

# Day Break

Wednesday, 02 June 2021

## COMPANY UPDATE

### Tariq Glass Industries Limited

Glass & Ceramics

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec-21	138.0
Last Closing: 1-Jun-21	106.3
Upside (%):	29.9
Valuation Methodology:	Discounted Cash Flow (DCF)
Time Horizon:	7M

#### Market Data

Bloomberg Tkr.	TGL PA
Shares (mn)	137.7
Free Float Shares (mn)	44.1
Free Float Shares (%)	32.0%
Market Cap (PKRbn   USDmn)	14.6   88
Exchange	KSE 100
<b>Price Info.</b>	90D 06M 12M
Abs. Return	24.7 56.4 107.9
Lo	76.7 67.5 50.4
Hi	106.3 106.3 106.3

#### Key Company Financials

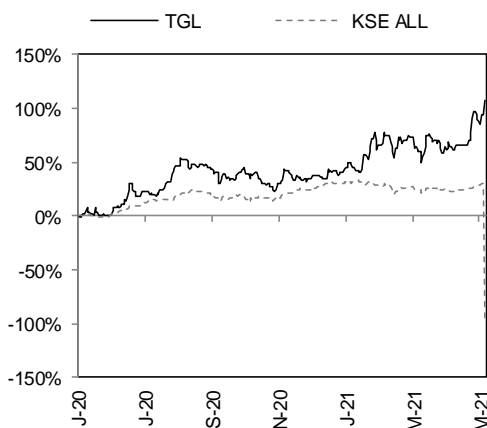
Period End: Jun

PKRbn	2020a	2021f	2022f	2023f
Total Revenue	13.6	19.1	18.9	21.3
Net Income	0.8	2.2	2.3	2.5
EPS (PKR)	5.5	16.0	16.6	18.4
DPS (PKR)	-	-	3.3	7.0
Total Assets	17.2	17.0	33.1	18.8
Total Equity	6.7	9.2	11.1	12.5

#### Key Financial Ratios

ROE (%)	22.5	23.2	11.8	27.7
P/E (x)	19.2	6.6	6.4	5.8
P/B (x)	2.8	2.4	2.2	1.6
DY (%)	-	-	3.1	6.6

#### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

#### IGI Research

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## Glass and Ceramics

### TGL: Banking on Construction Demand and Cyclical Opportunities

- Tariq Glass Limited (TGL) is a dominant player in both locally produced float and tableware glass. In terms of tableware, TGL capacity of 220tpd makes it one of the largest local manufacturer occupying nearly 45% market share. Unlike tableware market which has a lot of competition from imports and local players' expansion, float glass market is mainly distributed evenly between TGL and Ghani Glass Limited (GHGL).
- TGL has also nearly doubled its float glass capacity from 500tpd to 1,050tpd, retaining its market dominance in float glass market with nearly 50% market share which also allows for better pricing power.
- We estimate TGL earnings for next 5yrs to post 32% cagr (13% in past 5yrs) reaching PKR 3.0bn from last reported PKR 0.8bn, in absolute term that's nearly 4x.
- Using DCF, we have 'Buy' rating on TGL, with a Dec-21 target price of PKR 138/share, offering ~30% upside from last closing price of PKR 106. For our valuation we have used cost of equity of 15%.

Construction sector has remained one of the foremost beneficiary of government's post-covid19 led recovery cycle. Cements and steel stocks have nearly doubled their market capitalization since the outbreak last year in Mar-20. Industrial glass in particularly 'float' segment, one of the most widely used in construction materials, despite operational improvement has yet to catch up on cements/steel sector price action.

#### Tariq Glass Limited (TGL) key player in local float glass market

Tariq Glass Limited (TGL) is a dominant player in both locally produced float and tableware glass. In terms of tableware, TGL capacity of 220tpd makes it one of the largest local manufacturer occupying nearly 45% market share. Unlike tableware market which has a lot of competition from imports and local players' expansion, float glass market is mainly distributed evenly between TGL and Ghani Glass Limited (GHGL), while imports of float glass only accounts for 1-2% of the total demand.

Moreover, local float glass have fetched premium prices for both manufacturers Tariq and Ghani, which has resulted in a sales mix of over ~90% tilted towards local sales. Export markets have remained limited mainly in Afghanistan and India, with latter seeing a restriction led to overall slowdown sector export sales.

Banking on the construction sector growth TGL has recently commissioned its new furnace facility, adding rated capacity of 550tpd of float glass on top of its 500tpd existing capacity. This will ensure TGL market share of 50% also allowing for better pricing power.

#### Operating margin rose sharply in 3Q21 due to strong volume growth

So far TGL has achieved very strong earnings growth (2.4x) in 9m21, chiefly because of improving margins in the float glass segment and robust demand growth. Company's operating margin increased ~700bps y/y from 12.5% a year ago to 19.4% in 9m2021.

