

Initial Public Offering

Recommendation: Subscribe

Company: Pakistan Aluminium Beverage Cans Ltd.

Symbol: PABC

Offer size (shares): 93.9mn shares

% of paid up capital: 26%

Floor Price: PKR 35/share

Cap Price (40%): PKR 49/share

Face Value: PKR 10/share

Institutions & HNWI (75%): 70.42mn shares

Retail Investors (25%): 23.47mn shares

Registration: 17th - 23rd June, 2021

Book Building: 22nd - 23rd June, 2021

Public Subscription: 29th - 30th June, 2021

Key Financials

PKRmn	CY18	CY19	CY20	4mCY21
Sales	2,057	4,809	5,084	2,579
PAT	(799)	147	611	596
EPS	(2.2)	0.4	1.7	1.7
Total Assets	8,047	8,945	8,805	9,449
LT Debt	-	2,826	2,855	2,742
ST Borrow.	2,074	2,139	1,241	381
NC Liab.	389	3,291	3,363	3,265
Current Liab.	5,940	3,121	2,298	2,444

Source: PABC Prospectus

Analyst

Abdullah Farhan

abdullah.farhan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 912

Beverage Packaging

Pakistan Aluminium Beverage Cans Limited (PABC): 'Subscribe'

- Pakistan Aluminium Beverage Cans Limited (PABC), sole supplier of aluminium beverage cans in Pakistan, has filed for an Initial Public Offering (IPO), the book building component of which is scheduled on 22nd and 23rd June, 2021.
- The Company is offering existing 93.9mn shares (26% of paid-up capital) at a floor price of PKR 35/share.
- We recommend a 'Subscribe' to the offer on Pakistan Aluminium Beverage Cans Limited up to PKR 46/share.

Pakistan Aluminium Beverage Cans Limited to offer 93.9mn shares through initial public offering

Pakistan Aluminium Beverage Cans Limited (PABC), sole supplier of aluminium beverage cans in Pakistan, has filed for an Initial Public Offering (IPO), the book building component of which is scheduled on 22nd and 23rd June, 2021. The Company is offering existing 93.9mn shares (26% of paid-up capital) at a floor price of PKR 35/share and cap price of PKR 49/share (40% from floor price). The nature of IPO entails divestment of existing shares as the main sponsor Ashmore Mauritius PAC Limited is selling its entire stake of 51% through IPO (26%) and private placement (25%).

'Based on our initial industry analysis, we recommend a 'subscribe to the offer' up to PKR 46/share.'

We recommend a 'Subscribe' to the offer on Pakistan Aluminium Beverage Cans Limited up to PKR 46/share. From valuation stand point, the Company is currently trading at a Forward P/E of 20.7x and 8.6x for CY20 and CY21 at floor price of PKR 35/share against the Beverage Packaging sector multiple of ~14.6x (12 month trailing basis). Therefore, we advise investors to subscribe the issue up to PKR 46/share.

We base our liking for the Company on the back of:

- **Substantial growth in soft drink market in Pakistan:** Demand for soft drinks in Pakistan is expected to grow at 5yr CAGR of 6.7%. The demand is primarily driven by off Trade segment (superstores, grocery store, etc.) constituting 81% of the total soft drink sales.
- **Shift away from PET packaging to Can packaging:** Globally due to environmental concerns of plastic waste, beverage packaging is witnessing ongoing shift from PET and glass bottles to aluminium Cans which is infinitely recyclable and also provides higher degree of preservation and longer shelf life. Though Pakistan has lagged behind in conversion from PET to aluminium can, the Company believes shift in consumer pattern has started and will drive future growth in sales.
- **Future expansion to take capacity to 950mn can per annum:** The Company is in the process of increasing its capacity to 950mn Cans per

annum from current 700mn which is likely to cost USD 7-8mn. The Company has already secured financing through Islamic long term financing facility (ILTFF) from Faysal Bank.

- **Growth in export market:** PABC is currently exporting to Afghanistan which constitutes 35% of the total sales. The Company plans to capture market share of imported Cans in Afghanistan from GCC nations by offering low freight and higher degree of flexibility. PABC has recently signed contracts to supply aluminium beverage Cans to Wild Leaf Holdings in alongside Alike LLC in Tajikistan.
- **Fluctuation in international prices already built in to contract price:** The major raw material of PABC is aluminium coils and can-ends which is linked to London Metal Exchange (LME) aluminium prices. The risk of volatility in prices is hedged as fluctuation in LME prices are built into the contract and passed on to the consumer. The Company's major raw material cost is aluminium coils and can-ends which constitute 60% and 30% of the total raw material cost. The Company has long term (3-year) contract, which was last renewed in 2020, with its major supplier (Novelis) to mitigate the risk of non-availability of raw material.

