

Initial Public Offering

Company: Air Link Communication Limited

Floor Price: PKR 65/share

Shares offered: 90mn shares

--New Issue: 60mn shares

--Offer for sale: 30mn shares

Amount Raised: PKR 5.8bn

Recommendation: **Subscribe**

Distribution

Air Link Communication Limited: 'Subscribe' till PKR 78/share

- Air Link Communication Limited has filed for listing via book building schedule on 30th and 31st of August, 2021.
- The Company is offering 90mn shares (25% of total post-IPO paid-up capital) at a floor price of PKR 65/share, of which 30mn through offer for sale.
- We recommend a 'Subscribe' to the offer on Air Link Communication Limited up to PKR 78/share.

Air Link to raise PKR 5.8bn to meet its working capital needs

Air Link Communication Limited has filed for listing via book building schedule on 30th and 31st of August, 2021.

The total issue is PKR 5.8bn at a floor price of PKR 65/share and 90mn shares. The transaction structure is hybrid in nature, constituting both 60mn shares (and PKR 3.9bn) of 'new issue' and remaining 30mn (or PKR 1.9bn) will be 'offer for sale'. Proceeds of PKR 3.9bn will be utilised entirely for financing of working capital requirements, including inventory purchase for extending company's distribution network.

Exhibit: Utilisation of IPO Proceeds

in PKRmn	PKRmn	%
Working Capital for Purchase of Inventory	4890	100%
IPO Proceeds	3900	80%
-- New Issue	3900	80%
-- Offer for sale	1950	40%
Short Term Financing Facilities	990	20%
Total	4890	100%

Source: Air Link Prospectus

'Based on our initial take, we recommend a 'subscribe to the offer' up to PKR 78/share.'

We recommend a '**Subscribe**' to the offer on Air Link Communication Limited up to PKR 78/share. We base our subscription price on discounted market multiple at 7.45x. From valuation stand point, at a floor price of PKR 65/share, the company forward P/E comes at 6.2x and 4.2x for FY22 and FY23.

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About the Company and expansion

Air Link communication Limited is a leading distributor of mobile phones having a strong presence in Pakistan with service centres across the country.

The company imports and distributes mobile phones & accessories, with well-known brands including Huawei (revenue share: 7%), Samsung (49%), Apple (4%), Xiaomi (8%) mobile phones & accessories in Pakistan. Being the leading and largest distributor the company has a market share of 20%-25%.

- **Distribution and retail network:** The Company has a countrywide distribution network, consisting 16 regional hubs linked to 1,000+ wholesalers and 4,000+ retailers, to facilitate nationwide sales of mobile phones and accessories. As of 2020, company operates 14 retail outlets in major cities, and plans to stretch it to 150 outlets by FY26.
- **Assembling facility:** The Company has set up an assembling facility (PKR 423mn) of 4G smartphones and feature phones having installed capacity of more than 400,000 units per month approximately in Lahore which has commenced commercial operations in April 2021. In addition, the Company has been authorised by ITEL and TCL to assemble their mobile phones in the said facility and is in the process of obtaining authorization from other Vendors.
- **Shareholding pattern**

Exhibit: Shareholding pattern pre/post- IPO

in mn shares

Shareholder category	Pre-IPO	%	Post-IPO	%
Sponsors	300	100%	270	75%
Muzzaffar Hayat Piracha (CEO)	122	41%	92	25%
Yasir Hayat Piracha	89	30%	89	25%
Others	89	30%	89	25%
Free float shares	0	0%	90	25%
New Issue	0	0%	60	17%
Offer for sale	0	0%	30	8%
Total	300	100%	360	100%

Industry Outlook

Given the rising growth in mobile phone usage and low penetration in country, Air Link has witnessed an impressive 25% cagr over the past 3 years. With smartphone penetration of 35%, Pakistan offers a sizeable opportunity considering its regional peers average of 42%. This low penetration levels is due to limited outreach of 3G/4G services. Now, improving demand of smart phone in the wake of increasing 3G/4G subscriber base has led vendors to ship 4-G enabled models. As of Sep-2019 there were about 72.1mn (32% of the population) 3G/4G subscribers, PTA cited. In addition to growing demand, the smartphone market is getting competitive given low cost smart phones and wide variety of consumer's choices. Moreover, increasing demand will ultimately lead to increasing number of SIMS registered per 100 person. Lastly, due to overwhelming response and increasing demand of 3G/4G by

consumers, preparation to test 5G cellular connectivity has commenced and country plans to launch 5G technology by 2021.

