

# AIRLINK

## 1HFY22 Result Review: BUY Stance Maintained

Equity Research | Technology & Communication | Monday, 28 February, 2022

AIRLINK has announced its 1HFY22 result where it posted profit after tax of Rs1.02bn (EPS: Rs2.60) as compared to a profit after tax of Rs959mn (EPS: Rs2.43) in the same period last year, up by 7% YoY.

The company had posted a revenue of Rs24bn against Rs28bn in SPLY, recording a decline of 14.7% YoY.

The gross margin has been improved to 10.8% as compared to 9.3% in SPLY due to an increase in retention prices. SG&A expenses have increased by 23% YoY to Rs736mn as compared to Rs597mn during SPLY.

Lastly, other income and finance cost has been declined by 66% YoY and 10% YoY respectively.

AIRLINK is currently trading at a FY22E P/E of 9.13. The scrip is also trading at a FY22E P/B of 3.19x which offers a discount of 36% relative to its historical 3-year average of 4.98. We have a **BUY** stance on the scrip with a DCF based Dec-22 TP of Rs70 which provides an upside potential of 28%.

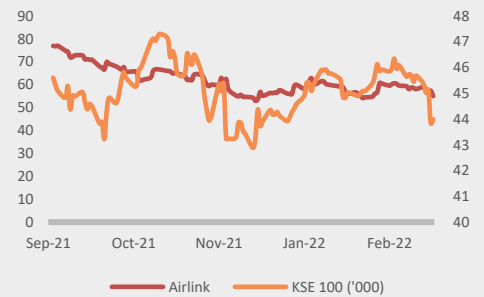
| Rupees' millions             | 2QFY21       | 2QFY20       | YoY            | 1HFY22       | 1HFY21       | YoY            |
|------------------------------|--------------|--------------|----------------|--------------|--------------|----------------|
| Net Sales                    | 14,566       | 12,980       | 12.2% ▲        | 24,002       | 28,124       | 14.7% ▼        |
| Cost of Sales                | -13,005      | -11,400      | 14.1% ▲        | -21,405      | -25,510      | 16.1% ▼        |
| <b>Gross Profit</b>          | <b>1,561</b> | <b>1,580</b> | <b>1.2% ▼</b>  | <b>2,598</b> | <b>2,614</b> | <b>0.6% ▼</b>  |
| SG&A Expenses                | -454         | -318         | 43.0% ▲        | -736         | -597         | 23.3% ▲        |
| Other Expenses               | -26          | -4           | 552.8% ▲       | -26          | -4           | 552.8% ▲       |
| <b>Operating Profit</b>      | <b>8</b>     | <b>32</b>    | <b>74.6% ▼</b> | <b>19</b>    | <b>55</b>    | <b>66.2% ▼</b> |
| Other Income                 |              |              |                |              |              |                |
| Finance Cost                 | -317         | -310         | 2.2% ▲         | -513         | -570         | 10.1% ▼        |
| Profit Before Taxation       | 772          | 980          | 21.2% ▼        | 1,342        | 1,499        | 10.5% ▼        |
| Taxation                     | -165         | -300         | 45.0% ▼        | -315         | -540         | 41.6% ▼        |
| <b>Profit After Taxation</b> | <b>607</b>   | <b>679</b>   | <b>10.7% ▼</b> | <b>1,027</b> | <b>959</b>   | <b>7.0% ▲</b>  |
| Earnings Per Share           | 1.53         | 1.72         | 10.7% ▼        | 2.60         | 2.43         | 7.0% ▲         |
| Dividend                     | 0.00         | 0.00         |                | 0.00         | 0.00         |                |
| Bonus                        | 0%           | 0%           |                | 0%           | 0%           |                |
| Gross Margin                 | 10.7%        | 12.2%        | 1.5% ▼         | 10.8%        | 9.3%         | 1.5% ▲         |
| SG&A Expenses to Sales       | -3.1%        | -2.4%        | 0.7% ▼         | -3.1%        | -2.1%        | 0.9% ▼         |
| Other Income to Sales        | -0.2%        | 0.0%         | 0.1% ▼         | -0.1%        | 0.0%         | 0.1% ▼         |
| Ex. Gain / (Loss) to Sales   | 0.1%         | 0.3%         | 0.2% ▼         | 0.1%         | 0.2%         | 0.1% ▼         |
| Effective Taxation           | -21.4%       | -30.7%       | 9.3% ▲         | -23.5%       | -36.0%       | 12.5% ▲        |
| Net Margin                   | 4.2%         | 5.2%         | 1.1% ▼         | 4.3%         | 3.4%         | 0.9% ▲         |

Source: ACPL Research, Company Financials

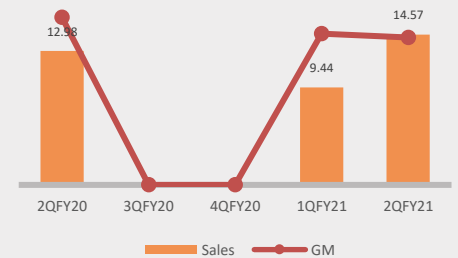
### Key Statistics

| Symbol                | AIRLINK |
|-----------------------|---------|
| TP - Dec 22           | 70.00   |
| LDPC                  | 55.00   |
| Upside (%)            | 28      |
| Free Float ('mn)      | 118     |
| Market Cap. (Rs. 'mn) | 22,479  |

