

Sitara Chemicals: Final march

Buy @175 | div yield 7%-8% - PE 3x

Sitara Chemical (SITC) is growing based on outlook of yarn prices and also exports of textile chemicals most notably caustic soda to India. Also SITC offers kind of a mutual fund worth Rs 91mn which gives non-operating returns. At present SITC is contemplating alternate energy plants from China (coal based) given severe problems of shortage especially in Faisalabad where SITC is situated. The company is also entered into property development business with eyes on prime locations in Faisalabad (acquisition spree of 887 acres in Faisalabad).

Currently SITC yields FY13 PE of 3x (3-year average Rs 5.3x). It offered dividend yield of 8.6% last year.

Caustic soda is main avenue for sales yet cotton yarn margins would give boost in FY13...

There is a shortage of salt in India and hence it is a good market for SITC which produces caustic soda. This aspect is being boosted with opening of trade links via Wagah border. The company is marketing its brand in India. During FY12, SITC produced 112k tons of caustic soda (70% of total segment wise sales).

SITC is jubilant over buoyant yarn prices in Faisalabad for a brief period which is being reflected amply with 1QFY13 EPS of Rs 14.04/sh as against Rs 4.64/sh. All the spinners across Punjab province has reaped gains over decrease in cotton prices and resultant ballooning of margins over yarn and especially buying emanating from China & South Korea other Asia Pacific countries.

Nevertheless, SITC was not exporting yarn. Though SITC operates with low spindle capacity base with cotton yarn constitute only 16% of total segment wise sales. SITC produces 20/s count of cotton yarn. But this year would mark better margin prospects for SITC owing to yarn sales with company is anticipated to produce and sale at the optimum level i.e. 10mn kgs instead of 8.1mn kgs produced last year.

P&L key figures

Rs 000'	1QFY12	1QFY11	Chg
Sales	2,139,901	1,718,697	25%
COGS	1,444,924	1,302,058	11%
GP	694,977	416,639	67%
GP margins	32%	24%	34%
EBIT	581,515	328,631	77%
EBIT margins	27%	19%	42%
Finance cost	145,739	185,386	-21%
PAT	300,770	99,385	203%
EPS	14.04	4.64	203%
Net margins	14%	6%	143%

Company recordings

Valuation: SITC offers better dividend prospects than a bank deposit...

SITC looks goods based on good outlook over chemical and textile segment performance and resultant margins since its improving from last year. The incidences of financial charges over Islamic finances are on a declining side since the company boast of Shariah based financing. SITC offers dividend yield better than a bank deposit return of 7% - 8% (we anticipate Rs 13 – 14/sh dividend in FY13; company pays 25% of its profits to shareholders as cash dividends). At present it is yielding FY13PE of 3x (with FY13 EPS outlook of Rs 52 - 53/sh; showing earning increase of 63% from FY12). We give a BUY call.

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