

Pakistan

PABC PA Subscribe

Floor price	Rs	35.0
Jun-22 Target Price	Rs	43.4
Upside/Downside	%	24.0
Subscribe price	Rs	36.7
- Discounted Cashflows		
Sector		MISCELLANEOUS
Market cap	Rs bn	12.6
30-day avg turnover	\$ m	na
Market cap	\$ m	80.6
Freet float	%	26%
Shares issued	m	361.1

Investment fundamentals

Year end Dec		2020A	2021E	2022E	2023E
Net Revenues	mn	5,084	6,569	7,558	8,621
EBITDA	m	1,356	1,780	1,894	2,205
EBITDA growth	m	25%	31%	6%	16%
PBT	m	698	1,286	1,330	1,646
Recurring prof.	%	698	1,286	1,330	1,646
Net Profit	m	611	1,141	1,192	1,528

EPS reported	Rs	1.7	3.2	3.3	4.2
Revenue Growth	%	5.7	29.2	15.1	14.1
EPS growth	%	319.2	86.9	4.5	28.2
PE	x	20.7	11.1	10.6	8.3

DPS	Rs	-	-	1.3	1.4
Div. Yield	%	-	-	3.7	4.0

ROA	%	6.9	11.9	10.7	12.5
ROE	%	21.5	30.7	25.3	27.0
EV/EBITDA	x	12.6	9.5	8.8	7.3
Net D/E	x	(0.3)	(0.0)	(0.2)	(0.2)
Price to Book	x	4.0	2.9	2.5	2.0
Price to Sales	x	2.5	1.9	1.7	1.5

PABC Transaction summary

Total issued shares	361.1
Shares offered for sale (mn sh)	93.9
Book Building (mn sh)	70.4
IPO (mn sh)	23.5
Floor price (Rs/sh)	35.0
Cap price (Rs/sh)	49.0

Source: Foundation Research, June 2021
(all figures are in Rs unless noted)

Analysts

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Foundation Securities (Pvt) Ltd

Tuesday, June 22, 2021

Pakistan Aluminium Beverage Cans Limited

Cautiously Optimistic! Subscribe

Event

▪ The underdeveloped market of aluminum beverages cans manufacturing provides upside with its potential to be capitalized by Pakistan Aluminum Beverages Cans Limited (PABC), as it is the only manufacturer to the market segment. Pakistan currently has the lowest soft drink consumption per capita hence this low base will stimulate the growth on the higher end. PABC would benefit from (1) increasing beverages sales and shift to cans, (2) better supply chain and (3) Increasing export revenue. Hence, we recommend subscribing to the IPO up to the price of Rs36.7/sh.

Impact

▪ **About the issue:** The present offer comprises of 93.88mn ordinary shares (26% of paid-up- capital), of which 70.4mn (75%) ordinary shares will be issued via book building (June 22 & 23) at a floor price of Rs35/sh. While the remaining 25% (23.5mn shares) will be issued to the general public through public subscription (on June 29 & 30). The issue would generate Rs3.3bn at floor price. To highlight, this offer for sale includes divestment of shares by Ashmore Mauritius PABC limited of their shares held in the company. Furthermore, Ashmore has also signed an agreement to sell another 18.1/72.2mn shares of the company at Rs30.80/31.85/sh in a private placement.

▪ **Strong economic recovery post COVID outbreak to boost exports and local sales:** PABC utilization levels are expected to remain on higher side due to (1) increase demand for soft drink (up 26/9% YoY in Apr'21/10MFY21), (2) positive response of exports in Central Asia and USA, and (3) increased penetration of cans. Furthermore, currently 3.6% of soft drink sales attribute to aluminum can sales which is expected to rise to 5-6% in 2025 increasing company's sales to 650mn cans/annum.

▪ **PABC location to provide strategic advantage over competitors:** The strategic location of factory in Faisalabad runs efficient transportation costs by being in the center of country providing an edge against imports docked in Karachi and then transported up north. Since local production has started PABC provided lesser lead time and cost-effective solution to its customers. This strategic location also provides effective trade routes to Afghanistan and Central Asia region. The company also entertained by 10-year tax holiday under SEZ Act'12.