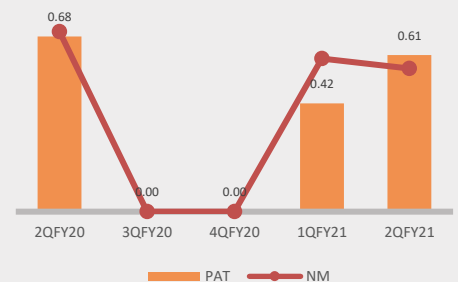
### Airlink vs KSE 100



### Sales (Rs'mn) vs Gross Margin



### PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

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## Financial Projections

| Rupees' millions               | FY19A        | FY20A        | FY21A        | FY22E        | FY23E        | FY24E        | FY25E         |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Net sales                      | 29,786       | 43,008       | 47,373       | 49,741       | 55,710       | 62,396       | 69,883        |
| Cost of sale                   | - 25,799     | - 38,238     | - 42,571     | - 43,514     | - 47,899     | - 53,810     | - 59,290      |
| <b>Gross profit</b>            | <b>3,986</b> | <b>4,770</b> | <b>4,802</b> | <b>6,228</b> | <b>7,811</b> | <b>8,585</b> | <b>10,594</b> |
| Selling and promotion expenses | - 433        | - 477        | - 581        | - 995        | - 759        | - 893        | - 996         |
| Administration expenses        | - 307        | - 519        | - 725        | - 639        | - 687        | - 784        | - 910         |
| Other operating expenses       | <b>3,246</b> | <b>3,774</b> | <b>3,496</b> | <b>4,594</b> | <b>6,365</b> | <b>6,909</b> | <b>8,687</b>  |
| <b>Operating Profit</b>        | 176          | 168          | 11           | 75           | 150          | 177          | 156           |
| Other operating income         | - 827        | - 1,398      | - 1,102      | - 966        | - 1,002      | - 1,040      | - 1,085       |
| Finance cost                   | 2,595        | 2,544        | 2,404        | 3,703        | 5,514        | 6,046        | 7,758         |
| Profit before taxation         | - 1,115      | - 1,080      | - 899        | - 1,333      | - 1,985      | - 2,177      | - 2,793       |
| Taxation                       | <b>1,480</b> | <b>1,464</b> | <b>1,505</b> | <b>2,370</b> | <b>3,529</b> | <b>3,870</b> | <b>4,965</b>  |
| <b>Profit after taxation</b>   | <b>3.74</b>  | <b>3.70</b>  | <b>3.81</b>  | <b>6.00</b>  | <b>8.93</b>  | <b>9.79</b>  | <b>12.56</b>  |
| <b>EPS</b>                     | <b>FY19A</b> | <b>FY20A</b> | <b>FY21A</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> | <b>FY25E</b>  |

Source: ACPL Research, Company Financials

## Horizontal Analysis

|                                | FY19A | FY20A        | FY21A        | FY22E        | FY23E        | FY24E       | FY25E        |
|--------------------------------|-------|--------------|--------------|--------------|--------------|-------------|--------------|
| Net sales                      |       | 44.4%        | 10.1%        | 5.0%         | 12.0%        | 12.0%       | 12.0%        |
| Cost of sale                   |       | 48.2%        | 11.3%        | 2.2%         | 10.1%        | 12.3%       | 10.2%        |
| <b>Gross profit</b>            |       | <b>19.7%</b> | <b>0.7%</b>  | <b>29.7%</b> | <b>25.4%</b> | <b>9.9%</b> | <b>23.4%</b> |
| Administration expenses        |       | 10.1%        | 21.8%        | 71.2%        | -23.7%       | 17.6%       | 11.6%        |
| Selling and promotion expenses |       | 69.2%        | 39.7%        | -11.9%       | 7.5%         | 14.2%       | 16.0%        |
| <b>Operating Profit</b>        |       | <b>16.3%</b> | <b>-7.4%</b> | <b>31.4%</b> | <b>38.6%</b> | <b>8.5%</b> | <b>25.7%</b> |
| Other operating income         |       | -4.6%        | -93.6%       | 595.1%       | 100.8%       | 18.4%       | -12.1%       |
| Finance cost                   |       | 69.0%        | -21.2%       | -12.4%       | 3.7%         | 3.8%        | 4.3%         |
| Profit before taxation         |       | -2.0%        | -5.5%        | 54.0%        | 48.9%        | 9.7%        | 28.3%        |
| Taxation                       |       | -3.2%        | 0.0%         | 48.3%        | 48.9%        | 9.7%        | 28.3%        |
| <b>Profit after taxation</b>   |       | <b>-1.1%</b> | <b>2.8%</b>  | <b>57.5%</b> | <b>48.9%</b> | <b>9.7%</b> | <b>28.3%</b> |
| <b>EPS</b>                     |       | <b>-1.1%</b> | <b>2.8%</b>  | <b>57.5%</b> | <b>48.9%</b> | <b>9.7%</b> | <b>28.3%</b> |

