

## FY21 earnings grew 1.1x to clock in at PKR 60.30/ share

- ICI Pakistan announced its FY21 results, where the company reported profit after tax of PKR 5.6bn (PKR 60.30/share). 4QFY21 PAT settled at PKR 990mn (PKR 10.72/share). The result was below our expectations and the major variation came from lower than estimated increase in revenue and contraction in gross margins during the last quarter. Along with the result the company also announced final cash dividend of PKR 20/share, taking cumulative pay out to PKR 40/share for FY21.
- ICI's sales during 4QFY21 grew 56% YoY to PKR 16.7bn, taking FY21 revenue to PKR 64.8bn (up 17% YoY). The growth in revenue can be attributable to improvement in overall performance.
- Gross margins during the year increased 2.6pps YoY to 23%. On a quarterly basis, gross margin expanded 2.4pps YoY. However, it is pertinent to note that on sequential basis, gross margins declined 4.7pps to 21% in 4QFY21, possibly due to increase cost of energy.
- Finance cost during the period declined 51% YoY to PKR 929mn, on the back of a significant decline in the company's debt, owing to improved cash generation and lower interest rates.
- Moreover, during 4QFY21 the company recognised a profit of PKR 125mn (Pre-tax impact of PKR 1.35/share) from its associate NutriCo Pakistan (Private) Limited, taking annual contribution from the associate to PKR 527mn (Pre-tax impact of PKR 5.70/share).
- We change our stance to 'HOLD' on ICI, while we revise our Dec-21 price target (PT) to PKR 883/share, indicating a downside of 2% along with a dividend yield of 4.5%.

### Key Data

|                         |        |
|-------------------------|--------|
| PSX Ticker              | ICI    |
| Target Price (PKR)      | 883    |
| Current Price (PKR)     | 898    |
| Upside/(Downside) (%)   | -2%    |
| Dividend Yield (%)      | 4.5%   |
| Total Return (%)        | + 3%   |
| 12-month High (PKR)     | 945    |
| 12-month Low (PKR)      | 671    |
| Outstanding Shares (mn) | 92     |
| Market Cap (PKR mn)     | 82,944 |
| Year End                | June   |

Source: Company Accounts, Akseer Research

### Financial Estimates

|                               | 4QFY20       | 4QFY21       | YoY         | FY20          | FY21          | YoY         |
|-------------------------------|--------------|--------------|-------------|---------------|---------------|-------------|
| Net Sales                     | 10,711       | 16,681       | 56%         | 55,256        | 64,766        | 17%         |
| Cost of Sales                 | 8,765        | 13,257       | 51%         | 44,241        | 50,184        | 13%         |
| <b>Gross Profit</b>           | <b>1,945</b> | <b>3,424</b> | <b>76%</b>  | <b>11,015</b> | <b>14,582</b> | <b>32%</b>  |
| Distri. & Admin. Exp.         | 1,368        | 1,829        | 34%         | 5,397         | 6,537         | 21%         |
| Other Income                  | 49           | 60           | 23%         | 163           | 232           | 43%         |
| Other Charges                 | 72           | 164          | 130%        | 730           | 614           | -16%        |
| Finance Cost                  | 448          | 234          | -48%        | 1,891         | 929           | -51%        |
| Profit from Associate         | 88           | 125          | 41%         | 431           | 527           | 22%         |
| <b>Profit Before Tax</b>      | <b>195</b>   | <b>1,381</b> | <b>608%</b> | <b>3,591</b>  | <b>7,261</b>  | <b>102%</b> |
| Taxation                      | 79           | 471          | 494%        | 1,158         | 2,032         | 75%         |
| <b>Net Income</b>             | <b>116</b>   | <b>910</b>   | <b>687%</b> | <b>2,433</b>  | <b>5,229</b>  | <b>115%</b> |
| NCI                           | 100          | 80           | -20%        | 166           | 341           | 105%        |
| <b>Attributable to parent</b> | <b>215</b>   | <b>990</b>   | <b>360%</b> | <b>2,599</b>  | <b>5,569</b>  | <b>114%</b> |
| EPS                           | 2.33         | 10.72        |             | 28.14         | 60.30         |             |
| DPS                           | 5.00         | 20.00        |             | 16.00         | 40.00         |             |

