

## Foundation Alert

### PAEL: Analyst Briefing Takeaways

#### Event

- Pak Elektron Ltd. (PAEL) held its Analyst briefing today to discuss the financial performance of the company along with its future prospects. Following are the key takeaways.

#### Impact

- Management said that company reported net profit of Rs1,375mn (EPS 2.70) in 9MCY21 as compared to loss of Rs173mn (EPS -0.41) in 9MCY20 primarily due to significant increase in company sales.
- Company's gross margin clocked in at 21.5% in 9MCY21 as compared to 22.1% SPLY. According to management, Refrigerator segment has better gross margins than Air conditioners segment.
- Company's net sales is 32bn in 9MCY21 (up by 47% YoY).
- Company's topline consists of (47%) power division and (53%) Appliances division.
- Major products in power division include distribution Transformers, Power Transformers, Energy Meter, Switchgear and EPC with a share of 33%, 39%, 7%, 18% and 4% in segment's revenue, respectively. Refrigerator, Split AC, Deep Freezer form 53%, 30%, 7% of electronic division's revenue.
- Currently, PEL's appliances business has a network of 1,513 dealers, 23 sales offices and 524 authorized service centers across the country. PEL's dealership network constitutes 53% of the total appliance dealers across the country which has grown by 7.1% CAGR during the last 5 years.
- According to the management, total market size for refrigerator/air conditioner/washing machine/water dispenser/LED is 2.7/2.1/1.7/0.7/2.7mn units/year with company's share of 22/8/2/15/6%. Current penetration levels for refrigerator/air conditioner/washing machine/water dispenser/LED are 51/15/65/5/9%. Low penetration levels across the country would create an opportunity to grow, as per management.
- Management reported that current capacity utilization for refrigerator/deep freezers/air conditioners/TV/WM is 61/60/36/36/45%.
- PEL's market share for Power transformers/Distributor transformers/MV&LV switch gears/Energy meters 75/25/25/18% out of the total market size of Rs 7/19/9/5bn.
- Management further informed that with recent equity Injection, Company aims to reduce its debt burden and further improve its working capital management.
- For AC business, company currently operates in mid-mass market (prices are within +/-5% vs competitors) and due to low penetration, they plan to enter high end consumer market with 15-20% price premium, which would translate into higher margins.
- As per management, key challenges being faced by the company include 1) currency devaluation 2) higher commodity prices 3) hike in policy rates and 4) achieving sustainable growth.

#### Outlook

- The company is not in our formal coverage.

Table 1: PAEL Key financial and operational ratios(Unconsolidated)

Rs mn		CY15	CY16	CY17	CY18	CY19	CY20
Sales		29,323	34,124	42,347	38,990	27,696	37,988
GP		7,434	8,284	9,116	6,997	3,329	6,402
PBT/LBT		3,514	4,119	3,603	1,557	211	356
Net Profit/Net Loss		2,880	3,670	3,308	1,371	178	224
Share capital		6,000	6,000	6,000	6,000	6,000	6,000
Shareholders' equity		13,616	20,840	27,001	30,280	23,008	31,715
Total debt		8,104	6,393	6,078	4,520	4,648	8,028
Fixed assets - net		16,719	18,068	18,899	23,752	23,611	25,507
Total assets		36,149	40,327	43,916	52,100	42,829	54,793
Dividend	%	10	10	-	-	-	-
<b>RATIOS:</b>							
<b>PROFITABILITY</b>							
GP Margin	%	25.4	24.3	21.5	17.9	12.0	16.9
PBT Margin	%	12.0	12.1	8.5	4.0	0.8	0.9
NP Margin	%	9.8	10.8	7.8	3.5	0.6	0.6
<b>RETURN TO SHAREHOLDERS</b>							
ROE before tax	%	25.8	19.8	13.3	5.1	0.9	1.1
ROE after tax	%	21.2	17.6	12.3	4.5	0.8	0.7
EPS	Rs	4.8	6.1	5.5	2.3	0.3	0.4
Sales to fixed assets		1.8	1.9	2.2	1.6	1.2	1.5
Sales to total assets		0.8	0.8	1.0	0.7	0.6	0.7
<b>LIQUIDITY/LEVERAGE/VALUATION</b>							
Current ratio		2.2	1.2	0.7	0.6	0.5	0.5
Debt-to-Equity ratio		0.60	0.31	0.23	0.15	0.20	0.25
Book Value per Share		27.36	41.88	54.25	60.84	46.23	63.72

