

## ICI - 4QFY21 Consolidated EPS expected at PKR 16.54

- ICI Pakistan is scheduled to hold its board meeting tomorrow to consider FY21 results, wherein the consolidated profit after tax for 4QFY21 is expected to increase 9.6x YoY to PKR 1.5bn (PKR 16.54/share). This will take FY21 profit after tax to PKR 6.1bn (PKR 66.13/share). Along with the result the company is also expected to announce final cash dividend of PKR 20/share, taking cumulative pay out to PKR 40/share for FY21.
- ICI's 4QFY21E sales are likely to increase 90% YoY to PKR 20.3bn. The exponential increase in revenue is primarily attributable to low base effect, wherein the company faced a significant decline in revenues across almost all business segments in 4QFY20 owing to economic slowdown amidst country wide lockdown.
- PSF:** We expect the operating profit from the PSF segment to clock in at PKR 882mn in 4QFY21 as compared to operating loss of PKR 170mn in the same period last year. This will be on the back of an increased volumetric sales and will also negate the impact of appreciation of PKR against USD. During the quarter, PSF primary margins hovered around USD 515/ton (+4% YoY) while the PKR appreciated ~6%.
- Soda Ash:** Revenue from the Soda Ash segment is expected to grow 89% YoY in 4QFY21, however, higher cost of energy (Average coal prices increase 83% YoY in 4QFY21) during the period is likely to restrict the growth in operating profit from the segment.
- Life Sciences:** Operating profit from the Life Sciences' segment is likely to grow 68% YoY where an increase in operating margin (+ 3.2pps YoY) is likely to be key contributor.
- Chemicals:** 4Q operating profit of the Chemical segment is expected to grow at exponential rate 1.7x YoY primarily owing to low base effect and expansion in operating profit margins (+4.5 pps YoY).
- We change our stance to 'HOLD' on ICI, while we revise our Dec-21 price target (PT) to PKR 884/share, indicating a downside of 2% along with a dividend yield of 4.5%.

### Key Data

PSX Ticker	ICI
Target Price (PKR)	884
Current Price (PKR)	898
Upside/(Downside) (%)	-2%
Dividend Yield (%)	4.5%
Total Return (%)	+ 3%
12-month High (PKR)	945
12-month Low (PKR)	671
Outstanding Shares (mn)	92
Market Cap (PKR mn)	82,944
Year End	June

Source: Company Accounts, Akseer Research

### Financial Estimates

	4QFY20	4QFY21E	YoY	FY20	FY21E	YoY
Net Sales	10,711	20,294	89%	55,256	68,380	24%
Cost of Sales	8,864	15,658	77%	44,340	52,585	19%
<b>Gross Profit</b>	<b>1,847</b>	<b>4,636</b>	<b>1.5x</b>	<b>10,917</b>	<b>15,794</b>	<b>45%</b>
Distri. & Admin. Exp.	1,368	1,860	36%	5,397	6,569	22%
Other Income	49	17	-64%	163	189	16%
Other Charges	72	125	75%	730	575	-21%
Finance Cost	448	417	-7%	1,891	1,111	-41%
Profit from Associate	88	59	-33%	431	461	7%
<b>Profit Before Tax</b>	<b>97</b>	<b>2,310</b>	<b>23x</b>	<b>3,493</b>	<b>8,190</b>	<b>1.3x</b>
Taxation	52	709	12.6x	1,131	2,270	101%
<b>Net Income</b>	<b>45</b>	<b>1,602</b>	<b>35x</b>	<b>2,362</b>	<b>5,920</b>	<b>1.5x</b>
NCI	100	(74)	-174%	166	187	13%
<b>Attributable to parent</b>	<b>144</b>	<b>1,528</b>	<b>9.6x</b>	<b>2,528</b>	<b>6,107</b>	<b>1.4x</b>
EPS	1.56	16.54		27.37	66.13	
DPS	5.00	20.00		16.00	40.00	

Source: Company Accounts, Akseer Research

### Key Financial Ratios - Consolidated

	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
EPS	35.51	27.34	27.37	66.13	63.60	74.98
EPS Growth	0%	-23%	0%	142%	-4%	18%
DPS	16.50	9.00	16.00	40.00	33.00	37.00
PER	25.3	32.8	32.8	13.6	14.1	12.0
Dividend Yield	1.8%	1.0%	1.8%	4.5%	3.7%	4.1%
EV/EBITDA	13.8	13.2	11.6	8.1	7.9	6.6
P/B	4.1	3.9	3.7	3.4	3.0	2.6
ROE	17.1%	12.2%	11.6%	24.9%	20.1%	20.7%