Source: Company Accounts, Akseer Research

### Key Financial Ratios - Consolidated

|                | FY18A | FY19A | FY20A | FY21F | FY22F | FY23F |
|----------------|-------|-------|-------|-------|-------|-------|
| EPS            | 35.51 | 27.34 | 28.14 | 60.30 | 63.80 | 75.05 |
| EPS Growth     | 0%    | -23%  | 3%    | 114%  | 6%    | 18%   |
| DPS            | 16.50 | 9.00  | 16.00 | 40.00 | 33.00 | 37.00 |
| PER            | 25.3  | 32.8  | 31.9  | 14.9  | 14.1  | 12.0  |
| Dividend Yield | 1.8%  | 1.0%  | 1.8%  | 4.5%  | 3.7%  | 4.1%  |
| EV/EBITDA      | 13.8  | 13.2  | 11.5  | 9.1   | 8.0   | 6.6   |
| P/B            | 4.1   | 3.9   | 3.7   | 3.5   | 3.1   | 2.7   |
| ROE            | 17.1% | 12.2% | 11.9% | 24.0% | 22.5% | 22.9% |

Source: Company Accounts, Akseer Research

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### Valuation Basis

Our PT for ICI Pakistan Limited (ICI) has been computed using Free cash flow to equity (FCFE) method. We have used a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

### Investment Thesis

We have a 'HOLD' recommendation on the stock based on our revised PT of 883/share. Our price target indicates a downside of 2% along with a dividend yield of 4.5%. Our investment case is based on 1) healthy contribution from Soda Ash business, 2) contributin from company's Morinaga prject, 3) growth in Life sciences and chemical divisions and 4) improved profitability from PSF segment.

### Risks

Key risks to our investment thesis include 1) Supply glut in global Soda Ash market, 2) Deterioration of PSF margins, 3) fluctutation in exchange rate, 4) Lower than expected growth in Life Sciences and Chemicals business and 5) Lower than expected profitability from Morinaga project.

### Company Description

ICI is engaged in the manufacture of polyester staple fibre, POY chips, soda ash, specialty chemicals, sodium bicarbonate and polyurethanes; marketing of seeds, toll manufactured and imported pharmaceuticals and animal health products; and merchenting of general chemicals and manufacturing of master batch. The Company's registered office is situated at 5 West Wharf, Karachi.