▪ **Increasing Export base:** Exports for PABC in Afghanistan constitutes about 35% of total sales and captures over 50% market share of Afghan aluminum beverages cans demand. Furthermore, PABC has also signed agreements and initiated exports to leading beverage player in USA and Tajikistan.

Key Catalysts & Risks

▪ **Key catalysts:** (1) Capacity commissioning, (2) higher exports in Central Asia region and (3) acquisition of new domestic clients.

▪ **Key risks:** (1) increase in raw material prices, (2) instability in Afghanistan to hinder exports and (3) increase in policy rate.

Recommendation

▪ We advise investors to 'Subscribe' the issue up to Rs36.7/sh.

Fig 01: PABC sales contribution from major customers

Customer	Origin	CY18	CY19	CY20
Pakistan Beverages Ltd	Pakistan	15%	20%	22%
Afghanistan Beverages Industry	Afghanistan	35%	25%	21%
Coca Cola Beverages Pakistan Ltd.	Pakistan	23%	21%	19%
Sukkur Beverages Ltd.	Pakistan	7%	6%	9%
Zalal Mowafaq Industrial Co. Ltd	Afghanistan	0%	8%	9%
Habib Gulzar Beverage Ltd.	Afghanistan	4%	9%	7%
Others		15%	10%	12%

Source: Prospectus, Foundation Research, June 2021

Fig 02: PABC list of suppliers of raw materials

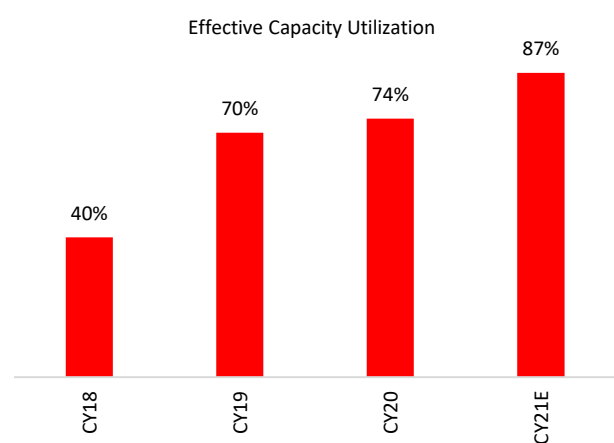
Customer	Raw material	Country	CY18	CY19	CY20
Novelis	Aluminium coils	South Korea	63%	60%	58%
YANTAI JINTAI INTERNATIONAL TRADE CO LTD	Aluminium coils	China	2%	1%	4%
NAFCEL	Can Ends	China	25%	15%	10%
BAO FENG	Can Ends	China	2%	10%	19%
REXAM UNITED ARAB CAN MANUFACTURING COMPANY	Can Ends	UAE	2%	0%	0%
CAN PACK MIDDLE EAST LLC	Can Ends	UAE	19%	9%	1%

Source: Prospectus, Foundation Research, June 2021

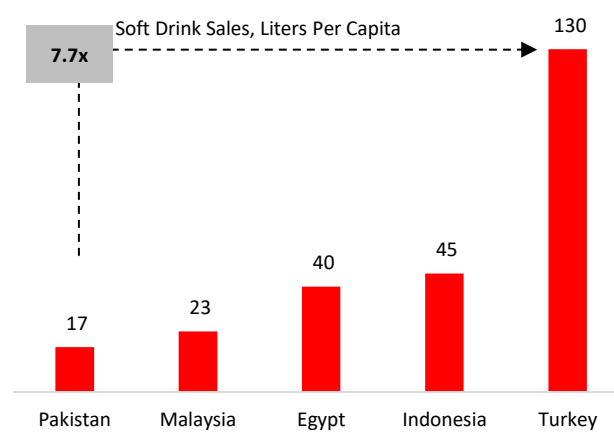
Fig 03: Duty structure on imports of aluminium beverage cans and related items

Particulars	Finished cans	Layer pads	Chemicals
Customs duty	20%	20%	20%
Additional custom duty	7%	7%	7%
Additional sales tax	3%	-	-
Regulatory duty	10%	-	5%

