Gul Ahmed Textile Mills Ltd (GATM)

Structural Margin Upgrade : Power, Productivity, Export

Tuesday, November 3, 2026

Initiating coverage with a BUY: We initiate our coverage on Gul Ahmed Textile Mills Ltd (GATM), with a **BUY** rating. Our **June 2027 target price of PKR 31.5/sh** implies an upside potential of 58% from the last closing price. This bullish outlook is driven by our forecast of a shift toward **renewable energy, reducing dependence on grid and gas to around 40%,** coupled with the closure of its loss-making Apparel Segment. At present, GATM's stock is trading at highly attractive valuations, with a **FY27F PE of 5.6x** and **FY28 PE of 4.5x**, making it undervalued as compared to top industry peers' average PE of 10x in FY26.

Renewable Energy Transition: The company has accelerated its transition towards renewable energy sources, including solar, wind, battery energy storage systems (BESS), and other related initiatives. Renewable energy accounted for around **9%** of the company's energy mix last year, compared to virtually nil adoption previously. Going forward, these initiatives are expected to support a transition of **over 40%** of the company's energy requirements towards renewable sources. While management estimates this contribution **could reach over 50%**, we have adopted a more conservative assumption of 40% in our analysis.

Resilient Gross Margins: Gul Ahmed has consistently maintained a strong gross margin profile, **averaging 19.5%** over the past five years (FY21–FY25), with its six-year average (FY21–FY26) remaining **robust at 18.7%**, despite the moderation in FY26 due to one-off expenses relating to segment closures and other exceptional costs. Notably, GATM's six-year average gross margin remains significantly ahead of the **12.9%** average recorded by the sector's top 20 players, highlighting its superior margin profile and competitive positioning within the industry. We expect gross margins to **normalize to 18–20% from FY27 onwards**, keeping the company comfortably above both its historical average and the industry benchmark.

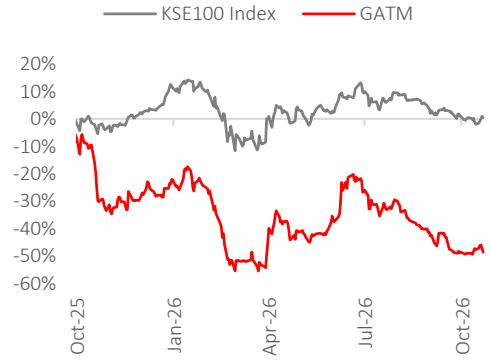
Key Multiples		FY26A	FY27F	FY28F	FY29F	FY30F
EPS	PkR	(0.46)	5.6	7.0	10.2	11.5
DPS	PkR	-	-	0.7	1	1.2
P/E	x	37	5.6	4.5	3.1	2.7
GM Margin	%	14.7%	18%	18.5%	19.3%	19.2%
NP Margin	%	0%	2.3%	2.7%	3.5%	3.6%

Source: Company Accounts, BMA Research

GATM Investment Overview	
KATS Code	GATM
Bloomberg Code	GATM PA
Market Price	PkR 19.93
Target Price	PkR 31.51
Upside	58.09%
1-Yr High/ Low	PkR 16.5/33.9
Free float	25%
Share outstanding (mn)	740

Source: PSX, BMA Research

KSE100 Index vs. GATM



Source: PSX, BMA Research

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Stronger Export Focus and Potential Tax Benefit: GATM currently generates **USD 350-400mn in exports**, which we expect to grow further in the coming years, supported by its increasing focus on export markets and the continuation of GSP+ benefits through FY29, with a potential extension thereafter. Its export share is expected to exceed 80% over the medium term, while potential super tax relief could provide additional support to profitability.

Valuation: Our valuation of GATM utilizes the discounted cash flow (DCF) methodology, resulting in a **June 2027 target price of PkR 31.5/sh**. This implies a **total return of 58%** from its last close. Our key assumptions include an **adjusted beta of 1.1**, **a risk-free rate of 12.5%**, and an equity risk premium of 6.0%.

