

Universal Network Systems Limited: Benefiting from pandemic-induced consumer shift

November 16, 2021

Aftab Awan
aftab.awan@akseerresearch.com

Prices as of November 15, 2021



Expensive at FY21 numbers, fairly valued at FY22 management guidance

- Universal Network Systems Limited (UNSL) is offering 6.85mn shares or 25% of post issue capital to raise PKR 446 mn (USD 2.5mn) through getting listed on GEM (Growth Enterprise Market) board of PSX It is the second listing on the board after Pak Agro Packaging in the small business space. UNSL will be the first fully integrated e-commerce logistics company going for the listing.
- The offer price is fixed at PKR 65/share, with a premium of PKR 55/share to par value of PKR 10/ share. We believe the company is in high growth phase with exponential revenue generation in international freight and e-commerce during FY21. We expect the trend to continue post IPO funds utilization which justifies the higher offer price. Our fair value of UNSL comes at PKR 45/share based on FY21 numbers, however, using management's guidance for FY22 the fair value goes up to PKR 72/ share.
- **Investment Thesis:** The stock is attractive based on:
 - Pandemic led new consumer buying pattern, with more online orders and UNSL being the only technology enabled logistics company to capture the opportunity.
 - Expansion in all business segments (e-commerce, last-mile delivery and software solutions) to increase company's footprint in Pakistan.
 - Ongoing technology revolution in the country under Pakistan vision 2025 and Digital Policy 2018, which plans to increase ICT market size to USD 20bn by 2025, and e-commerce to USD 10bn.
- Key risks to investment thesis are;
 - Sponsors under litigation.
 - Increasing fuel prices and company's inability to pass on cost due to fixed price nature of customer contracts,
 - Slowdown in economy may lead to loss of business, and
 - Currency devaluation affecting margins of the company due to international payments.

Key Ratios	FY17A	FY18A	FY19A	FY20A	FY21A
EPS (Pre-issue)	1.06	0.02	0.36	0.10	1.61
EPS Growth	-	-98%	2073%	-73%	1555%
Net Margin	24%	0%	7%	2%	21%
ROE	62%	1%	10%	3%	14%
ROA	8%	0%	2%	0%	6%

Source: IM

Relative Valuation Matrix		
	P/E(x)*	P/S(x)*
ARAMEX PJSC	36.63	1.03
IMPERIAL LOGISTICS LTD	18.48	0.22
GULF WAREHOUSING COMPANY	12.69	2.29
ORIAN SHM LTD	42.88	0.81
BOLLORE AFRICA LOGISTICS CI	8.26	1.41
MAMAN CARGO TERMINALS & HAND	12.50	0.53
PALESTINIAN CO FOR DISTR/THE	17.72	1.33
AGILITY	2.31	1.03
Average	18.9	1.2
UNSL*	53.7	1.2

