

# Company Report

Monday, January 13, 2025

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## Coverage Initiation Report

### COMPANY UPDATE

#### Air Link Communication Limited

#### AIRLINK

Technology & Communications

Recommendation	<b>BUY</b>
Target Price: Dec-25	280.5
Last Closing: 10-Jan-25	190
Upside (%):	48%
Valuation Methodology:	DCF

#### Market Data

Bloomberg Tkr.		AIRLINK		
Shares (mn)		395.27		
Free Float Shares (mn)		98.8		
Free Float Shares (%)		25%		
Market Cap (PKRbn)		75.0		
Market Cap (USDmn)		269.0		
Exchange		KSE-100		
<b>Price info.</b>	<b>01M</b>	<b>03M</b>	<b>09M</b>	<b>12M</b>
Abs. Return	07%	39%	198%	218%
Low	178.8	134.2	64.1	61.4
High	197.8	140.0	62.1	59.1

#### Key Company Financials

Period End: Jun

PKRbn	FY24A	FY25E	FY26F	FY27F
Total Revenue	129.7	140.4	200.0	221.5
Net Income	4.6	6.8	10.1	11.9
EPS (PKR)	11.72	17.3	25.7	30.2
DPS (PKR)	6.0	8.0	13.0	16.0
Total Assets	40.5	42.9	49.5	55.5
Total Equity	15.1	17.8	21.9	26.6

#### Key Financial Ratios

ROE (%)	31%	38%	46%	45%
P/E (x)	18.9x	13.0x	7.9x	6.8x
P/B (x)	5.8	4.9	4.0	3.3
DY (%)	3%	4%	6%	7%

Source: Bloomberg, CapitalStake, PSX, Company Financials, IGI Research

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## Technology & Communications

### AIRLINK: Product Diversification to Spearhead Earnings Growth

- We initiate coverage on Air Link Communication Limited with a buy rating and target price of PKR 280.50/share offering 48% upside from the last close. Air Link Communication, founded in 2010, is a prominent player in Pakistan's smartphone and technology sector. The company has established itself as a leader in distribution and local manufacturing, leveraging partnerships with global tech giants like Samsung, Vivo, and Xiaomi.
- We estimate AIRLINK's earnings to grow significantly over the next 5 years with a CAGR of 28%, driven by increasing smartphone penetration and Company's strategic initiatives in manufacturing and e-commerce.
- Using DCF, we have a 'BUY' rating on AIRLINK with a Dec-25 target price of PKR 280.50/share, offering an approximate 48% upside from the last closing price of PKR 190/share. The company trades at FY25/26 P/E of 13.0x/7.9x with a dividend yield of 4.0%.

### Initiating Coverage on AIRLINK with "BUY" Rating

We initiate coverage on Air Link Communication Limited (AIRLINK) with a Buy rating and target price of PKR 280.5/share offering 48% upside from the last close. AIRLINK is a leading integrator in Pakistan's smartphone ecosystem, excelling in distribution, manufacturing, and value-added services. Its state-of-the-art manufacturing facilities position's the Company as a trailblazer in local smartphone assembly, aligning with government initiatives to reduce import dependency.

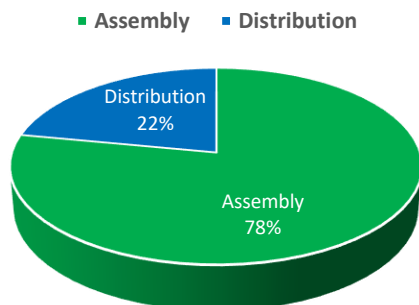
We base our investment thesis on a) rapid growth driven by demographics, e-commerce adoption, and price advantage over imports, b) diversification of product offerings including localized production of Xiaomi smart Tv's and strategic partnerships with Acer Gadgets, c) favorable government policies promoting tech sector, d) export Potential driving significant growth.

