistance (ENDA) programme. Discussions are ongoing as far as the 5th IMF review is concerned; with the fund expected to likely release a tranche of US\$1.7bn once this round of meetings end, within the current month.

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