

Pak Elektron....Electrifying

(Part of Emerging Market MSCI provisional list....)

We reinstate our coverage on PAEL. We see great modifications in the company with respect to its sales to power sector. We expect imported-coal fired power plants to come online in the province of Punjab before 2018 general elections. Hence we expect PAEL to gear up for *system up-gradation* of these companies.

We have estimated consolidated net earnings of Rs4bn (EPS Rs 8.33) in outgoing CY16 as against Rs2.9bn (EPS Rs7.13) posted in CY15.

PAEL continue to repay its long-term debt (9MCY16: Rs5bn) wherein decrease in benchmark interest rates helping in reduced financial charges, as per our estimation. The impact of raw material such as iron, appliances fibre etc is absorbed wherein we expect nearly 33% gross margins.

PAEL deciphers CY16PE of 8.2x. Our estimated enterprise value for PAEL is Rs88/sh (at the premise of enterprise value of Rs44bn).

CPEC is one great trigger....

As per our hunch, PAEL could be beneficiary of EPC contract of Bahria Karachi, which is a sprawling housing project at Super Highway Karachi since it's one of the main companies which can provide grid houses to the project of that scale.

Moreover, Pakistani PM has promised some 4500MW electricity generation in energy starved electorates of his main constituency i.e. the big province of Punjab wherein we expect at least Sahiwal based plant may come online. Furthermore, chances of Bhikki & Haveli based plant coming online are also bright. We see PAEL to be indirect beneficiary of these imported coal fired plants wherein we expect power sector related equipment would be provided by them. Moreover, we see PAEL sales to power distribution companies in Gujranwala, Multan & Lahore to increase wherein electric meters may have been absorbed.

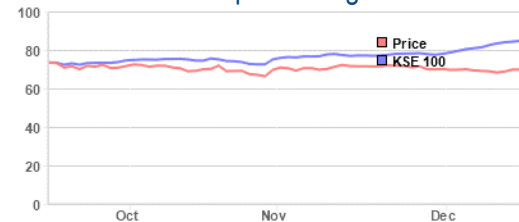
We also expect PAEL presence in Matiari-Lahore transmission. Hence we conclude that PAEL could be one of the key local companies in CPEC related projects.

Gross consolidated revenue may notch Rs35bn – Rs36bn mark

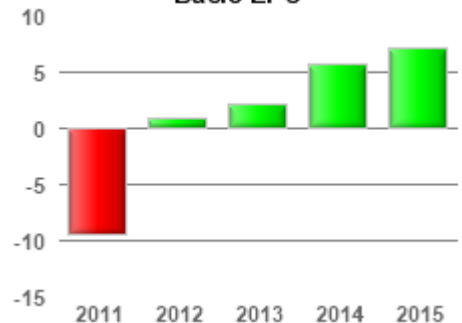
Given importance of PAEL business components, we have estimated its consolidated revenues. PAEL can report gross revenue of Rs35.7bn which is

PAEL @ Rs69.90
52 Week Low 52.61
52 Week High 75.35
Total no. of shares 497.68mn
Market Capitalization Rs 34.74bn
Enterprise Value Rs43bn-Rs44bn
Beta 1.14
Annual EPS FY16 Rs8.33/sh

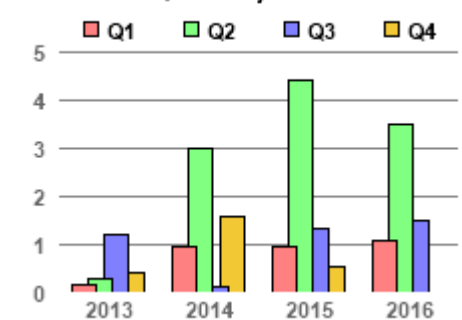
PAEL underperforming vs KSE100

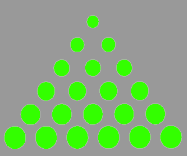


Basic EPS



Quarterly EPS





showing an increase of 22% as compared to prior year. Net revenue could be Rs32bn, as per our model, thus showing growth of 28%.

We see CY16 to be defining for PAEL given increase in customary appliance division sales alongside developments in power sector sales.

During the year, appliance division sales have grown to size by above 30% albeit refrigerators and split A/Cs were bought by local populace. Moreover, the introduction of "Inverter Series" of PAEL A/Cs and refrigerators were launched in 2016 wherein company is reporting better response in quarterly reports.

Moreover, production of water dispenser have resumed in 2016, even though we see some competition in this segment. However, PAEL's distribution arm (also part of the consolidated accounts) may enable it to be a success in coming calendar year. PAEL seems one major beneficiary. It's also one of the leaders in home appliances.

Power Division sales have grown by 12.4% during CY16 & posted by company books, given elevated orders from WAPDA & distribution companies as well as sale orders from private sector, as being posted by PAEL reports. The present government is constantly working to eliminate load shedding and thus lot of installation and up-gradation of grid stations had taken place. PAEL being one of the known manufacturer of distribution transformer, power transformer, switch gear and also being one of the EPC contractor, is well positioned to gain handsome share of the ongoing activities.

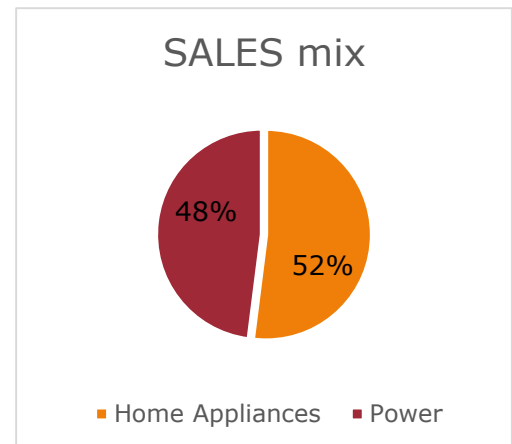
PAEL consolidated P&L

Rs 000'	CY14	CY15	CY16E
Sales	20,518,030	25,122,267	31,995,230
Gross profit	6,309,255	7,434,229	10,558,426
EBIT	4,416,560	5,157,085	7,358,903
PBT	2,545,291	3,514,163	5,803,426
Tax	(303,822)	(634,142)	(1,799,062)
PAT	2,241,469	2,880,021	4,004,364
EPS	6.61	7.13	8.33
DPS	1.19	1.28	1.50

Source SCS Research

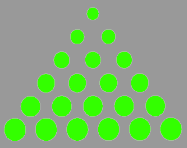
Rs 000'	CY14	CY15	CY16E
GP margin	33%	31%	33%
EBIT margin	23%	22%	23%
NP margin	11%	11%	13%
Effective tax rate	-12%	-18%	31%

Source SCS Research



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