The Year of Alpha

Loads Limited: Back on Track?

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We are initiating coverage on Loads Limited (LOADS) with a Dec-25 fair value estimate of PKR 29.17 per share, derived using a discounted cashflow model. At its current price, the stock offers a compelling 55% upside potential. It is currently trading at a FY26 P/E of 4.7x. BUY!

Our investment thesis is driven by several compelling factors:

- Resurgence of auto demand due to economic recovery and monetary easing: Monetary easing by the SBP, driven by declining inflation, is expected to boost auto sales, especially in the sub-1000cc segment. LOADS, as a key parts supplier to OEMs in this category, is well-positioned to benefit disproportionately from this recovery.

- Gross margin expansion from 13% to 26%: The company has successfully renegotiated its product pricing in the exhaust system and sheet metal segments, leading to gross margin expansion from 13% to 26% in recent quarters.

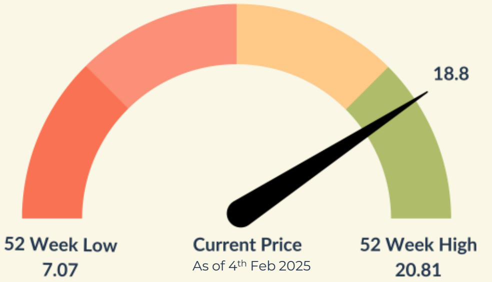
- Improving Cash Flows Amid Declining Interest Rates: After a period of losses, the company has returned to profitability, and with a resurgence in auto demand, it has a clear runway for sustained cash flow generation.

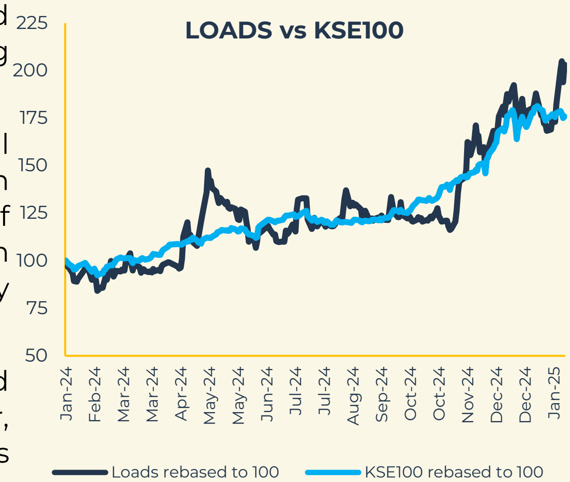
- Potential Sale of Alloy Wheel Plant: As per the company's last analyst briefing, LOADS' subsidiary, Hi-Tech Alloy Wheels, is in negotiations for an outright sale. If completed, the sale will significantly strengthen the company's balance sheet, provide growth capital, and potentially eliminate restrictive loan covenants, paving the way for future dividend payouts.

- Technical Expertise: The company's technological capabilities have been developed in partnership with leading global players, including SNIC Co., a subsidiary of Suzuki Motor Corporation. This enables LOADS to remain at the forefront of product innovation and quality standards.

- Monopolistic Position: LOADS is uniquely positioned as Pakistan's only tier 1 exhaust system manufacturer, benefiting from minimal direct competition in one of its products.

Symbol:	**LOADS**
Current Price (PKR):	**18.80**
Dec-25 Fair Value (PKR):	**29.17**
Upside:	**55%**
Market Cap (PKR Bn.):	**4.72**
1 yr ADTV:	**2.4 Mn** Shares **PKR 30.35 Mn** **US $ 109,172**
52 Week High:	**20.81**
52 Week Low:	**7.07**





Background

Loads Limited was incorporated in 1979 and began commercial production of radiators and mufflers for Pak Suzuki in 1985. Subsequently, it expanded its customer base to other OEMs, including Honda Atlas Cars, Toyota Indus, Hinopak, and Millat Tractors etc. The company was listed on the PSX in November 2016 and was oversubscribed 4x, raising a total of PKR 1.7 Bn.

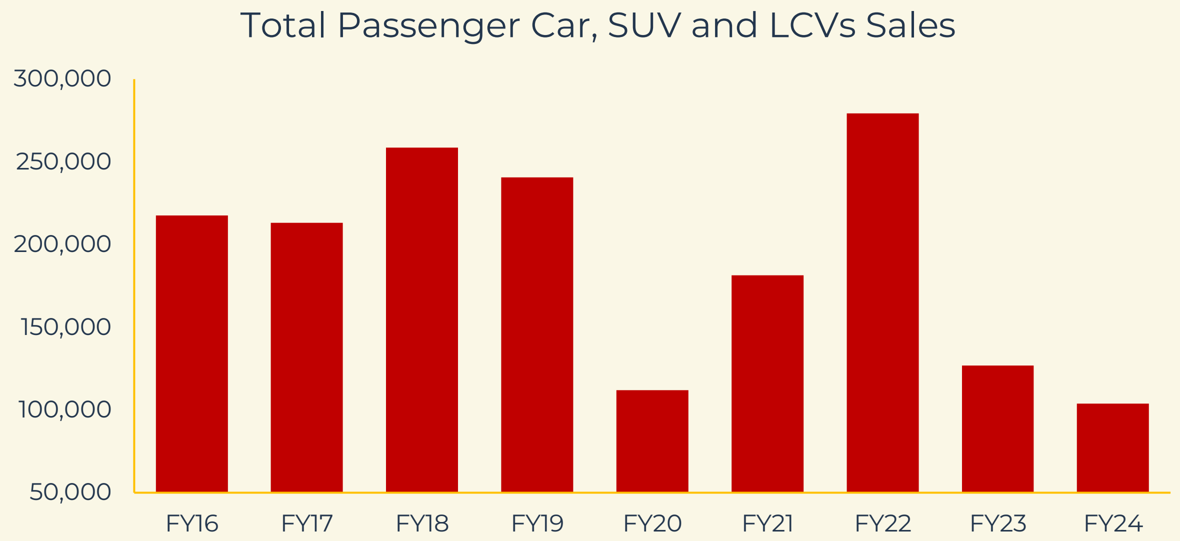
The company established a foothold in this business through technical partners for training and import of the latest technology and machinery. Over time, these partners have included Sankei Giken Kogyo, Tutaka Giken, Hamamatsu Pipe, SNIC and Yutaba Industrial Co. These partners enabled Loads to develop a competitive edge over other part makers and establish a monopoly in the supply of exhaust systems.

