

## Pakistan Chemicals

14 July 2022

## ICI Pakistan Ltd (ICI PA)

## Partial divestment from Morinaga

- ICI Pakistan Limited (ICI) has received a conditional offer from Morinaga Milk, Japan to acquire approximately 33.3% of NutriCo Morinaga Limited (NMPL) for US\$56.6mn. ICI owns 51% of NMPL and its Board of Directors have granted in-principal approval to move forward with divestment of 26.5% only, keeping the remaining 24.5%
- The total consideration for the 26.5% stake in NutriCo comes to an estimated c PKR 9.5bn, with a one-off gain for ICI of c PKR7.4bn (details in table below). ICI may choose to deploy the proceeds into existing operations or an acquisition (ICI has a recent history of inorganic growth, with the latest project being a JV for Tariq Glass's float glass expansion. The second, less likely option, is to give a one-time healthy cash payout to transmit cash to LUCK and other shareholders. We believe a non-cash event of PKR1.6bn gain will also be realized once the remaining 24.5% holding is marked-to-market at US\$2.07/share upon the conclusion of transaction.

| NMPL acquisition by Morinaga Milk           |              | Stake  | Shares (mn)  |
|---|--------------|--------|--------------|
| Nutrico Morinaga (NMPL): No of OS           | mn           |        | 82.13        |
| Shares held by ICI Pakistan                 | mn           | 51.00% | 41.88        |
| Conditional bid of Morinaga Milk            | mn           | 33.30% | 27.35        |
| ICI BoD approval for NMPL divestment        | mn           | 26.50% | 21.76        |
|   |              |        |              |
| Bid by Morinaga Milk                        | US\$mn       |        | 56.6         |
| Bid price per share                         | US\$         |        | 2.07         |
|   |              |        |              |
| NMPL NAV                                    | PKRmn        |        | 7,773        |
| NMPL NAV per share                          | PKR          |        | 94.64        |
| NMPL NAV (26.5%)                            |              |        | 2,060        |
| USD:PKR                                     |              |        | 210.00       |
| Cost of NMPL being divested                 | US\$mn       |        | 9.81         |
|   |              |        |              |
| Total cash realized on sale                 | US\$mn       |        | 45.04        |
| Total cash realized on sale                 | PKRmn        |        | 9,459        |
| Gain on divestment adjusting for 26.5%      | US\$mn       |        | 35.23        |
| <b>Gain on divestment</b>                   | <b>PKRmn</b> |        | <b>7,399</b> |
| ICI no of OS                                |              |        | 92.36        |
| Gain on divestment per share                | PKR          |        | 80.11        |
|   |              |        |              |
| ICI holding upon divestment                 | mn           | 24.50% | 20.12        |
| Gain on Equity reporting conversion - FVTPL | PKRmn        |        | 1,612        |
|   |              |        |              |
| <b>Total gain on NMPL divestment</b>        | <b>PKRmn</b> |        | <b>9,011</b> |
| Total gain by ICI per share                 | PKR          |        | 112.48       |

Source: PSX notice, Company Accounts, IMS Research

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| Ratings Guide* | Criteria  |
|----------------|---|
| Buy            | Total return expectation of $\geq 15\%$ 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.

**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) Greater competition from imports for its Soda Ash and PSF segments, (ii) Nutrico Morinaga struggles to turn a profit, and (iii) negative regulatory change for its Pharmaceutical products

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