Exhibit: Break up of suppliers of raw material - country wise

Vendor	Raw Material	Country	CY18*	CY19*	CY20*
Novelis	Aluminium Coils	South Korea	63%	60%	58%
Yantai Jintai International Trade Co., Ltd	Aluminium Coils	China	2%	1%	4%
Nafcel	Can-Ends	China	25%	15%	10%
Bao Feng	Can-Ends	China	2%	10%	19%
Rexam United Arab Can Manufacturing Company	Can-Ends	UAE	2%	0%	0%
Can Pack Middle East Llc	Can-Ends	UAE	1%	9%	1%

Source: PABC Prospectus

*All numbers calculated on the basis of direct material cost for the corresponding year

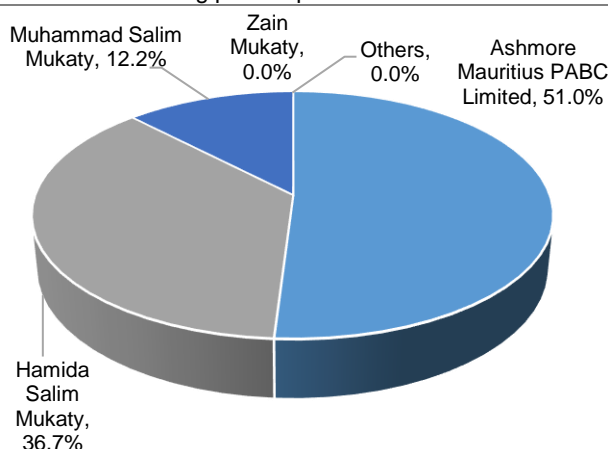
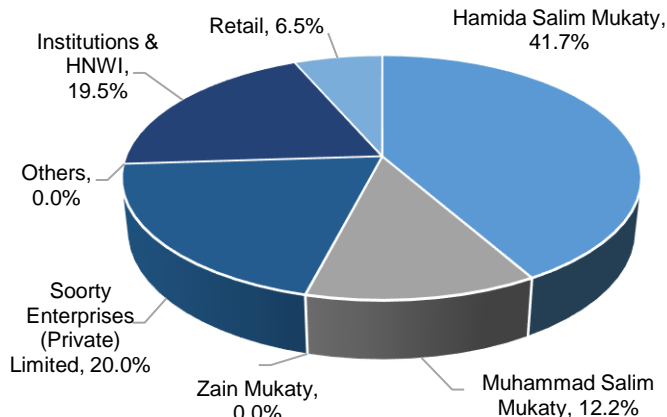
About the offer

The offer size constitutes of 93.9mn shares which is 26% of the total paid up capital of the Company. The offer entails divestment of existing shareholding. Ashmore, being the main sponsor, is divesting its entire stake of 51% through IPO (26%) and private placement (25%). Ashmore is selling its 25% stake through private placement to Hamida Salim Mukaty and Soorty Enterprises (Private) Limited. The purpose of this offer for sale is that Ashmore Mauritius PABC Limited, which is a private equity, in line with its strategy is divesting its shareholding to realize returns delivered on their investment in PABC.

Exhibit: About the offer

About the Issue	Details
Total Offer Size: (mn shares)	93.89
Free float shares:	26% of the Paid-Up Capital
Floor Price (PKR/share):	35.00
Cap Price (PKR/share):	49.00
Total IPO Amount at Floor/Cap price:	PKR 3.29bn / 4.60bn
Shariah Status	Shariah Compliant (at Dec 2020)

Source: PABC Prospectus

Exhibit: Shareholding pattern pre-offer**Exhibit: Shareholding pattern post-offer**

About Ashmore Mauritius: Ashmore Mauritius PABC Limited was incorporated by Ashmore Investment Management Limited (“AIML”) in Oct-14. AIML is a specialist emerging markets investment manager with nearly 30 years’ experience of investing in these markets.

Purpose of offer: Ashmore Mauritius PABC Limited (“Offeror/Seller”) is divesting 26% of the paid up capital of the Company through this offer for sale. Ashmore Mauritius PABC Limited, typical of any private equity strategy, is divesting its shareholding to realize returns delivered on their investment in PABC through a combination of this Offer for Sale and Private Placement.

About the Company

PABC started its operations in 2017 as the sole local manufacturer of Aluminium Beverage Cans in Pakistan, realizing the potential of growth in Pakistan’s & Afghanistan’s carbonated soft drinks market which relied upon imported Cans. Manufacturing facility of the Company is situated in M3 Industrial City, Faisalabad, which is a Special Economic Zone (“SEZ”) and is well positioned close to certain major bottlers and beverages companies including Coca Cola and PepsiCo Pakistan. The Company enjoys a 10-year tax holiday at the SEZ under the Special Economic Zone Act which started from July 2017. However, PABC pays minimum turnover tax at the rate of 1.5%.

Capacity

The Company’s plant can produce 700mn Cans per annum if it had to produce only one size of Can. Since the Company produces cans of different sizes catering to demand of its customers, the time to change the size molds brings its effective production capacity to approximately 600mn Cans per annum.