In 2016, with the prospect of enhanced economic growth on the back of CPEC, the company undertook an expansion project to meet the expected demand from auto assemblers. This project was financed using IPO proceeds and enabled the company to increase capacity for various products by up to 119%

Capacities, before and after IPO financed expansion:

Product	Units	Existing Capacity	Increased Capacity by the end of June 2017	Increased Capacity by the end of June 2018	Total Increase from Existing Capacity
Exhaust Systems / Silencers / Mufflers	Assemblies	150,000	200,000	275,000	83%
Radiators	Assemblies	100,000	105,000	120,000	20%
Radiator Cores	Assemblies	80,000	103,750	175,000	119%
Heater Cores	Assemblies	50,000	55,000	55,000	10%
Sheet Metal Components	Units	3,100,000	5,000,000	6,500,000	109%

Source: Loads Prospectus, Chase Research



Source: Loads Prospectus, Chase Research

Following the successful expansion and commissioning of its facilities in 2018, Loads Limited began to benefit from all-time-high automobile sales. With ample cash available and the economy stabilizing, the management began to explore new avenues to establish a foothold. This led to the establishment of Hi-Tech Alloy Wheels as a wholly owned subsidiary. The company then invested PKR 4 bn through debt and provided a guarantee for PKR 3.5 Bn to HAWL to set up a facility to manufacture alloy wheels.

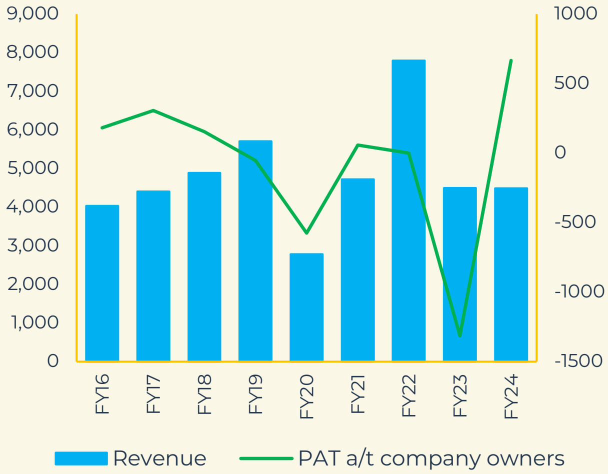
Name of Related Party	Nature of Relationship	Transaction	Limit (Rupees)
Hi Tech Alloy Wheels Limited	Subsidiary Company	Loan	4,000,000,000
Hi Tech Alloy Wheels Limited	Subsidiary Company	Guarantee	3,500,000,000

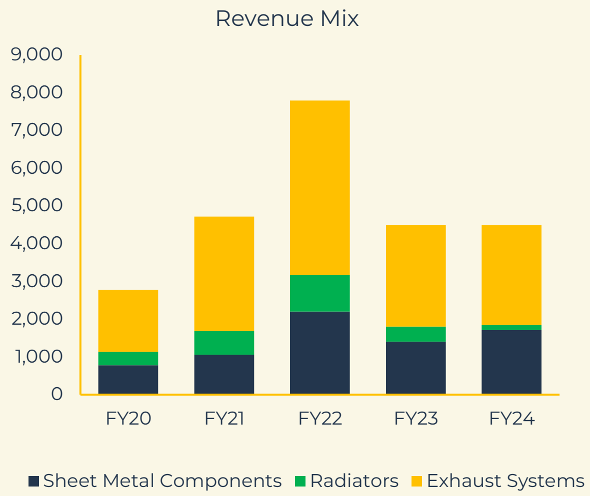
Source: Company Accounts, Chase Research

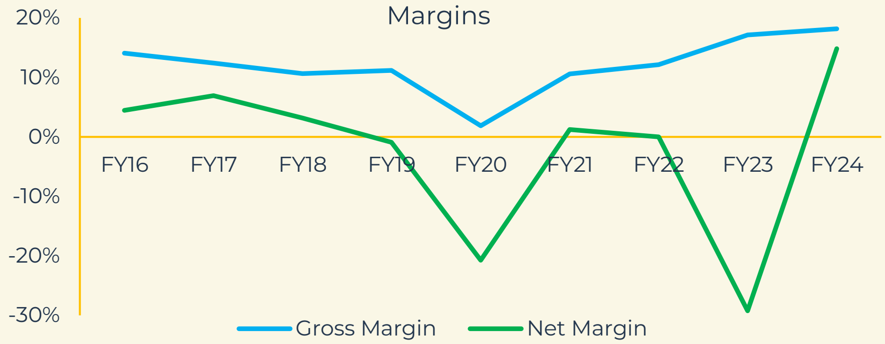
In 2019, automobile sales plummeted, and interest rates began rising, leaving the company with very few avenues to support its balance sheet and offset declining profitability. As a result, the company experienced project delays, and avenues to generate cash dried up.

