

ICI: 1QFY22 Consolidated EPS expected at PKR 13.28

- ICI Pakistan is scheduled to hold its board meeting on 25th October 2021 to consider 1QFY22 results, wherein the consolidated profit after tax is expected to increase 25% YoY to PKR 1.2bn (PKR 13.82/share).
- ICI's 1QFY22 sales are likely to increase 45% YoY to PKR 21.0bn. The exponential increase in net sales is primarily attributable to increased revenue contribution from NutriCo Pakistan (Private) Limited and PSF segment owing to rise in PSF prices.
- PSF:** We expect the operating profit from the PSF segment to clock in at PKR 465mn in 1QFY22 as compared to PKR 385mn in the same period last year, owing to increase in primary margins. During the quarter, PSF primary margins hovered around USD 341/ton (+25% YoY).
- Soda Ash:** Operating profit from the Soda Ash segment is expected to grow at a muted rate of 3% wherein an increase in energy prices is likely to restrict growth from the segment.
- Life Sciences:** Operating profit from the Life Sciences' segment is likely to grow 55% YoY with increased contribution from the Pharma segment and the operating margins growing 2.5pps YoY.
- Chemicals:** 1Q operating profit of the segment is expected to grow 38% YoY primarily owing to expansion in operating profit margins (+2 pps YoY).
- Morinaga:** Operating profit from the segment is expected to turn positive to clock in at PKR 286mn against the loss of PKR 186mn due to consolidation of NutriCo Pakistan (Private) Limited (a company engaged in importing marketing and distribution of Morinaga products in Pakistan).
- We change our stance to 'BUY' on ICI, while we roll forward our price target to Jun-22 to arrive at PKR 969/share, indicating an upside of 24% along with a dividend yield of 4.1%.

Key Data

PSX Ticker	ICI
Target Price (PKR)	969
Current Price (PKR)	783
Upside/(Downside) (%)	+ 24%
Dividend Yield (%)	4.1%
Total Return (%)	+ 28%
12-month High (PKR)	945
12-month Low (PKR)	672
Outstanding Shares (mn)	92
Market Cap (PKR mn)	72,326
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates

	1QFY21	1QFY22E	YoY
Net Sales	14,465	20,967	45%
Cost of Sales	11,655	16,843	45%
Gross Profit	2,811	4,124	47%
Distri. & Admin. Exp.	1,354	1,883	39%
Other Income	46	54	18%
Other Charges	129	149	16%
Finance Cost	284	278	-2%
Profit from Associate	103	-	Na
Profit Before Tax	1,193	1,868	57%
Taxation	307	542	76%
Net Income	886	1,326	50%
NCI	99	(99)	-200%
Attributable to parent	985	1,227	25%
EPS	10.66	13.28	

Source: Company Accounts, Akseer Research

Key Financial Ratios - Consolidated

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24
EPS	27.34	28.14	60.30	61.13	58.22	66.92
EPS Growth	-23%	3%	114%	1%	-5%	15%
DPS	9.00	16.00	40.00	32.00	29.00	33.50
PER	28.6	27.8	13.0	12.8	13.5	11.7
Dividend Yield	1.1%	2.0%	5.1%	4.1%	3.7%	4.3%
EV/EBITDA	11.8	10.3	7.6	6.7	6.3	5.0
P/B	3.5	3.3	2.8	2.5	2.2	2.0
ROE	12.1%	11.8%	21.9%	19.6%	16.5%	16.7%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for ICI Pakistan Limited (ICI) has been computed using Free cash flow to equity (FCFE) method. We have used a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on Jun-22 PT of PKR 969/share. Our price target indicates an upside of 24% along with a dividend yield of 4.1%. Our investment case is based on 1) healthy contribution from Soda Ash business, 2) contribution from company's Morinaga project, 3) growth in Life sciences and chemical divisions and 4) improved profitability from PSF segment.

Risks

Key risks to our investment thesis include 1) Supply glut in global Soda Ash market, 2) Deterioration of PSF margins, 3) fluctuation in exchange rate, 4) Lower than expected growth in Life Sciences and Chemicals business and 5) Lower than expected profitability from Morinaga project.

Company Description

ICI is engaged in the manufacture of polyester staple fibre, POY chips, soda ash, specialty chemicals, sodium bicarbonate and polyurethanes; marketing of seeds, toll manufactured and imported pharmaceuticals and animal health products; and merchandising of general chemicals and manufacturing of master batch. The Company's registered office is situated at 5 West Wharf, Karachi.

Financial Highlights - ICI

Income Statement (PKR mn) - Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	59,382	55,256	64,766	93,436	103,413	115,177
Cost of sales	49,637	44,241	50,184	74,522	83,335	92,313
Gross Profit	9,745	11,015	14,582	18,914	20,078	22,864
SG & A	4,802	5,397	6,537	9,038	10,072	11,357
Operating Profit	4,943	5,618	8,045	9,876	10,007	11,507
Other income	131	163	232	217	222	228
Other charges	711	730	614	597	585	672
Finance cost	1,486	1,891	929	1,110	1,466	1,573
Profit from Associate	526	431	527	-	-	-
Profit before tax	3,404	3,591	7,261	8,386	8,178	9,490
Taxation	867	1,158	2,032	2,346	2,288	2,656
Profit after tax	2,537	2,433	5,229	6,039	5,890	6,834
NCI	(11)	166	341	(393)	(513)	(654)
Attributable to parent	2,525	2,599	5,569	5,646	5,377	6,180

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) - Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	26,857	26,403	26,553	31,461	33,234	31,366
Other LT assets	1,974	1,677	1,634	2,403	3,173	3,943
Non-Current Assets	28,831	28,399	28,421	34,013	36,471	35,309
Current assets	19,898	19,372	21,321	29,854	34,577	43,611
Total Assets	48,729	47,771	49,742	63,867	71,049	78,920
Non-Current liabilities	11,205	10,481	7,015	12,187	12,787	13,363
Current liabilities	16,733	15,297	17,327	22,812	25,680	28,594
Total Liabilities	27,939	25,778	24,343	34,999	38,467	41,958
Equity	20,790	21,992	25,399	28,868	32,581	36,963
Total Equity & liabilities	48,729	47,771	49,742	63,867	71,049	78,920

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) - Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,525	2,599	5,569	5,646	5,377	6,180
Non-cash Charges	2,712	2,807	2,915	2,986	3,203	3,367
Operating Cash flows	4,048	7,457	8,346	7,607	10,025	11,471
FCFF	(350)	6,067	6,033	598	6,190	11,169
Net borrowings	1,962	(3,264)	(3,487)	9,590	1,713	1,707
FCFE	505	1,522	1,878	9,388	6,847	11,743
Net change in cash	(1,263)	126	(285)	7,211	5,184	9,944
Closing cash	424	550	265	7,476	12,659	22,603

Source: Company Accounts, Akseer Research

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