## Investment Thesis, Valuation and Risks

### Investment Thesis

We have a 'buy' rating on TGL with our Dec-21 target price of PKR 138/share.

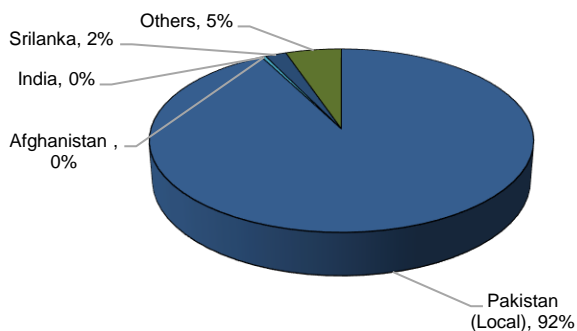
- 1#. **Capacity expansion:** TGL has also nearly doubled its float glass capacity from 500tpd to 1,050tpd, retaining its market dominance in float glass market with nearly 50% market share which also allows for better pricing power. We estimate company 3yr fwd sales cagr of +20% (19% in past 3yrs), with average volumetric sale of table/opal/float glass at 262kTon during 2021-23 compared to 200kTons previously achieved in 2018-2020.
- 2#. **Reduced Debt burden:** With reduced debt level, TGL is also likely to have minimal impact of rise in interest rates. Moreover, as change in working capital accounting for only 1-2% of sales, TGL's cash position from operations remains strong as minimum cash is tied up in overdue receivables. Once LT debt is paid off, which is expected by 2025, TGL's FCF yields are expected to rise to 21-23% there onwards.
- 3#. **Strong earnings growth:** TGL has posted 5yrs earnings CAGR of 13% from FY16-20 on the back of healthy growth in revenues (5yrs CAGR of 11%). Going forward, we estimate TGL earnings for next 5yrs to post 32% cagr (13% in past 5yrs) reaching PKR 3.0bn from last reported PKR 0.8bn, in absolute term that's nearly 4x.

#### Exhibit: Key Financial Highlights

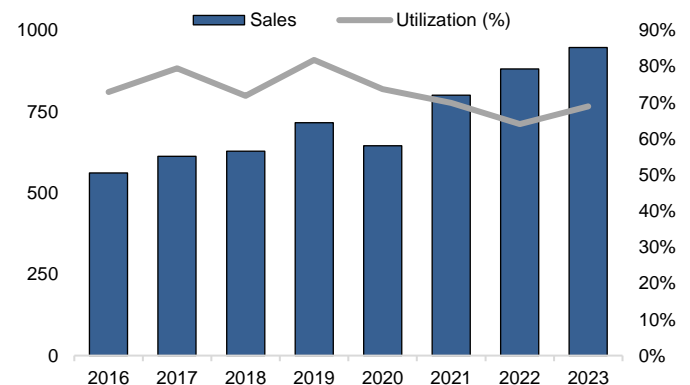
	FY16a	FY17a	FY18a	FY19a	FY20a	FY21e	FY22e	FY23e	FY24e	FY25e
Capacity	231	231	263	263	263	344	413	413	413	413
Sales	166	185	188	215	193	240	254	279	301	324
Capacity Utilization	73%	79%	72%	82%	74%	70%	62%	68%	73%	79%
Net Sales	8,076	9,903	12,302	14,389	13,587	19,059	18,939	21,265	23,472	25,842
Operating Profit	1,018	1,492	1,669	2,262	1,672	3,728	3,843	4,173	4,438	4,717
EPS	6.7	10.3	14.9	9.6	5.5	16.0	16.6	18.4	20.1	22.0
Total Debt / Equity (%)	90.4	59.1	35.0	89.0	119.3	53.2	39.9	27.8	18.0	10.9
Interest Coverage	2.9	5.8	10.3	7.0	2.8	8.8	8.6	10.5	14.2	21.9

Source: Company Accounts, IGI Research

#### Exhibit: Sales regional break-up



#### Exhibit: Sales and capacity utilization - tpd



## Valuation

Using DCF, we have 'Buy' rating on TGL, with a Dec-21 target price of PKR 138/share, offering ~30% upside from last closing price of PKR 106. For our valuation we have used cost of equity of 15%.