Source: Company accounts, Foundation Research, February 2022

Table 2: PAEL 9MCY21 Financial Highlights (Rs mn)

	9MCY21	9MCY20	YoY
Net Revenue	31,827	21,628	47%
Cost of Sales	24,962	16,865	48%
<b>Gross Profit</b>	<b>6,865</b>	<b>4,762</b>	44%
Distribution cost	1,996	1,843	8%
Administrative and general expenses	1,256	1,187	6%
Other expenses	175	28	535%
Other income	22	18	27%
<b>EBIT</b>	<b>3,461</b>	<b>1,723</b>	101%
Financial charges	1,604	1,784	-10%
<b>PBT</b>	<b>1,857</b>	<b>(61)</b>	-
Taxation	482	112	332%
<b>PAT</b>	<b>1,375</b>	<b>(173)</b>	-
EPS	2.70	(0.41)	-
GP Margins	21.57%	22.02%	
NP Margins	4.32%	-1.68%	

Source: PSX, Foundation Research, Feb 2022

**Table 3: Gross Sales (Rs in mn)**

Products	2017	2018	2019	2020	2021(9M)
Refrigerator	18,596	17,358	16,273	15,156	14,932
Spilt AC	5,280	4,646	6,081	5,240	8,366
Deep Freezer	2,574	3,042	2,599	1,671	1,888
Others	1,304	2,229	2,834	3,021	3,144
<b>Total AD</b>	<b>27,754</b>	<b>27,275</b>	<b>27,787</b>	<b>25,088</b>	<b>28,330</b>
Dist. Transformer	6,219	5,231	3,875	4,124	4,575
Power TR	867	363	1,329	3,540	5,360
Energy Meter	1,508	950	1,277	1,511	991
Switchgear	2,214	2,035	1,901	2,866	2,443
EPC	3,784	3,135	1,452	814	507
<b>Total PD</b>	<b>14,592</b>	<b>11,714</b>	<b>9,834</b>	<b>12,855</b>	<b>13,876</b>
<b>Total</b>	<b>42,346</b>	<b>38,989</b>	<b>37,621</b>	<b>37,943</b>	<b>42,206</b>
Growth		-8%	-4%	1%	11%

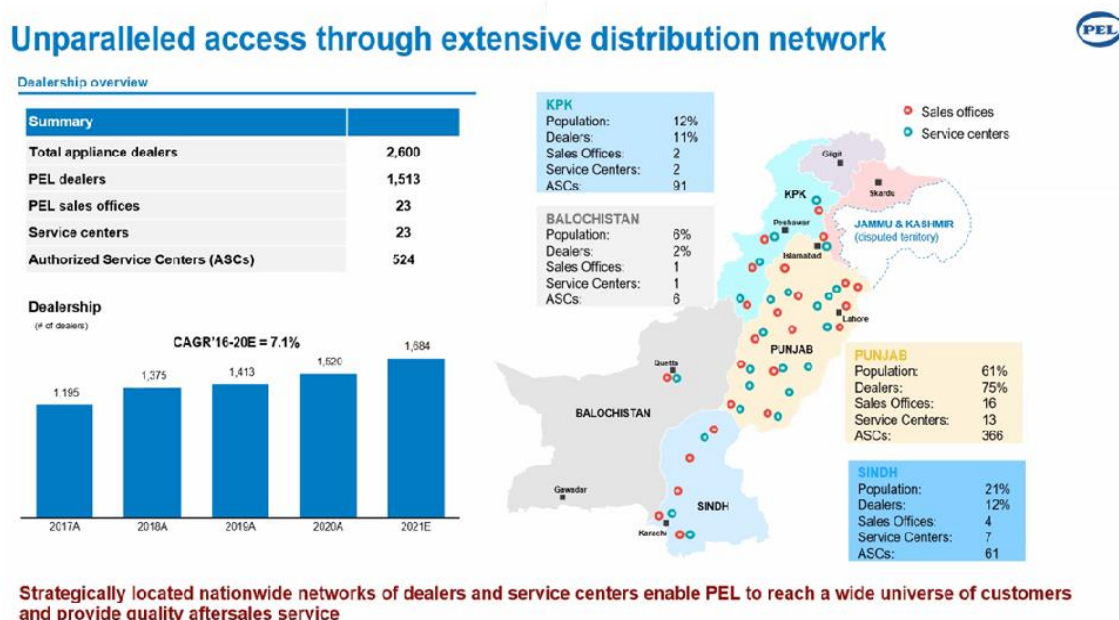
Source: Company Accounts, Foundation Research, February 2022