Cost Optimization, Energy Transition and Manufacturing Consolidation: The Company is undertaking a comprehensive cost rationalization and operational efficiency program to address margin pressures through structural improvements across its value chain. Key initiatives include **reducing conversion costs per unit**, **improving waste recovery and production yields**, and **consolidating manufacturing processes**. Coupled with the anticipated recovery in spinning utilization and ongoing investments in renewable energy, these measures are expected to support a gradual recovery in margins from FY27 onwards. Furthermore, we expect production efficiency to remain **comfortably above 80%**, reflecting improved operational discipline and better utilization of the Company's manufacturing capacity.

Energy optimization a priority: Energy optimization remains a key pillar of the Company's transformation strategy, given its significant contribution to the overall cost structure. At Landhi, the Company has commissioned **a 20 MW of rooftop solar capacity**, supported by 8.8 MWh of battery storage to manage intermittency arising from cloud cover and grid fluctuations. An additional 5 MW wind turbine and 10 MW of solar capacity are under installation, with completion targeted by CY26. Meanwhile, the recently acquired Nooriabad facility (formerly operated by Equity Textile) is being developed into an integrated renewable-powered manufacturing site, incorporating wind and solar generation alongside 20 MWh of battery storage, with commissioning expected by March 2027.

Renewables to dominate energy mix: GATM's management estimates that **70%** of Nooriabad's total energy requirements will be met through renewable sources, further strengthening the facility's cost competitiveness and reducing its reliance on conventional energy. We expect a significant shift in the Company's manufacturing operations to the site over the coming years, supported by its renewable energy infrastructure and planned capacity consolidation.

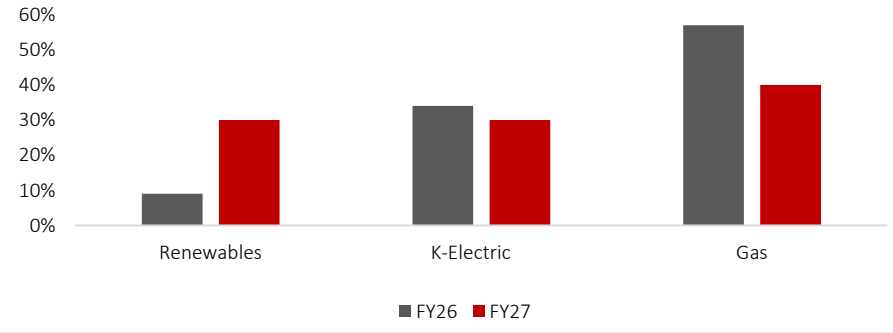
In terms of the energy mix, around 9% of the Company's total energy requirements were met through renewable sources in FY26, while K-Electric accounted for around 34%, with the remaining requirements primarily fulfilled through gas. We conservatively expect the renewable energy contribution to increase to approximately 30% in FY27, with more than 40% of the Company's total energy requirements expected to be met through renewables from FY28 onwards.

Electricity production cost to be reduced to PkR 27/kWh by FY28: From a cost perspective, the GATM's per-unit energy cost stood at Rs. 34 in FY26, in addition to certain fixed costs associated with conventional energy procurement. With the commissioning of additional renewable capacity and a gradual shift in the energy mix, we expect the **per-unit cost to decline to Rs. 30 in FY27 and further to Rs. 27 by FY28**. The anticipated reduction in energy costs is expected to provide meaningful support to margins, alongside savings from broader operational efficiency initiatives.

Developing the Nooriabad facility: In parallel, the Company is pursuing a manufacturing consolidation strategy centered around its Nooriabad operations. Beyond the facility already acquired, management is evaluating additional sites, with the objective of relocating a substantial portion of Landhi's production load to Nooriabad by end-2027. This transition is expected to streamline the manufacturing footprint, **improve capacity utilization, and generate operational synergies by aligning production facilities** with the Company's in-house renewable energy infrastructure.

