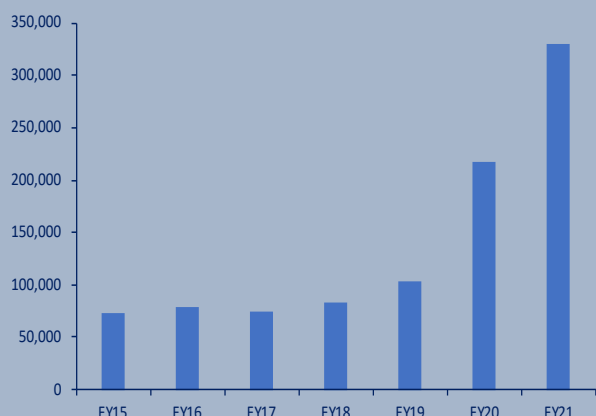
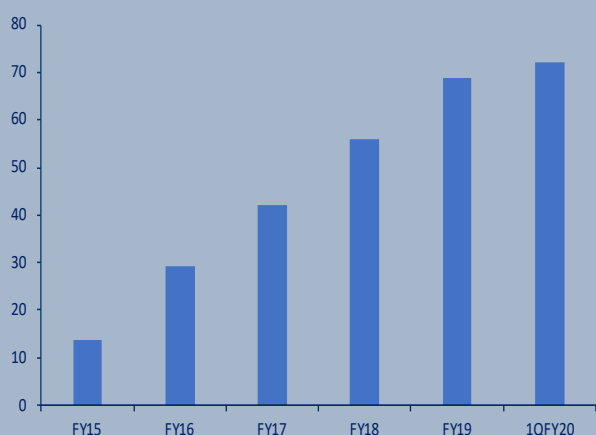


Aug 31, 2021

Company Name:	Airlink communication
Floor Price	PKR 65
Subscribe up to	PKR 77

Transaction Summary

Total Issue Size	90mn
Book Building (75%)	67.5 mn
General Public (25%)	22.5 mn
New Issue	60
Offer for Sale	30

Mobile Phone Imports**3G & 4G Subscribers**

Source: PBS, WE Research

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Airlink communication is all set to become the largest IPO in Pakistan's history. The company is working towards becoming Pakistan's largest vertically integrated distribution company by opening 150 retail outlets across the country in next 5 years.

Background

- Airlink communication limited is a distributor, assembler and retailer of mobile phones having a strong presence in Pakistan with service centers across the country.
- The company is an "importer-cum-distributor" of Samsung, Huawei, TCL, Tecno, ITEL and Xiaomi, the company also has an agreement with Apple Authorized Distributor for Pakistan.
- Airlink has 20% market share of total mobile phone distribution
- The company recorded 5-year CAGR of 49% as its topline grew from PKR 5.8bn in FY15 to PKR 43bn in FY20.
- Airlink communication has nation-wide distribution network of 16 regional hubs linked to 1000+ wholesalers and 4000+ retailers for selling of mobile phones and accessories across Pakistan.

Transaction structure

The company is planning to raise PKR 5.9bn i.e. offer for sale: PKR 1.9bn and new issue: PKR 3.9bn by issuing 67.5mn ordinary shares (75% of the issue) at a floor price of PKR 65/share through book building (30th & 31st Aug) whereas 22.5mn ordinary shares (25% of the issue size) will be offered to general public (6th & 7th Sep). The total issue size is 90mn ordinary shares.

Utilization of Proceeds

The proceeds from the issue will fulfill the working capital requirements including purchase of inventory which will increase its topline by expanding its distribution and retail network to further penetrate the market. The company has started local assembly from Apr'21. Airlink communication intends to setup state of the art mobile phone manufacturing facility with production capacity of more than 400k units per month.

Recommendation

The floor price for IPO is set at Rs. 65/share while cap price is Rs. 91/share. We recommend investors to subscribe up to Rs. 77/share.

Key Risks

- Lower than expected demand
- Increase in policy rate by SBP
- New distributors entering the market

KEY FINANCIAL HIGHLIGHTS:

Income Statement	FY17	FY18	FY19	FY20	1HFY21
Net Sales	13,275	24,151	29,786	43,008	28,124
COGS	11,438	21,004	25,799	38,238	25,510
Gross Profit	1,837	3,147	3,986	4,770	2,614
Operating Profit	1,454	2,632	3,246	3,849	2,018
Profit Before Tax	1,308	2,290	2,595	2,610	1,499
Profit After Tax	674	1,234	1,480	1,519	959

Balance Sheet	FY17	FY18	FY19	FY20	1HFY21
Current Assets	5,690	10,056	14,645	20,408	16,532
Non-current Assets	99	130	323	567	1,139
Total Assets	5,789	10,187	14,968	20,975	17,670
Share Capital	500	1,000	2,500	3,000	3,000
Total Equity	2,124	2,656	3,141	4,597	5,533
Current Liabilities	3,650	7,483	11,024	15,641	11,218
Non-current Liabilities	14	47	803	737	919
Total Liabilities & Equity	5,789	10,187	14,968	20,975	17,670

	FY17	FY18	FY19	FY20	1HFY21
Profitability Ratios					
Gross Margin	13.9%	13.0%	13.4%	11.1%	9.3%
EBITDA Margin	11.1%	11.0%	11.0%	8.9%	7.5%
Operating Profit Margin	11.0%	10.9%	10.9%	8.8%	7.2%
Net Margin	5.1%	5.1%	5.0%	3.4%	3.4%
Earnings Ratios					
EPS	NA	NA	6.24	5.16	3.20
Breakup value per share	NA	NA	12.56	15.11	18.30
ROA	11.65%	15.45%	11.77%	8.15%	NM
ROE	41.40%	51.62%	51.05%	39.30%	NM
Balance Sheet Ratios					
Current Ratio	1.56	1.34	1.33	1.30	1.47
Asset Turnover	2.70	3.00	2.40	2.40	NM
Inventory Turnover	57.1	37.7	15.8	44.0	NM
Receivables Turnover	56.9	58.7	62.8	39.5	NM
Payables turnover	49.5	54.0	46.3	61.9	NM
Leverage Ratios					
Total Debt to Equity Ratio	0.97	1.61	2.51	2.04	1.43
Total Debt to Assets Ratio	0.36	0.42	0.53	0.45	0.45
interest Coverage	9.90	6.90	4.10	2.80	3.60

Source: Company Prospectus & WE Research

Analyst Certificate:

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Stock Ratings

WE Financial Services Ltd. uses three rating categories, depending upon return form current market price, with Target period as Dec 2019 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Potential to target price	
Buy Upside	More than +15% from last closing price
HOLD	In between -15% and +15% from last closing price
SELL	Less than -15% from last closing price

Equity Valuation Methodology

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

Risks

The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk

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