In the meantime, the country saw new entrants in the auto sector gain market share, and with the incentives provided to them, they did not need to localize. As a result, Loads faced a significant decline in sales due to reduced market share of localized vehicles in Pakistan.

The company saw brief respite during FY22, when industry sales hit a new peak of 279,000 units. However, this was short-lived and was followed by a drastic drop in demand, with even more of Loads' customers being impacted by new entrants. Consequently, as interest rates reached an all-time high of 22%, the company was under significant pressure to generate cashflow. This resulted in exceptionally high finance costs, and due to depressed demand, their alloy wheels plant could also not be commissioned. This led to Loads having to take a write-down on its loans provided to HAWL thereby leading to substantial losses exceeding PKR 1.3 Bn in FY23.







Source: Company Accounts, Chase Research

Current State

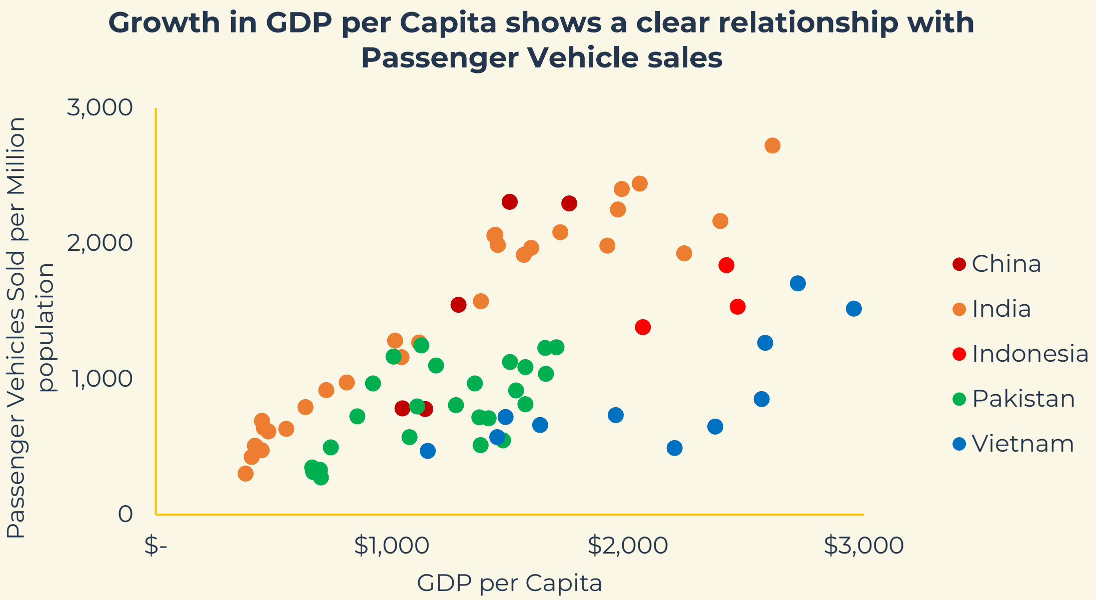
Sector

The automobile manufacturing sector in Pakistan is currently on the verge of recovery, as it begins to recover from economic slowdown and LC restrictions on imports of CKD kits. Going forward, we believe that automobile sales will rebound, and over the next 3 years, will hit a new peak, driven by a growing working-class population.

While the space has now evolved in terms of the players present due to new entrants such as Haval, KIA, Hyundai, and others, we expect that sales in the lower segments will not be disrupted by these new entrants. This will be supported by the tough financing cap of PKR 3 Mn, which leads to only low engine capacity cars being viable for consumers to finance.

Furthermore, the benefits presented to the new entrants under the Auto Industry Development Policy 2021-26 are set to expire in June 2026, after which we expect manufacturers to begin the localization of their models on a war footing.

In a global context, if we look at automobile sales in other countries, we can see that automobile sales are directly correlated to GDP per Capita, and with Pakistan now entering the growth stage, we expect the sector will see demand rise to new peaks again.



Source: saim.in, IMF, CAAM, Marklines, Mckinsey, Asean Auto Fed, MAA, PAMA, Chase Research

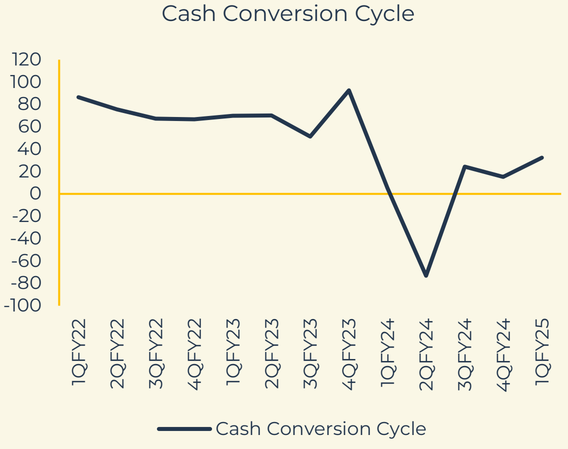
At a GDP per Capita of $1,913 India had passenger car sales of 1,984 per million of its population. If Pakistan is able to achieve this, it would propel automobile sales to about half a million cars per year at the current population level of 240 million.

