

Pakistan Textiles

NML PA: Revitalizing the core operation led by value added exports

Textile sector contributes ~60% of the country's exports, It also provides employment to around 40% of the labor force in Pakistan, keeping it in limelight. Due to its significant role in the economy, government has always kept a close eye on it and provided much needed relief whenever dark clouds have appeared. NML is one the biggest textile exporter of the country with exports of ~US\$377.4mn in FY23. Company's standalone revenue clocked in at PKR141.7bn in FY23 vs. PKR115.7bn in SPLY, up by ~22.4% YoY. To highlight, NML's topline has grown at a 5-year CAGR of 21%.

We reiterate 'BUY' stance on NML with a Dec'24 SOTP of PKR99.7/sh, providing ~31% upside. Our liking for the stock stems from the following facts i) Improving contribution from core textile business, ii) Dollarized revenue stream, iii) Diversified investment portfolio, iv) Beneficiary of reduction in interest rates and v) Strong brand equity.

Key risks to our valuation thesis includes i) Appreciation of PKR against USD, ii) Abrupt increase in energy costs iii) Slowdown in export orders and iv) Abrupt regulatory challenges.

Textile operations gaining ground

Over the last few year, performance of company's core textile business has witnessed a decent recovery. Operating profit of core textile business has recorded a 5-year CAGR of ~44%. During FY15-FY17, the average contribution of other income and core textile income was ~63% and 37%, respectively in total income (i.e. sum of core income & other income). While, the share has improved gradually and average contribution from core textile income is recorded at ~59% during FY21-FY23. This indicates improvement in performance of core business which is primarily driven by capacity enhancement across the spectrum and favorable dynamics.

Value added segment recording improvement

In FY23, company's value added export revenue clocked in at PKR62.1bn vs. PKR47.6bn in SPLY, up by 30% YoY. The value added exports have grown at a 3-year CAGR of 30%, thanks to extensive portfolio of value added goods i.e. home textile, terry and garments. The share of value added segment in total revenue stands at ~54%.

Region wise, company revenue comprises of 66% exports, 20% local and 14% local sales to direct exporters. European market is company's biggest export destination with share of ~46% in total exports, followed by America with contribution of ~17%, while rest of the sales is generated from Asia, Africa and Australia.

The company is working to grow its topline using organic and inorganic strategies. As per the management, to grow their garment segment management is expanding its work wear and denim unit. Furthermore, NML

Nishat Mills Limited

BUY

HOLD



NISHAT

SELL

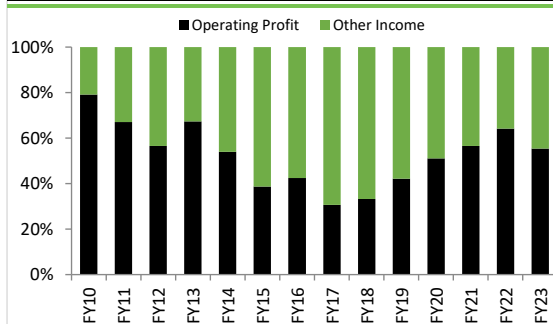
We recommend BUY with Dec'24 SOTP based target price of PKR100/sh, providing 31% Capital Upside

Current Price		76.0
Market cap	PKR b	26.7
Market cap	US\$ m	95.5
Free Float Market cap	US\$ m	38.2
30-day Avg. turnover	m Shares	1.1
30-day Avg. turnover	PKR m	83.1
52 week range	PKR/sh	49.4-86.24
Shares Outstanding	m	351.6
Free float	%	40%
Major Sponsors	Directors & Family	
Bloomberg Ticker	NML PA	

Financials (PKR m)	FY23	FY24E	FY25E
Sales	141,756	151,613	160,973
Cost of sales	120,678	132,082	139,959
Gross Profit	21,078	19,530	21,013
Operating Profit	22,333	22,846	18,843
Profit Before Tax	15,406	13,640	12,583
Profit after Tax	12,165	10,965	10,550
Key Ratios	FY23	FY24E	FY25E
EPS	34.6	31.2	30.0
DPS	5.0	5.4	6.0
Div. Yield	8%	7%	8%
P/E	1.7	2.4	2.5
P/B	0.2	0.3	0.2
ROE	14%	11%	10%

Source: Company Accounts, Insight Research

NML's Operating Profit vs Other Income (%)



Source: Company Accounts, Insight Research

has recently acquired a Denmark based company named Wermerfelt A/S, which specializes in workwear segment. The 100% acquisition will give the company more exposure in Denmark and also bridge the gap between NML and European market, it will act as an opportunity to capture the other markets in the region.

Diversified portfolio supporting bottom-line

NML has a strong portfolio of investments spread across many sectors such as cement, banking, power generation, automobiles etc. The diversified portfolio of companies can support the company's bottom-line in testing times as evident by company's sizeable dividend income. In FY23, NML's posted other income of PKR10.2bn vs. PKR5.6bn in SPLY, up by 83% YoY, the significant increase in other income is due to increase in dividend income which clocked in at PKR4.5bn in FY23 vs. PKR3.3bn SPLY, mainly attributable due to the dividend income from Nishat power and MCB.