**Recommendation:** We have a 'BUY' rating on AIRLINK with a Dec-25 target price of PKR 280.5/share offering a ~48% upside from the last closing price of PKR 190/share. The company is currently trading at FY25/26 P/E of 13.0x/7.9x and offers a dividend yield of 4.0%.

**Key Catalyst:** Key catalysts include a) Incentivised Export potential, b) More than Expected Technological Demand Surge and, c) Progression on Smart Wearables Production.

**Key Risk:** Key risks include a) Exchange Rate Volatility, b) Economic Challenges Impacting Consumer Spending and, c) Supply Chain Disruptions.

**Exhibit: Segment wise sales contribution (FY24)**



Source: Company Accounts, IGI Research

## Investment Thesis

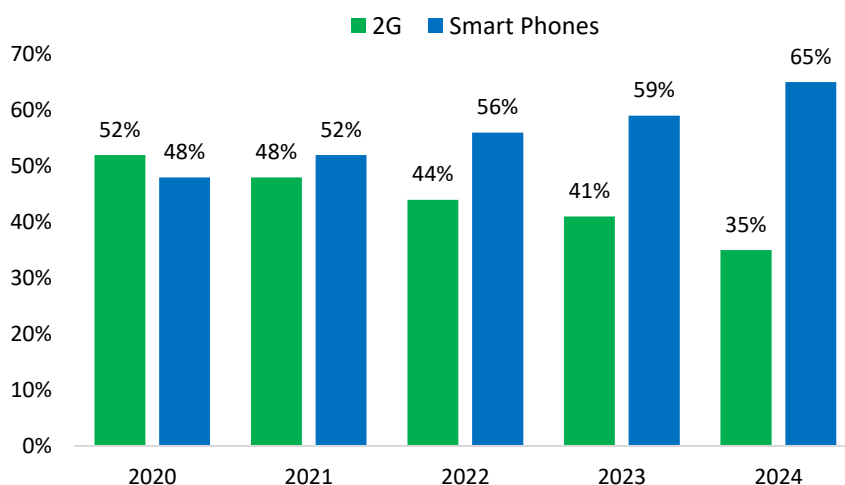
### 1. Accelerated Smartphone Penetration

**Demographic Shifts and Smartphone Adoption:** Pakistan’s population, growing at 2-3% annually, has a significant proportion (around one-third) aged between 20-40 years. This tech-savvy demographic heavily relies on smartphones for daily tasks, contributing to the annual smartphone demand growth of 6%. The Pakistan Telecommunication Authority (PTA) projects mobile demand to reach 39 million units by 2026, a 22%/y/y increase from the projected 32 million units in 2024 and a 44%/y/y increase from the 22.9 million units manufactured in 2023..

**Technological Advancements and Digitalization:** The surge in mobile banking and digital wallet transactions has made smartphones indispensable for online activities. Popular apps like Foodpanda, Indrive, Bykea, and Daraz have driven widespread smartphone adoption. E-commerce growth has further propelled smartphone penetration across urban and rural areas, highlighting their role in digital connectivity.

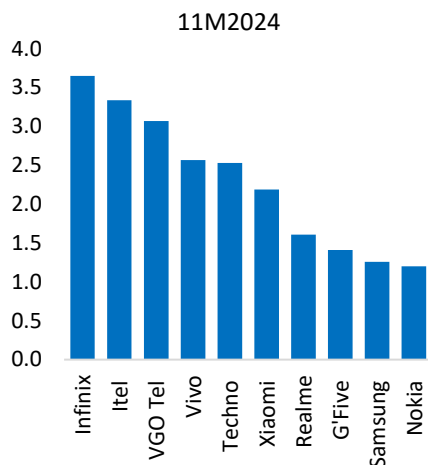
**Accessibility through Local Assembly and Market Outlook:** Affordable, locally assembled smartphones, offering a 15-20% price advantage over imported devices, have enhanced accessibility. These options cater to both urban and rural consumers, making smartphones essential tools for daily life. With this trend, AIRLINK’s assembly volumes are projected to grow by 20%, boosting its distribution segment to outperform current levels.

