

Pakistan Glass & Ceramics

TGL PA: WACOG implementation to propel earnings

We reiterate our BUY stance on Tariq Glass Limited with Jun'24 DCF based TP of PKR115/sh. Our liking for the stock emanates from the following facts: i) Rising demand for glass amid population growth and changing demographics, ii) Consistent margins amid strong market presence and cost pass on ability, iii) Implementation of WACOG to support margins and iv) Well positioned balance sheet.

TGL's revenue has grown at a 5-year CAGR of ~22% on the back of strong domestic demand, demographic shift in usage of glass in building/homes and multiple capacity expansion/enhancements. TGL recorded its highest ever sales of PKR21.8bn in 9MFY23, primarily attributable to increase in glass price as company was able to successfully pass on cost side pressures. Company's PAT is likely to decline by 35% YoY in FY23, due to higher energy prices, plant shutdowns and higher taxation charge amid imposition of super tax. However, earnings are likely to rebound in coming years due to resumption of production from under-maintenance furnaces and economic recovery. In addition, implementation of WACOG will also enhance company's bottom-line.

Key risks to our valuation thesis include i) Slowdown in demand ii) Higher than expected increase in energy prices, iii) Abrupt increase in raw material prices, iv) Entry of new players, v) Longer than expected furnace closure for overhauling and vi) Price competition.

Implementation of WAGOG

Fuel and power is the biggest component of TGL's cost, making ~50% of total COGS. TGL's total power requirement currently stands at ~13 MW of which a significant portion is met through RLNG. The recent Stand-by agreement with IMF has put great emphasize on implementation of WACOG to contain the flow of gas circular debt. We opine that implementation of WACOG will improve company's margins as currently RLNG is charged at OGRA notified rates. As per our estimates, a 15% reduction in gas cost will augment TGL's after tax earning by ~PKR8.5/sh (~43%).

WACOG sensitivity to FY24 EPS

RLNG Price (PKR/mmbtu)	3,786	3,500	3,000	2,500	2,000
Earning Per Share (EPS)	19.3	21.3	24.7	28.1	31.6

Source: Company Accounts, Insight Research

More resilient to economic shocks as compared to other cyclical sector

Amidst the glass sector's limited number of players, it has a clear advantage of the ability to pass on cost pressures effectively, ensuring their margins remain intact. When comparing it to steel and cement industries, the glass sector demonstrates evident pricing power, largely attributed by fewer numbers of

Tariq Glass Limited

BUY

HOLD

SELL

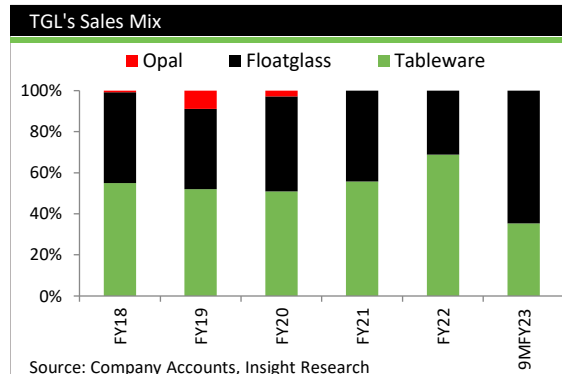
We recommend 'BUY' with Jun'2024 DCF based target price of PKR115, providing 37% upside.

Current Price		84.6
Market cap	PKR b	14.6
Market cap	US\$ m	82
Free Float Market cap	US\$ m	33
30-day Avg. turnover	m Shares	0.9
52 wk range	PKR	56 - 135
Shares Outstanding	m	172
Free float	%	40%
Major Sponsors		Mr Omer Baig
Bloomberg Ticker		TGL PA

Financials (PKR m)	FY22A	FY23F	FY24F
Revenue	29,416	28,921	40,628
Cost of Sales	21,667	23,178	32,667
Gross Profit	7,749	5,743	7,962
Finance Cost	346	554	816
Profit Before tax	6,268	4,153	5,452
Profit After tax	4,141	2,691	3,326
Gross Margin	26%	20%	20%

Key Ratios	FY22A	FY23F	FY24F
EPS	24.1	15.6	19.3
DPS/Bonus	2.0	4.7	6.8
P/E	3.5	5.6	4.5
P/Bv	1.1	0.8	0.7
ROE	32%	18%	20%

Source: Company Accounts, Insight Research



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manufacturers and steep devaluation of PKR in last few years has dented imports. Additionally, the demand for glass is supported by shifting demographics and evolving preferences, setting it apart from other cyclical sectors which are reliant on new projects. Notably, historical data reveals that while other cyclicals experience declining margins during economic downturns, TGL stands strong, displaying remarkable resilience in the face of distressed economic cycles.

