

## Pakistan Textiles

### GATM PA: Deleveraging to prop up earnings

GATM is one of the top exporter of the country. Company's direct and indirect export sales clocked in at PKR108.6bn in FY23. Whereas, GATM's dollarized revenue has grown at a 5-year CAGR (FY19-23) of 6% mainly attributable to capacity expansion in spinning and weaving division which grew at a 5-year CAGR (FY19-23) of 15% and 7%, respectively. The stock is currently trading at a TTM P/E, P/S and P/B of ~3.66/0.10/0.35, against its 10 year average P/E, P/S and P/B of ~8.70/0.27/1.08, exhibiting a discount of ~58%/63%/68%. Therefore, despite near term challenges like hike in gas tariff and elevated interest rates, we opine that the stock is currently trading at a deep discount to its historic valuation.

We reiterate 'BUY' stance on GATM with a Dec'24 TP of PKR28/sh, providing ~37% upside. Our liking for the stock stems from the following facts i) Dollarized revenue stream, ii) continued enhancement in asset base, iii) Ideas IPO to further unlock valuation, iv) potential rate cut and deleveraging to enhance bottom line and v) Trading at cheap valuation.

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.

#### Gambit to pay off

GATM has strategically increased its asset base from PKR9.03bn in FY15 to PKR54.7bn in FY23, recording a CAGR of ~25%. Company has aggressively increased its assets base by taking an advantage of LTFF and EFS schemes. However, company has now put a hold on further capex and focusing on deleveraging. Consequently, company anticipates to reap the benefit of its aggressive capital investments and is currently strategizing not to undertake further CAPEX while prioritizing reduction in debt.

#### Deleveraging to improve profitability

The aggressive capital expenditures undertaken by the company have resulted in a higher level of debt, with the current debt standing at PKR55.3bn. Company's short term debt comprises of 59% of the total debt. In FY23, company's finance cost clocked in at PKR7.3bn vs PKR3.9bn in SPLY, up by ~87% YOY. The increase in finance cost is mainly attributable to a higher effective interest rate. However, the company is actively working to decrease its short-term debt, successfully reducing it from PKR40.4bn in 3QFY23 to PKR32.6bn in 1QFY24. We expect the company to continue deleveraging, which will help to cut down finance cost and is expected to increase its bottom line.

Moreover, inflationary pressures are currently easing, and there are expectations for interest rates to decrease. Based on our back of the envelope

#### Gul Ahmed Textile Mills

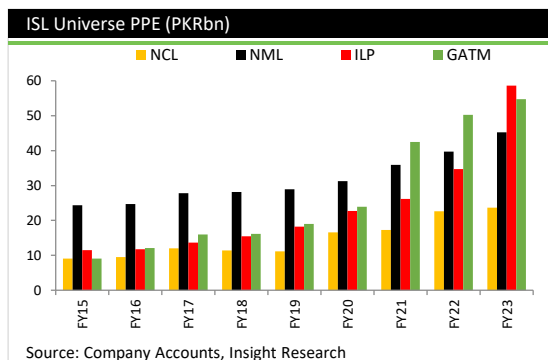
**BUY** **HOLD** **SELL**

We recommend BUY with Dec'24 TP based target price of PKR28/sh, providing 37% Capital Upside

Current Price	20.2
Market cap	PKR b 15.0
Market cap	US\$ m 53.6
Free Float Market cap	US\$ m 13.4
30-day Avg. turnover	m Shares 0.7
30-day Avg. turnover	PKR m 15,519
52 week range	PKR/sh 16.45-26.81
Shares Outstanding	m 740.1
Free float	% 25%
Major Sponsors	Gul Ahmed Holding
Bloomberg Ticker	GATM PA

Financials (PKR m)	FY23	FY24E	FY25E
Sales	138,927	173,849	191,500
Cost of sales	110,747	144,056	157,106
Gross Profit	28,180	29,793	34,395
Operating Profit	14,312	14,138	13,989
Profit Before Tax	6,996	6,620	8,878
Profit after Tax	4,897	4,511	6,574
Key Ratios	FY23	FY24E	FY25E
EPS	6.6	6.1	8.9
DPS	-	-	2.0
Div. Yield	0%	0%	10%
P/E	3.1	3.3	2.3
P/B	0.4	0.3	0.3
ROE	12%	10%	13%

Source: Company Accounts, Insight Research



working, a 2% decrease in the benchmark rate would lead to an EPS impact of ~PKR0.65 for GATM.

## Ideas to drive growth

Ideas by Gul Ahmed offers multiple product categories such as clothing, fragrance and home textile. Retail segment has been a substantial contributor to GATM's profitability, Historically retail margins remained at ~31%. Company has also expanded its Ideas outlets to over 110 locations all over Pakistan. Going forward, we expect the segment profitability to continue momentum due to rapid urbanization and an increase in demand for branded clothes.

