

WAVES SINGER PAKISTAN LIMITED

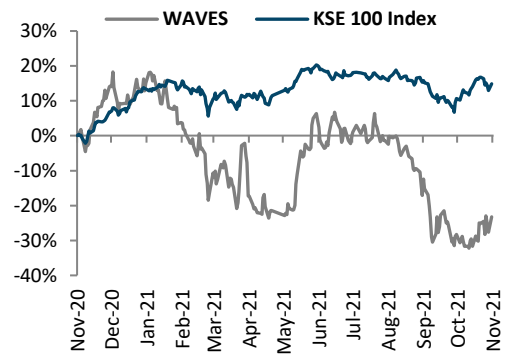
9MCY21: Webinar Takeaways

Tuesday, November 16, 2021

WAVES conducted its corporate briefing session today, where the company shed light on its current year financials and future outlook. To recall, the company reported 9MCY21 earnings of PKR 238Mn (EPS: PKR 1.01) as compared to PKR 82Mn (EPS: PKR 0.40) in the SPLY, resulting in growth of ~190% YoY. Key highlights of the call are discussed below:

- The company generated revenue of PKR 8.4Bn in 9MCY21, as compared to PKR 6.3Bn in the SPLY, resulting in a growth of 33% YoY. In terms of individual segments, deep freezers contributed 39% to overall revenues, 32% came from refrigerators while the remaining 29% from multi brands. Going forward, the company expects 20-25% growth in topline over the next year based on increasing demand for deep freezers and high growth potential in the refrigerators segment.
- Gross margins of the company stood at 22% in 9MCY21. The slight decline in margins on a YoY basis (25% in 9MCY20) is due to PKR devaluation, rising international commodity prices and higher freight costs. To note, company imports 75% of its raw materials.
- The company also started supplying deep freezers to Coca Cola last year. Since then, it has increased its quantity of orders and as of today, Coca Cola procures more than 80% of its freezers from WAVES. In FY21, company sold ~23k units to Coca Cola worth PKR 944Mn. For FY22, Coca Cola has demanded ~25k units worth PKR 1.4Bn.
- WAVES is the market leader in the deep freezer segment, having a 32% share in the overall space. However, the company is lagging in the refrigerator and air conditioner segment having a market share of only ~7% and ~1%, respectively. To note, AC penetration rate in Pakistan is still very low at ~10%, indicating high growth potential.
- Commenting on its real estate plans, company announced that it has already purchased 32-acre land and construction is ongoing at a rapid pace. Once the site is completed, the operations of the company will be relocated to the new premises to consolidate manufacturing activities at a single location.
- The current space will be utilized to develop a Residential Apartment Project, incurring a capital outlay of PKR 25Bn. Master plans for the project have been prepared by two leading architects and paperwork has been forwarded to LDA for approvals. The site is in a thickly populated area in Lahore, with prime target market being the middle-income group.
- To raise equity for its real estate, company will either form a REIT or an SPV and list it through an IPO.
- With regards to energy requirements, management highlighted that they have a total fuel requirement of 5MW which is procured from the national grid.
- The company is also pondering over the demerger of its home appliances segment either through an IPO or through a merger into Samin Textiles Limited. This move is to increase focus on this division and pursue further growth opportunities including strategic alliance with a global player.

WAVES vs. KSE-100 Index



| | 3M | 6M | 12M |
|-----------------|------|-----|------|
| Absolute | -21% | -2% | -23% |
| Relative to KSE | -20% | -5% | -38% |

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| | |
|---|-------------------------------|
| Buy | >15% expected total return |
| Hold | 10%-15% expected total return |
| Underperform | <10% expected total return |
| *Total stock return = capital gain + dividend yield | |

Old rating system

| | |
|--------------|--|
| Overweight | Total sector return > expected market return |
| Marketweight | Expected market return |
| Underweight | Total stock return < expected market return |

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)