**Exhibit: Category wise contribution in total mobile sales**



Source: PTA, IGI Research

**Exhibit: Assembled Volume by Brands (mn phones)**



Source: PTA, IGI Research

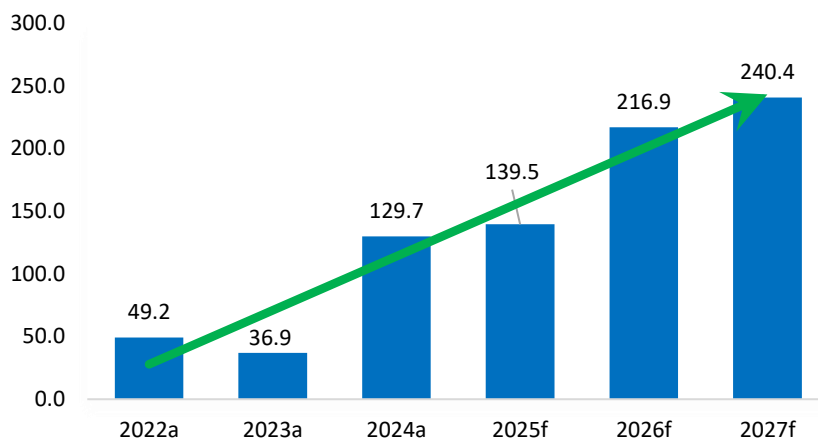
**2. Diversification of Product Offerings**

**Expanding Product Portfolio in to Smart TVs:** AIRLINK is diversifying beyond smartphones to include high-demand tech products like smart TVs. The localized production of Xiaomi smart TVs is a significant step, sustaining the the growing demand for smart home devices. We project that revenue from the sale of Xiaomi Smart TVs will reach approximately PKR 5-6bn in FY26, driven by an estimated sales volume exceeding 70k units.

**Strategic Collaborations and Future Profitability:** Additionally, AIRLINK’s strategic collaboration with Acer Gadgets to introduce e10 laptops, tablets and all-in-one devices to the local market which is likely to further support revenue growth. We anticipate potential revenue stream generated from Acer laptops will more likely be reflected in FY26, with an expected value to be around PKR ~9bn.

Moreover, AIRLINK signed an MoU with China’s IMIKI Corporation during a visit to Pakistan for smart wearables manufacturing in Pakistan. This move is expected to boost AIRLINK’s profitability given any progress is made on the operations end. This diversification aligns with consumer trends and reduces reliance on smartphone sales alone.

