

Tariq Glass: Subtle player....

We reinitiate our coverage on TGL. Our thrust of coverage in TGL is mainly due to 'boom' in the construction industry alongside growth in table ware segment wise sales.

Wherein now we believe

- TGL would be one of the main suppliers of float glass. We expect consumption of float glass in various projects. TGL, as per their report, is bringing float glass in various colors. October heralds peak season for float glass sales
- TGL's per day daily production of table ware increased from Apr-May 2016 onwards (as per notice at PSX) wherein we expect main impact to be reflected in FY17 onwards.

Premise...

We expect TGL future earnings to increase manifold i.e. Rs9.3/sh in FY17 (as against Rs5.56/sh reported in FY16) given our thrust of increased market share in float glass business plus enhanced capacity impact.

At present our premise for the case is a conservative 10% net margin. TGL's usage of energy mix i.e. RLNG & Sui gas connection. TGL may switch to alternate sources (let say FO which is cheaper) just in case if there would be gas shortage in Punjab.

Key highlights

- Multiple Brands: Toyo Nasic, Omroc and Nova.
 - Enhancing production capacity.
 - Exporter to Asia, Europe, Africa
 - Technical coloboration with Toyo Glass Japan
 - Started Float Glass Plant in FY13, within 2 years have reached more than 44% market
 - S&D costs declining significantly.
 - Risk: Chinese products entry in tableware
 - Plans to establish power plants for uninterrupted and cheaper power supply
- source: TGL books and our assertions

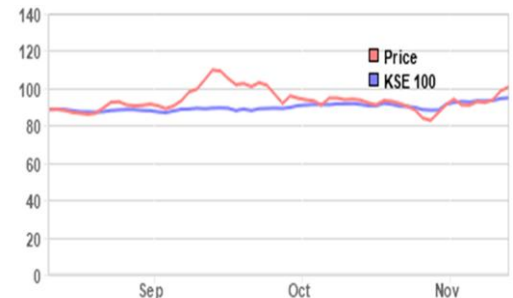
TGL assumptions...

We have assumed around 70% & 80% capacity utilization in table ware & float glass segment respectively. As per our hunch, TGL may have a capacity of 250k tons per annum wherein expect a turnover of Rs 9.7bn (FY16: Rs 8bn).

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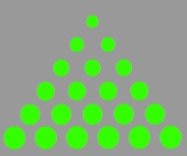
TGL @100.99 (- 1.71)
52 Week Low 99.98
52 Week High 111.01
Total no. of shares 73.46mn
Expected Enterprise value Rs9bn
Exp Enterprise value Rs 122.5/sh
Beta 1.12

Started outperforming



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In our view, company is taking advantage of greater chunk of local sales as against export sales in shape of decreasing distribution expenses, which was also reflected in FY16.

1QFY17 remained sanguine...

TGL reported 1QFY17 EPS of Rs 2.56/sh with slight improvement in quarter wise sales & subsequent margins. TGL is into table ware segment and markets some of the known brands.

But it is into float glass segment as well and giving tough time to main competitor Ghani Glass (GHGL).

TGL P&L

Rs mn	FY17E	FY16	FY15
Sales	9,715	8,076	8,040
Cost of Sales	(7,677)	(6,382)	(6,427)
Gross Profit	2,038	1,694	1,613
Admin Exp.	(146)	(149)	(120)
S&D. exp	(634)	(527)	(707)
	(780)	(676)	(827)
EBIT	1,258	1,018	786
Other Income	10	7	13
Finance Cost	(291)	(336)	(419)
Other Exp.	(50)	(40)	(18)
PBT	927	649	362
Tax	(243)	(159)	46
PAT	684	490	408
EPS	9.31	6.67	5.55
DPS	3.8	2.70	-

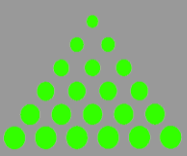
Source: SCS Research

Improving Liquidity...

Considering the company's prepayment of its LTFF Loan in full in FY16, the company's total debt to equity has decreased. The interest cover has also improved. Although there have been a net increase in the company's cash.

Valuations...good long term proposition; growth envisaged in line with new projects in Pakistan

TGL deciphers FY17 PE of 10x based on earnings growth & EV EBITDA of 5x. We have estimated enterprise value per share of Rs122/sh (at the premise of Rs9bn enterprise value).



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