### Financial Highlights - ICI

| Income Statement (PKR mn) - Consolidated |              |              |               |               |               |               |
|--|--------------|--------------|---------------|---------------|---------------|---------------|
|  | FY18A        | FY19A        | FY20A         | FY21F         | FY22F         | FY23F         |
| Net sales                                | 49,992       | 59,382       | 55,256        | 64,766        | 72,905        | 84,014        |
| Cost of sales                            | 41,005       | 49,637       | 44,241        | 50,184        | 56,108        | 64,186        |
| <b>Gross Profit</b>                      | <b>8,987</b> | <b>9,745</b> | <b>11,015</b> | <b>14,582</b> | <b>16,797</b> | <b>19,829</b> |
| SG & A                                   | 4,384        | 4,802        | 5,397         | 6,537         | 7,608         | 8,840         |
| <b>Operating Profit</b>                  | <b>4,602</b> | <b>4,943</b> | <b>5,618</b>  | <b>8,045</b>  | <b>9,189</b>  | <b>10,988</b> |
| Other income                             | 156          | 131          | 163           | 232           | 194           | 198           |
| Other charges                            | 757          | 711          | 730           | 614           | 558           | 665           |
| Finance cost                             | 654          | 1,486        | 1,891         | 929           | 1,167         | 1,259         |
| Profit from Associate                    | 586          | 526          | 431           | 527           | 617           | 648           |
| <b>Profit before tax</b>                 | <b>3,934</b> | <b>3,404</b> | <b>3,591</b>  | <b>7,261</b>  | <b>8,275</b>  | <b>9,911</b>  |
| Taxation                                 | 636          | 867          | 1,158         | 2,032         | 2,286         | 2,742         |
| <b>Profit after tax</b>                  | <b>3,298</b> | <b>2,537</b> | <b>2,433</b>  | <b>5,229</b>  | <b>5,989</b>  | <b>7,169</b>  |
| NCI                                      | (18)         | (11)         | 166           | 341           | (96)          | (238)         |
| <b>Attributable to parent</b>            | <b>3,280</b> | <b>2,525</b> | <b>2,599</b>  | <b>5,569</b>  | <b>5,893</b>  | <b>6,931</b>  |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) - Consolidated |               |               |               |               |               |               |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                       | FY18A         | FY19A         | FY20A         | FY21F         | FY22F         | FY23F         |
| PPE                                   | 24,064        | 27,570        | 27,017        | 29,372        | 31,461        | 33,234        |
| Other LT assets                       | 1,620         | 1,974         | 1,677         | 1,678         | 2,488         | 3,258         |
| Non-Current Assets                    | 25,684        | 29,543        | 29,013        | 31,283        | 34,098        | 36,556        |
| Current assets                        | 19,328        | 19,898        | 19,372        | 20,180        | 21,728        | 26,515        |
| <b>Total Assets</b>                   | <b>45,013</b> | <b>49,441</b> | <b>48,385</b> | <b>51,463</b> | <b>55,826</b> | <b>63,071</b> |
| Non-Current liabilities               | 10,272        | 11,316        | 10,542        | 11,129        | 11,430        | 12,119        |
| Current liabilities                   | 14,708        | 16,733        | 15,319        | 16,458        | 17,486        | 20,057        |
| <b>Total Liabilities</b>              | <b>24,980</b> | <b>28,049</b> | <b>25,861</b> | <b>27,588</b> | <b>28,916</b> | <b>32,176</b> |
| Equity                                | 20,033        | 21,393        | 22,524        | 23,875        | 26,910        | 30,895        |
| <b>Total Equity &amp; liabilities</b> | <b>45,013</b> | <b>49,441</b> | <b>48,385</b> | <b>51,463</b> | <b>55,826</b> | <b>63,071</b> |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) - Consolidated |                |              |              |              |              |               |
|--|----------------|--------------|--------------|--------------|--------------|---------------|
|  | FY18A          | FY19A        | FY20A        | FY21F        | FY22F        | FY23F         |
| Net Income                                 | 3,280          | 2,525        | 2,599        | 5,569        | 5,893        | 6,931         |
| Non-cash Charges                           | 2,474          | 2,712        | 2,905        | 2,741        | 2,986        | 3,203         |
| <b>Operating Cash flows</b>                | <b>(1,654)</b> | <b>4,158</b> | <b>7,528</b> | <b>9,043</b> | <b>8,504</b> | <b>10,974</b> |
| <b>FCFF</b>                                | <b>(6,902)</b> | <b>(952)</b> | <b>6,139</b> | <b>4,701</b> | <b>4,359</b> | <b>6,994</b>  |
| Net borrowings                             | 8,844          | 1,962        | (3,264)      | 1,409        | 1,028        | 1,718         |
| <b>FCFE</b>                                | <b>1,394</b>   | <b>(98)</b>  | <b>1,594</b> | <b>5,442</b> | <b>4,542</b> | <b>7,802</b>  |
| Net change in cash                         | 421            | (1,263)      | 126          | 1,223        | 1,684        | 4,855         |
| <b>Closing cash</b>                        | <b>1,687</b>   | <b>424</b>   | <b>550</b>   | <b>1,773</b> | <b>3,457</b> | <b>8,312</b>  |

Source: Company Accounts, Akseer Research

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|--------|-------------------------------|
| Buy    | Greater than or equal to +15% |
| Hold   | Between -5% and +15%          |
| Sell   | Less than or equal to -5%     |

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