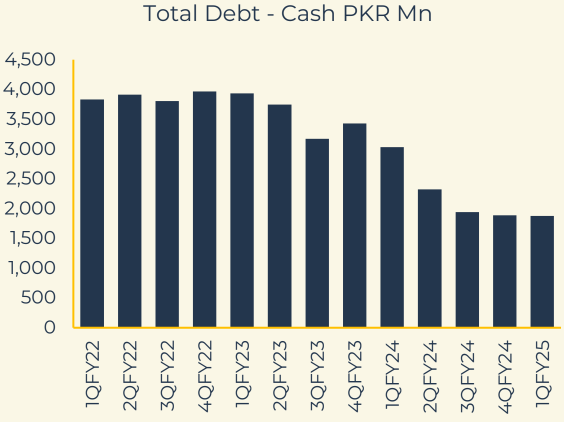
LOADS

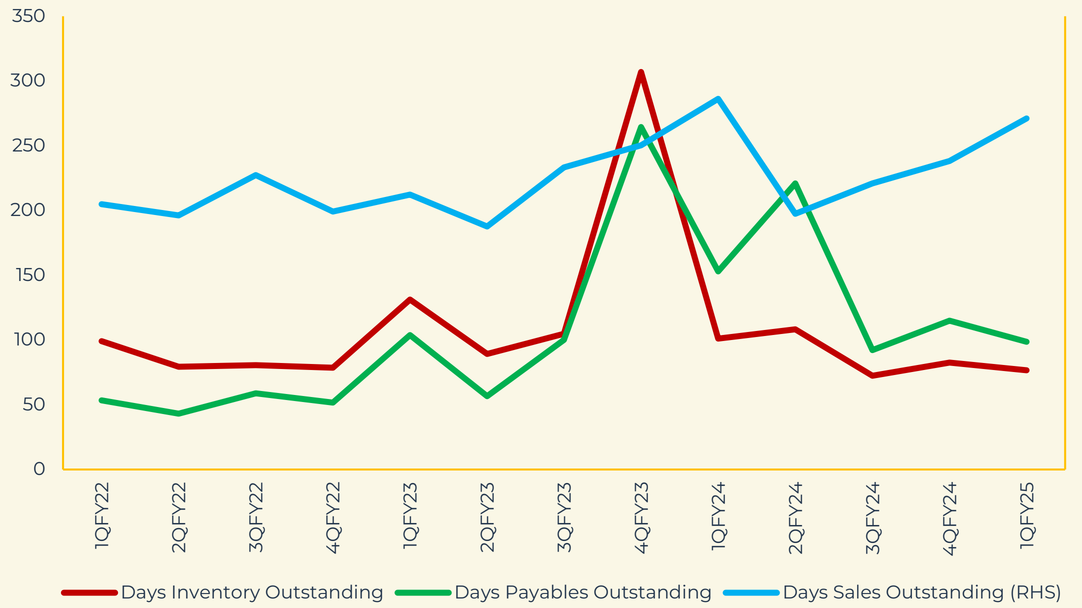
The company now stands in 2025 with a strong core business of exhaust systems, radiators and sheet metal components. With auto sales expected to continue posting growth, Loads is poised on the verge of an auto industry boom.

As of 30th September 2024, the company's current liabilities exceed its current assets by PKR 800 Mn and it requires cash to be able to cater to higher demand from its customers.

The company's management has worked tirelessly in recent quarters to remedy the cashflow issues and the same can be seen in its improving cash flow ratios, which have recently undergone a substantial change.





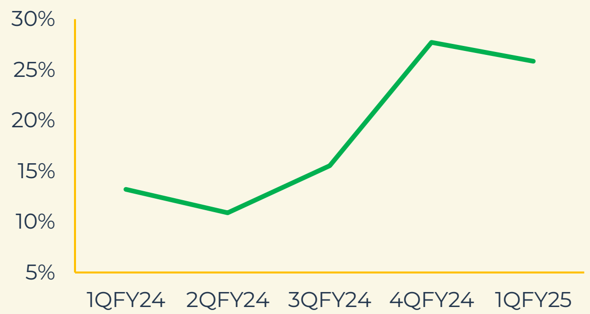


In the last few quarters, the company has experienced a rise in both days payable outstanding and days inventory outstanding, indicating a cash flow crunch. However, it is apparent that things have now turned a corner, with the cash conversion cycle normalizing to about 50 days as of the last quarter. Similarly, the company's debt has also reduced substantially in the last 10 quarters from PKR 4 Bn to PKR 2 Bn.

We expect that the anticipated increase in auto sales will require more debt to be taken on by the company. However, we believe that the sustained profitability will then lead to a higher return on equity and lower debt levels.

Additionally, the company has recently renegotiated its prices for exhaust systems (annual report 2024) and sheet metal components, which has led to an expansion of its margins in the last 2 quarters reported. Management confirmed that this enhancement is sustainable in the company's most recent corporate briefing session.

