January 05, 2010

Pakistan Market

MORNING BRIEFING

NCL: A healthy return of 138% in FY10 YTD

KSE100 Index: Closing 9437.85 ↑ (+50.93)

An increase of 138% in its market capitalisation, since the beginning of the current fiscal year (FY10) has brought Nishat Chunian Limited (NCL) amongst the volume leaders these days. Though we do not cover NCL in our universe, healthy activity in the scrip has compelled us to analyse the company fundamentals and update our clients about the frivolities in the company. The company has already posted earnings of Rs90mn (EPS of Rs0.72) in 1QFY10, almost equivalent to full FY09 earnings (Rs103mn or an EPS of Rs0.83), on the back of higher export sales (especially in the spinning business). Moreover, NCL has ventured into the power business by setting up Nishat Chunian Power Limited (NCPL) which will provide a stable dividend stream from FY11 and beyond. Based on our preliminary estimates, the company could post an EPS of Rs2.4 and 3.2 in FY10E and FY11F, respectively. Currently, the stock is trading at a FY10E and FY11F PE of 8.5x and 6.4x respectively. Hence, we recommend investors to 'Accumulate' at current levels.

Expected full year EPS of Rs2.4

The results of 1QFY10 show that NCL has posted a decent 11%YoY growth in net revenue to Rs2.9bn from Rs2.6bn in the same period last year. The recent hike in cotton prices has allowed the company to sell most of its yarn in the international market, enabling the company to capture high margins. Consequently, NCL managed to post earnings of Rs90mn (EPS of Rs0.72), almost equivalent to the full year earnings of FY09. Hence, with benefits of the maiden textile policy long overdue, and expectation of even better yarn export sales in the coming periods, we expect the company to post earnings of Rs295mn (EPS Rs2.4) in FY10.

NCPL: providing a stable dividend stream

Given the current energy crisis in the country, NCPL (like many other companies) has ventured into the power business setting up a subsidiary (NCPL) with an equity stake of 57.8%. NCPL is a RFO (Residual Furnace Oil) based IPP, with a nameplate generation capacity of 200MW. The total cost of the project is estimated to be Rs18.4bn, with a debt to equity structure of 80:20 and a negotiated project life of 25 years.

The company is expected to commence its commercial operations by March 2010; thus, we expect a stable dividend income stream for NCL beyond FY10. As per our estimates, assuming a 15% real IRR (plus indexation with the US CPI and Rupee devaluation), NCL would receive a dividend income of Rs98mn (Rs0.79 per share) and Rs102mn (Rs0.83 per share) in FY11 and FY12, respectively. This project is expected to add Rs6 to NCL's value, which we believe is a major trigger for the company.

Table: Financial Highlights

(Rs mn)	FY09A	FY10E	FY11F
Net Sales	9,965	10,515	11,288
COGS	8,473	9,055	9,688
Gross Profit	**1,491**	**1,460**	**1,600**
Other Income	173	68	169
Financial charges	1,082	789	847
PBT	**168**	**403**	**511**
Tax	65	105	113
PAT	**103**	**298**	**398**
Diluted EPS	0.8	2.4	3.2
Price to earning ratio (x)	8.6	8.5	6.4
Price to book value (x)	0.3	0.7	0.7

Source: Company accounts & JS Research

Outlook: 'Accumulate'

The recent increase in the cotton prices has allowed spinning businesses to post decent returns and NCL is expected to benefit from the same in the coming quarters. Furthermore, addition of NCPL to NCL's portfolio will further augment the bottom line after FY10. Even after posting a 138% return since the start of the current fiscal year the scrip still trades at a FY10E and FY11F PE of 8.5x and 6.4x. Based on these estimates, we recommend investors to 'Accumulate'.

bilal.qamar@js.com
92 (21) 111-574-111 (ext. 3099)

Also in focus

Cumulative cotton arrivals up by 22%YoY

According to the data released by the PCGA, the total arrival of cotton up to 1 January 2010 is 11.9mn bales, as compared to 9.7mn bales in the corresponding period last year (growth of 22.4%). The fort nightly flow came in at 639,645 bales, which is almost flat YoY. We expect the next fort nightly flow to come around 500,000 bales and after that to be minimal. Thus, we expect the total cotton arrival to come around 12.5-13mn, vis a vis 11.3mn bales last year, which will translate into a growth of 12-15% YoY.

NIB to offload NAFA holding

According to a notice issued at the exchange, NIB plans to offload its holding of 6.75mn shares in NAFA to NBP in a price range of Rs37-43 per unit, subject to signing of SPA. Based on our calculations, this would result in a one time capital gain of Rs182-223mn to NIB, translating into per share impact of Rs0.03-0.04.

JS Global Capital Limited
6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:
Tel: +92 (21) 32799005
Fax: +92 (21) 32800163
js.research@js.com

Equity Sales:
Tel: +92 (21) 32799513
Fax: +92 (21) 32800166
junaid.iqbal@js.com

Fixed Income Sales:
Tel: +92 (21) 32799541-44
Fax: +92 (21) 32800165
tariq.usman@js.com

Corporate Finance:
Tel: +92 (21) 32799005
Fax: +92 (21) 22800163
azhar.iqbal@js.com