

September 07, 2010

## Pakistan Market

## NML: FY10 EPS likely at Rs7.84

MORNING BRIEFING



KSE100 Index: Closing 9,706.10 ↑ (+3.04)

bilal.qamar@js.com

92 (21) 111-574-111 (ext. 3099)

Nishat Mills Limited (NML) is scheduled to announce its full year FY10 result on September 9, 2010. We expect the company to report profit after tax of Rs2.8bn (diluted EPS: Rs7.84) compared to profit of Rs1.3bn (diluted EPS: Rs3.61) reported last year. The expected growth in earnings is mainly attributed to improved profitability in the spinning segment owing to high yarn prices. NML is likely to see its gross margins standing at 19.2% from 18.2% in FY09. Moreover, higher Other Income is likely to support the company's bottom line. Along with the result, we expect the company to announce a final cash dividend of Rs2 per share. Currently the scrip trades at an FY11F PE of 5.0x and offers a potential upside of 33% to our SoTP based target price of Rs63, hence we maintain our 'Buy' call.

## Margins likely to jump to 19.2% in FY10

NML's total sales are expected to grow by 21% to Rs29bn in FY10 mainly owing to higher yarn prices and consistent Rupee depreciation against US\$ (5% in FY10). We estimate the company's cost of cotton purchased in FY10 to stand around ~Rs3,700 per maund due to early procurement (Sep to Nov). The second half witnessed a steep surge in cotton prices which rose to Rs7,000 per maund helping the company boost its margins mainly in the spinning segment. Resultantly, we expect the aggregate margins to soar to 19.2% from 18.2% in FY09.

## Other income to further boost the bottom line

In addition to its strong core performance, we expect NML to report a 26% growth in Other Income mainly led by higher dividend income from MCB. NML currently holds around 52.6mn shares of the bank in its investment portfolio which is likely to yield Rs538mn in dividend income for the company taking the cumulative Other Income to Rs754mn in FY10.

Moreover, finance and other charges are also expected to come down by a significant 24%YoY to Rs1.2bn further supporting the bottom line of the company mainly due to

lower average 6-month KIBOR rates in FY10 which stood at 12.4%, a decline of 175bps YoY.

## FY10 earnings estimates

Rsmn	FY10E	FY09A	Δ%
Net Sales	28,959	23,870	21%
Cost of products sold	23,391	19,519	20%
Gross Profit	5,568	4,352	28%
Gross margin	19.2%	18.2%	
Operating expenses	2,022	1,751	16%
Finance cost and Other charges	1,247	1,638	-24%
Other operating income	753	599	26%
Profit before tax	3,052	1,562	95%
Taxation	295	294	1%
Profit after tax	2,756	1,268	117%
Earnings per share	7.84	3.61	117%

Source: JS Research and company accounts

## Cotton price to soar further

Although exact details of the damage to crops have not yet been released by the government, initial impressions and our conversations with industry experts suggest that expected cotton crop damage is in the vicinity of ~2mn bales. This coupled with the news flow of the recent fungus attack on the crop could exert an upward pressure on cotton prices, going forward. Nevertheless, local cotton prices currently are trading around Rs6,500 per maund and look stable for the time being as import orders have already been placed to meet the expected supply shortfall in the country.

## Recommendation: 'Buy' maintained

At current levels, we maintain our 'Buy' call on NML as the stock offers a 33% potential upside to our SoTP based target price of Rs63. Despite an anticipated pressure on core performance due to supply side fears, our liking is based on the company's investment in the power sector and other group companies which are likely to offer a stable dividend income, compensating for any cyclical downturn in its core performance.

## Nishat Mills Limited

<b>Market Price:</b> Rs42.99	<b>Kats Code:</b> NML
<b>Market Cap:</b> Rs15.1bn (US\$176.0mn)	<b>Bloomberg Code:</b> NML PA
<b>1-yrs Avg. Daily Volume:</b> 3.1mn shares, Rs185.1mn (US\$2.2mn)	<b>Reuters Code:</b> NISM.KA
<b>1-year High/Low:</b> Rs73.65/41.16	

## Also in focus

## Rs97 billion collected by the FBR in August

Despite floods causing massive damage to the country's communication infrastructure, the FBR in Aug 2010 was able to provisionally collect Rs97bn as compared to Rs102bn collected in the same period last year. This translates into a shortfall of Rs5.4bn when compared to the targeted Rs102bn for Aug, 2010. It has to meet a target of Rs336bn during the 1QFY11 with Rs143bn aimed to be collected in Sep 2010.

## 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

## Fixed Income Sales:

Tel: +92 (21) 32799541-44

Fax: +92 (21) 32800165

tariq.usman@js.com

## Equity Sales:

Tel: +92 (21) 32799513

Fax: +92 (21) 32800166

junaid.iqbal@js.com

## Corporate Finance:

Tel: +92 (21) 32799571

Fax: +92 (21) 32800164

sajid.farooqi@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS