

December 18, 2023

Pakistan Chemical

WAHN PA: Analyst briefing takeaways

Wah Noble Chemicals Ltd. held its analyst briefing to comment on its financial result and future outlook of the company. Highlights of the session are given below:

- WAHN has posted highest ever revenue of ~PKR4.38bn in FY23 vs. PKR3.31bn in SPLY, up by 32% YoY. In 1QFY24, revenue increased by 45% YoY to clock in at PKR1.24bn. The higher revenue is mainly due to increase in product prices and better product mix. Similarly, gross margins of company increased by 6ppts/10ppts to clock in at 20%/22% in FY23/1QFY24. The improved margins is mainly due to better sales mix and optimal capacity utilization resulting in higher fixed cost absorption.
- According to management, local market is witnessing increased competition due to recent upswing in Irani goods. However, management is taking proactive steps to mitigate these risks.
- Company holds a market share of 20-25% in Urea Formaldehyde Moulding compound. In Formaldehyde segment, company has a market share of 40-45%, primarily concentrated in northern region. To note, Company has entered into new line of products which includes hand sanitizer, disinfectant spray, floor cleaner, toilet cleaner & phenyl. This is a nascent segment and management is working on different strategies to grow the segment. However, there are established players in the segment, which makes it a very competitive market.
- Commenting on expansion plans, management highlighted that they don't have any expansion plans due to intense competition from existing players and new entrants in industry.
- Regarding localization of products, management mentioned that they have conducted R&D on localization of methanol. However, due to unavailability of gas, company has explored feasibility on coal, which is not viable. Moreover, due to low capacity, it will not create any economies of scale.
- Commenting on growth outlook, management hinted that it hinges on political stability following Feb'24 elections. To highlight, company's revenue in upcoming quarter is expected inline with preceding quarter,

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- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

| | | | | | |
|-------------|---------------------------|-------------|-------------------------|-------------|-------------------------------|
| TP | Target Price | DCF | Discounted Cash Flows | FCF | Free Cash Flows |
| FCFE | Free Cash Flows to Equity | FCFF | Free Cash Flows to Firm | DDM | Dividend Discount Model |
| SOTP | Sum of the Parts | P/E | Price to Earnings ratio | P/Bv | Price to Book ratio |
| P/S | Price to Sales | EVA | Economic Valued Added | BVPS | Book Value per Share |
| EPS | Earnings per Share | DPS | Dividend per Share | DY | Dividend Yield |
| ROE | Return on Equity | ROA | Return on Assets | CAGR | Compounded Annual Growth Rate |

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