

## Thal Limited – Back in the saddle!! BUY@193

THALL is coming back in the saddle after surviving the crucial 1HFY14. We see overall growth of 31.7% in revenues where Engineering and Building material & allied products show growth of 36.3% and 26.3% on Q-o-Q basis. Although we see good growth from building material segment which include papersack + laminate business.

We expect that this growth will continue in the last quarter and THALL will close FY14 with an EPS of Rs. 19.91/sh.

One of the mainstay in THALL would be dividend income from subsidiaries such as Makro~Metro which will contribute handsome revenues of nearly Rs498mn (per share impact of Rs5/sh shall increase in coming years).

**We initiate our Buy coverage on THALL; being a good progressive unit with ever growing wholesale consumer segment yielding FY14PE of 9.6x & probable dividend yield of 8%.**

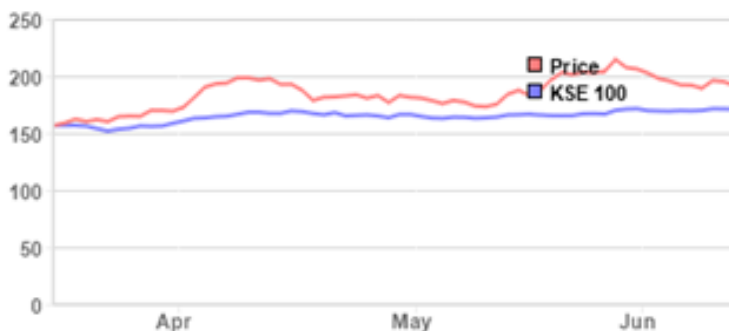
### Triggers

#### Subsidiaries....dividend income to be mainstay

- 9MFY14 shows increase in dividend income from subsidiaries Makro Habib & Habib Metro to Rs. 351.1mn from Rs. 295.4 mn; cumulative dividend could be Rs498mn (depicting after tax per share impact on EPS of Rs4.61- Rs5.0/sh)
- We see this dividend to increase in coming years
- Change in consumer behaviour in Pakistan has given boost to retail industry and we are expecting that THALL will receive higher dividends in future;

#### Engg. Dept.....is the main revenue earner

- Induction of Starter and Alternator engine components in product lines will assist to augment the revenues in FY15;
- Withdrawal of 2% sales tax on auto parts manufacturers will increase the net profits for the company;



#### THALL statistics

Avg Volume (52 Weeks)	73,107.69
Close	Rs 191.72
52 Weeks High	Rs 218
52 Weeks Low	Rs 107.15
Market Capitalization	15.54 bn
Total No. of Shares	81.03 mn
Research deptt: Standard Capital securities	

Key Ratios	FY12	FY13	FY14 E
EPS Rs/sh	20.44	20.05	19.91
PE	9.38	9.56	9.63
BV	99.03	111.59	116.56
PBV	1.94	1.72	1.64
Dividend Rs/sh	14.00	20.00	15.00
Div. yield	7%	10%	8%

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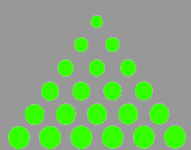
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Capital IQ (Blue Matrix) and

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- Reduction in car prices by local OEMs will increase the volumes which will eventually improve the future sales of Thal engg.
- Withdrawal of 10% FED on local manufactured motor vehicles exceeding 1800cc
- Thal engg. faced lower sales due to increase number of imported cars in the recent years, Increase in import duties and tax by 10% will reduce give some more oxygen to local OEMs and the
- benefits will trickle down to Thal engg
- Reduction in corporate tax to 33% from 34%

Cumulative P&L	1QFY14 (Rs in mn)	HY FY14	9M FY14	FY14 E
Engineering	1,528.00	2,913.00	4,800.00	7,370.95
Building material & Allied products	1,102.00	2,250.00	3,700.00	5,531.45
Turnover - net	2,630.00	5,163.00	8,500.00	12,902.40
Cost of sales	- 2,241.87	- 4,462.07	- 7,126.65	- 10,641.94
Gross profit	388.13	700.93	1,373.36	2,260.46
Distribution cost	- 39.68	- 80.49	- 123.37	- 179.94
Administrative expenses	- 93.23	- 203.96	- 277.34	- 374.14
Other Income	65.19	389.91	504.44	651.44
Operating profit	320.41	806.39	1,477.08	2,357.81
Finance cost	- 1.37	- 2.42	- 3.67	- 4.89
Other charges	- 28.02	- 62.06	- 101.97	- 154.63
Profit before tax	291.02	741.91	1,371.45	2,198.30
Tax	- 87.24	- 147.67	- 303.66	- 584.79
Profit after tax	203.79	594.24	1,067.79	1,613.51
# of ordinary shares	81.03	81.03	81.03	81.03
EPS	2.51	7.33	13.18	19.91

Research deptt.

## Building Material & Allied Products Segment.....covers 43% part of revenue comes from this portion

### Papersack:

- Growth in cement industry will augment the revenues of papersack segment
- Achievement of ISO 22000 (food grade packaging) opened the opportunities for new business relations with global fast food franchises in Pakistan and will open up new avenues for future expansions including exports

### Laminates Business:

- Addition of Corian® and Monteli® has enhanced the brand image of Formite and also completed the product range
- Expo 2020 being awarded to Dubai has opened up new export opportunities for the business

### Joint Venture

- Automotive parts joint venture, Thal Boshoku Pakistan (Pvt) Ltd is proceeding as planned, the venture will manufacture Air cleaner, seat track and seat side frame sub assemblies. THALL holds 55% in the venture and it will augment the revenues of company in FY15.