**Exhibit: Revenue Projections (PKRbn)**

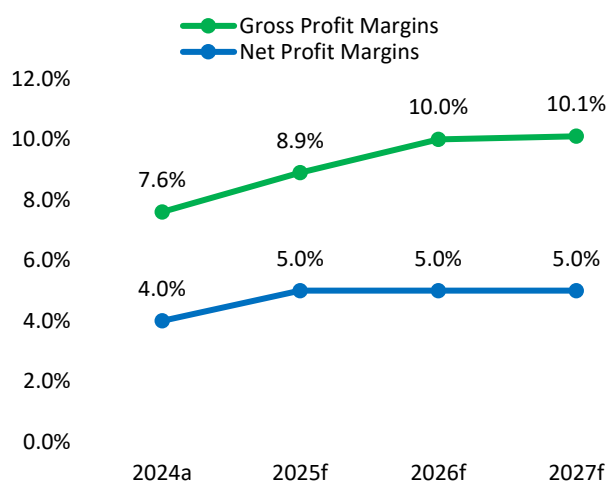


Source: Company Accounts, IGI Research

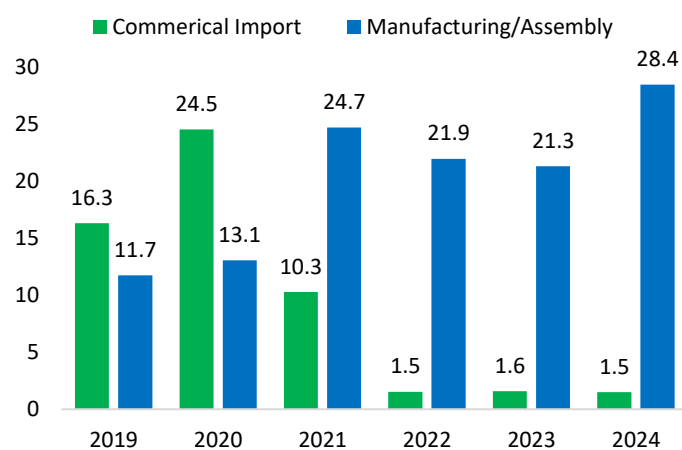
### 3. Favorable Government Policies and Export Potential

**Policy Backing and Export Prospects:** Government’s Mobile Device Manufacturing Policy supports local production by reducing taxes on CKD/SKD imports compared to fully built phones (CBUs). It offers a 3-8% R&D allowance for exporters, plans for escalated local parts production and exempts locally made phones from 4% withholding tax. The policy ensures continued tax benefits, prevents misuse of import rules, and focuses on developing local parts. These policies have encouraged local production, resulting in more than 95% of Pakistan’s mobile demand being met through domestic manufacturing/assembly as of 2024.

**Exhibit: Gross Profit vs Net Profit Margins**



**Exhibit: Imports vs local Manufacturing of Mobile Devices (PKR mn)**



Source: PTA, Company Accounts, IGI Research

#### 4. Export Potential Driving Significant Growth

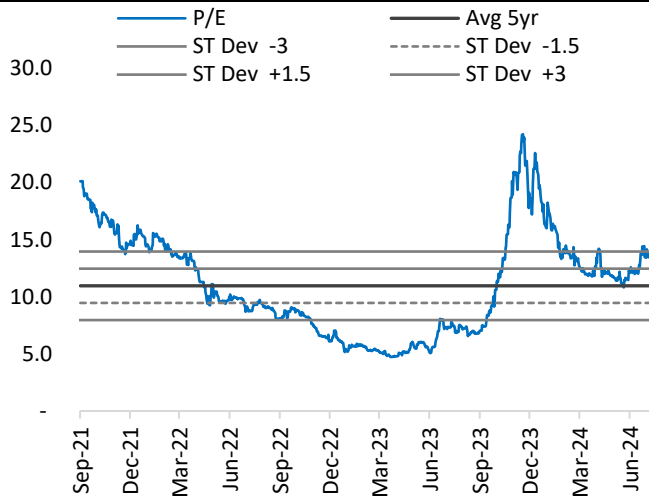
**Government's Incentives fuel Growth:** Pakistan, traditionally dependent on mobile phone imports, is experiencing a transformative shift as local manufacturing and assembly gain traction. Domestic mobile manufacturers are actively collaborating with the government to secure approvals for mobile phone exports, marking a significant milestone for the industry. The government offers a 3% rebate on mobile phone exports, while local manufacturers are advocating for additional incentives to support the export of mobile devices.

**Scaling Local Production for Exports:** AIRLINK, with a production capacity of around 11 million units, operated at only 28% utilization in FY24. It leaves substantial room to amplify production without requiring additional capital expenditure. Export activity is anticipated to commence by FY26, potentially enhancing AIRLINK's profitability. We expect around 0.7 mn mobile phones units will be exported in the first year adding substantially to the revenue stream. Recent tax changes, such as the 18% sales tax introduced in FY25, could impact export dynamics. Despite this, the policy framework lays the foundation for significant export growth, with Pakistan's tech exports reaching US\$ 2.6 bn in 2023-24, and AIRLINK is poised to expand its share in this market. With its state-of-the-art assembly plant, the Company can cater to this growing demand while improving its margins.