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

 Price metrics using floor price of the issue: **PKR 65/share**

PKRmn

	FY17A	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F	FY25F	FY26F
P&L										
Revenue	13,275	24,151	29,786	43,008	47,806	72,882	87,619	105,576	129,509	156,578
Gross Profit	1,842	3,147	3,986	4,770	4,456	8,755	11,753	13,885	18,670	22,560
Operating Profits	1,454	2,632	3,246	3,774	3,269	5,656	8,002	9,209	12,881	15,732
Finance Cost	-146	-388	-827	-1,398	-1,031	-417	-317	-281	-274	-296
Taxation	-633	-1,056	-1,115	-1,080	-845	-1,539	-2,253	-2,615	-3,682	-4,503
Profit After Taxation	674	1,234	1,480	1,464	1,485	3,769	5,516	6,401	9,015	11,024
EPS (diluted)	1.9	3.4	4.1	4.1	4.1	10.5	15.3	17.8	25.0	30.6
DPS	0.0	0.0	0.0	0.0	0.0	3.5	6.0	9.0	15.0	21.5
Margins										
Gross Margins	14%	13%	13%	11%	9%	12%	13%	13%	14%	14%
Operating Margins	11%	11%	11%	9%	7%	8%	9%	9%	10%	10%
Net Margins	5%	5%	5%	3%	3%	5%	6%	6%	7%	7%
EBITADA Margin	11%	11%	11%	9%	7%	8%	9%	9%	10%	10%
Growth										
Sales Growth (%)	33%	82%	23%	44%	11%	52%	20%	20%	23%	21%
EBITDA Growth (%)	27%	81%	24%	17%	-13%	74%	41%	15%	40%	22%
Net Profit Growth (%)	16%	83%	20%	-1%	1%	154%	46%	16%	41%	22%
Valuation										
P/Ex	34.7	19.0	15.8	16.0	15.8	6.2	4.2	3.7	2.6	2.1
PEG	2.1	0.2	0.8	-15.1	11.3	0.0	0.1	0.2	0.1	0.1
Div. Yld (%)	0.0%	0.0%	0.0%	0.0%	0.0%	5.4%	9.2%	13.8%	23.1%	33.1%
P/Bx	11.0	8.8	7.5	5.1	3.9	1.8	1.4	1.2	1.0	0.9
P/Sx	1.8	1.0	0.8	0.5	0.5	0.3	0.3	0.2	0.2	0.1
Sales / Capital	3.2	3.5	2.7	3.3	4.7	4.8	4.8	5.0	5.3	5.6
Cash Cycle	64	42	32	22	55	60	55	55	50	50
ROE (%)	41%	52%	51%	38%	28%	40%	38%	36%	42%	45%
ROA (%)	14%	15%	12%	8%	9%	25%	31%	30%	37%	39%
Balance sheet										
Property, Plant & Equipment	93	125	109	477	924	1,161	2,858	3,428	4,530	5,050
Receivables	2,069	3,882	5,125	4,655	4,578	3,990	4,797	5,780	7,093	8,575
Inventory	1,789	2,171	1,118	4,610	4,032	7,028	7,275	8,792	9,110	11,015
Cash & Equi.	335	1,617	2,790	1,541	1,785	2,732	3,181	3,123	3,727	3,528
Current Assets	5,690	10,056	14,645	20,408	12,425	15,020	16,701	19,378	21,853	25,285
Total Assets	5,789	10,187	14,968	20,975	13,353	16,217	19,600	22,833	26,402	30,347
LT / ST Financing	2,046	4,242	7,840	8,597	4,300	2,053	1,975	1,784	1,459	1,764
Payables	1,552	3,108	3,272	6,482	1,604	0	0	0	0	0
Total Liabilities	3,664	7,530	11,827	16,378	7,380	3,233	3,307	3,339	3,302	3,940
Total Equity	2,124	2,656	3,141	4,597	5,972	12,984	16,293	19,494	23,100	26,407

Source: AirLink Prospectus, share capital excludes debt conversion, no of shares: 360mn

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