Source: ACPL Research, Company Financials

## Key Ratios

| Profitability Ratios  |     | FY19   | FY20   | FY21   | FY22E  | FY23E  | FY24E  | FY25E  |
|-----------------------|-----|--------|--------|--------|--------|--------|--------|--------|
| GP Margin             | %   | 13.38  | 37.24  | 37.65  | 38.03  | 38.08  | 38.13  | 38.17  |
| NP Margin             | %   | 5.08   | 29.20  | 29.82  | 29.43  | 29.63  | 29.76  | 29.86  |
| OP Margin             | %   | 10.90  | 30.84  | 31.50  | 30.88  | 30.93  | 30.98  | 31.02  |
| ROE                   | %   | 47.12  | 30.25  | 33.40  | 32.54  | 31.20  | 30.22  | 29.47  |
| ROCE                  | %   | 37.53  | 28.85  | 30.68  | 30.60  | 29.82  | 29.22  | 28.74  |
| ROA                   | %   | 9.89   | 22.31  | 24.32  | 25.50  | 25.71  | 25.74  | 25.66  |
| Liquidity Ratios      |     | FY19   | FY20   | FY21   | FY22E  | FY23E  | FY24E  | FY25E  |
| Current               | x   | 3.87   | 2.89   | 8.40   | 9.65   | 10.76  | 10.87  | 11.03  |
| Acid-test             | x   | 0.25   | 0.10   | 0.16   | 0.90   | 1.22   | 1.37   | 1.46   |
| Cash to current liab. | x   | 0.03   | 0.05   | 0.10   | 0.90   | 1.22   | 1.37   | 1.46   |
| Activity Ratios       |     | FY19   | FY20   | FY21   | FY22E  | FY23E  | FY24E  | FY25E  |
| Receivables Days      |     | 63     | 40     | 42     | 55     | 60     | 60     | 60     |
| Payables Days         |     | 46     | 62     | 12     | 15     | 15     | 15     | 15     |
| Operating Cycle       |     | 17     | -22    | 30     | 40     | 45     | 45     | 45     |
| Investment Ratios     |     | FY19   | FY20   | FY21   | FY22E  | FY23E  | FY24E  | FY25E  |
| EPS                   |     | 3.74   | 3.70   | 3.81   | 6.00   | 8.93   | 9.79   | 12.56  |
| DPS                   |     | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| Div. Yield            | %   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| Dividend Cover        |     | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| BVPS                  |     | 7.95   | 11.63  | 16.39  | 17.15  | 17.98  | 18.90  | 19.90  |
| Payout                | %   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| Retention             | %   | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| No. of Shares         | 'mn | 395.27 | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| P/E                   |     | 14.62  | 14.78  | 14.38  | 9.13   | 6.13   | 5.59   | 4.36   |
| Sales per share       |     | 75.36  | 108.81 | 119.85 | 125.84 | 140.94 | 157.86 | 176.80 |
| P/BV                  |     | 6.89   | 4.71   | 3.34   | 3.19   | 3.04   | 2.90   | 2.75   |
| Price to Sales        |     | 0.73   | 0.50   | 0.46   | 0.44   | 0.39   | 0.35   | 0.31   |
| Gearing Ratios        |     | FY19   | FY20   | FY21   | FY22E  | FY23E  | FY24E  | FY25E  |
| Debt to Equity        | x   | 2.50   | 1.98   | 1.04   | 1.29   | 1.28   | 1.27   | 1.27   |
| Interest Cover        |     | 3.92   | 2.70   | 3.17   | 4.76   | 6.36   | 6.64   | 8.01   |

Source: ACPL Research, Company Financials

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|             |                           |             |                             |             |                        |
|-------------|---------------------------|-------------|-----------------------------|-------------|------------------------|
| <b>TP</b>   | Target Price              | <b>CAGR</b> | Compound Annual Growth Rate | <b>FCF</b>  | Free Cash Flows        |
| <b>FCFE</b> | Free Cash Flows to Equity | <b>FCFF</b> | Free Cash Flows to Firm     | <b>DCF</b>  | Discounted Cash Flows  |
| <b>PE</b>   | Price to Earnings Ratio   | <b>PB</b>   | Price to Book Ratio         | <b>BVPS</b> | Book Value Per Share   |
| <b>EPS</b>  | Earnings Per Share        | <b>DPS</b>  | Dividend Per Share          | <b>ROE</b>  | Return of Equity       |
| <b>ROA</b>  | Return on Assets          | <b>SOTP</b> | Sum of the Parts            | <b>LDCP</b> | Last Day Closing Price |

### VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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|--------------|----------------------------|
| BUY          | Greater than 15%           |
| HOLD         | Between -5% to 15%         |
| SELL         | Less than and equal to -5% |

| Sector Rating | Sector Outlook |
|---------------|----------------|
| Overweight    | Positive       |
| Market Weight | Neutral        |
| Underweight   | Negative       |

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