## Valuation

We have a 'BUY' rating on AIRLINK with a Dec-25 target price of PKR 280.5/share offering a ~48% upside from the last closing price of PKR 190/share (10-Jan 2025). We have determined our target price using Discounted Cash Flow (DCF) methodology Cost of Equity of 19.0% and a terminal growth rate assumed at 3%. Our calculation includes a risk-free rate of 12%, a beta of 1.3, and an equity risk premium of 6%.

**Exhibit: Historical P/E & Standard Deviation**



**Exhibit: Relative Price Performance**



Source: CapitalStake, Company Accounts, IGI Research

## Key Catalyst

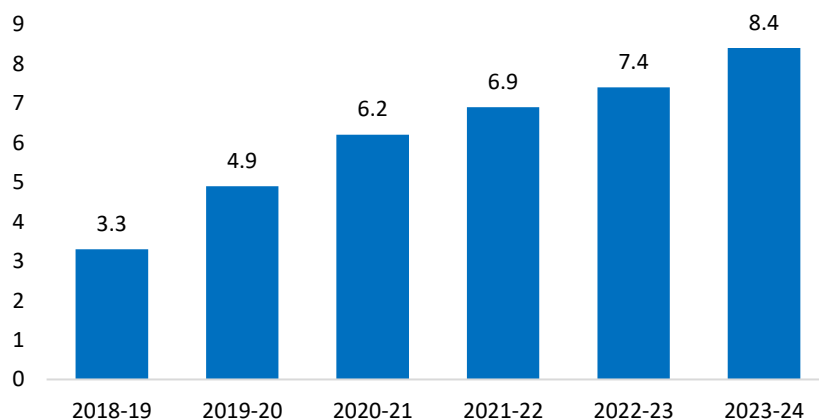
### 1. Export potential

Mobile manufacturers are actively collaborating with the government and pushing for more favorable export policies. As per the news report, Government is considering giving 8% rebate on mobile phones exports, encouraging manufacturers to balance their imports with exports within the next 3 years. This initiative aims to promote local productions and enhance global competitiveness. If export policies are revised based on anticipated incentives offered by the government, it could majorly boost Pakistan's local mobile industry, providing AIRLINK opportunity to significantly expand their market presence globally.

### 2. More than expected surge in demand

Cellular mobile services now extend to 91% of the population, with 4G covering 81%. These technological advancements, government's strategic regulatory initiatives coupled with rapid surge in population forge substantial demand for mobile phone devices in Pakistan. With more people switching to digital solutions rapidly, there might be more than expected demand surge and Airlink is well-positioned to capitalize on this demand hike with its sturdy inventory and secure distribution network.

**Exhibit: Average Mobile Data Usage (Monthly GBs/subscriber)**



Source: PTA, IGI Research

### 3. Strengthening Collaboration

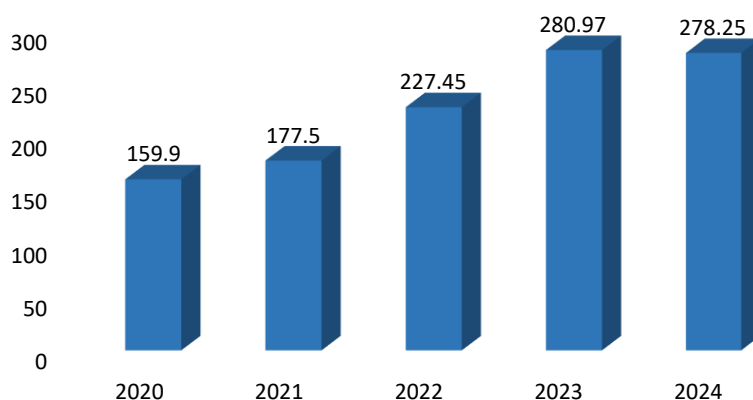
AIRLINK signed an MoU with China's IMIKI Corporation during a visit with PM to manufacture smart wearables in Pakistan. This move is expected to boost AIRLINK's profitability given any progress is made on the operations end.

