

Interloop Ltd: Best opportunity in the Textile sector...

Tuesday, 24 September 2024

Interloop result preview FY24... HOLD

- Interloop Limited (ILP) is expected to announce its FY24 results on September 26, 2024. We expect ILP to report net earnings of PKR 18bn (EPS: PKR 13.27/sh) as against PKR 19bn (EPS: PKR 14.39) reported in the same period last year.
- ILP had given dividend of PKR 2/sh in 9MFY24. Now we are expecting ILP to pass on another cash dividend of PKR 3/sh. During FY23 ILP had given cash dividend of PKR 5/sh.
- ILP is yielding FY24 PE multiple of 5.6x which is in line with KSE 100 PE multiple. However, ILP is 'undervalued' based on Textile sector trailing multiples of 6.9x as per our website scstrade.com data.
- Nevertheless, we recommend HOLD as per our methodology.
- ILP maintains dividend yield of 6.75% - 7%.

Premise... Denim segment emerging | Hosiery thrives...

- We expect *Denim* category is expected to breakeven in the final quarter or during following quarters in FY25.
- ILP is one of the biggest exporter from Pakistan. They export their products to big ticket players viz. Nike, H&M, Levi's, Adidas etc.
- We expect ILP exports could exceed to \$555mn annually.
- *Hosiery* product contribute majority of ILP sales.
- ILP is en-route to increase the *Denim* plant capacity to 1 mn pieces/month by FY25 as per director reports.
- As against Turkey & India, Pakistani jeans is still cheaper at \$11/piece as per global data. Though India continues to sell ladies Antwerp denim skirts at \$28/piece.
- Apparel 9M sales have already exceeded FY23 sales i.e. PKR 8bn.
- Overall financial charges to decrease from PKR 2.5bn each quarter after continuous interest rate cut.

ILP Snapshot

Price	74
MKT Cap	105.83bn
Avg Vol (12m)	709,755
Paid-up	14.017bn
Authorized Cap	15bn
Beta	0.89
Expected D/Y	7%
Expected PE	5.6x

Source: SCS Research

PKR 000	FY23	FY24E	YoY
Sales - net	119,200,293	155,995,749	30.9%
Cost of Sales	79,327,921	109,213,806	37.7%
Gross Profit	39,872,372	46,781,943	17.3%
Distribution Cost	3,952,564	5,132,556	29.9%
Admin Exp	6,245,370	9,186,561	47.1%
EBIT	29,674,438	32,462,826	9.4%
OPEX	2,721,284	2,260,745	-17%
Other Income	158,237	504,181	219%
	27,111,391	30,706,262	13.3%
Finance Cost	5,527,536	9,869,651	78.6%
PBT	21,583,855	20,836,611	-3.5%
Taxation	1,412,009	2,239,405	58.6%
PAT	20,171,846	18,597,206	-7.8%
EPS	14.39	13.27	-7.8%
DPS	5.00	5.00	-

Source: SCS Research

Interloop: Quarter wise sales rising... | 4Q to exceed expectations

Tuesday, 24 September 2024

PKR 000	1QFY24	2QFY24	3QFY24	4QFY24E
Sales - net	38,500,103	35,315,646	39,040,380	43,139,620
Cost of Sales	25,753,822	25,578,273	27,683,977	30,197,734
Gross Profit	12,746,281	9,737,373	11,356,403	12,941,886
Distribution Cost	1,371,690	1,155,030	1,311,647	1,294,189
Admin Exp	2,020,012	2,268,798	2,309,374	2,588,377
EBIT	9,354,579	6,313,545	7,735,382	9,059,320
OPEX	726,969	434,785	538,176	560,815
Other Income	130,850	210,518	87,813	75,000.00
	8,758,460	6,089,278	7,285,019	8,573,505
Finance Cost	2,206,212	2,596,954	2,607,446	2,459,039
PBT	6,552,248	3,492,324	4,677,573	6,114,466
Taxation	509,889	508,508	548,417	672,591
PAT	6,042,359	2,983,816	4,129,156	5,441,875
EPS	4.31	2.13	2.95	3.88
DPS	-	2.00	-	3.00

Source: SCS Research

- We expect financial charges to decrease going forward amid decreasing interest rates. ILP is still plagued in a total interest bearing debt of PKR 63bn as against our anticipated FY24 sales revenue of PKR 156bn.
- We see a downward spiral in financial charges given our hunch of 14% discount rate as at June 2025.
- We see jump in FY25 EPS of ILP in the wake of increase in apparel & denim segment sales plus decreasing impact of financial charges. ILP is all set to attain annual export turnover of \$555 mn.

Interloop: Denim may rise given product pricing...