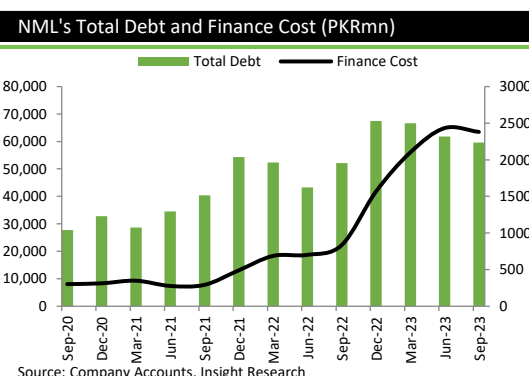
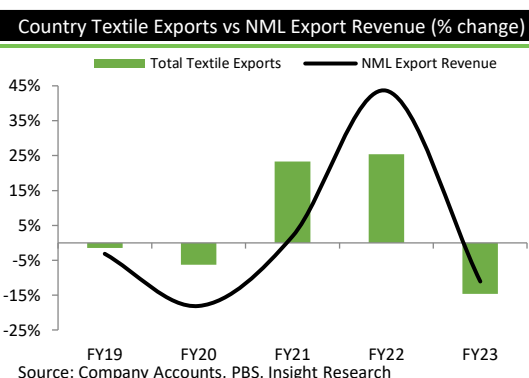
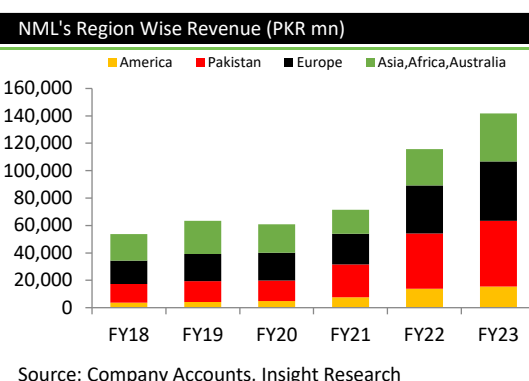
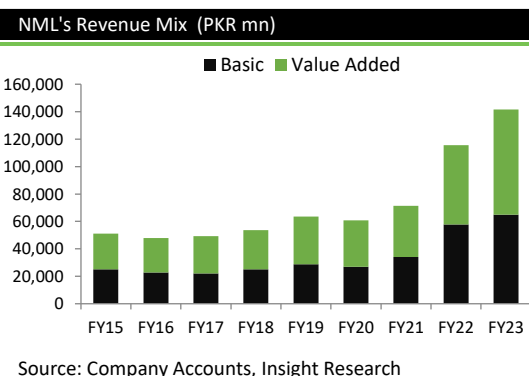
Going forward, we expect MCB to continue its decent payout ratio due to bank's favorable CASA ratio and adequate CAR level. Furthermore, govt's strong focus towards resolution of circular debt under IMF watch can result in improved liquidity for power generation companies, resulting in higher payouts.

Decline in borrowing rates to augment profitability

NML's total debt currently stands at PKR59.6bn in 1QFY24, translating into debt-to-asset ratio of 34%. Much of this debt is to meet working capital requirements as short term debt stands at PKR44.1bn. The linkage of ERF rate with policy rate has significantly impacted NML's financial charges which grew by ~3x YoY in FY23. Going ahead, decline in interest rates will have a magnified impact on company's profitability. As per our back of the envelop working, decline in benchmark rate by 2% will have an EPS impact of PKR2.65/sh on NML.

Sustainability is the future

NML is consistent in its commitment to environmental protection and sustainability. Company's focus on reducing the carbon footprint is evident through initiatives like increasing solar capacities, afforestation, and water treatment facilities. Currently, 14.2 MW of electricity is generated from solar power plants, with 2.562 MW under installation. The company's garment division has launched "Green Team Energy Campaign" to engages employees in minimizing company's ecological footprint. In 2022, company collaborated with WWF resulted in the planting of 2,000 trees, adding to ongoing efforts to offset carbon emissions and combat climate change. Through these collective efforts, company strive to align with the UN Sustainable Development Goals, reflecting commitment toward environmental and corporate responsibility. To highlight, company's primary exports are driven by Europe, and the company is well-prepared to comply with any carbon emission policies imposed by the EU. The EU has recently implemented the Carbon Border Adjustment Mechanism, affecting six sectors including cement, aluminum, hydrogen, iron and steel, fertilizer, and electricity for all imports from non-EU countries. It is anticipated that this mechanism will also be extended to the textile sector in upcoming years.



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Valuation Methodology: To arrive at our period end target prices, ISL uses different valuation methodologies including

- 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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