Source: Prospectus, Foundation Research, June 2021

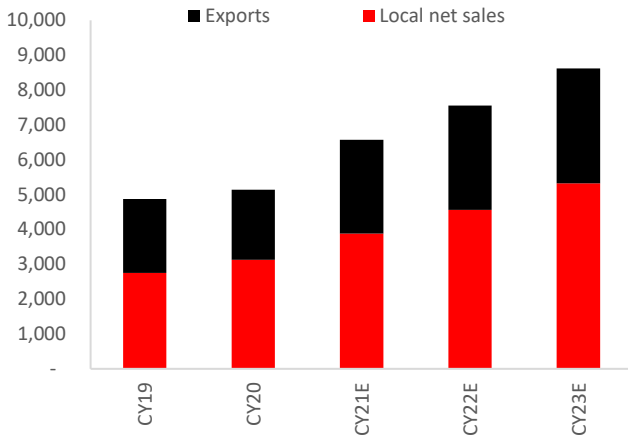
Fig 4: Capacity utilization to remain on higher side

Source: Company Prospectus, FSL Research, June 2021

Fig 5: Immense room for capacity additions

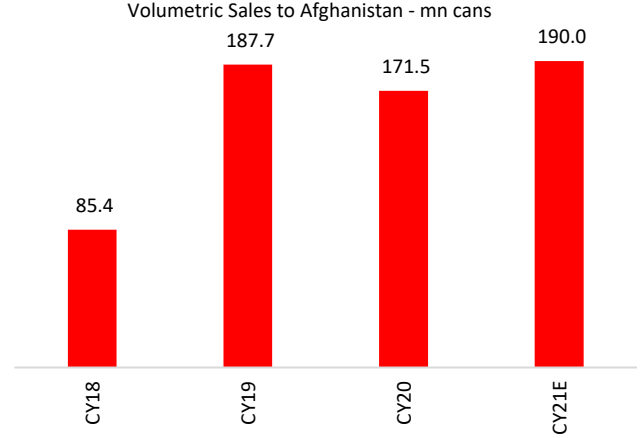
Source: Company Prospectus, FSL Research, June 2021

Fig 6: Exports to Afg & central Asia to fuel growth (Rs)



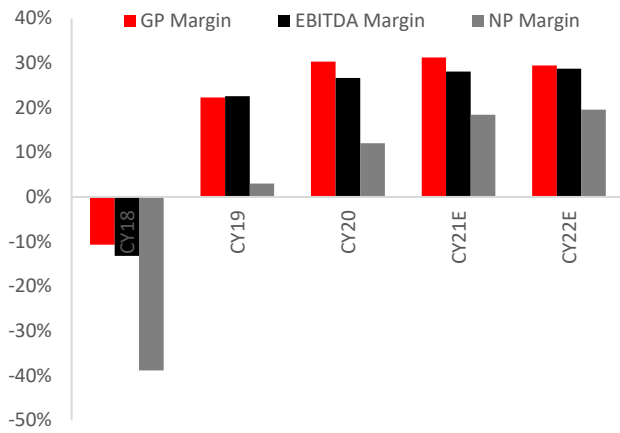
Source: Company Prospectus, FSL Research, June 2021

Fig 7: Instability in Afghanistan can hit exports in future



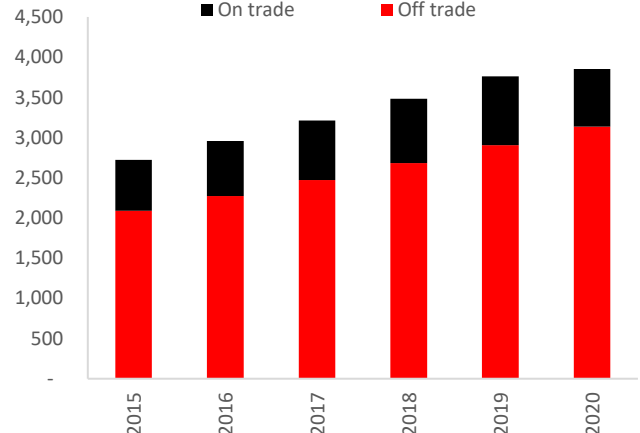
Source: Company Prospectus, FSL Research, June 2021