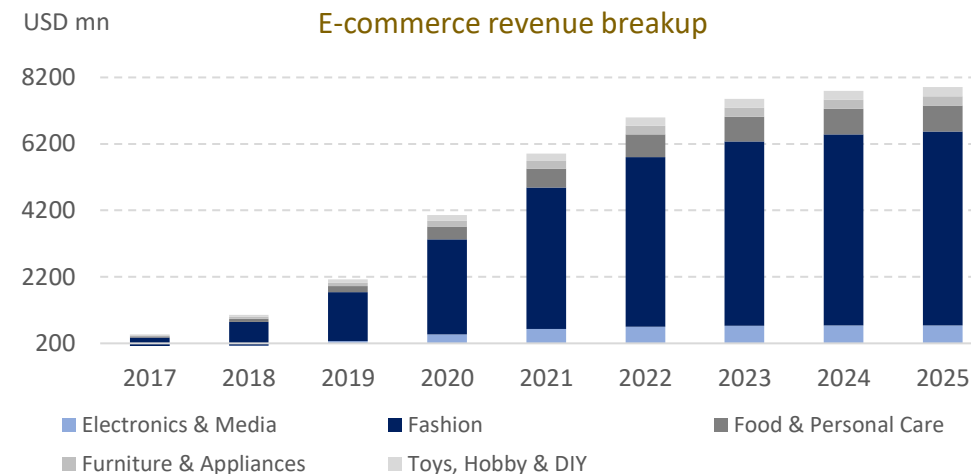
• Based on offer price of PKR 65/share

Source: Akseer Research

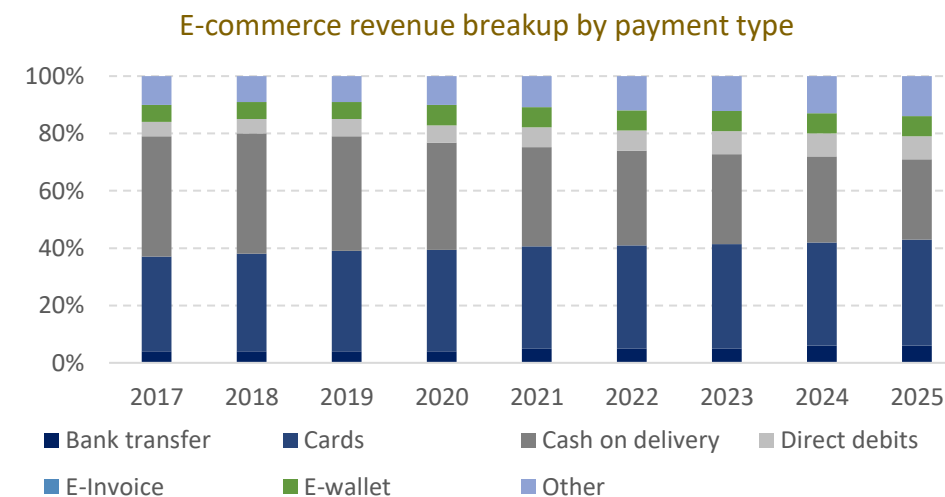
Evolving consumer behavior presents a lucrative opportunity

■ Online shopping trend rising in Pakistan

- According to the Market Intel, Pakistan ranks 46th in global ecommerce markets. During 2020, Pakistan’s e-commerce revenue stood at USD 4.0bn, up 90% YoY.
- It is estimated to grow to USD 5.9bn in 2021 and further to USD 7.9bn by 2025, depicting a 5-year cumulative growth rate of ~8%.
- In Pakistan, e-commerce based revenue can be divided in to 5 categories 1) Fashion (account for ~68% of total revenue of the industry), 2) Electronics & Media ~13%, 3) Food & Personal Care ~10%, 4) Toys, Hobby & DIY ~5% and Furniture & Appliances ~4%.
- In 2020, cash-on-delivery (COD) transactions accounted for ~37% of the revenue, declining from 42% in 2017 and are likely to further go down to 28% by 2025. This entails the increasing consumer trust over online transactions which is crucial for the market penetration.
- It is pertinent to note here that COD transaction involves physical cash collection from the end consumer and depositing it into the bank. This adds more time which has a cost. On the contrary, other methods of payment including bank transfer and cards has less cost and improves the cash cycle.
- UNSL has partnered with ~3,000 online retailers including brand names like Nestle, Unilever, Gul Ahmed, Sana Safinaz etc.
- The company plans to utilize 37% of the issue proceed into E-commerce expansion solution including addition of more warehouses, increasing international freight and introduction of **pre-paid COD**.



Source: Statista



Source: Statista

Expansion plan to increase footprint across Pakistan

■ Fully capitalizing on ‘Last-Mile-delivery’

- Currently, the company’s courier segment market share stands at 6% whereas TCS is the leader with 25% market followed by M&P with 15% share. According to the management, the higher market share of the competitors is due to document deliveries and there is more potential to grow.
- Utilizing PKR 145mn of its IPO proceeds, UNSL will expand its out-reach network by adding 130 new stations (currently 35 station), 55 collection centers and 7 retail express centers. The company is also increasing its fleet to cater higher demand.
- Currently, UNSL covers more than 650 cities and towns across the country. We believe the above mentioned plan’s materialization will enable the company to gain further courier market share going forward.