**Table 4: Sales Quantities**

Products	2017	2018	2019	2020	2021(9M)
Refrigerator	465,000	409,931	364,719	326,926	307,760
Air Conditioners	87,343	77,167	80,070	72,922	98,530
Deep Freezer	67,727	67,139	55,098	31,834	36,463
Others	90,987	113,830	132,592	158,696	158,261
Dist. Transformer	12,061	17,562	11,840	14,018	7,055
Power TR	33	13	22	51	64
Energy Meter	1,061,729	781,715	506,458	772,733	682,877

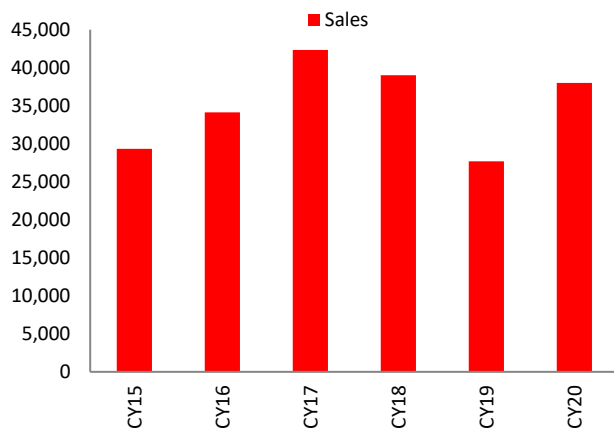
Source: Company Accounts, Foundation Research, February 2022

**Fig 1: Distribution network of PAEL**



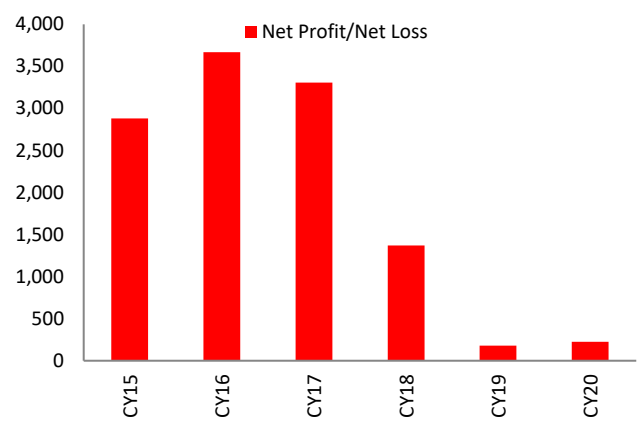
Source: Company, Foundation Research, February 2022

**Fig 2: Sales recovered post Covid...**



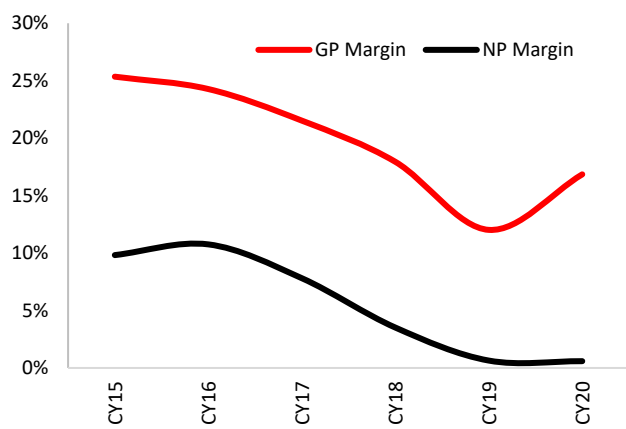
Source: PSX, Foundation Research, Feb'22

**Fig 3: ...but profitability remained low**



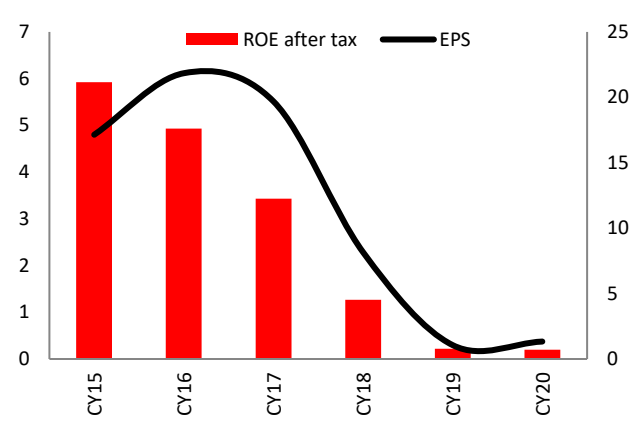
Source: PSX, Foundation Research, Feb'22