Fig 8: Further ↑ in margins to remain restricted



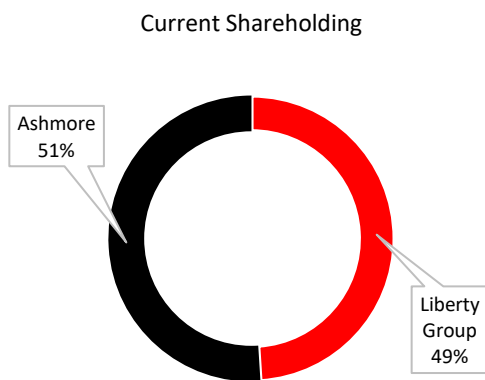
Source: Company Prospectus, FSL Research, June 2021

Fig 9: COVID led restrictions led to ↓ in on-trade sales



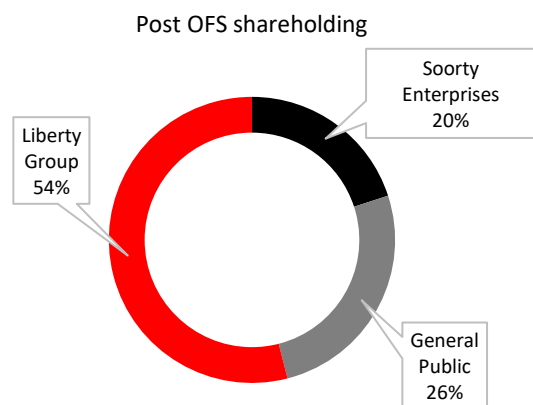
Source: Company Prospectus, FSL Research, June 2021

Fig 10: Pattern of shareholding before OFS



Source: Company Prospectus, FSL Research, June 2021

Fig 11: Pattern of shareholding after OFS



Source: Company Prospectus, FSL Research, June 2021

Fig 12 : Pakistan Aluminium Beverage Cans Limited (PABC PA, 'Subscribe', up to Rs36.7/sh)

Balance sheet						Profit & Loss					
		FY20A	FY21E	FY22E	FY23E		FY20A	FY21E	FY22E	FY23E	
PP&E	m	6,089	6,821	7,106	6,979	Net sales	m	5,084	6,569	7,558	8,621
Inventory	m	1,594	1,810	2,324	2,794	Cost of sales	m	3,542	4,588	5,615	6,385
Trade debts	m	442	604	722	860	Gross profit	m	1,542	1,981	1,943	2,235
Cash & ST inv	m	186	577	1,036	1,365	S&A expenses	m	246	355	271	285
Other assets	m	494	575	639	690	Other exp	m	191	90	100	124
Total assets	m	8,805	10,387	11,827	12,686	Other inc		17	36	83	121
Total debt	m	4,555	4,763	5,065	4,659	EBIT	m	1,121	1,572	1,655	1,948
Trade payables	m	561	662	897	1,055	Finance cost	m	423	285	325	302
Other liabilities	m	545	676	746	783	PBT	m	698	1,286	1,330	1,646
Total liabilities	m	5,661	6,102	6,707	6,497	Taxation	m	87	145	138	117
Paid-up capital	m	3,611	3,611	3,611	3,611	PAT	m	611	1,141	1,192	1,528
Reserves	m	(467)	674	1,508	2,578	EPS (rep)	x	1.7	3.2	3.3	4.2
SH' Equity	m	3,144	4,285	5,119	6,189	EPS growth YoY	%	319%	87%	4%	28%
Liab + Equity	m	8,805	10,387	11,827	12,686	DPS	x	-	-	1.0	1.3