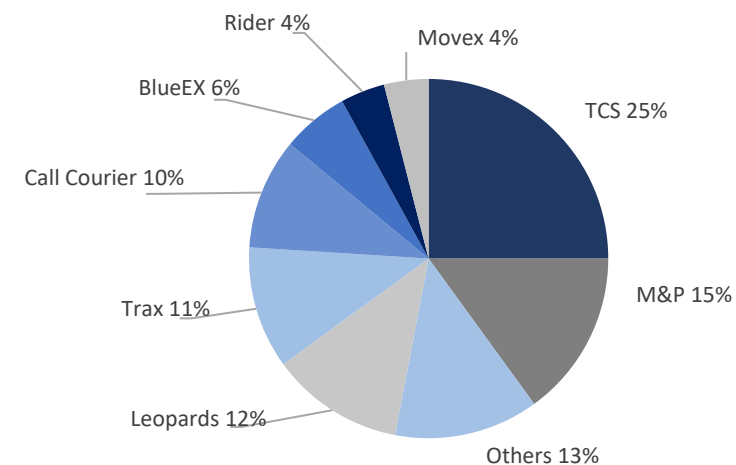
■ Software solutions

- UNSL also plans to invest in its technology segment in order to fully integrate the technology into logistics business. This includes new equipment and establishing new data centers. Besides, investment in Artificial Intelligence and Predictive Machine Learning is also on cards.
- The company has partnered with famous brands like Metro, National Foods and Pakistan Tobacco, for their ERP solutions.

Utilization of funding	PKR mn	%
Development in Technology Segment	95.8	21.5%
Expansion of Out-Reach Network%	144.9	32.5%
Expansion of E-Commerce Solutions	165.0	37.0%
Working Capital	40.0	9.0%
Total Proceeds Utilized	445.7	100%