## Risk to Rating

### 1. Exchange Rate Volatility

AIRLINK relies heavily on imported components for smartphone assembly, making its operations susceptible to exchange rate fluctuations. This volatility increases the cost of imported parts, crumbling profit margins and potentially raising the final product price for consumers.

**Exhibit: USDPKR Closing**



Source: CapitalStake, IGI Research

### 2. Economic Challenges Impacting Consumer Spending

AIRLINK's revenue growth is closely tied to consumer purchasing power, making it vulnerable to prolonged economic instability. High inflation coupled with stagnant wages, could reduce disposable income for the average Pakistani consumer. This economic environment could dampen consumer spending on non-essential goods, including smartphones and tech gadgets.

### 3. Supply Chain Disruptions

Global supply chain disruptions, caused by geopolitical tensions and pandemic-related challenges, have affected the availability of key components. Port congestions in Karachi or delays in customs clearance, may challenge Airlink's ability to maintain smooth operations. These disruptions can lead to production delays, increased costs, and missed market opportunities, especially during high-demand periods.



## Financial Summary

### Air Link Communication Limited (AIRLINK)

Current Price (PKR): 190

Target Price (PKR): 280.50

Upside: 48%

Recommendation: BUY

PKRmn	FY21A	FY22A	FY23A	FY24A	FY25E	FY26F	FY27F	PKRmn	FY21A	FY22A	FY23A	FY24A	FY25E	FY26F	FY27F
<b>Income Statement</b>								<b>Per Share</b>							
Sales	47,373	49,166	36,934	129,742	140,362	199,987	221,503	EPS	3.9	4.2	2.9	11.7	17.3	25.7	30.2
Gross Profit	4,823	5,181	3,535	9,806	12,561	19,967	22,354	DPS	0.8	1.0	0.8	6.0	8.0	13.0	16.0
Operating Profit	3,517	3,780	2,599	8,501	10,817	17,874	19,966	BVPS	16.4	29.5	30.9	38.1	45.0	55.3	67.4
EBITDA	3,528	3,912	2,865	8,584	11,508	18,626	20,848	<b>Growth rates &amp; Margins</b>							
Finance Costs	1,102	1,175	1,828	2,974	1,664	1,766	1,060	Sales Gr. %	0%	4%	-25%	251%	8%	56%	11%
Profit Before Tax	2,426	2,737	1,037	5,610	9,614	16,624	19,575	EPS Gr. %	0%	9%	-32%	310%	47%	49%	18%
Taxation	899	1,076	(93)	977	2,788	6,483	7,634	Gross Margin	10.2%	10.5%	9.6%	7.6%	8.9%	10.0%	10.1%
Profit After Tax	1,527	1,661	1,130	4,633	6,826	10,141	11,941	Net Margin	3%	3%	3%	4%	5%	5%	5%
<b>Balance Sheet</b>								<b>Valuation</b>							
Inventory	3,534	5,334	7,175	8,109	9,765	11,074	12,258	P/E	57.5x	52.8x	77.7x	18.9x	12.9x	8.7x	7.3x
Other Receivables	3,753	3,905	5,978	12,707	9,799	6,342	5,952	DY	0%	0%	0%	3%	4%	6%	7%
PP&E	1,254	6,127	6,152	8,335	8,148	7,995	7,747	P/B	13.5x	7.5x	7.2x	5.8x	4.9x	4.0x	3.3x
Total Assets	15,748	21,660	28,635	40,518	42,890	49,485	55,494	ROE (%)	24%	14%	9%	31%	38%	46%	45%
Total Liabilities	8,453	7,867	13,827	23,223	23,831	27,109	28,307	ROA (%)	10%	8%	4%	11%	16%	20%	22%
Paid Up Capital	3,000	3,953	3,953	3,953	3,953	3,953	3,953	P/EBITDA	24.9x	22.4x	30.6x	10.2x	7.6x	4.7x	4.2x
Total Equity	6,479	11,656	12,225	15,069	17,800	21,856	26,632	D/E	1.43	12.58	27.18	1.62	0.74	0.34	0.24

