

TGL

A scrip with promising growth potential, offering a return of 38%

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We initiate our coverage on Tariq Glass Limited (TGL) with a DCF based Dec-22 TP of Rs.175 which provides an upside potential of 38%. It also offers a dividend yield of around 9% which makes a total return of 47%

In spite of challenging macroeconomic conditions the company still managed to grow its revenues at a 5-year CAGR of 19% with stable margins in FY21. Going forward, we expect the company's revenues and earnings to grow at a 5-year CAGR of 15% and 26% respectively due to an increase in demand and strong pricing power

Furthermore, the potential venture with ICI Pakistan will further enhance the growth prospects of the company

Company Overview

Tariq Glass Industries Ltd. is principally engaged in the manufacturing and sale of, tableware and float glass with the production capacities of 275 and 1050 tons per day respectively. The company's production facility is situated in Sheikhpura, Pakistan. Glass & Ceramics is considered as one of the cyclic sectors along with the construction, cement, and steel sectors. However, this sector is not as vulnerable to the economic slowdown as the other sectors.

Promising Growth in Topline Despite Economic Slowdown

Despite economic ups and downs, the company's revenue has shown a growth of 64% YoY to Rs14.8bn in 1HFY22 followed by a growth of 41% YoY in FY21. The growth in revenues is attributed to a hike in prices and increased volumes. Going forward, we expect the company's revenues to grow at a 5-year CAGR of 15% to Rs38bn by FY26 due to the recent expansion. Furthermore, the housing projects initiated by the PM of Pakistan will also bolster the demand for Float glass products.

Upcoming Potential Venture to Boost Up the Profitability

The company's potential joint venture with ICI Pakistan is currently at the feasibility stage and waiting for regulatory and corporate approvals. ICI Pakistan is one of the major suppliers of soda ash in Pakistan and this will sufficiently reduce the cost of the TGL as soda ash is one of the major cost components of glass. We expect that the funds for this venture will be generated via a mix of debt and equity. However, we will wait for further confirmation from the management of the company in order to fully incorporate this venture in our estimates.

Ability to Raise Debt for Greenfield Expansion

The company's debt-to-equity ratio swelled to 1.16x in FY20 due to the recent brownfield expansion. However, the company has recently paid off a major part of its debt after which the debt to equity ratio has dropped down 0.47x. Therefore, the company has now sufficient capacity to add on more debt for the upcoming greenfield project with ICI Pakistan which will eventually boost up the top line of the company.

Diversified Product Portfolio

TGL has a diversified product portfolio, ranging from float glass to tableware. It allows the company to target various sectors and have diversified exposures. The company also exports its products to various countries. The revenue stream for FY21 stood at 56% and 44% for float glass and tableware respectively.

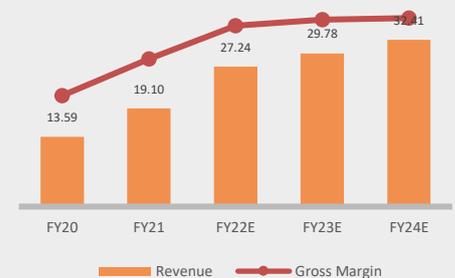
Key Statistics

| Symbol | TGL |
|----------------------|--------|
| TP - Dec 22 | 175.00 |
| LDPC | 127.00 |
| Upside (%) | 38 |
| Free Float ('mn) | 55 |
| Market Cap. (Rs.'mn) | 17,492 |

TGL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



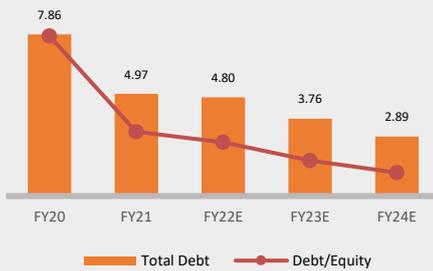
Sources: ACPL Research, Company Financials, PSX,

Nauman Naeem

Phone: (+92) 42 38302028; Ext: 116
Email: nauman@abbasiandcompany.com

Key Statistics

Total Debt (Rs'bn) vs Debt/Equity



Consistent Margins Amid No Reliance on Imports

The gross profit margin of TGL remained consistent at around 20% during the period of FY16 to FY21. In fact, it has surged to around 29% in 1HFY22. It is evident from the data that despite drastic changes in the economic cycle and surge in fuel prices, its GP margin remained almost stable and got improved over time due to the company's ability to adjust the prices of its products accordingly without affecting the demand. Furthermore, the company doesn't have to bear exchange rate risk as it is not dependent on imported raw material which makes it the most lucrative company within the construction sector amid an ongoing free float exchange rate regime.