Source: Information Memorandum

Courier companies market Share



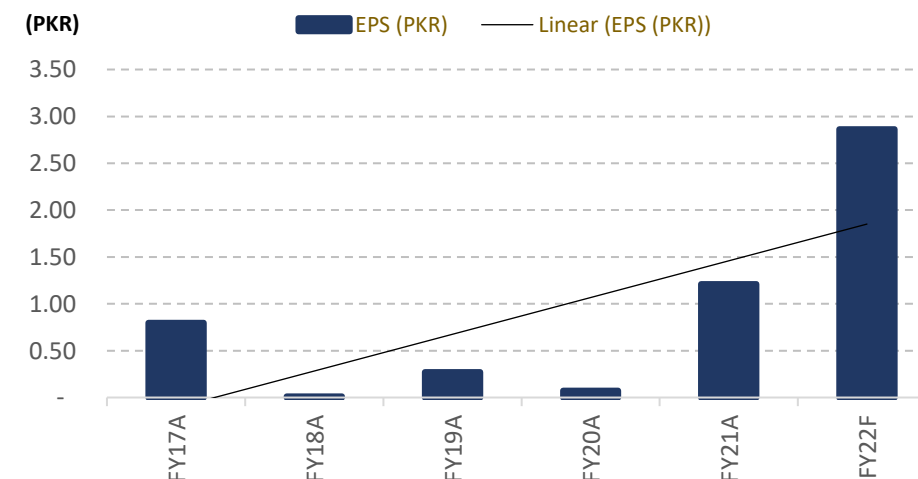
Source: Information Memorandum

Multiples based Fair Value comes at PKR 45/share

- We have arrived at a fair value of PKR 45/share based on blended valuation multiples.
- **P/E based fair value - PKR 23/ share**
 - Based on regional peers FY21 numbers the average P/E comes at 18.9x. Using industry P/E and FY21 EPS of PKR 1.21, UNSL’s fair value comes at PKR 23/ share.
 - We believe most of the regional competitors are in their maturity phase, with earnings reaching saturated levels. Whereas, UNSL being the only fully integrated e-commerce company in the country and in high growth trajectory, the company’s high P/E of 54.0 (based on IPO price of PKR/65) is justifiable.
- **P/S based fair value - PKR 67/ share**
 - On trailing basis, logistics sector is trading at price to sales of 1.2x and based on FY21 sales per share of PKR56, UNSL’s fair value comes at PKR 67/share.
 - The topline growth in FY21 is reflective of turnaround happening in the IT based and logistics companies as the business and consumer dynamics changed. UNSL’s P/S also come around 1.2x based on FY21 revenue numbers, inline with industry’s ratio.
- **Management guidance for FY22**
 - As per the management guidance, the company’s earnings are expected to post CAGR of 93% during the next 3 years (FY22-24). This is mainly emanating from growth in revenue based on expansion in operations.
 - Taking the hint from managements' estimates, if we apply above industry multiples on FY22 expected earnings and sales, we arrive at a blended price of PKR 72/share.

Fair Value calculation	
Sector P/E (x)	18.9
2021 Diluted EPS (PKR)	1.21
P/E based Fair Value	22.9
Sector P/S (x)	1.2
2021 SVS (PKR)	56
P/S based Fair Value (PKR)	66.6
Blended P/E and P/BV based Fair Value (PKR)	45.0

Source: Akseer Research



Source: IM, Akseer Research

Major Risks

■ Sponsors under litigation

- One of the sponsor’s husband had a dispute with a local bank, which as per the management update has been settled and resultantly the regulators approved the UNSL’s listing. However, any future litigation might affect the company’s performance going forward.

■ Rising fuel price

- Increase in fuel price poses a significant risk for the company. UNSL’s contract with customers are of fixed price nature whereas, being a logistics company, a significant cost is associated with fuel price. According to the management, the company has little to no flexibility in passing on the fuel price impact which directly affects the company’s margins.

■ Exchange rate volatilities

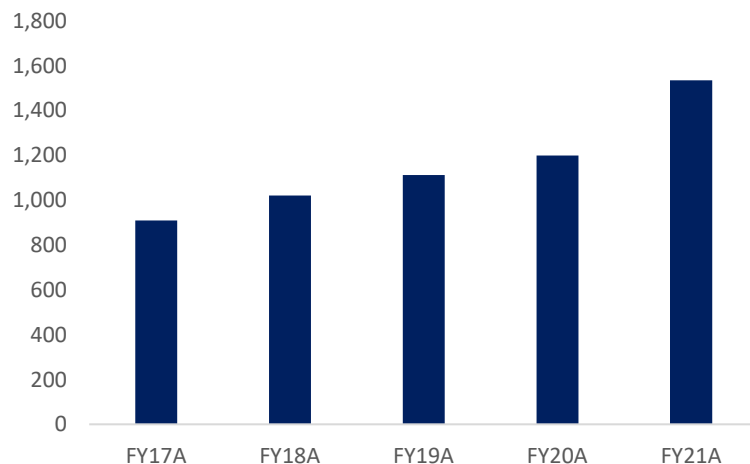
- UNSL has an exclusive agreement with Aramex (courier and delivery service provider in UAE) to make deliveries in Pakistan. The company makes payments to Aramex in foreign currency and any change in exchange rate will have adverse impact on company’s margins.

■ Slowdown in economic activity

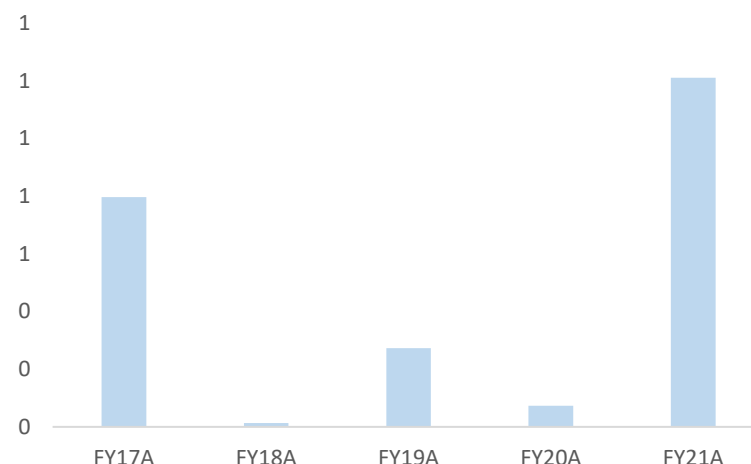
- Economic slowdown also exposes the company to a risk as the overall disposable income faces reduction, the company’s sales may get affected.