Source: Company Financials, PSX, CapitalStake

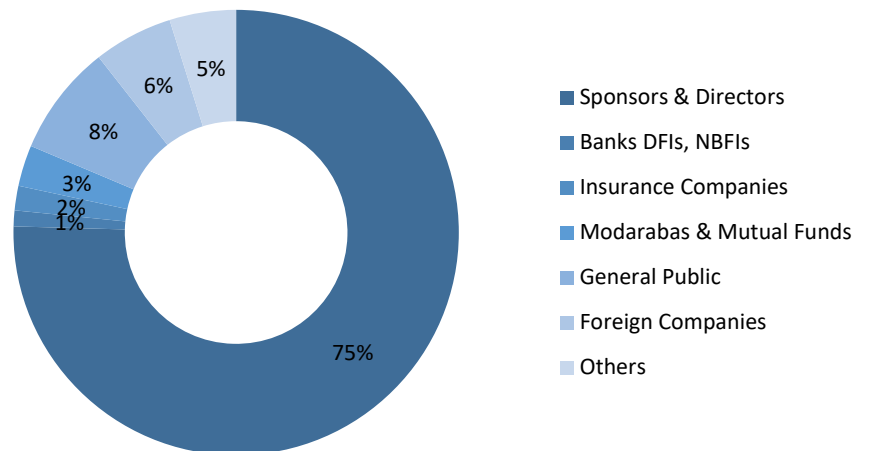


## About the Company

AirLink Pakistan is a technology company specialising in distribution, manufacturing and assembly of mobile phones and tech gadgets. The Company holds a significant position in the shaping the technological landscape in Pakistan. It is majorly involved in the distribution of mobile phones with major brands like ; Samsung, Huawei, Techno, iPhone, Itel, Xiaomi, TCL, Realme, and Q-Mobile. It caters to the growing market demand by its state of the art assembly facilities and a robust distribution network.

Airlink has diversified its portfolio sigificantly by entering into strategic partnerships with Xiaomi to locally manufacture smart Tv's and its growing collaboration with Acer to manufacture its gadgets which signfies its commitment to diversification. It largely focuses on affordability and quality to cater to the largest segment of mobile phone users in Pakistan that is growing at a significant rate. Airlink captures a market share of around 22% in mobile phone distribution. It has a countrywide network connected with over 16+ hubs & regional offices, 1100+ wholesalers, and 4,000+ retailers with after-sales support service centers in all prominent cities.

### Exhibit: Shareholding Pattern as at Jun-24



Source: Company Accounts, IGI Research

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## Recommendation Rating System

Buy if target price on aforementioned security (ies) is more than 10%, from its last closing price(s)

Hold if target price on aforementioned security (ies) is in between -10% and 10%, from its last closing price(s)

Sell if target price on aforementioned security (ies) is less than -10%, from its last closing price(s)

**Valuation Methodology:** To arrive at Target Prices, IGI Finex Securities uses different valuation methodologies including

- Discounted Cash Flow (DCF)
- Reserve Based DCF
- Dividend Discount Model (DDM)
- Justified Price to Book
- Residual Income (RI)
- Relative Valuation (Price to Earning, Price to Sales, Price to Book)

**Risk:** Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

**Basic Definitions and Terminologies used:** **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, **Last Closing:** Latest closing price, **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **EPS:** Earnings per Share. **DPS:** Dividend per Share. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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