Exhibit: Production Capacity

Million cans/annum	CY18	CY19	CY20
Rated Capacity	700.00	700.00	700.00
Effective Capacity	600.00	600.00	600.00
Actual Production	237.53	418.68	444.34
Capacity Utilization	39.6%	69.8%	74.1%

Source: PABC Prospectus

Exhibit: Break up of sales

PKRmn	CY18	%	CY19	%	CY20	%	4MCY21	%
Local Sales	1,477	65%	3,216	60%	3,681	65%	1,822	64%
Export Sales	795	35%	2,114	40%	1,998	35%	1,035	36%
Gross Sales	2,272		5,330		5,679		2,857	

Source: PABC Prospectus

Peer Comparison

There is no direct competitor of PABC in local market. However, we draw comparison with other beverage packaging companies listed on Pakistan Stock Exchange.

Exhibit: Peer comparison

Beverage Packaging	Last close	LTM EPS	LTM P/E	LTM Sales/share	LTM P/S	BVPS	P/B	ROE	ROA
Ecopack Limited (ECOP)	41.76	1.62	25.78	83.18	0.50	21.37	1.95	8%	3%
Gatron Industries	520.00	34.60	15.03	383.88	1.35	146.17	3.56	24%	11%
Tripack Films Limited	189.83	30.01	6.33	420.73	0.45	354.17	0.54	8%	9%
Ghani Glass Limited	49.00	4.39	11.16	22.77	2.15	21.77	2.25	20%	9%
Balochistan Glass Limited	15.23	(0.50)	n/a	4.52	3.37	10.18	1.50	n/m	n/m
Average			14.57		1.57		1.96	15%	8%
Pakistan Aluminium Beverage Cans Limited	35.00	1.78	19.66	14.08	2.49	10.36	3.38	18%	7%

Source: PSX, Company Accounts, PABC Prospectus

Key clients

Some of the key clients of the Company include PEPSI, Coca Cola, Murree Brewery, Pakola, Hamdard, etc. in Pakistan, whereas, on exports side Afghanistan Beverages Industry, Zalal Mowafaq Industrial Co. Ltd & Habib Gulzar Beverage Ltd are some of the major customers.

Exhibit: Pakistan Aluminium Beverage Cans Limited major customers in Pakistan



Source: PABC Prospectus

Industry Outlook

Demand for soft drinks in Pakistan is expected to grow at 5yr CAGR of 6.7% as per Euromonitor International. The growth in consumption of soft drinks is likely to continue increasing the demand for beverage packaging. This, along with ongoing conversion from glass and PET bottles to Aluminium Beverage Cans, accelerated post establishment of a local Beverage Can manufacturing facility, is likely to keep driving revenue growth of the Company, as it is currently the sole manufacturer of Aluminium Beverage Cans in Pakistan. PABC currently supplies to all material bottlers in Pakistan.

Exhibit: Key Financial highlights (as per company's management)

Price metrics using floor price of the issue: **PKR 35/share**

PKRmn

	CY17A	CY18A	CY19A	CY20A	CY21E	4MCY21
P&L						
Revenue	16	2,057	4,809	5,084	7,053	2,579
Gross Profit	-174	-219	1,074	1,542	2,295	883
Operating Profits	-428	-504	843	1,121	1,828	723
Finance Cost	-94	-475	-578	-423	-241	-86
Taxation	-588	181	-118	-87	-142	-40
Profit After Taxation	-1,090	-799	147	611	1,464	596
EPS	-3.02	-2.21	0.41	1.69	4.05	1.65
Margins						
Gross Margins	-1114%	-11%	22%	30%	33%	34%
Operating Margins	-2745%	-25%	18%	22%	26%	28%
Net Margins	-6996%	-39%	3%	12%	21%	23%
EBITADA Margin	-2022%	-13%	23%	27%	29%	31%
Growth						
Sales Growth (%)	n/m	132x	134%	6%	39%	
EBITDA Growth (%)	n/m	n/m	n/m	26%	49%	
Net Profit Growth (%)	n/m	n/m	n/m	4.2x	2.4x	
Valuation						
P/Ex	n/m	n/m	86.0	20.7	8.6	
P/Sx	811.4	6.1	2.6	2.5	1.8	
BVPS	7.0	4.8	7.0	8.7	12.8	
ROE (%)	n/m	n/m	7%	22%	38%	
ROA (%)	n/m	n/m	2%	7%	15%	
Balance sheet						
Property, Plant & Equipment	6,708	6,491	6,325	6,089	6,798	
Stock in trade	265	738	1,189	1,594	2,141	
Current Assets	522	1,539	2,612	2,713	3,358	
Total Assets	7,251	8,047	8,945	8,805	10,157	
Long Term Financing	3,114	0	2,826	2,855	3,137	
Total Current Liabilities	1,033	5,940	3,121	2,298	1,775	
Total Equity	2,517	1,718	2,533	3,144	4,608	

Source: PABC Prospectus

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Shumail Rauf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	shumail.rauf@igi.com.pk
Areesha Ishrat	Trainee Analyst	Tel: (+92-21) 111-234-234 Ext: 810	areesha.ishrat@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrukh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Irfan Ali	Equity Sales (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Zaid Farook	Branch Manager (Stock Exchange) Karachi	Tel: (+92-21) 32462651-52	zaid.farook@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	Islamabad Office Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaquat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	Rahim Yar Khan Office Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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