Company guidance indicates robust expected future earnings performance

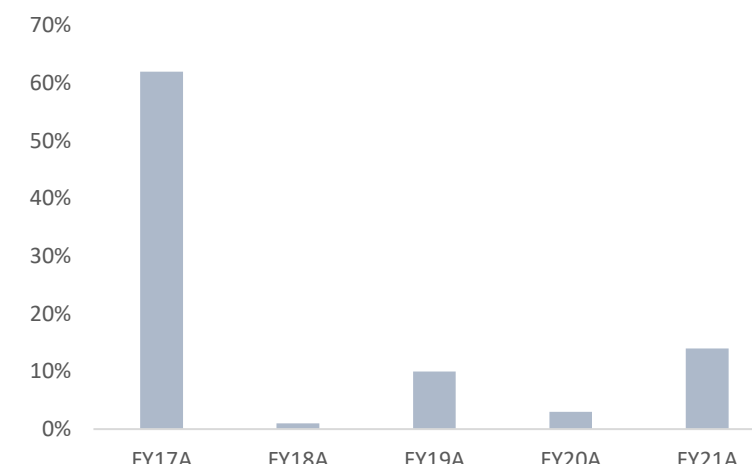
Sales (PKR mn)



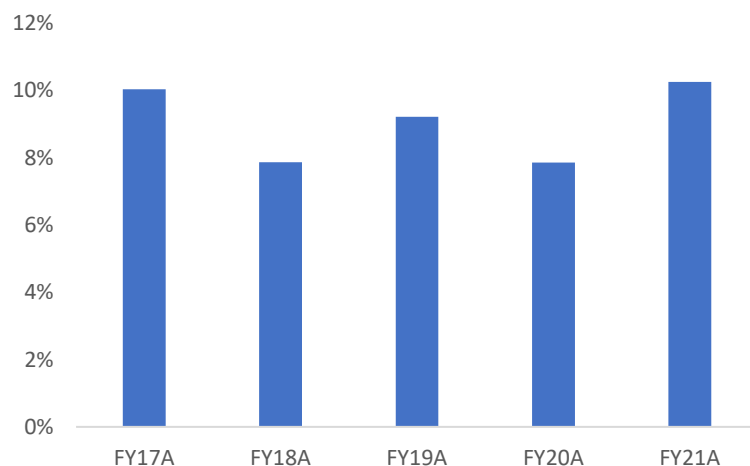
EPS (PKR/Share)



