

## Grapevine

Textile

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### IPO: AMTEX Limited

- AMTEX Limited (AMTEX) is conducting an IPO of 42.7mn ordinary shares at a floor price of PKR 13/share through the book building process from 24th Feb to 26th Feb 2010.
- This portion (70% of the total issue size) is targeted towards the institutional investors and high net-worth individuals while the rest of 18.3mn shares will be offered to the general public in the days to come.
- Given the country's likelihood of attaining the GSP plus status in the EU and potential benefits accruing from the newly-implemented Textile Policy, we recommend subscribing to the IPO.

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#### Overview

AMTEX Limited is amongst the largest vertically integrated Textile setups in Pakistan. Its operations include spinning, weaving, processing, printing, finishing, cut and sewn processes. The Company's Product range is dominated by Home Textiles that makes majority of the Company's overall sales revenue. AMTEX has shown huge promise in value added Home Textile sector, where it has become a leader in exporting high end quality Products. AMTEX is purely an export oriented Company with over 95% export sales and an average annual turnover of around USD200 mn.

#### AMTEX: Financial Highlights

PKRmn	FY05	FY06	FY07	FY08	FY09
Sales	5,397	7,382	8,370	10,043	14,120
GP	950	1,741	2,000	2,283	3,389
Operating Profit	635	1,341	1,524	1,758	2,628
Profit before Tax	304	624	690	759	1,055
Profit After Tax	252	557	615	673	921
Paid up Capital	552	552	802	802	902
Reserves	874	1,489	2,184	2,904	3,867
Equity	2,581	3,138	4,003	4,676	7,241
Fixed Assets	3,785	3,901	3,790	3,903	5,658
Current Assets	4,804	6,476	9,106	11,354	12,395
Total Assets	8,589	10,377	12,896	15,257	18,053
Current Liabilities	4,799	6,474	7,368	9,387	9,781
Long term Liabilities	1,210	766	1,525	1,194	1,032
Total Liabilities	6,009	7,239	8,893	10,581	10,812

Source: Information Memorandum

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AMTEX has posted consistent performance in the past with revenue CAGR of approximately 27% over the last 4 years while maintaining gross margins over 20%. However, it is pertinent to note here that PKR weakness has and is projected to benefit such an export-based company in terms of higher revenues in PKR terms.

AMTEX's EPS stood at PKR 3.81 in FY09 and a share price of PKR13 implies a PER of 3.41x. Furthermore, the stock has a BV of PKR29.98/share implying a P/B of 0.43x.

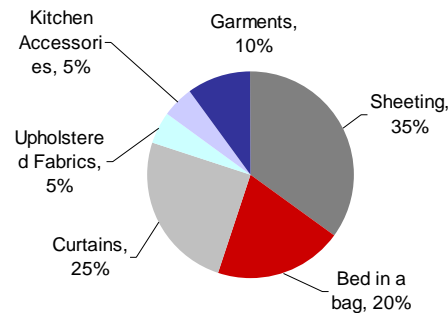
### AMTEX: Key Ratios

	FY05	FY06	FY07	FY08	FY09
Sales Growth	42.00%	36.78%	13.38%	19.99%	40.59%
COGS Growth	39.01%	26.84%	12.92%	21.83%	38.27%
GP Margin	17.60%	23.58%	23.90%	22.73%	24.00%
Operating Margin	11.77%	18.17%	18.35%	17.73%	18.65%
NP Margin	4.68%	7.55%	7.35%	6.70%	6.52%
NPAT growth	70.91%	120.80%	10.34%	9.44%	36.85%
ROE	9.78%	17.76%	15.36%	14.39%	12.72%
ROA	2.94%	5.37%	4.77%	4.41%	5.10%
EPS	1.05	2.31	2.55	2.79	3.81
EPS Growth	70.91%	120.80%	10.34%	9.44%	36.85%
PER (x)	12.44	5.63	5.11	4.67	3.41
BVS (PkR)	10.69	12.99	16.58	19.36	29.98
P/BVS (x)	1.22	1	0.78	0.67	0.43
No of Shares	241	241	241	241	241

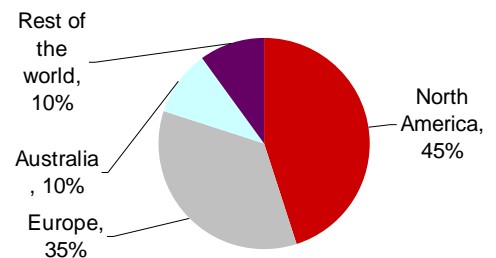
Source: BMA Research

The company operates on a DTR (Direct to Retailer) business model whereby its business orientation is heavily tilted towards direct dealing with Retailers instead of intermediaries/importers. The current exposure of the Company is 80% towards Retailers with remaining 20% with intermediaries. AMTEX's export destinations are mainly USA, Europe and Australia.