Tuesday, 24 September 2024

- We are expecting ILP sales turnover could increase by 30% in comparison FY23 sales of PKR 156bn albeit the net profit margin of PKR 18.5bn in FY24.
- ILP Hosiery actual annual contribution is 75% in comparison to installed capacity. This product contribute mainly a big portion of the sales and its per unit sale price could be PKR 149 (equivalent to \$0.56 cents in FY24).
- The *Denim* sales could be ~PKR 15bn in FY24 where the overall production capacity is 500k units of sustainable denims per month. ILP was planning to increase it up to 1 mn pieces by 2025 as per its annual report. We still see denim segment to be a game changer in terms of big sales turnover in ILP.
- As per global data Spanish concerns importing from Turkey at \$13.7/piece. Wherein US is importing at \$16/piece.
- Likewise India is sending denim articles to UAE concerns at \$9/piece.
- Bangladesh is maintaining prices at \$10/piece.
- There are ~176 nations which import jeans. Pakistan is one of the key suppliers of denim articles.

Production Usage	FY20	FY21	FY22	FY23
Hosiery	70%	89%	84%	75%
Spinning	77%	84%	88%	81%
Denim	57%	56%	77%	71%
Yarn Dyeing	70%	83%	88%	71%

Source: SCS Research

PKR mn	FY20	FY21	FY22	FY23
Hosiery	30,180	43,744	69,878	89,615
Spinning	7,563	10,022	14,322	16,465
Denim	995	3,591	5,924	12,669
ActiveWear	-	-	628	769
Apparel	-	1,161	5,877	6,896
Other Segments	1,771	2,706	6,963	9,689

Source: SCS Research

Plant Capacity And Actual Production					
PKR 000	FY20	FY21	FY22	FY23	UOM
Hosiery					
Installed Capacity	59,480	60,733	66,303	66,342	DZN
Actual Production	41,694	54,163	55,702	50,067	DZN
Spinning					
Installed Capacity	29,949	29,949	29,949	31,637	LBS
Actual Capacity	23,204	25,178	26,214	25,756	LBS
Yarn Dyeing					
Installed Capacity	4,928	4,873	5,074	6,337	KGs
Actual Production	3,438	4,052	4,468	4,480	KGs
Denim					
Installed Capacity	4,322	6,000	6,000	6,000	Pieces
Actual Production	2,448	3,377	4,620	4,233	Pieces

Source: SCS Research

Ahsan Muhammad Asif
info@scstrade.com
 021-111-111-721

Disclaimer

'Research Analyst' Certification

'Research Analyst' involved in this 'Research Report' certifies that:

- 'Research Analyst' or any of his close relatives do not have a financial interest in the securities of the 'Subject Company' aggregating more than 1% of the value of the 'Subject Company'
- 'Research Analyst' or his close relative has neither served as a director/officer in the past 3 years nor received any compensation from the Subject Company in the previous 12 months
- His compensation will not be related to the recommendations or views given in 'Research Report'

Distribution of 'Research Report'

Standard Capital Securities (Pvt.) Ltd. will distribute Research Report to clients in a timely manner through electronic distribution vide email or through physical distribution such as courier express. Standard Capital will make all efforts; even so it is possible that not all clients may receive Research Report at the same time given technical glitches or breakdown/slowdown of internet during the process of sending emails.

'Research Entity' Disclosures

- Standard Capital Securities (Pvt.) Ltd. or any of its officers and directors does not have a significant financial interest (above 1% of the value of the securities) of the subject company.
- Standard Capital Securities (Pvt.) Ltd. employee including directors, officers or associates has not served the subject company in preceding 36 months.
- Subject Company is not been a client for Standard Capital Securities (Pvt.) Ltd. during the publication of Research Report
- Standard Capital Securities (Pvt.) Ltd. has not managed public offering, take over or buyback of securities for the Subject Company in the past 12 months neither receives any compensation from the subject company for corporate advisory or underwriting services in the past 12 months.
- Standard Capital Securities (Pvt.) Ltd. hasn't recently underwritten/or not in the process of underwriting the securities of an issuer mentioned herein. Standard Capital Securities (Pvt.) Ltd. hasn't have provided/providing advisory services to the issuer mentioned herein.

Risk disclosures impeding target price

The Subject Company is exposed to market risks, such as changes in interest rates, exchange rates, changes in raw material prices. Subject company can also exposed to risk such as derivative transaction or certain regulatory changes from government authorities.

Rating System

Standard Capital Securities (Pvt.) Ltd. standardized recommendation structure i.e. Positive, Hold and Negative, based on rating system i.e.

- (Target Price, if any/Current Price - 1) > 10% Positive
- (Target Price, if any/Current Price - 1) < 10% Hold
- (Target Price, if any/Current Price - 1) < -10% Negative

The time duration is the financial reporting period of Subject Company

Valuation method

Following research techniques adopted to calculate target price/recommendation

- Price to earnings & Price to Book, EV-EBITDA multiple
- Discounted Cash flows or Dividend Discount Model or Enterprise Value