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 'HOLD' recommendation on the stock based on our revised PT of 884/share. Our price target indicates a downside of 2% along with a dividend yield of 4.5%. Our investment case is based on 1) healthy contribution from Soda Ash business, 2) contributin from company's Morinaga prject, 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) fluctutation 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 merchenting 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						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Net sales	49,992	59,382	55,256	68,380	72,905	84,014
Cost of sales	41,005	49,637	44,340	52,585	56,108	64,186
<b>Gross Profit</b>	<b>8,987</b>	<b>9,745</b>	<b>10,917</b>	<b>15,794</b>	<b>16,797</b>	<b>19,829</b>
SG & A	4,384	4,802	5,397	6,569	7,608	8,840
<b>Operating Profit</b>	<b>4,602</b>	<b>4,943</b>	<b>5,520</b>	<b>9,225</b>	<b>9,189</b>	<b>10,988</b>
Other income	156	131	163	189	194	198
Other charges	757	711	730	575	556	664
Finance cost	654	1,486	1,891	1,111	1,195	1,268
Profit from Associate	586	526	431	461	617	648
<b>Profit before tax</b>	<b>3,934</b>	<b>3,404</b>	<b>3,493</b>	<b>8,190</b>	<b>8,249</b>	<b>9,903</b>
Taxation	636	867	1,131	2,270	2,279	2,740
<b>Profit after tax</b>	<b>3,298</b>	<b>2,537</b>	<b>2,362</b>	<b>5,920</b>	<b>5,970</b>	<b>7,163</b>
NCI	(18)	(11)	166	187	(96)	(238)
<b>Attributable to parent</b>	<b>3,280</b>	<b>2,525</b>	<b>2,528</b>	<b>6,107</b>	<b>5,874</b>	<b>6,925</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) - Consolidated						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
PPE	24,064	27,570	27,017	29,372	31,461	33,234
Other LT assets	1,620	1,974	1,677	1,678	2,488	3,258
Non-Current Assets	25,684	29,543	29,013	31,283	34,098	36,556
Current assets	19,328	19,898	19,372	21,921	22,567	27,330
<b>Total Assets</b>	<b>45,013</b>	<b>49,441</b>	<b>48,385</b>	<b>53,204</b>	<b>56,665</b>	<b>63,887</b>
Non-Current liabilities	10,272	11,316	10,542	11,443	11,573	12,251
Current liabilities	14,708	16,733	15,319	17,195	17,509	20,075
<b>Total Liabilities</b>	<b>24,980</b>	<b>28,049</b>	<b>25,861</b>	<b>28,638</b>	<b>29,083</b>	<b>32,325</b>
Equity	20,033	21,393	22,524	24,566	27,583	31,561
<b>Total Equity &amp; liabilities</b>	<b>45,013</b>	<b>49,441</b>	<b>48,385</b>	<b>53,204</b>	<b>56,665</b>	<b>63,887</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) - Consolidated						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Net Income	3,280	2,525	2,528	6,107	5,874	6,925
Non-cash Charges	2,474	2,712	2,905	2,741	2,986	3,203
<b>Operating Cash flows</b>	<b>(1,654)</b>	<b>4,158</b>	<b>7,457</b>	<b>9,339</b>	<b>8,735</b>	<b>10,963</b>
<b>FCFF</b>	<b>(6,902)</b>	<b>(952)</b>	<b>6,065</b>	<b>5,132</b>	<b>4,610</b>	<b>6,990</b>
Net borrowings	8,844	1,962	(3,264)	2,046	551	1,705
<b>FCFE</b>	<b>1,394</b>	<b>(98)</b>	<b>1,522</b>	<b>6,374</b>	<b>4,295</b>	<b>7,778</b>
Net change in cash	421	(1,263)	126	2,309	1,438	4,831
<b>Closing cash</b>	<b>1,687</b>	<b>424</b>	<b>550</b>	<b>2,858</b>	<b>4,297</b>	<b>9,128</b>

Source: Company Accounts, Akseer Research

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