Quarterly Gross Margin



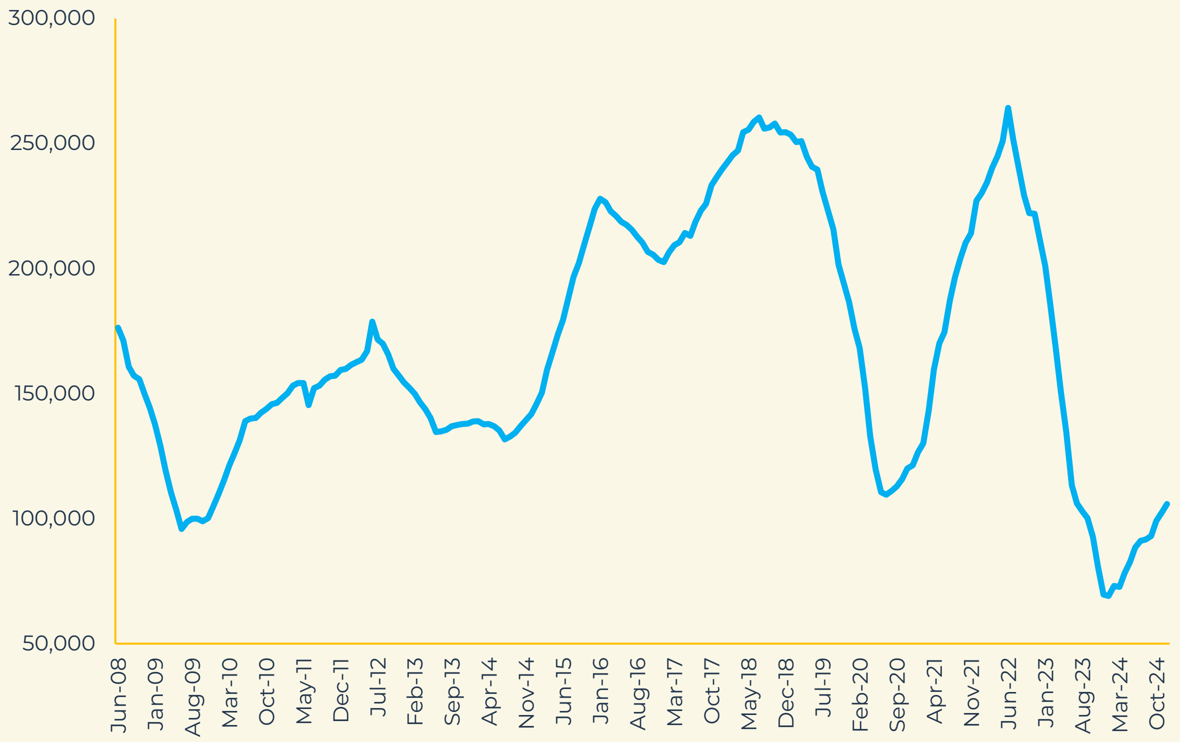
Source: Company Accounts, Chase Research

As the incentives under the Auto Industry Development Policy 2016-21 are set to expire on 30th June 2026, we expect Loads to benefit as new entrants engage it for supply. We expect this to supplement revenue growth for years to come.

The company's largest customer is PSMC, with over 50% of revenues attributable to it. This means that Loads is set to benefit from increased Suzuki sales, particularly as a result of the conservative loan limit cap of PKR 3 Mn set by the SBP on auto financing.

Source: Company Accounts, Chase Research

TTM Big 3 Sales (Units)



Source: PAMA, Chase Research

Alloy Wheel Plant:

Hi-Tech Allloy Wheels, a subsidiary of Loads, has still not commissioned its alloy wheel manufacturing plant.

The cost incurred of the plant is as follows:

Land: A 12-acre plot at Bin Qasim industrial park was contracted in 2017 to be purchased for a total consideration of PKR 216 Mn. As of the company's 2021 annual report, this cost has been fully paid. This plot is in the list of SEZs and therefore received a one-time exemption from custom duties on plant import, and all income is exempt from taxes for 5 years starting from the date of commercial production.

Building: The company entered into a contract with Descon Engineering Private Limited on 13 June 2018 to construct the manufacturing facility for the plant. This contract was worth PKR 1.3 Bn or USD 11.5 Mn and has been completely paid off. At today's conversion rate, this would cost PKR 3.2 Bn.

Plant: Loads entered into various agreements for plant and machinery the details of which are as follows:

Item	Name of Vendor	Country of Manufacturer	Currency	Contract Price	Amount paid to Date	Status of payment	Paid to Date in PKR @ current currency levels
Alloy Wheels Manufacturing Plant	ROH Automotive & Toyota Motor Corporation	Australia	AUD	5,587,763	5,587,763	Complete	974,026,437
Painting Plant	Shinwoo Costec Ltd	Korea	USD	10,760,500	8,600,500	In progress	2,398,894,463
Low Pressure Die Casting Machine	Hands Corporation Limited	Korea	USD	3,340,000	3,006,000	In progress	838,448,550
Cummins DG Set	Cummins Power Generation	China	USD	217,000	217,000	Complete	60,526,725
SNG Plant	Korea Gas Engineering	Korea	USD	160,000	160,000	Complete	44,628,000
Diesel Fire Pump	Patterson Pump Company	USA	USD	75,276	75,276	Complete	20,996,358
Ventilation Fans & Refrigerant	Systemair HSK	Turkey	EUR	153,791	153,791	Complete	44,757,841
Effluent Treatment Plant	AB Winston Emerges FZE	China	USD	67,000	67,000	Complete	18,687,975
Screw Air Compressor	Ingersoll Rand Int. Limited	Czech Republic	EUR	52,700	52,700	Complete	15,337,297
Additional Parts for Alloy Wheel Plant	EBC Korea Company Limited	Korea	USD	70,207	70,207	Complete	19,582,487
UPS With Lead Acid Batteries & Spare Parts	Avatec Power Pte Ltd	Singapore	USD	166,405	166,405	Complete	46,414,515
Total							**4,482,300,648**

Source: Company Accounts, Chase Research

Therefore, it can be ascertained that the cost of setting up this plant at today's exchange rates could be upwards of PKR 7.5 Bn. As such, we believe that the sale is imminent, given the low price that is expected from the sale.

Loads recently carried out a write-off, which led to PKR 1.4 bn in losses. Another PKR 1.3 bn has been approved by shareholders; however, we do not expect management will proceed with this if it can find a buyer for the plant. In a recent briefing, the management indicated that they intend to carry out an outright sale of the plant, which we estimate will sell for up to PKR 3 bn.

