



# IMAGE: Forming fashion foundations

## Investor briefing session

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We hosted an Investor briefing session with Ms. Uzma Ahmad (Director) and Mr. Hussam Subzwari (CFO) of Image (IMAGE). The management shared impressive growth story underpinned by expansion in brick and mortar model along with access to the customers across the world via Amazon. The management expects the top-line to grow at a 5yr CAGR of 31% during FY22-FY27 translating into a profitability growth of 53%. We believe in company's growth story. We think that the stock deserves a higher multiple of 12.0x given i) aggressive growth plans, ii) high pricing power, iii) new customers via Amazon and iv) diversification into new product lines such as Denim, Perfumes and Halal cosmetics. We project the company's top-line to grow to PKR 2.0bn and PKR 2.8bn in FY22 and FY23 translating into EPS of PKR 3.1 and PKR 3.4, respectively. Our blended target price using P/S and P/E multiple of 1.2x and 12.0x comes at PKR 37/sh, offering an upside of 34% (post rights issue) from the last close.

**Diversification into high margin product:** Along with addition of 10 new retail outlets, the company is diversifying its product portfolio by launching Denim, Perfumes and Halal Cosmetics. The company would be able to fetch higher margin on these products without having to incur additional fixed costs. As per the management's guidance, this would be reflected in top-line from FY23 onwards where we expect it to roughly add ~15% towards the top-line.

**Booming E-commerce business:** We think that Amazon would be a major upside trigger for the company since it gives access to 300mn active consumers across the world. The management expects this avenue to add USD 2.0mn annually. Overall, the management is targeting online sales to contribute 30% towards its top-line in FY23 (vs existing share of 43%), which we believe is a conservative number since the company has seen more than 2.0mn visits to its retail website. Additionally, the company would also enjoy tax credit against tax liability for 3yrs on sales through 'Image Tech Limited' that would handle E-commerce business (both local and exports). This would keep effective tax rate on the lower side.

**Phenomenal revenue growth in future:** The company recorded impressive revenue growth of 150% YoY in FY21 despite strict lockdown conditions amidst pandemic courtesy successful E-commerce business. Given aggressive growth plans and product diversification, we expect the company's topline to post a growth of 39% and 15% in FY22 and FY23. The company has the highest gross margins in the industry and this trend is likely to sustain due to exposure in high margin product. We expect the company's earnings to clock in at PKR 3.1/sh and PKR 3.4/sh for FY22 and FY23, respectively.



**Superior quality provides it a competitive edge:** The company's key strength lies in Schifli embroidery that is a premium quality product. As per the management, creativity in designing and styling gives the company a competitive advantage over other notable brands such as Khaadi. Image intends to use 31.25% of the proceeds from right shares to import new embroidery machines for Schifli to expand and cater to the growing demand. This would also result in tax savings for the company in FY22.

**Major feedback from clients:** The most prominent question that we have received from clients is that as per the management's guidance operating expenses would grow at a 5yr CAGR of 23%. Our discussion with the management suggests that this is attributed to higher marketing and admin expense as the total store count would reach 17 from the existing tally of 7. Therefore, operating expense is expected to grow in line with the company's sales growth expectation of 31%.

**Investment perspective:** We think that the stock is really attractive given its promising future outlook and the stock deserves a higher multiple of 12.0x. Our blended target price using P/S and P/E multiple of 1.2x and 12.0x comes at PKR 37/sh, offering an upside of 34% (post rights issue) from the last close.

## Q&As

- **How many outlets do you plan to open in the next 6 months?**

The management plans to open 10 outlets in the next 12 months. In the first quarter, new stores would be launched in Peshawer, Rawalpindi and Hyderabad.

- **What is the average revenue per outlet and what are the growth prospects?**

The average revenue per outlet is PKR 100mn per year. Flagship stores include Dolmen Mall (Clifton and Tariq Road - Karachi) and Packages Mall (Lahore) that have relatively higher revenue. There is room for growth as new products are in pipeline.

- **What are the expected revenue of outlets at the new location?**

The new locations are expected to generate same average revenues of PKR 100mn per year as these markets have been identified through AI.

- **What % of your products are priced within PKR1,000 to PKR 5,000, PKR5,000 to PKR10,000 and those above 10,000?**

Almost 30% of the products are from PKR 1,000 to PKR 5,000, 50% are around PKR 5,000 to PKR 6,000. Only about 20% are above PKR 10,000. Due to exposure in high margin product the company has highest gross margins of 40% whereas operating margins are 18%.

- **What is the plan for right shares?**

The proceeds of right shares will be diverted into 3 channels - PKR 100mn will be spent on the 10 new retail outlets, PKR 340mn for the working capital requirement of new retail outlets, PKR 200mn will be spent on import of embroidery machines from Europe to make additional number of garments for the new outlets.

- **Increasing yarn price has dented the margins, how does the company deal with the increasing cost of materials?**

Image sells premium product and increase in cotton prices will be PKR 20-25/meter. The company utilizes around 2-2.5 meter on a single product translating into a cost hike of PKR 75 per fabric. Therefore rise in raw material prices does not have a material impact as it sells premium product.

- **What is the sales mix between stitched and unstitched products?**

70% of the sales are ready to wear clothes and 30% is unstitched. Going forward, the unstitched category would rise to 40% in FY23 and 50% in long run.

- **What is the purpose of Image Tech Limited?**

The purpose is to avail 100% tax credit on the tax liability for a period of 3yrs. This subsidiary would handle the E-commerce business – both local and exports.

- **How many days of inventory does Image has and what is the company's cash operating cycle?**

130-150 days inventory as of now. Management is trying to improve the supply chain network and aim to reduce it to 60 days this year.

- **How much sales is expected from the Amazon?**

The company expects its customer base to grow along with the buying frequency of the customers. Amazon has a huge audience as there are 300mn active users. Image expects 25% growth on Amazon sales.

- **Why did the company go for rights and not debt?**

Image is a risk averse company and interest rates are expected to rise given current account risks. The company aims to insulate itself from interest rate shocks. Therefore, equity financing was considered a more suitable option.

- **What would be the unique selling point for perfumes?**

Durability, quality and branding would be the unique selling point.

- **How is Image using Artificial Intelligence?**

Image has outsourced tech company to gather data. This tells the company about different age brackets, interests and cities. This optimizes the

targeted audience and roadmap for expansion as well. Locations of new outlets were decided through this as well.

- **How many of the customers in ecommerce platform are active users and % of reorder?**

Image has 2 million active users on its website and 50-60% are repeated customers because of excellent customer services.

- **What is the strategy to reach 2 million customers on Amazon since it's a competitive market?**

Image has strong young and talented team to market product on Amazon. The company would offer differentiated product to gain sales on this platform. Performance marketing is very targetted and is helping to pick up the sales.

- **Where do you see the company in the next 10 years?**

The company is expecting to achieve a turnover of PKR 8.0bn by FY28. This would be achieved through launch of new product categories including Fragrances and Halal cosmetics with a strong retail network. It would remain one of the leading fashion retail in Pakistan and top performing financial company in fashion retail sector of Pakistan.

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- Outperform >18.5% potential upside
- Neutral: 12.5% to 18.5% potential upside
- Underperform <12.5% potential upside