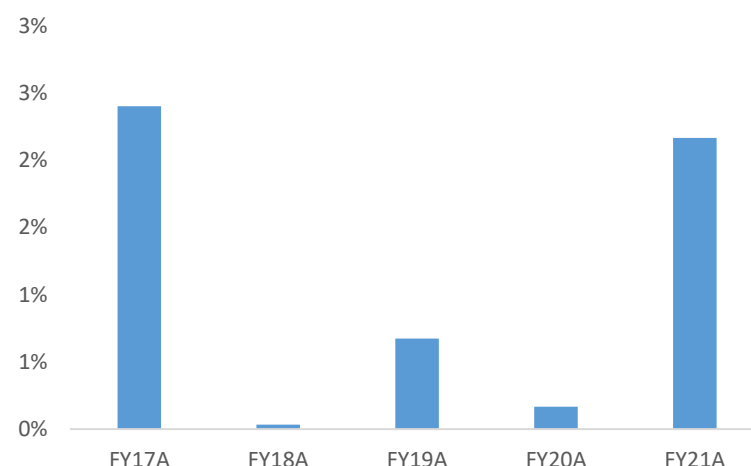
Return on equity



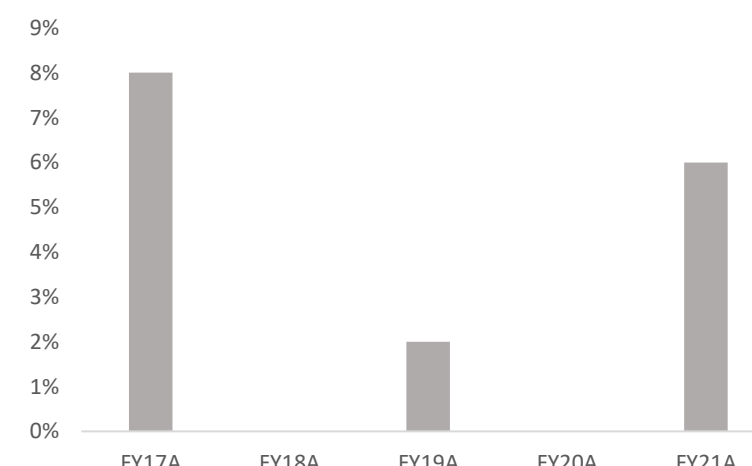
Gross Margins



Net Margins



Return on Asset

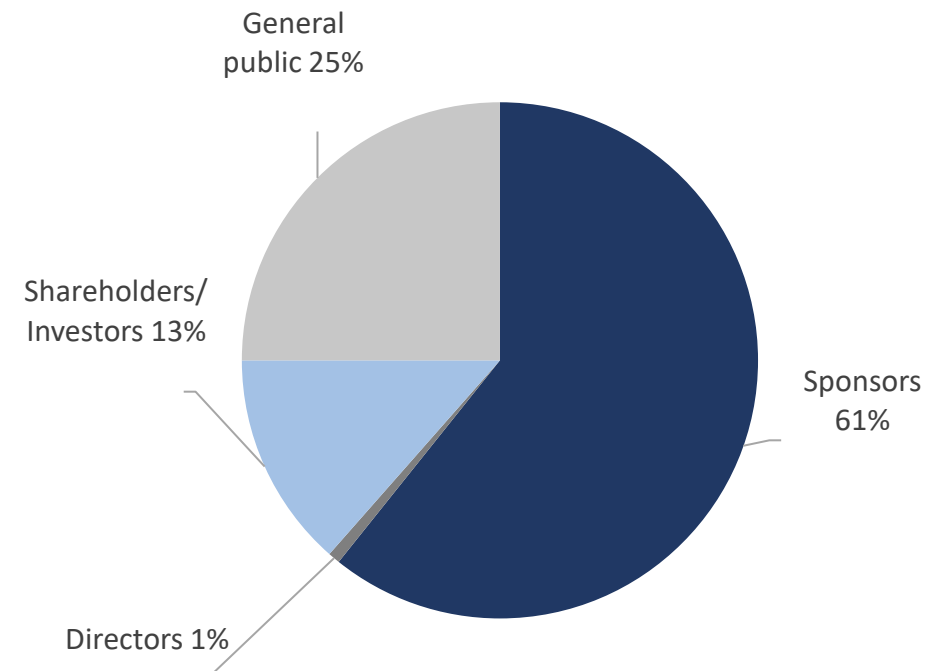


Source: IM, Akseer Research

Company Overview

- Universal Network Systems Limited was incorporated in December 2005, primarily focusing on domestic cargo consolidation and is a franchise of Aramex UAE. In 2011, through its 'Blue-Ex' brand, the company launched its first Cash-On-Delivery (COD) shipment conducted in Pakistan. UNSL is Pakistan's only fully integrated standalone e-commerce logistics company that provides services for the entire value chain.
- Sponsors of the company include
 - Mr. Arif Elahi, who is also associated with Elahi group of companies that specializes in logistics, supply chain management and warehousing. He has served on the board of various entities such as Board of Investment, PNSC, and Export Processing Zone Authority,
 - Mr. Imran Baxamoosa has led the company into ecommerce logistics and pioneered COD services in Pakistan,
 - Mrs. Safina Danish Elahi (largest shareholder) is married to Mr. Arif Elahi's son who manages Elahi group of companies.
 - Mr. Ali Aamer Baxamoosa has been associated with the company since 2016 in the capacity of chief strategy officer. He has vast banking experience.