Scenario 1: Business as usual with enhanced short term borrowing (Base Case)

In our base case assumption, we have assumed an increase in debt of PKR 800Mn which will then be used to finance working capital needs in the near future

LOADS FY26 EPS Sensitivity							
		Big 3 Annual Sales					
		160,000	180,000	200,000	220,000	240,000	260,000
Gross Margin	25%	3.0	3.5	4.1	4.6	5.2	5.7
	26%	3.2	3.8	4.3	4.9	5.5	6.0
	27%	3.4	4.0	4.6	5.2	5.8	6.4
	28%	3.6	4.2	4.8	5.4	6.1	6.7

Source: Chase Research

Financial Snapshot							(PKR Mn.)
	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Net Sales	4,717	7,792	4,494	4,490	6,602	9,324	12,681
Cost of Sales	(4,218)	(6,845)	(3,724)	(3,675)	(4,886)	(6,807)	(9,257)
Gross Profit	499	947	770	816	1,717	2,518	3,424
Gross Margin	0	0	0	0	0	0	0
Selling and distribution expenses	(256)	(307)	(355)	(296)	(376)	(476)	(596)
Operating profit	243	640	415	520	1,341	2,042	2,828
Finance cost	(340)	(493)	(785)	(804)	(412)	(402)	(333)
Other income	49	85	183	1,117	50	50	50
Other charges	(38)	(46)	(8)	(33)	(50)	(52)	(55)
Share of Associates profit	164	(30)	(62)	-	-	-	-
Non-recurring items	12	-	(1,458)	(255)	-	-	-
Profit before Tax	90	156	(1,715)	546	929	1,638	2,490
Taxation	(94)	(242)	(84)	(258)	(362)	(639)	(971)
Profit after Tax	(4)	(86)	(1,798)	287	567	999	1,519
Profit after tax attributable to non-controlling interests	(62)	(87)	(485)	(378)	-	-	-
Profit after tax attributable to company owners	58	1	(1,314)	666	567	999	1,519
EPS	**0.28**	**0.00**	**(5.23)**	**2.65**	**2.26**	**3.98**	**6.04**
DPS	**-**	**-**	**-**	**-**	**-**	**-**	**1.50**

Scenario 2: Sale of Alloy Wheels Plant (Optimistic)

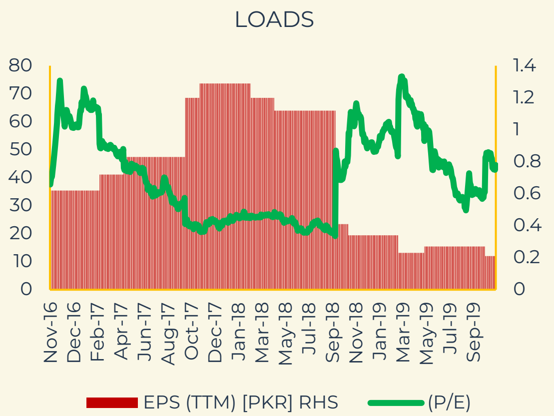
The company can also potentially complete the outright sale of its alloy wheels manufacturing plant, which we believe can yield up to PKR 3 Bn in sales proceeds. In this case, we expect that the company will pay out a one-time dividend of up to PKR 5 per share, along with paying off its debt.

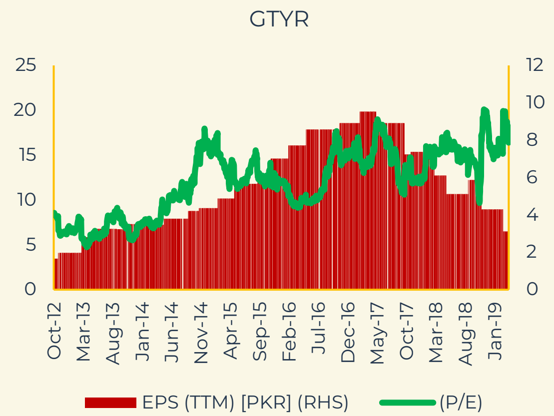
As a result of this, the company will have resolved its cashflow issues and will benefit from a decrease in finance costs up to PKR 300 Mn per annum.

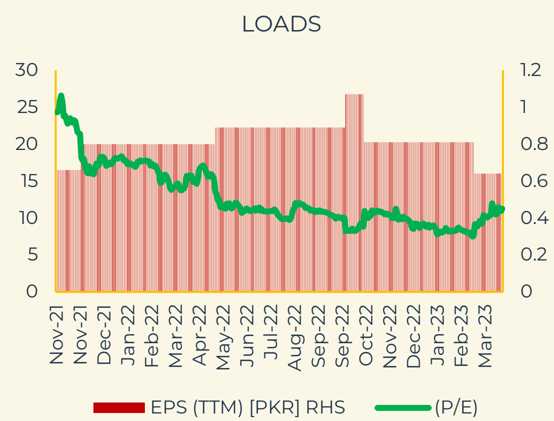
Source: NCCPL, Chase Research

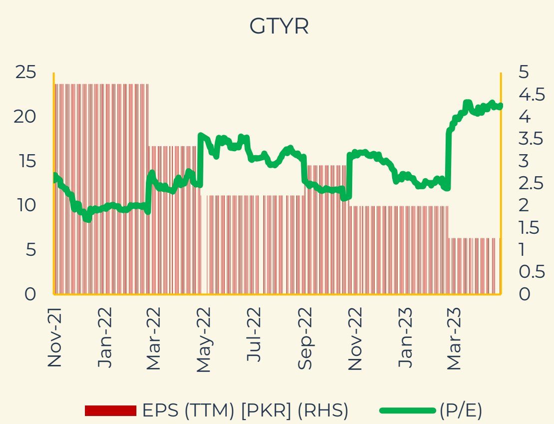
Valuation

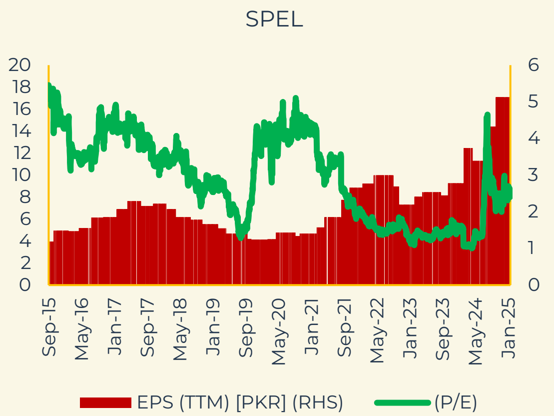
We have valued Loads using a discounted cashflow method and a terminal growth rate of 2.5%. Our target price does not incorporate the effects of the sale of the Hi-Tech alloy wheels plant.