**Fig 4: Margins are still below historical highs**



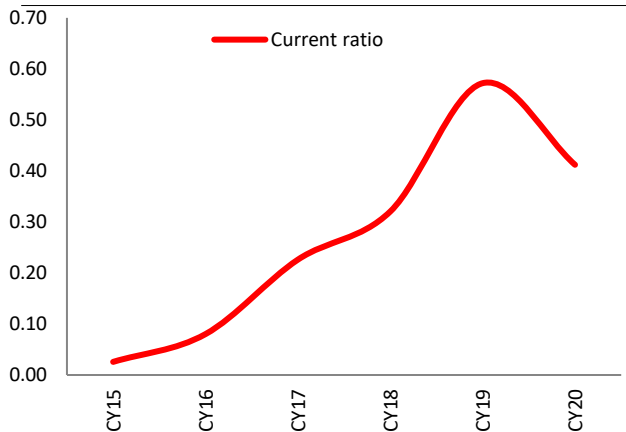
Source: PSX, Foundation Research, Feb'22

**Fig 5: ROE and EPS also remained low**



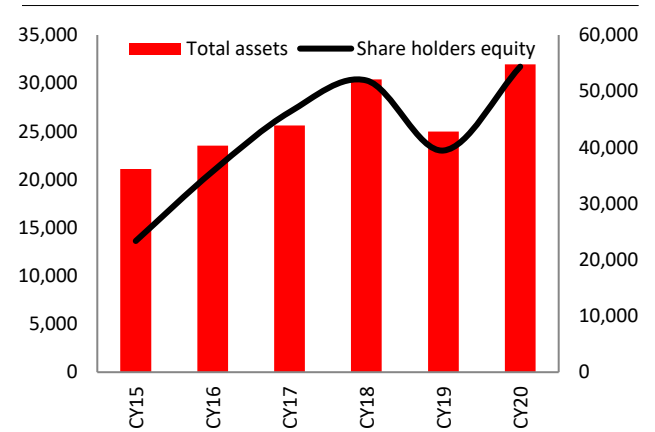
Source: PSX, Foundation Research, Feb'22

**Fig 6: Current ratio on a decline...**



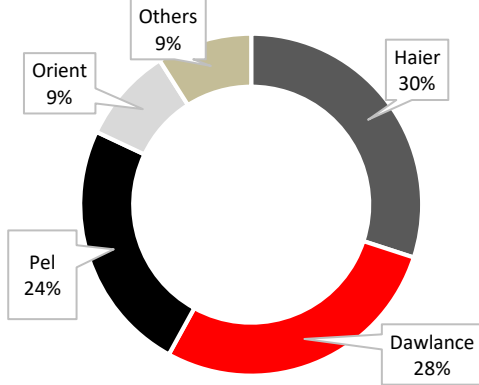
Source: PSX, Foundation Research, Feb'22

**Fig 7: ...assets increasing due to equity injection**



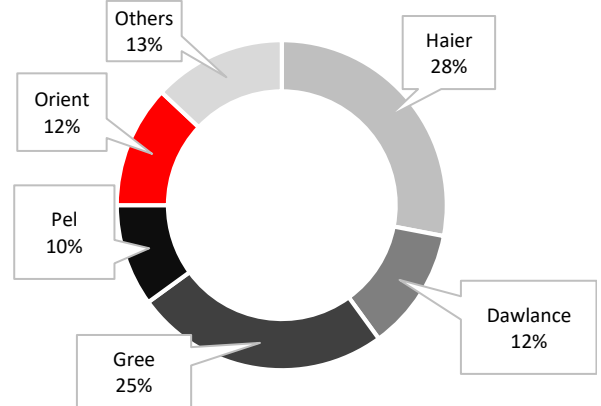
Source: PSX, Foundation Research, Feb'22

**Fig 8: Key Players in Refrigerator Markets**



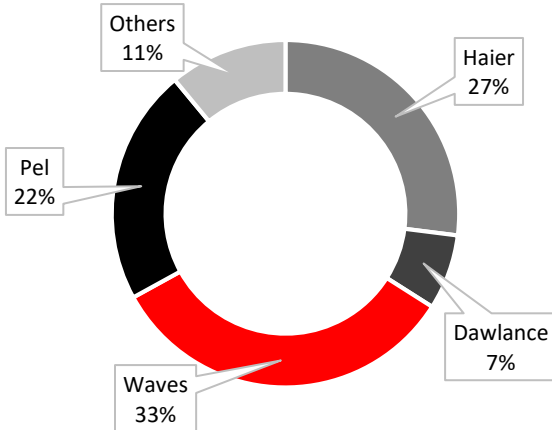
Source: PSX, Foundation Research, Feb'22