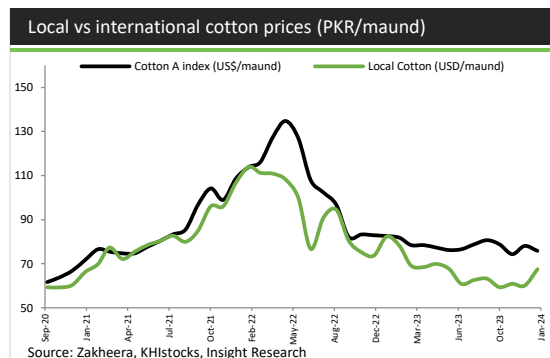
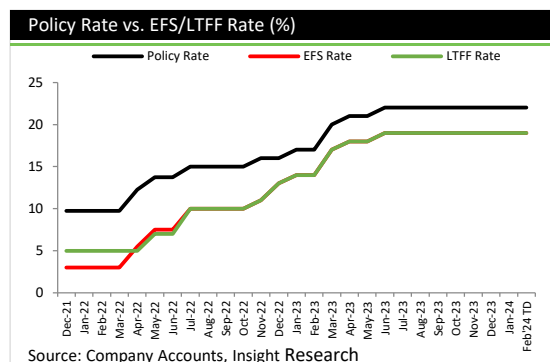
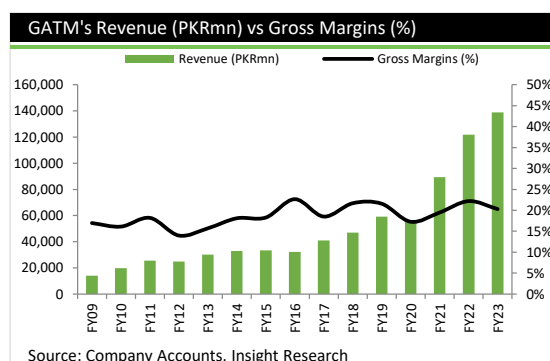
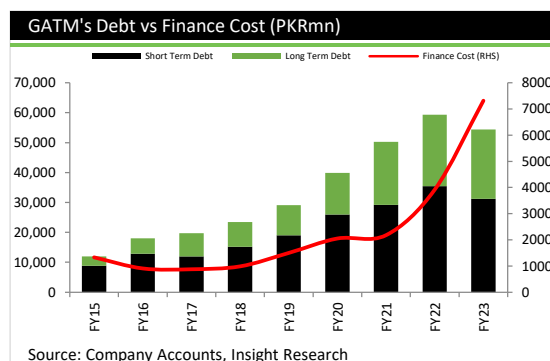
The sluggish performance of the capital market in last few years has deterred management from proceeding with the launch of an IPO of Ideas. Now the capital market has shown an outstanding performance giving a return of ~31% FYTD. We believe this could be an opportune time for the company to enter in the market with an overdue IPO. If the company decides to launch an IPO at this moment, it will be aligned with market dynamics and could yield favorable outcomes to achieve their goal. This involves increasing company's presence in international and local markets, as well as setting up new manufacturing units in special economic zones to avail the benefit of lower taxes.

## Resurgence in cotton crop

Cotton arrivals witnessed a significant jump of ~75% YoY, to clock in at 8.35mn bales till Jan'24 vs 4.76mn bales in SPLY. The increase in cotton arrivals has increased the spread between local and international cotton prices, as international cotton prices has reached US\$75.8/maund in Jan'24, while local cotton prices were hovering at ~US\$67.5/maund. The improved quality of local cotton and rising arrivals from Sindh will help domestic manufactures to enjoy lower raw material cost.

## Nurturing a greener future

The Western world is getting more focused on sustainability. All the firms in European countries are now required to report on imported products that are deemed "carbon emission intensive". Going forward from 2026, new regulations in European countries also require the financial offsetting of all carbon emissions. In anticipation of potential restrictions on unsustainable goods, companies like GATM are prioritizing sustainability. GATM drives ~74% of its revenue from direct and indirect exports and is significantly focusing on environment friendly and sustainable products. During FY20-FY22, company has incorporated recycled materials into their raw materials, increasing the proportion of renewable materials from ~70% to 76%. Similarly, company transitioned to paper-based packaging, reducing dependence on plastic. GATM's dedication to environmental causes is further demonstrated through substantial investments in wastewater treatment and solar power plant facilities totaling ~PKR658.3mn and PKR34.2mn, respectively.



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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

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

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