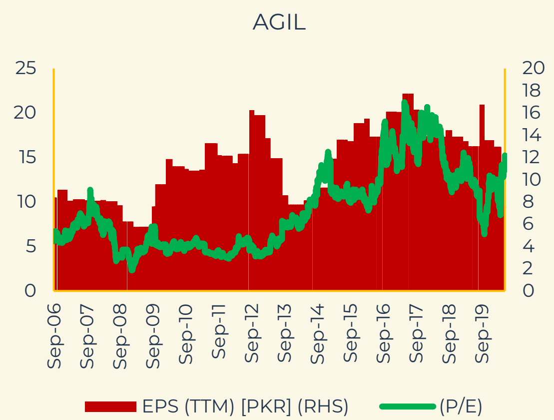












Auto parts companies in Pakistan traditionally trade at a premium to the assemblers' sector with a P/E ratio exceeding 10. As a result, we believe that Loads is also trading at a 33% discount to its average multiple of 12x since IPO, and we believe this helps make a further compelling case for investment.

Source: NCCPL, Chase Research

Company	TTM P/E
EXIDE	6
BWHL	6.7
LOADS	7.9
ATBA	10
SPEL	10.2
GTYR	29.7
PTL	31
AGIL	N/A

Within its own sector, the company is also priced relatively cheap.

Other Initiatives

We believe that the management can also explore other avenues for more sustainable revenue growth, namely the export and replacement markets. The management recognizes that the reliance on OEMs for revenue leads to volatility, and, therefore, is hoping to turn these new segments into a sizeable portion of its sales.

Currently the management is optimistic about its exports for the UAE which began in FY24. While the order quantities are small, it is expected that more customers will be acquired in the future, allowing the company to benefit from larger margins.

Our calculations do not incorporate the upside which can be unlocked through the aforementioned initiatives.

Risks

EVs

Given the nature of Loads' business, it is pertinent to look to global trends to see if the business is sustainable and whether its product lines will remain relevant. The primary concern is that battery electric vehicles will form the majority of automobile sales in the future, thereby rendering the exhaust system business obsolete.

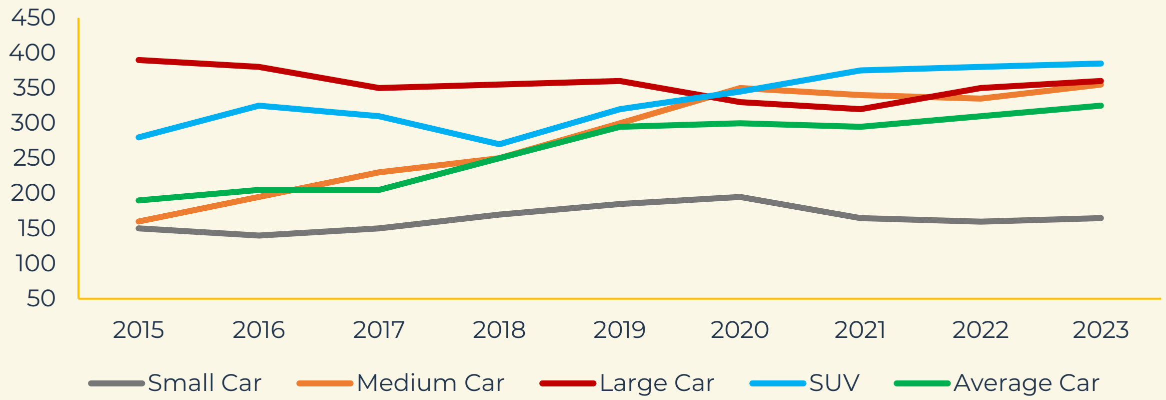
We believe that while this is a material concern, the adoption of purely electric vehicles in Pakistan will be hampered by the following factors:

1. Lack of charging infrastructure, which will remain an obstacle.
2. Lack of a localized supply chain for batteries and charging, which will impact pace of adoption.
3. Lack of incentives for financing and subsidies for end consumers, which will keep the initial cost of ownership out of reach for most consumers.

The largest determinant of sales for Loads is in the small car segment, where Suzuki models like Alto, Cultus and Swift are present. These are all cars with a full tank range of 400-500 km, while equivalent battery electric vehicles have a range of up to 200km. We believe this means that for the low-income consumer, who buys a small car as their only car, it will not be viable to own BEVs.