### 1) Product Portfolio



### 2) Market Destinations



Source: BMA Research

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#### Attractive when compared to domestic peers

AMTEX stands discounted on both the PER and PBV multiples when compared with the leading players in the local industry. Artistic Denim Mills (ADMM) and Nishat Mills Limited (NML) are trading at PER multiples of 6.5x and 8.5x while AMTEX's implied PER multiple stands at 3.4x. Similarly, industry's P/B ratio averages at 0.7x while that of AMTEX is 0.4x, a discount of 63%.

#### Key Players

Company	Ticker	EPS		BV		PER	P/B
		2008	2009*	2008	2009	2009	2009
Artistic Denim Mills Limited	ADMM	4.16	4.48	29.44	31.92	6.48	0.91
Azgard Nine Limited	ANL	2.65	0.61	22.53	22.53	34.50	0.94
Kohinoor Textile Mills Limited	KTML	(0.02)	(3.02)	19.71	34.26	NM	0.29
Nishat Mills Limited	NML	36.86	6.81	109.25	79.72	8.51	0.73

Source: BMA Research

#### Purpose of the IPO

Assuming complete subscription of 61mn shares at PKR13/share the company would raise PKR793mn from the book building process and IPO to the general public. The aim of listing is to inject additional equity into the Company for working capital requirement and balance sheet optimization. AMTEX is operating on DTR model which requires extensive working capital deployment for facilitating large orders. Therefore the capital raised through the IPO would be directly utilized in repayment of long term loan and the remaining would be used for bridging working capital requirement arising from sales growth.

Out of the proceeds raised from IPO, approximately 40% would be utilized to retire the long term debt financing facility being availed from Bank of Punjab and United Bank Limited. The Company will also make payment towards amount raised through Sukuk issue. This will ensure interest cost saving to the Company thereby increasing profitability. The remaining funds will be utilized for working capital requirement.

#### Outlook

The country's value-added sector continues to struggle with high cotton and yarn prices along with immense competition from India and Bangladesh in the international markets. Exports of ready-made garments have declined by 13% while bed-wear exports have increased by less than 2% in 1HFY10 which raises questions on continued bottomline growth for the company in the current situation.

The government is trying to negotiate with the European Union to get Generalised System of Preferences (GSP) plus status for Pakistan which would help exporters compete in European markets. Under this system Pakistani manufacturers would be given preference in the region and the present duties of about 12% will be zero-rated immediately. Furthermore, newly implemented five-year Textile policy would assist in obtaining incentives from the GoP as the entire value chain would be facilitated. Therefore, these incentives are likely to bode well for the company's fundamentals in the near future. The IPO will help provide investors with an opportunity to invest in the value-added textile sector with the abovementioned value additions. We recommend subscribing to the IPO.

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As per management's forecasts, AMTEX would post a sales growth of 20% in FY10, a gross margin of 23.25%.

### Management's Forecasts: Key Financials

PKR' mn	FY10F	FY11F	FY12F	FY13F	FY14F
Net sales	16,907	20,594	23,879	26,901	30,171
Gross profit	3,931	4,910	5,779	6,435	7,125
Financial charges	(1,559)	(1,805)	(1,894)	(1,500)	(1,447)
PBT	1,418	1,919	2,491	3,340	3,851
PAT	1,249	1,713	2,253	3,071	3,549
GP Margin	23.25%	23.84%	24.20%	23.92%	23.61%
ROE	13.46%	15.95%	17.80%	20.12%	19.42%
ROA	6.15%	7.25%	8.64%	11.91%	12.55%
EPS	5.17	7.10	9.33	12.72	14.70
PER (x) BVS (PKR)	2.51	1.83	1.39	1.02	0.88
BVS (PKR)	38.44	44.47	52.4	63.21	75.7
P/BVS (x)	0.34	0.29	0.25	0.21	0.17
No of Shares (mn)	241	241	241	241	241
Total assets	20,325	23,619	26,085	25,778	28,272
Long-term Loans	728	416	194	84	83
Total Liabilities	11,041	12,879	13,431	10,513	9,990
Total Equity	9,283	10,740	12,654	15,265	18,282
Total Equity and Liabilities	20,325	23,619	26,085	25,778	28,272

Source: Information Memorandum