

Pakistan Elektron Limited (PAEL)

REP-091
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- PAEL share price has declined by ~15% since CYTD which has brought the stock in limelight. PAEL is currently trading at CY18E and CY19E P/E of around 7.8x and 7.3x respectively. We have a BUY stance on the scrip with a target price of Rs54 (possible upside 28%).
- With the disappointing sales performance in the home appliances division in 1QCY18 we expect **PAEL home appliance's segment sales to bounce back owing to 1) seasonal demand of air conditioners and refrigerators 2) improved personal income 3) improved standard of living and urbanization trend and 4) improvement in electricity availability**
- Major power projects are about to commence in the near future, now we expect the focus of govt. on improvement in T&D network. We expect PAEL being the market leader in transformer and switch gear will be the major beneficiary

1QCY18 Result Highlights

- PAEL posted 1QCY18 profit after tax of Rs536mn (EPS: Rs0.97) as compared to Rs1.1bn (EPS: Rs2.02) in the same period of last year, down by 52% owing to lower sales of appliances, which is due to lower sales of refrigerators (which contributes around 44% in total revenue of the company). PAEL gross margins have also declined by 183bps YoY to 29.03%, which is due to increase in raw material prices, devaluation of PKR and higher discount on appliances due to stiff competition

Revenue is Expected to Rebound

- Since the start of CY18 PAEL share price has decline by ~15% due to World Bank debarment of PAEL for 33months from taking part in any project bidding and lower than estimated appliances growth led to lower earning of 1QCY18
- Our discussion with management regarding WB decision of debarment on PAEL, suggests that this is not significant in nature because the orders they received from WB in past were not of large amount. Further they are still getting orders from WAPDA which is their major customer
- On the appliances segment we expect sales to bounce back due to seasonal demand pickup in summer season. However, high competition in the home appliance industry and changing dynamics of the industry where companies offer a higher discount which lead PAEL to give a discount of Rs7.2bn (17% of total revenue) to the dealer last year, we expect this trend is likely to continue going forward

Power Division– Still more to come

- After installation of power plants the next priority of the government target is to improve **transmission and distribution network**. According to Nepra's report IESCO and LESCO plan to invest Rs28bn and Rs103bn in FY18 and FY19 respectively under MYT regime
- We expect PAEL being the major supplier of IESCO, LESCO and market leader in transformer (80% market share in power transformers and 39% market share in distribution transformers) and switch gear (25% market share) is the major beneficiary if the projects materialize
- Furthermore, the feasibility of Special Economic Zones (SEZ) in the CPEC route (include 9 SEZs in different parts of country with covered area of more than 9,000 acres) has been completed and this will further boost the power division revenue specially EPC Contracts once the work commence. PAEL currently has Rs3.7bn worth of EPC contracts which is expected to materialize during CY18

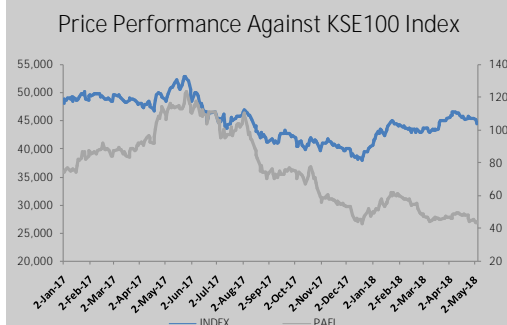
Valuation

We expect PAEL to post CY18E and CY19E EPS of Rs5.38 and Rs5.80 respectively, currently trading at CY18E and CY19E P/E of 7.8x and 7.3x. We have a BUY stance on the scrip with the target price of Rs54, providing upside of 28% from LCP.

Key Risks

- Devaluation of PKR against USD · Increase in Raw Material Prices · Higher Competition

KATS Symbol	PAEL
Reuters Symbol	PKEL.KA
Target Price	Rs54
Closing Price	Rs42.15
Outstanding Shares (mn)	497.68
Free Float (mn)	248.84
Market Cap (mn Rs)	20,977



Source: PSX

PAEL KEY EARNING INDICATORS

	CY17A	CY18E	CY19E
EPS	6.02	5.38	5.80
P/Ex	7.00	7.83	7.27
Dividend	2.70	2.50	3.00
D/Y	6.4%	5.9%	7.1%
GM	29.4%	27.1%	26.2%

Source: Co. Financials, AS Research

Investment Plan IESCO & LESCO

Rs in mn	2017-18	2018-19	2019-20
IESCO	6,719	8,593	30,359
LESCO	21,459	20,073	93,832

Source: Nepra

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Valuation Methodology

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method (P/E, P/B etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

Rating

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price



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