

FAST CABLES - IPO

Strong Prospects and Attractive Valuation Amid Economic Recovery

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Fast Cables Limited is a Pakistani company established nearly four decades ago. Initially focused on electrical cables and conductors, the company has grown into a diversified manufacturer encompassing metals, PVC, and lighting products. It has two manufacturing plants in Lahore which are equipped with state-of-the-art technology along with quality assurance systems. The annual production capacity as of 30th June 2023 of copper products stands at 8,400 metric tons while for aluminum products 13,800 metric tonnes.

Purpose of the Issue

The proceeds from the IPO are set to be used for capacity enhancement. This includes acquiring new land, constructing a modern building, installing new plant and machinery, and repaying debt related to machinery and building components. Any excess funds raised will be directed toward fulfilling the company's working capital requirements.

Issue details

This issue consists of 128 million Ordinary Shares equivalent to 20.35% of the total Post-IPO Paid Up Capital of Fast Cables Limited of face value of Rs10/- each.

The issue will be presented through the Book Building method at a Floor Price of Rs23.5 per share including a premium of Rs13.5/- per share with a maximum price band of up to 40% i.e., Rs32.9 per share.

Book-building phase will start from May 15, 2024, to May 16, 2024 to raise at least Rs 3billion, where the minimum bid size is PKR 1 million. The IPO for retail investors is scheduled for May 22 to May 23, 2024.

Financial Performance

Over the past six years, the company has demonstrated significant growth in revenue and profitability. Revenue has surged from PKR 5,431.8 million in FY2018 to PKR 32,858.5 million in FY2023, indicating a remarkable compound annual growth rate (CAGR) of approximately 43%. Concurrently, profitability has seen notable improvement, with profit after tax escalating from PKR 86.9 million to PKR 1,737.8 million during the same period indicating a remarkable compound annual growth rate of approximately 82%. Diluted EPS (based on post-IPO shares) surged from 0.14 in 2018 to 2.76 in 2023, showcasing consistent upward momentum. This remarkable growth underscores the company's robust financial trajectory.

Despite fluctuations, the company's gross margin has generally exhibited an upward trajectory climbing from 13.5% in 2018 to 17.9%, suggesting improved efficiency in operations. Additionally, the steady increase in operating margin climbing from 6.8% in 2018 to 13.3% in 2023 further reinforces the company's commitment to enhancing operational efficiency over time.

Valuation

Based on the floor price of PKR 23.5, the P/E multiple of Fast Cables is around 8.5x (based on FY23 earnings and post-IPO number of shares), significantly below the industry average of ~13.8x, representing a discount of 39%. Even at the maximum price of 32.9 allowed in book building, the P/E of the IPO stands at 11.9x, offering a discount of approximately 14% compared to the industry average. Therefore, we recommend subscribing to the IPO. It is important to note that Pakistan Cables

Key Statistics

Company Name	Fast Cables		
Floor Price	23.50		
Upper Band of Floor Price (40%)	32.90		
Book Building Dates	15-16 May 2024		
IPO Dates	22-23 May 2024		
Size of Issue	128 Million Ordinary Shares		
Free Float	20.35%		
Pre-IPO No. of Shares (mn)	500.9		
Pre-IPO No. of Shares (mn)	628.9		
	FY21	FY22	FY23
Sales (Rs. Bn)	14.22	22.98	32.86
Sales Growth	58.8%	61.6%	43.0%
GPM	13.4%	15.0%	17.9%
NPM	3.7%	4.5%	5.3%
Diluted EPS	0.85	1.65	2.76
Diluted BVPS	7.80	9.10	12.20
D/E (x)	0.80	1.20	0.70
	P/E (FY23)		
Competitors	P/E (FY23)		
WAVES	15.4		
WAVESAPP	21.0		
PAEL	18.1		
PCAL	9.9		
SIEM	4.8		
Average	13.8		
Fast Cables	8.5		
Discount	-39%		

Sources: ACPL Research, IPO Prospectus, PSX

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Limited (PCAL) is the sole direct competitor of Fast Cables in the listed category. Other companies such as WAVES, WAVESAPP, PAEL, and SIEM, used to calculate the industry multiple, are not direct competitors but are part of the same listed sector.

Investment Rationale

The investment rationale for subscribing to the IPO is compelling for several reasons. Firstly, the company has shown resilience in challenging economic conditions, positioning it well for future growth, especially as economic conditions are expected to improve.

Secondly, the anticipated easing of policy rates is likely to boost demand in both the construction and energy sectors, directly benefiting the company's prospects.

Thirdly, given the upcoming monetary easing, cyclical shares like this are expected to perform well.

Lastly, the IPO valuation is very attractive, as mentioned earlier, offering strong potential for value creation and sustained shareholder returns in the foreseeable future.

Key Risks

- Delay in policy rate cut
- Imposition of additional taxation
- More than expected depreciation of PKR

How to Apply

Click the link below to access the video tutorial and written instructions:

<https://eipo.psx.com.pk/EIPO/home/index#>

In case of any queries, please feel free to contact Mr. Ijaz Butt at 042-38302028, Ext: 131.

Key Statistics

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DEFINITION OF TERMS

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