Valuation

TGL is currently trading at a FY22E P/E of 4.05x. Furthermore, the scrip is also trading at a FY22E P/B of 1.39x which offers a discount of 41% relative to its historical 3-year average of 2.36x. We have a **BUY** stance on the script with a DCF based Dec-22 TP of Rs.175 which provides an upside potential of 38%. It also offers a dividend yield of around 9% which makes a total return of 47%.

Key Risks to Valuation

- Hike in prices of raw material
- Less than expected growth in demand

Sources: ACPL Research, Company Financials,

Financial Projections

| Rupees' millions | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net sales | 14,389 | 13,587 | 19,103 | 27,245 | 29,776 | 32,407 | 35,145 |
| Cost of sale | 11,571 | 11,387 | 14,988 | 20,065 | 21,661 | 23,500 | 25,450 |
| Gross profit | 2,818 | 2,200 | 4,115 | 7,180 | 8,115 | 8,907 | 9,695 |
| Selling and promotion expenses | 318 | 251 | 320 | 334 | 365 | 397 | 431 |
| Administration expenses | 238 | 272 | 296 | 313 | 342 | 373 | 404 |
| Other operating expenses | 136 | 94 | 243 | 458 | 500 | 544 | 590 |
| Operating Profit | 2,126 | 1,584 | 3,257 | 6,074 | 6,907 | 7,593 | 8,269 |
| Other operating income | 38 | 30 | 15 | 150 | 164 | 178 | 193 |
| Finance cost | 310 | 568 | 313 | 465 | 319 | 224 | 142 |
| Profit before taxation | 1,855 | 1,045 | 2,959 | 5,759 | 6,752 | 7,547 | 8,320 |
| Taxation | 531 | 284 | 849 | 1,440 | 1,688 | 1,887 | 2,080 |
| Profit after taxation | 1,324 | 762 | 2,109 | 4,319 | 5,064 | 5,660 | 6,240 |
| EPS | 9.61 | 5.53 | 15.31 | 31.36 | 36.77 | 41.10 | 45.31 |

Source: ACPL Research, Company Financials

Horizontal Analysis

| | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|--------------------------------|--------------|---------------|---------------|---------------|--------------|--------------|--------------|
| Net sales | 17.0% | -5.6% | 40.6% | 42.6% | 9.3% | 8.8% | 8.4% |
| Cost of sale | 16.0% | -1.6% | 31.6% | 33.9% | 8.0% | 8.5% | 8.3% |
| Gross profit | 21.3% | -21.9% | 87.1% | 74.5% | 13.0% | 9.8% | 8.8% |
| Selling and promotion expenses | -28.0% | -21.3% | 27.6% | 4.6% | 9.3% | 8.8% | 8.4% |
| Administration expenses | 11.9% | 14.2% | 8.9% | 5.9% | 9.3% | 8.8% | 8.4% |
| Other operating expenses | 29.8% | -30.7% | 157.9% | 88.5% | 9.3% | 8.8% | 8.4% |
| Operating Profit | 35.9% | -25.5% | 105.7% | 86.5% | 13.7% | 9.9% | 8.9% |
| Other operating income | 165.1% | -23.2% | -50.7% | 928.8% | 9.3% | 8.8% | 8.4% |
| Finance cost | 102.0% | 83.1% | -44.8% | 48.5% | -31.4% | -29.9% | -36.4% |
| Profit before taxation | 30.1% | -43.6% | 183.0% | 94.7% | 17.2% | 11.8% | 10.2% |
| Taxation | 61.9% | -46.5% | 199.2% | 69.5% | 17.2% | 11.8% | 10.2% |
| Profit after taxation | 20.6% | -42.5% | 177.0% | 104.8% | 17.2% | 11.8% | 10.2% |
| EPS | 20.6% | -42.5% | 177.0% | 104.8% | 17.2% | 11.8% | 10.2% |

Source: ACPL Research, Company Financials

Key Ratios

| Profitability Ratios | | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|----------------------|---|-------|-------|-------|-------|-------|-------|-------|
| GP Margin | % | 19.59 | 16.19 | 21.54 | 26.35 | 27.25 | 27.49 | 27.59 |
| OP Margin | % | 15.04 | 11.87 | 17.13 | 22.85 | 23.75 | 23.98 | 24.08 |
| NP Margin | % | 9.20 | 5.61 | 11.04 | 15.85 | 17.01 | 17.47 | 17.76 |
| ROE | % | 23.20 | 11.83 | 24.33 | 37.27 | 36.50 | 34.20 | 32.05 |
| ROCE | % | 19.50 | 10.52 | 18.19 | 32.46 | 35.05 | 36.06 | 36.39 |
| ROA | % | 11.93 | 4.97 | 11.72 | 22.53 | 25.10 | 26.27 | 26.83 |