**Fig 9: Key Players in AC Markets**



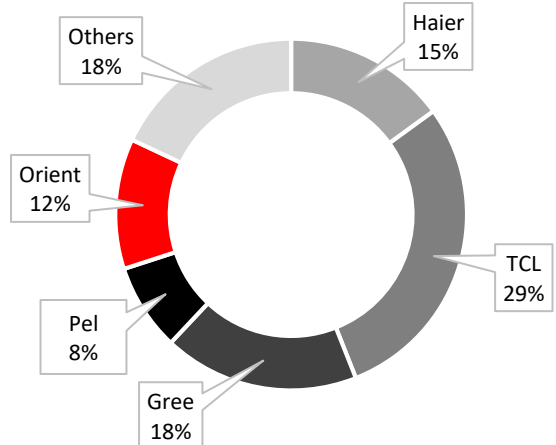
Source: PSX, Foundation Research, Feb'22

**Fig 10: Key Players in Deep Freezer Markets**



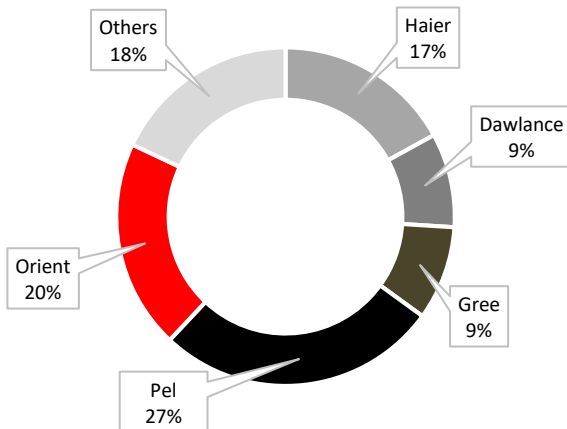
Source: PSX, Foundation Research, Feb'22

**Fig 11: Key Players in TV Markets**



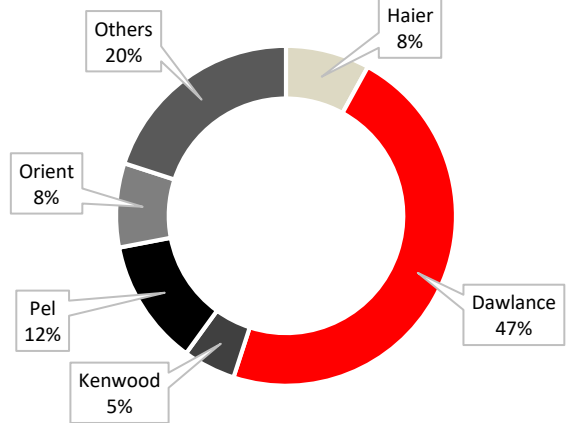
Source: PSX, Foundation Research, Feb'22

**Fig 12: Key Players in Water Dispenser Markets**



Source: PSX, Foundation Research, Feb'22

**Fig 13: Key Players in Microwaves Markets**



Source: PSX, Foundation Research, Feb'22

### About the company

Pak Elektron Ltd. was incorporated in Pakistan on March 3, 1956 as a public limited company under the Companies Act 1913 (now Companies Act 2017). The principal activity of the company is manufacturing and sale of electrical capital goods and domestic appliances. The company is organized in two divisions - Power and Appliances.

**Table 5: Pattern shareholders**

Pattern of Shareholders	Holding	Shares (mn)
General Public	41.50%	206.70
Directors, Chief Executive Officer, and their spouse and minor children	29.35%	146.11
Others	29%	101.00
Free Float	50.00%	248.84

Source: Company Accounts, Foundation Research, Feb 2022

**Table 6: PAEL key personnel**

Key Personnel	Name	Designation
Board of Directors	M Naseem Saigol	Chairman/Non-Executive
	M. Murad Saigol	Chief Executive Officer
	M. Zeid Yousuf Saigol	Executive Director
	Syed Manzar Hassan	Executive Director & CFO
	M. Kamran Saleem	Independent Non-Executive Director
	Syed Haroon Rashid	Independent Non-Executive Director
Management	Mr. M. Murad Saigol	CEO
	Mr. M. Naseem Saigol	Chairman
	Syed Manzar Hassan	CFO

Source: Company Accounts, Foundation research, February 2022

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If

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