

Fast Cables : New IPO | 6-year Sales CAGR of 35% | Gross margins in double digits

Tuesday, 7 May 2024

Issue size: The offering comprises 128mn ordinary Shares, representing 20.35% of Fast Cables Limited's total Post-IPO Paid Up Capital, with a face value of PKR 10/- each.

Floor Price: The Issue will employ the Book Building method, with a Floor Price set at PKR 23.5/- per share (inclusive of a PKR 13.5/- premium per share).

The maximum price band is capped at PKR 32.9/sh. Bidders will receive provisional allotment of 75% of the Issue size (96,000,000 shares), while the remaining 25% (32,000,000 shares) will be offered to Retail Investors through the General Public portion (IPO).

The Book building process scheduled to commence from 15th May 2024.

Peer Comparison: Basically Fast Cables is raising amount of PKR 3 bn versus EBITDA amount of PKR 4.3bn in the books. Hence we see a case of subscription. Fast Cables offers P/E & P/B multiples of 8.0x & 1.4x respectively compared to age-old pioneer in the industry viz. Pakistan Cables Ltd (PCAL) with 9.64x & 0.73x respectively.

However, we see this IPO is placed at EVEBITDA of 3.3x band which is in line with another new IPO of International Packaging (IPAK) of 2.8x band.

In our opinion, manufacturing sector is facing challenging times wherein Fast Cables is no exception. Hence margins have decreased in FY24 from FY23. We expect FY25 to be a 'pick up' year for the economy in general and hence Fast Cable is very much part of the general phenomenon. Historically Fast Cables operated above 70% utilization levels.

Fast Cables Ltd	
Fast Cable offering	mn shares
Existing shares	500.8
New issue via book building	96
IPO to general public	32
Total IPO	128
New no. of shares	628.8
Par value	10
Floor price	23.5
Cap price	32.9

Source: SCS Research, IPO prospectus

PKR mn	FY20	FY21	FY22	FY23
EBITDA	894	1,343	2,440	4,258
EV	14,769	14,486	13,852	14,118
EV/EBITDA	16.52	10.79	5.68	3.32

Source: SCS Research, IPO prospectus

Fast Cables margins continue to improve till FY23:

Since its inception in FY18, the company Fast Cables has demonstrated sales growth, achieving a 6 year sales CAGR of 35%. Margins have shown consistent improvement, rising from a gross margin of 13.5% in FY18 to 17.9% in FY23, with an expected increase to 18.1% in FY24. The forecasted Profit after tax for FY24 is expected to be PKR 1.82bn (EPS: PKR 2.9/sh post IPO).

Debt to equity ratio is equal to 0.93 in 1H FY24.

Utilization of Proceeds: Principal purpose of the Issue: The proceeds from the IPO will be allocated to various strategic initiatives, including:-

- **Acquisition of new land-**
- **Construction of a state-of-the-art building-**
- **Installation of new plant and machinery-**
- **Repayment of debt associated with machinery and building components**

Any funds raised above the floor price will be directed towards addressing the Company's working capital needs.

The total project cost is PKR 3,592.6 million, with the Company planning to raise PKR 3,008 million through the Initial Public Offering (IPO) and PKR 584.6 million through internal cash generation to fund the total project cost.

Products	Sales contribution
LV cables	58.50%
MV cables	26.00%
Bare conductors	15.60%

Source: SCS Research, IPO prospectus

Pre-IPO	Copper	Aluminium	Total (Tons)
Monthly Capacity	700	1,150	1,850
Annual capacity	8,400	13,800	22,200
Cap. Utilization	6,218	9,948	16,166
Utilization %	74%	72%	73%

Source: SCS Research, IPO prospectus

Post-IPO	Copper	Aluminium	Total (Tons)
Increase %	43%	23%	32%
Monthly capacity	1,000	1,450	2,450
Annual capacity	12,000	17,400	29,400

Source: SCS Research, IPO prospectus

About the company: Fast Cables, a leading manufacturer in Pakistan, is renowned in the respective market for electrical cables and conductors. Fast Cables is operating with an annual production capacity of 8,400 metric tons for copper products and 13,800 metric tons for aluminum products as of June 30th, 2023.

Fast Cables operates two manufacturing plants in Lahore. They are located at 7-Canal Bank Main Jallo Road, Harbans Pura, Lahore (Unit - I) and Bahi kot, Dars Road, Tehsil-Raiwind, District Lahore (Unit - II).

Products: Fast Cables offers a wide range of electrical cables and conductors, including:-

- Low Voltage Cables: Building Wires, Industrial Wires, Telecommunication Wires
- Medium Voltage Cables: Single Core Cables, Three Core Cables, Three Core Bundled Cables (ABC)
- Bare Conductors: All Aluminium Conductor (AAC), All Aluminium Alloy Conductor (AAAC), Aluminium Conductor Steel Reinforced (ACSR)
- Control & Instrumentation Cable

Risk: Investment risks include

- 1) Cash flow from operations has shown volatility, influencing strategic decisions.
- 2) The Total Debt to Total Capital ratio has risen from 0.40 to 0.48, potentially impacting future profitability.
- 3) Agreements with suppliers and appointment of an EPC contractor remains pending, posing risks to project costs and timelines.
- 4) Government-imposed regulatory duties on imported copper and aluminum wires/cables/conductors (range of 17-25%) could affect future sales and profitability.

Top 10 customers names	% of sales
NTDC	10.72%
KEL	6.82%
Faisalabad Electric	3.72%
DHA	3.68%
Sukkur Electric	3.00%
Islamabad Electric	2.56%
Punjab Industrial Estate & Development	2.51%
Lahore Electric	1.43%
Hyderabad Electric	1.37%
FWO	1.17%
Top 10 total	37.00%

Source: SCS Research, IPO prospectus

In PKR (mn)	FY18	FY19	FY20	FY21	FY22	FY23
Revenue	5,431.8	7,164.3	8,952.9	14,214.0	22,978.0	32,858.0
PAT	86.9	166.1	166.6	532.7	1,039.1	1,737.8
EPS	2.6	3.4	3.4	10.9	4.1	3.4
Gross margin	14%	16%	15%	13%	15%	18%
Net margin	2%	2%	2%	4%	5%	5%
Total borrowings	2,106	2,771	2,712	3,681	6,708	5,135
Debt to Equity	0.9	1.2	0.6	0.8	1.2	0.7
Debt to Capital	0.5	0.5	0.4	0.4	0.5	0.4
CFO	(1,166)	(203)	20	(624)	(1,344)	3,288

Source: SCS Research, IPO prospectus

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- (Target Price, if any/Current Price - 1) < 10% Hold
- (Target Price, if any/Current Price - 1) < -10% Negative

The time duration is the financial reporting period of Subject Company

Valuation method

Following research techniques adopted to calculate target price/recommendation

- Price to earnings & Price to Book, EV-EBITDA multiple
- Discounted Cash flows or Dividend Discount Model or Enterprise Value