| Liquidity Ratios | | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Current | x | 1.00 | 1.01 | 1.54 | 1.13 | 1.39 | 1.61 | 2.18 |
| Acid-test | x | 0.59 | 0.56 | 0.97 | 0.46 | 0.70 | 0.93 | 1.37 |

| Activity Ratios | | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|--------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Inventory Turnover | x | 7.77 | 6.67 | 7.59 | 6.88 | 5.41 | 5.43 | 5.42 |
| Inventory Days | | 22.85 | 31.47 | 24.17 | 35.00 | 35.00 | 35.00 | 35.00 |
| Receivables Days | | 78.01 | 95.00 | 60.22 | 80.00 | 80.00 | 80.00 | 80.00 |
| Payables Days | | 44.08 | 56.01 | 51.88 | 51.88 | 51.88 | 51.88 | 51.88 |
| Operating Cycle | | 56.78 | 70.46 | 32.50 | 63.12 | 63.12 | 63.12 | 63.12 |

| Investment Ratios | | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|-------------------|-----|--------|--------|--------|--------|--------|--------|--------|
| EPS | Rs. | 9.61 | 5.53 | 15.31 | 31.36 | 36.77 | 41.10 | 45.31 |
| DPS | Rs. | 4.00 | 0.00 | 12.00 | 16.00 | 18.00 | 21.00 | 23.00 |
| Div. Yield | % | 2.28 | 0.00 | 6.85 | 9.13 | 10.28 | 11.99 | 13.13 |
| Dividend Cover | x | 2.40 | 0.00 | 1.28 | 1.96 | 2.04 | 1.96 | 1.97 |
| BVPS | Rs. | 44.57 | 48.95 | 76.96 | 91.34 | 110.11 | 130.21 | 152.51 |
| Payout | % | 41.62 | 0.00 | 78.36 | 50.00 | 50.00 | 50.00 | 50.00 |
| Retention | % | 58.38 | 100.00 | 21.64 | 50.00 | 50.00 | 50.00 | 50.00 |
| No. of Shares | mn | 137.73 | 137.73 | 137.73 | 137.73 | 137.73 | 137.73 | 137.73 |
| P/E | | 13.21 | 22.97 | 8.29 | 4.05 | 3.45 | 3.09 | 2.80 |
| Sales per share | | 104.47 | 98.65 | 138.70 | 197.81 | 216.19 | 235.29 | 255.16 |
| P/BV | | 2.85 | 2.59 | 1.65 | 1.39 | 1.15 | 0.98 | 0.83 |
| Price to Sales | | 1.22 | 1.29 | 0.92 | 0.64 | 0.59 | 0.54 | 0.50 |

| Gearing Ratios | | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|---------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Debt to Equity | x | 0.87 | 1.16 | 0.47 | 0.38 | 0.25 | 0.16 | 0.10 |
| L.T. Debt to Equity | x | 0.36 | 0.59 | 0.39 | 0.31 | 0.18 | 0.09 | 0.02 |
| Interest Cover | x | 6.98 | 2.84 | 10.45 | 13.39 | 22.16 | 34.73 | 59.47 |

Source: ACPL Research, Company Financials

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DEFINITION OF TERMS

| | | | | | |
|-------------|---------------------------|-------------|-----------------------------|-------------|------------------------|
| TP | Target Price | CAGR | Compound Annual Growth Rate | FCF | Free Cash Flows |
| FCFE | Free Cash Flows to Equity | FCFF | Free Cash Flows to Firm | DCF | Discounted Cash Flows |
| PE | Price to Earnings Ratio | PB | Price to Book Ratio | BVPS | Book Value Per Share |
| EPS | Earnings Per Share | DPS | Dividend Per Share | ROE | Return of Equity |
| ROA | Return on Assets | SOTP | Sum of the Parts | LDCP | Last Day Closing Price |

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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| Stock Rating | Expected Total Return |
|--------------|----------------------------|
| BUY | Greater than 15% |
| HOLD | Between -5% to 15% |
| SELL | Less than and equal to -5% |

| Sector Rating | Sector Outlook |
|---------------|----------------|
| Overweight | Positive |
| Market Weight | Neutral |
| Underweight | Negative |

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RESEARCH DEPARTMENT

6 - Shadman, Lahore
Phone: (+92) 42 38302028; Ext 116, 117
Email: research@abbasiandcompany.com
web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore
Phone: (+92) 42 38302028
Email: info@abbasiandcompany.com
web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore
Phone: (+92) 42 37320707
Email: info@abbasiandcompany.com
web: www.abbasiandcompany.com