Shareholding Pattern (Post Issue)



Financial Highlights (Management Guidance)

Income Statement (PKR '000)	FY17A	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Gross Revenue	910,161	1,020,776	1,112,356	1,199,246	1,535,272	2,087,114	2,741,897	3,567,045
General and Admin Expenses	72,843	67,891	85,589	83,237	107,044	120,755	159,142	210,560
Selling Expenses	984	1,023	1,215	2,802	3,482	4,796	4,908	6,961
Financial Charges	2,106	3,113	8,355	10,738	12,527	965	2,941	2,096
Profit/ (Loss) before Taxation	24,540	11,996	24,787	11,863	38,105	110,641	236,004	327,327
Taxation	2,685	11,651	17,291	9,855	4,884	32,086	66,081	88,378
Profit/ (Loss) after Taxation	21,855	345	7,496	2,007	33,221	78,555	169,923	238,949
Balance Sheet (PKR '000)	FY17A	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Current Assets	280,989	273,082	317,793	357,120	211,725	872,573	1,114,312	1,382,065
Non-Current Assets	67,740	77,156	74,752	96,638	235,581	374,058	36,913	343,727
Total Assets	348,729	350,237	392,545	453,758	747,306	1,246,631	1,483,725	1,725,792
Non-Current Liabilities	4,309	5,206	6,433	10,945	55,862	19,029	24,402	22,105
Current Liabilities	275,969	276,234	309,819	364,512	279,200	293,976	369,487	470,903
Equity	68,452	68,797	76,293	78,301	412,244	933,626	1,089,835	1,232,784
Total equity & liabilities	348,729	350,237	392,545	453,758	747,306	1,246,631	1,483,725	1,725,792

Source: IM & Akseer Research

Key Ratios based on Management Guidance

Ratios	FY17A	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Sales Growth	55%	-12%	28%	-8%	67%	48%	71%	36%
Net Profit Growth	-	-98%	2073%	-73%	1555%	136%	116%	41%
Net Margin	24%	0%	7%	2%	21%	34%	43%	44%
Break-up Value per Share (pre-issue)	3.33	3.34	3.71	3.81	20.04	45.38	52.98	59.93
Break-up Value per Share (post issue)	2.50	2.51	2.78	2.85	15.03	34.04	39.73	44.95
Earnings per Share (pre-issue)	1.06	0.02	0.36	0.10	1.61	3.83	8.26	11.62
Earnings per Share (post issue)	0.80	0.01	0.27	0.07	1.21	2.86	6.20	8.71
Return on Equity	62%	1%	10%	3%	14%	12%	17%	21%
Return on Asset	8%	0%	2%	0%	6%	8%	12%	15%
Fixed Asset Turnover	1.41	1.11	1.35	1.10	0.95	0.76	1.07	1.51
Asset Turnover	0.32	0.23	0.28	0.22	0.26	0.23	0.29	0.34
Current Ratio	1.02	0.99	1.03	0.98	1.83	2.97	3.02	2.93
Receivables Turnover	60.15	68.84	72.40	79.22	74.99	74.9	74.9	74.9
Payables Turnover	59.67	57.87	49.85	54.09	54.65	54.7	54.7	54.7
Debt to Equity	0.43	1.09	0.64	1.12	0.05	0.00	0.01	0.01
Debt to Total Capital	0.08	0.21	0.12	0.19	0.03	0.00	0.01	0.00
Interest Coverage	13	5	4	2	4	116	81	157

Source: IM & Akseer Research

Disclosures and Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (Pvt) Limited, hereinafter referred jointly as “JV” and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV’s Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alfa Adhi Securities as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts’ assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by ‘AC’ on the cover of this report, has also been involved in the preparation of this report, and is a member of the JV’s Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details

Akseer Research (Pvt) Limited

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359-60

E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH Society, Block 7 & 8, Near Virtual

University, Karachi

T: +92-21-38694242

E: info@alfaadhi.net