Pakistan Textiles

27 January 2022

Interloop Ltd (ILP PA)

2QFY22 Result Review: Earnings miss on lower-than-expected gross margins

Interloop (ILP) reported 2QFY22 NPAT of PKR2.0bn (EPS: PKR2.26), up c.35% yoy, while down c.25% qoq. The result significantly missed our expected NPAT of PKR2.9bn (EPS: PKR3.18), where the deviation largely stemmed from lower-than-expected gross margins. ILP announced an interim dividend of PKR2.0/sh, higher than our dividend expectation of PKR1.0/sh.

Key highlights from 2QFY22 results

- Revenues rose a staggering c.50% yoy to PKR20.0bn (in line with expectations), led by higher export sales, likely in both the Hosiery and Denim segments, attributed to greater sales volumes and improved pricing amid strong demand, in our view. Note that Pakistan's overall textile exports rose by c.25% yoy during the period. Revenues are likely to increase further in the coming quarters, led by the recent commissioning of Hosiery Plant 5, in our view.
- Gross margins remained flattish yoy at c.25%, while down a sharp c.4ppt qoq, lower than our expectation of c.29%. This may be due to (i) normalizing Spinning and Hosiery margins, (ii) worsening Denim segment losses and (iii) higher freight costs, in our view.
- Distribution and Admin expenses rose c.45% yoy, in line with our expectations. Other expenses rose by a sharp c.75% yoy, which is likely due to greater profitability, in our view. We await detailed accounts for clarity on the latter.
- Finance costs increased by c.75% yoy, which may be due to higher borrowing amid sharp PKR/USD depreciation, in our view. Effective tax rate clocked in at 8%.

This is a weak result for ILP, despite the sharp revenue growth (record high in 2Q). We expect ILP's profitability to improve further in the coming quarters, on the back of Hosiery Plant 5 (Hosiery segment has hitherto been operating at full capacity). According to channel checks, ILP has booked orders for at least the next 3-6mths, which should continue the present growth momentum. Improvements in Denim margins along with positive Apparel segment penetration, further reinforces our liking for the scrip. We thus reiterate our Buy stance on ILP with a June 2022 TP of PKR115/sh.

ILP 2QFY22- Result Review

(PKRmn)	2QFY22	2QFY21	yoy	qoq	1HFY22	1HFY21	yoy
Net Sales	20,017	13,353	50%	4%	39,347	26,263	50%
COGS	15,106	9,995	51%	10%	28,899	19,796	46%
Gross Profit	4,911	3,358	46%	-11%	10,448	6,466	62%
GM	25%	25%	-2%	-14%	27%	25%	8%
SGA	1,815	1,242	46%	4%	3,562	2,492	43%
Operating Profit	3,096	2,116	46%	-18%	6,886	3,975	73%
Other Income	20	51	-60%	333%	25	75	-67%
Other Expenses	395	228	73%	-32%	975	436	123%
EBIT	2,722	1,939	40%	-15%	5,937	3,613	64%
Financial Charges	512	291	76%	42%	872	517	69%
EBT	2,210	1,648	34%	-23%	5,065	3,097	64%
Taxation	182	126	45%	11%	347	192	81%
ETR	8%	8%	8%	43%	7%	6%	11%
NPAT	2,028	1,522	33%	-25%	4,718	2,904	62%
EPS (PKR)	2.26	1.69	33%	-25%	5.25	3.23	62%
DPS (PKR)	2.00	1.46			2.00	1.46	

Source: Company Announcement

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Ratings Guide*	Criteria
Buy	Total return expectation of ≥ 15% or expected to outperform the KSE-100 index
Neutral	Total return expectation of > -5% or expected to match the return of KSE-100 index
Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

*Based on 12 month horizon unless stated otherwise in the report. Upside is the percentage difference between the Target Price and Market Price.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Risks: (i) Decline in exports due to global disruptions caused by new Covid variants, (ii) more aggressive incentives by governments of regional competitors, (iii) PKR appreciation as Forex reserves build up, and (iv) discontinuation of subsidized utility tariffs.

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