Q' Performance						Key ratios					
		1QFY21E	2QFY21E	3QFY21E	4QFY21E		FY20A	FY21E	FY22E	FY23E	
Net sales	m	1,642	1,942	1,742	1,242	Bvps	x	8.7	11.9	14.2	17.1
Cost of sales	m	1,147	1,280	1,230	932	EPS	x	1.7	3.2	3.3	4.2
Gross profit	m	495	663	513	311	PE	x	21.7	11.6	11.1	8.7
S&A expenses	m	82	105	89	79	PBv	x	4.0	2.9	2.5	2.0
Other exp	m	43	27	14	6	GP margins	%	30%	30%	26%	26%
Other inc	m	4	6	18	8	EBITDA margins	%	24%	25%	23%	23%
EBIT	m	374	537	428	234	NP margin	%	12%	17%	16%	18%
Finance cost	m	73	76	74	62	ROE	%	21.5	30.7	25.3	27.0
PBT	m	301	461	354	172	ROA	%	6.9	11.9	10.7	12.5
Taxation	m	32	42	38	34	Earnings yield	%	5%	9%	9%	12%
PAT	m	269	419	316	138	Payout ratio	%	0%	0%	30%	30%
EPS (rep)		0.7	1.2	0.9	0.4	Dividend yield	%	0%	0%	3%	3%
GP Margin	%	30%	34%	29%	25%	EV/EBITDA	x	12.6	9.5	8.8	7.3
EBIT Margin	%	23%	28%	25%	19%	Receivable days	x	31	33	34	36
NP Margin	%	16%	22%	18%	11%	Inventory days	x	162	142	149	157
						Payable days	x	57	52	57	59
						Cash op cycle	x	136	123	126	134

Source: Company data, Foundation Research, June 2021

All figures in PKR unless noted

About the Company

Pakistan Aluminium Beverage Cans Limited (PABC or the Company) started its operations in 2017 as the sole local manufacturer of aluminium beverage cans in Pakistan, realizing the potential of growth in Pakistan's & Afghanistan's carbonated soft drinks market which relied upon imported cans. Manufacturing facility of the Company is situated in M3 Industrial City, Faisalabad, which is a Special Economic Zone ("SEZ") and is well positioned close to certain major bottlers and beverages companies including Coca Cola and PepsiCo Pakistan. The Company enjoys a 10-year tax holiday at the SEZ under the Special Economic Zone Act which started from July 2017. However, PABC pays minimum turnover tax at the rate of 1.5%.

The production facility is built on a 20.9 acre's of land in Special Economic Zone, Faisalabad with a rated capacity to produce 700 million cans per annum, due to which it enjoys 10-year tax holiday under Special Economic Zones Act, 2012. The strategic location of PABC's plant has been proven to be instrumental in its success, allowing cost advantage due to close proximity of PABC's plant with key beverage bottlers in Pakistan & Afghanistan.

Within a short span, PABC has not only captured the entire market in Pakistan, but also accounts for more than half of market share in Afghanistan – and continues to expand its footprint in new markets (USA, Tajikistan and Bangladesh)

Auditors: A.F. FERGUSON & CO

Factory Location: 29 & 30, M-3 Industrial City, Main Boulevard, Sahianwala, Faisalabad

Fig 13: PABC key personnel

Key Personnel	Name	Designation
Board of Directors	Mr. Simon Jennings	Chairman
	Mr. Azam Sakrani	Chief Executive Officer
	Muhammad Abdullah Yousuf	Director
	Mr. Alexandra Frances Autrey	Director
	Mr. Zain Ashraf Mukaty	Director
	Muhammad Jawaid Iqbal	Director
	Mr. Ejaz Ahmed	Director
Management	Mr. Azam Sakrani	Chief Executive Officer
	Mr. Adnan Shaikh	Chief Financial Officer & Company Secretary

Source; Prospectus, Foundation research, June 2021

Fig 14: PABC Pattern of shareholding and expected free float post IPO

Pattern of shareholders	Shares	Holding
Hamida Salim Mukaty	150.76	41.75%
Soorty Enterprises (Private) Limited	72.22	20.00%
Muhammad Salim Mukaty	44.23	12.25%
Offer for sale	93.88	26.00%

Source; Prospectus, Foundation research, June 2021

Abbreviation

CAGR	Compound Annual Growth Rate
BVPS	Book value per share
FY	Fiscal year
EBITDA	Earnings before interest tax depreciation and amortization
EBIT	Earnings before interest and tax
EPS	Earnings per share
EV	Enterprise Value
LT	Long term
ST	Short Term
PAT	Profit before tax
PBT	Profit after tax
PB	Price-to-Book
PE	Price-to-Earnings
PP&E	Property, plant and equipment
TP	Target Price
SH	Shareholding
ROA	Return on Asset
ROE	Return on Equity
YoY	Year-on-Year
Bn	Billion
Mn	Million
GP	Gross Profit
LDCP	Last Day Closing Price
WCR	Working capital requirement
Afg	Afghanistan
Mrkt	Market

Important disclosures:

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.