

February 13, 2009

Pakistan Market**Nishat Mills: Company Update / 'Buy' maintained****MORNING BRIEFING**

KSE100 Index Closing 5399.36 ↓ (-30.07)

Nishat Mills, the largest textile composite unit in the country, depicted an increase of 128% in its profitability during 1HFY09 compared to the corresponding period last year. The growth in profits was driven primarily by the steep rise in sales. In today's report, we discuss NML's performance in 1HFY09, along with our recommendation on the scrip at current levels.

Surge in sales boost profits by 128%

Nishat Mills posted profit after tax of Rs1,197mn (diluted EPS of Rs4.99) for 1HFY09 as against Rs525mn (diluted EPS of Rs2.19) in the corresponding period last year depicting a growth of 128%. This growth was primarily led by higher growth in net sales as compared to growth in cost of goods sold which helped net margins to increase by 401bps to 10%. Increase in net sales of 37% was triggered by dollar appreciation (31% YoY), which boosted rupee based export revenue of the company, while increase in sales orders also helped boost the company's topline. On the other hand, cotton prices which averaged Rs3,534 up 20% YoY resulted in 24% growth in cost of goods sold. Gross margins resultantly improved by 821bps to 23% versus 15% last year.

Conversely, administration & distribution expenses increased by 39% as minimum wages of workers and gas tariff increased during the period. Furthermore, finance cost rose by 91% as higher KIBOR resulted in increase in borrowing rate for the company from 7.83% to 10.89% in 1HFY09.

Equity portfolio continues to provide cushion

Other income mainly derived from dividend income through MCB bank continues to provide strong cushion to NML's bottomline. Despite a decrease of 15% to Rs316mn, other income lent good support to NML's profitability during 1HFY09. With NML occupying 7% equity stake in MCB bank, decent dividends will continue to support bottomline, however, due to enhanced capital requirements for banks going forward we believe the quantum of dividend payout is likely to fall.

Accounts qualified

The reported results were qualified by the auditors as the company recognized the decline in fair value of available for sale investments in quoted companies in shareholder's equity instead of impairment loss through P&L in accordance with IAS 39. The management believed that the prices quoted on Dec 31, 2008 only showed movement of 15 days after the lifting of the price floor hence the decline in fair value cannot be regarded as significant and prolonged impairment. If the impairment loss was recognized through P&L, then NML would have posted a net loss of Rs1.9bn as against a profit of Rs1.2bn.

NML's revised earnings forecast / 'Buy' maintained

After incorporating latest results and developments and considering the current challenges for the sector on account of global recession, we have revised our earnings forecasts for NML. We now expect NML to post diluted EPS of Rs6.02 in FY09 and have downgraded the earnings for FY10 to Rs3.90 per share (see table below).

Table: NML's revised earnings forecast (diluted EPS)

	FY09E	FY10F	FY11F
Old	5.52	4.47	4.73
New	6.02	3.90	4.45

Source: JS Research

With our revised estimates, NML is currently trading at a forward PE of 4.2x for FY09 which is at 22% discount to the market's PE of 5.4x. Hence, we maintain our 'Buy' stance on Nishat Mills.

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Nishat Mills Limited	
Market Price: Rs25.11	Kats Code: NML
Market Cap: Rs4.0bn (US\$50.5mn)	Bloomberg Code: NML PA
1-yrs Avg. Daily Volume: 4.3mn shares, Rs446.7mn (US\$5.6mn)	Reuters Code: NISM.KA
1-year High/Low: Rs134.25/21.71	

Also in focus**IMF to start first economic review**

The new mission chief of IMF Mr. Adnan Mazarei is due to arrive in Pakistan today to formally initiate first IMF review on US\$7.6bn Standby Arrangement. After meeting senior officials in the finance ministry IMF's mission chief will head to Dubai to join Pakistani & IMF officials on the review process which would last till Feb 25, 2009. According to news reports, Pakistan is expected to request for a revision in tax collection & GDP growth targets to more realistic levels. Finance Adviser Mr. Shaukat Tarin had also raised concerns on Pakistan's ability to meet revenue targets given current shortfall in revenue collections.

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