### Valuation Snapshot:

In PKRmn	FY21e	FY22e	FY23e	FY24e	FY25e	.....	FY30e
Net Sales	19,059	18,939	21,265	23,472	25,842		35,217
Net Sales Gr%	40%	-1%	12%	10%	10%		5%
Operating Profit	3,498	3,639	3,950	4,201	4,464		4,565
Operating Profit Margin	18%	19%	19%	18%	17%		13%
EBIT (1-tax)	2,483	2,583	2,805	2,983	3,170		3,241
Dep.	495	637	786	914	1,032		1,007
Wkg Capital (chg.)	813	-204	-278	-508	-304		-205
CAPEX	-1,825	-2,021	-1,981	-2,016	-2,115		-657
FCF	1,966	995	1,332	1,373	1,783		3,386
Interest payments	-399	-421	-376	-297	-203		-110
Debt repayments	-3,389	-933	-933	-933	-525		0
<b>FCFE</b>	<b>-1,822</b>	<b>-359</b>	<b>23</b>	<b>143</b>	<b>1,055</b>		<b>3,276</b>
Cost of equity	15%						
Terminal Value	36,208						
Terminal Value (Present value)	11,452						
Sum of Present value	7,285						
Value of operating assets =	18,737						
+ Cash	212						
Value of equity	18,950						
Shares	138						
<b>Dec2021 Target price</b>	<b>138</b>						

The Company is currently trading at 2021/22F P/E of 6.6x/6.4x significantly discounted to market current P/E 7.8x and historic average. Similarly, improved operating margins and reduced financing is translating into a higher op. cash flow yields in excess of 17% from FY22 onwards compared to 5% as of 2021.

### Exhibit: Tariq Glass Limited P/E band



Moreover, on a 12month trailing basis, company offers a significant discount on P/E and P/S relative to other glass players, with GHGL being closest competitor wrt to products.

**Exhibit: Glass & Ceramics Sector**

Sym.	Segment	Market cap.	Net Sales	Sales (gr)	Profit After Tax	EPS (gr)	GP margin	OP margin	P/S (TTM)	P/E (TTM)	EV/Ebitda (TTM)
GHGL	Float/ Containers Glass	40.9	17.1	13%	1.5	-8%	22.6%	38%	2.1	14.8	8.8
TGL	Float/ Tableware/ Opal/ Containers Glass	14.5	13.6	19%	0.8	16%	17.8%	32%	0.9	8.5	5.5
GVGL	Mirror/ Tempered/ Laminated Glass	3.6	1.6	25%	0.2	130%	29.8%	47%	1.7	9.4	6.4
BGL	Tableware/ Containers/ Plastic Shells Glass	3.8	1.5	0%	-0.5	-4%	-11.5%	-30%	3.2	n.m.	18.4
GGGL	Tubes/ Glass-Ware/ Vials /Ampules Glass	4.9	0.5	n.m.	-0.1	n.m.	2.8%	-14%	3.6	46.6	14.2

Source: PSX, Company accounts, IGI Research, \*Gr=3yrs cagr, margin=3yrs average

### Float Glass Plant Unit-1 and Opal Glass dinnerware production to halt due to overhauling

Float Glass Plant Unit-1 will be closed for rebuild/repair. Estimated time for rebuild is about 4-5months. Similarly opal glass dinnerware capacity will be shut down for rebuild post commissioning of Float Glass Plant Unit-2.

We have incorporated TGL float glass line 1 (Jun-21) and opal glass dinnerware furnaces (FY22) closure for overhauling for about 5-6months. However despite that TGL is likely to post 5yr earnings CAGR of +32% during FY21-25.

### Key Catalysts

In our view, primary catalyst to our rating include (a) better pricing power due to market dominance allows for pass over of rise in cost; and (b) resumption of trade with Afghanistan and India to allow for increase in exports. Moreover TGL reduced debt will possible lead to its inclusion in KMI all share attracting liquidity.

### Risks to Rating

We highlight the primary downside risks to our 'Buy' rating which include (a) substantial rise in RLNG prices which could be triggered by PKR depreciation and/or further rise in international oil prices; (b) slowdown in construction activities leading to lower demand; (c) rise in interest rates, and (d) closure of furnace for overhauling for an extended period. In the long term, major downside risk could be increased competition either locally or from imports.

## Financial summary

### Tariq Glass Limited (TGL)

Current Price (PKR): 106

Target Price (PKR): 138

Upside: 30%

Recommendation:

BUY

Period end (Jun) - PKRmn	FY19a	FY20a	FY21e	FY22e	FY23e	Period end (Jun) - PKRbn	FY19a	FY20a	FY21e	FY22e	FY23e
<b>Income Statement</b>						<b>Per Share</b>					
Net Sales	14,389	13,587	19,059	18,939	21,265	Eps	9.6	5.5	16.0	16.6	18.4
Gross Profit	2,818	2,200	4,374	4,482	4,881	Dps	4.0	-	-	3.3	7.0
Operating Profit	2,262	1,672	3,728	3,843	4,173	Bvps	44.6	48.9	67.0	80.3	90.8
Ebit	2,165	1,613	3,498	3,639	3,950	<b>Growth rates &amp; Margins</b>					
Ebitda	2,664	2,140	3,992	4,276	4,736	Sales Gr. %	17%	-6%	40%	-1%	12%
Finance Costs	310	568	399	421	376	Eps Gr. %	21%	-42%	190%	3%	11%
Profit Before Tax	1,855	1,045	3,099	3,217	3,575	Gross Margin	20%	16%	23%	24%	23%
Taxation	531	284	891	933	1,037	Ebit Margin	15%	12%	18%	19%	19%
Profit After Tax	1,324	762	2,207	2,284	2,538	Net Margin	9%	6%	12%	12%	12%
<b>Balance Sheet</b>						<b>Valuation</b>					
Inventory	2,473	2,964	2,872	2,854	3,204	P/E	11.1x	19.2x	6.6x	6.4x	5.8x
Receivables	1,323	1,822	1,566	1,557	1,748	Dy	4%	0%	0%	3%	7%
Current Assets	4,954	6,270	6,002	6,975	7,724	P/B	2.4x	2.2x	1.6x	1.3x	1.2x
PPE	8,410	10,853	10,935	11,070	11,016	Op. Cf Yld	17%	9%	6%	20%	19%
Total Assets	13,461	17,207	17,020	18,128	18,824	Roe (%)	23%	12%	28%	23%	22%
Payables	1,348	1,747	2,213	1,980	2,244	Roa (%)	12%	5%	13%	13%	14%
Current Liabilities	4,953	6,198	4,163	4,367	4,631	P/Ebitda	5.5x	6.8x	3.7x	3.4x	3.1x
Lt Loans	1,940	3,842	3,206	2,274	1,341	Ev/Ebitda	7.3x	10.4x	4.7x	4.0x	3.4x
Total Liabilities	7,322	10,465	7,796	7,067	6,324	<b>Volumetric Sales (k.tons)</b>					
Paid Up Capital	735	1,102	1,377	1,377	1,377	Capacity Utilisation	82%	74%	70%	62%	68%
Total Equity	6,139	6,742	9,224	11,061	12,500	Sales	215	193	240	254	279

Source: Company accounts, PSX, IGI Research

#### Exhibit: Quarterly financial highlights

PKRmn	9m21	3q21	2q21	1q21	2020	4q20	3q20	2q20	1q20	2019	4q19	3q19	2q19	1q19
Net Sales	14,059	5,036	4,919	4,104	13,587	2,214	3,638	4,158	3,577	14,389	3,646	3,756	3,707	3,280
Sales Gr%	24%	38%	18%	15%	-6%	-39%	-3%	12%	9%	18%	7%	14%	28%	27%
Gross Profit	3,174	1,247	1,096	831	2,200	393	659	574	574	2,819	641	892	702	584
GP Margin	23%	25%	22%	20%	16%	18%	18%	14%	16%	20%	18%	24%	19%	18%
Operating Profit	2,722	1,102	938	682	1,672	248	530	445	449	2,262	448	784	558	472
OP Margin	19%	22%	19%	17%	12%	11%	15%	11%	13%	16%	12%	21%	15%	14%
EBIT	2,549	1,035	875	639	1,613	240	506	424	443	2,164	433	737	528	466
EBIT Margin	18%	21%	18%	16%	12%	11%	14%	10%	12%	15%	12%	20%	14%	14%
Financial charges	258	126	56	76	568	128	149	154	137	310	105	94	75	36
Profit before tax	2,291	909	819	563	1,045	112	357	270	306	1,854	328	643	453	430
Taxation	657	277	218	162	284	42	88	77	77	531	163	199	73	96
Effective tax rate	29%	30%	27%	29%	27%	38%	25%	29%	25%	29%	50%	31%	16%	22%
Profit after tax	1,634	632	601	401	761	70	269	193	229	1,323	165	444	380	334
Net Margin	12%	13%	12%	10%	6%	3%	7%	5%	6%	9%	5%	12%	10%	10%
EPS	11.9	4.59	4.36	2.91	5.53	0.51	1.95	1.40	1.66	9.61	1.20	3.22	2.76	2.42

Source: Company accounts, IGI Research

### About the company

Tariq Glass Industries Limited (“the Company”) was incorporated in Pakistan in 1978 and converted into a Public Limited Company in the year 1980. The Company’s shares are listed on Pakistan Stock Exchange. The Company is principally engaged in the manufacture and sale of glass containers, opal glass, tableware and float glass.

<b>Exhibit: Company Shareholding Pattern</b>		
—		
in mn shares		
	<b>% Holding</b>	<b>No of shares</b>
Directors	48%	66.8
Omer Glass Industries Limited	11%	14.5
M & M Glass ( Private) Limited	1%	1.7
General Public	16%	21.8
Others	24%	32.9
<b>Total</b>	<b>100%</b>	<b>137.7</b>

Source: Company Financials

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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)

**Time Horizon:** Dec – 2021

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):  
(Discounted Cash Flow)

**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.

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