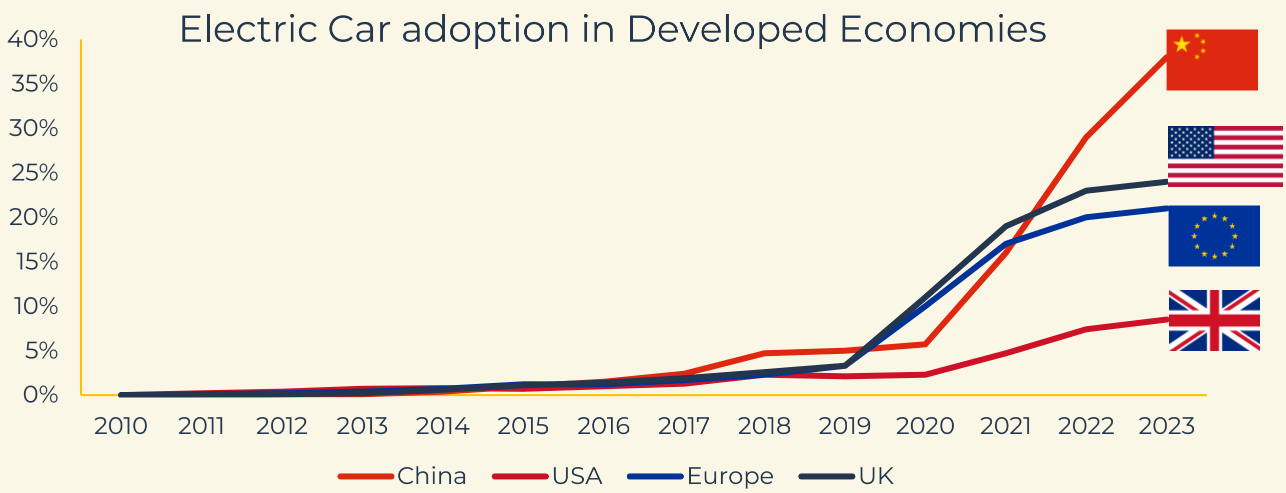
Source: NCCPL, Chase Research

Sales-weighted average range of battery electric cars (km)



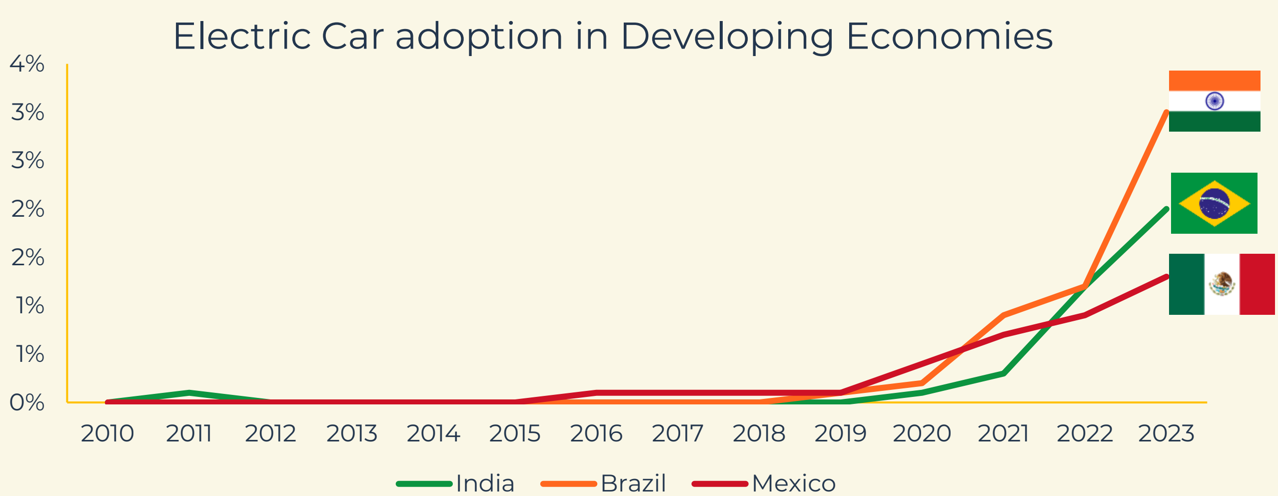
Source: IEA, Chase Research

We believe that since Pakistan is a lower middle-income country, EV penetration will remain low in passenger cars in favor of hybrids due to their lower initial cost.



Source: IEA, Chase Research

95% of EVs in 2023 were sold in China, USA and EU which coincidentally is where 60% of global auto sales occur.



Source: IEA, Chase Research

While developed countries have invested heavily in subsidies to facilitate the change to BEVs and PHEVs, developing countries have been slower in adoption with new EV sales accounting for less than 5% of total new car sales in markets like India, Brazil and Mexico.

The IEA's forecast for rest of the world puts EV penetration in PCs at about 40% by 2035. This is characterized by an estimated 18-42% of new car sales being PHEVs and BEVs. The extent of adoption will be determined by government policies regarding the implementation of announced pledges and stated policies..

Economic Slowdown

A reversal in the monetary easing cycle or an economic slowdown could impact sales in the auto sector, thereby leading to a downside risk on Loads.

Director's Loan Conversion

The company also currently has a director's loan of PKR 700 mn due as of 30th September 2024. There is a risk that the director could choose to convert this into equity, thereby diluting minority shareholders

Cash Crunch Due to Unavailability of Cash

Inability to arrange sufficient financing to fund working capital needs could materially impact its ability to enhance profitability in the years to come.

New Entrants in Assembling space may not need to localize till 2027

There is substantial risk of new entrants in multiple business lines for Loads, particularly with regards to radiators and sheet metal components.

New Entrant in Radiator, Exhaust System Business

Despite some localized models present in the market, it is possible that new entrants may not need to localize their vehicles until after 2026, as the auto policy gives them a 20-30% duty benefit until then.

It is possible that the government moves ahead with its plans of a new energy vehicle policy, but we expect that the new policy will aim to push new entrants toward localization by June 2027. As such, we expect the impact to be minimal on Loads.

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- Total stock return = capital gains + dividend yield

Rating Definition	
Buy	Total stock return > 15%
Neutral	Total stock return between 0% -15%
Sell	Total Stock return < 0%

Valuation Methodology:

- Period end target prices, Chase Securities Pakistan Private Limited uses different valuation methodologies including but not limited to:
- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return o arrive at our based methodologies (EVA, Residual Income etc.)