Increasing demand of glass

As per estimates, the size of domestic glass market stood at ~PKR89bn at the end of FY22, up by ~41% YoY. TGL is a prominent player in domestic market having share of ~44% & ~50% in tableware and float glass segment, respectively.

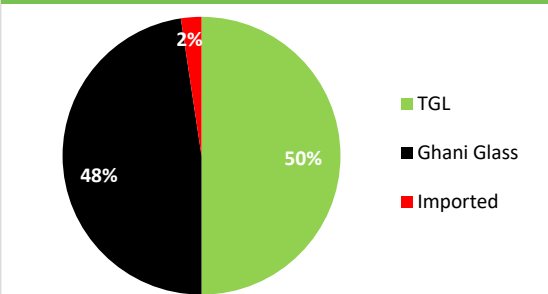
The glass manufacturing sector is mainly dominant by 5-6 big players. In float glass the market is shared by TGL and GHGL having almost same capacities of 1050tpd and 1000tpd respectively. While the tableware segment is shared by several players with TGL having the highest capacity of 340tpd out of which one furnace of 140tpd is closed for rebuild/major repairs which is expected to come online anytime soon with the expected enhanced capacity of 200tpd taking total tableware capacity to 400tpd.

As per latest accounts, TGL's sales mix of float glass and tableware and table ware currently stood at 64% and 36%, respectively. While its local & export sales mix stands at 93% & 7% respectively. With significant devaluation of PKR against greenback exports have become more viable and offer huge room to grow company's topline.

Strong balance sheet position

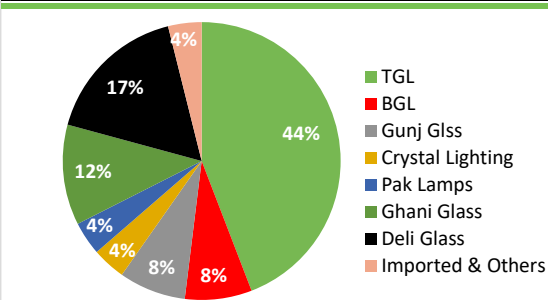
Over the years, TGL has shown great resilience against economic shocks and has posted decent bottom-line growth attributable to industry's oligopolistic structure and focus towards expansion & innovation. In last few year, company has generated strong cashflows and deleveraged its balance sheet where debt to asset has fallen from high of 48% in FY14 to ~18% in 3QFY23. We believe that with strong cash generation ability company will continue to deleverage its balance sheet to shield against higher financial charges. In addition, TGL in partnership with Lucky Core Industries (LCI) was planning to enhance its float glass capacity by ~1,000tpd. To note, the total outlay of the project is expected ~PKR18-20bn, where TGL's equity share is expected around ~PKR4.5bn. Initially project was expected to come online in next 24 months. However, given the slowdown in economy and all time high borrowing rates we expect company to delay its plan to expand capacity. This can pave way for healthy dividends in next couple of years or management can opt for buyback. To highlight, several companies in listed space have announced/completed buy backs in last year or so.

Capacity based market share of Float glass



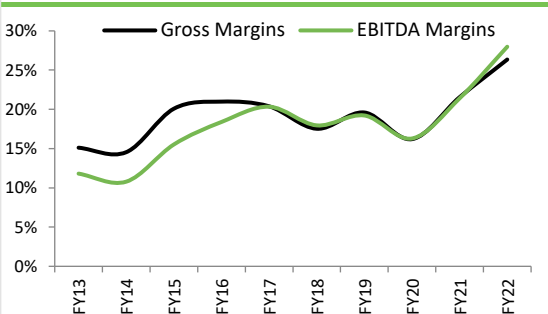
Source: Comapny presentation, Insight Research

Capacity based market share of Tableware



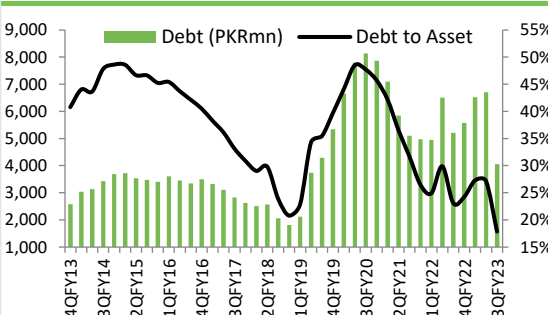
Source: Comapnay Presentation, Insight Research

Gross Margins vs. EBITDA Margins



Source: Company Accounts, Insight Research

Declining leverage ratio



Source: Company Accounts, Insight Research

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Valuation Methodology: To arrive at our period end target prices, ISL uses different valuation methodologies including

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

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

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