Additionally, the Company is setting up a spunlace nonwoven production line, with commercial operations expected to commence by mid-2027. This represents a strategic move towards higher-value-added technical textiles, enabling the Company to diversify its product portfolio and capture improved margins beyond its conventional cotton-based value chain. These initiatives are expected to drive gradual earnings improvement from FY27, **with full benefits materializing by FY28.**

Fuel Mix



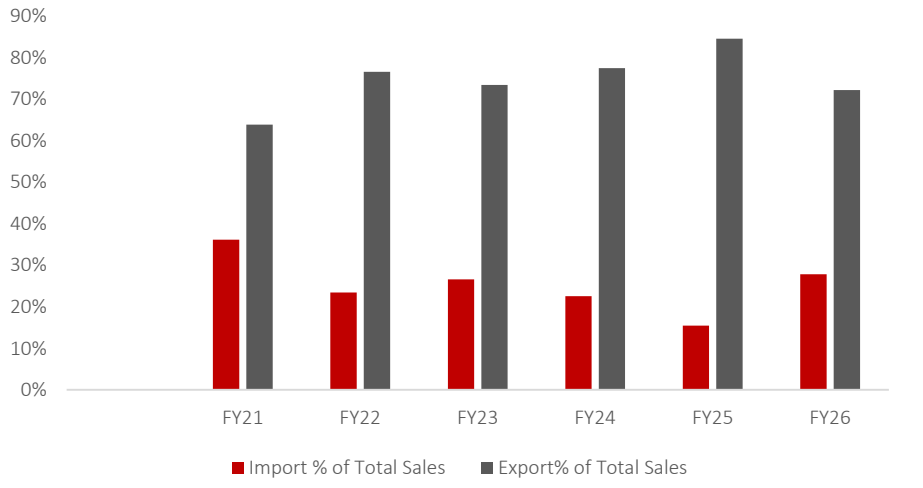
Source: Company Accounts, BMA Research

Exports-focus leading to long-term earnings stability: From FY21 to FY26, GATM has maintained a strong export-oriented sales mix, with exports consistently accounting for most total sales. Export contribution increased from 64% in FY21 to 77% in FY22, remained around 73–77% during FY23–FY24, and peaked at 85% in FY25, reflecting the Company's increasing focus on international markets. In FY26, the export contribution moderated to 72%, while the import (domestic) sales share increased to 28%, indicating a partial shift in the sales mix.

GATM's export sales witnessed a strong upward trajectory, increasing from PKR 56,420mn in FY21 to a peak of PKR 146,223mn in FY25, reflecting its growing penetration in international markets. However, exports moderated to PKR 116,943mn in FY26.

In contrast, local sales remained relatively stable during FY21–FY25 before rising to PKR 46,432mn in FY26, indicating improved domestic sales contribution. Despite this increase, exports continue to remain the primary driver of the Company's revenue. GATM is expected to increase its **export contribution to over 80% in the coming years**, potentially meeting the eligibility threshold for Super Tax relief and supporting an improvement in net profitability.

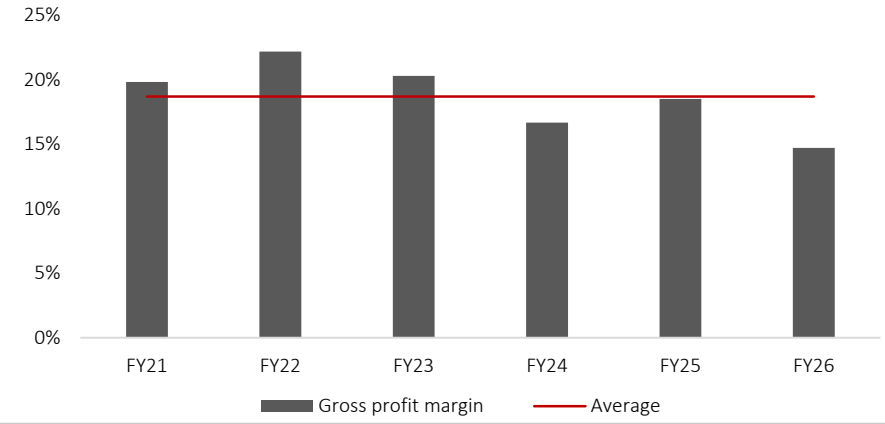
Local Sales vs Export Sales



Source: Company Accounts, BMA Research

Sustained Gross Margin Strength: GATM's gross profit margin averaged 18.7% over FY21–FY26, remaining above the historical average in FY21–FY23 before moderating in subsequent years. The decline in FY26 to 14.7% was primarily attributable to the closure of the apparel segment, higher fuel and energy costs, and the resulting impact on the Company's cost structure. While lower international cotton prices provided some relief on the raw material front, these benefits were insufficient to offset the pressure from higher operating costs and the loss of contribution from the discontinued segment.

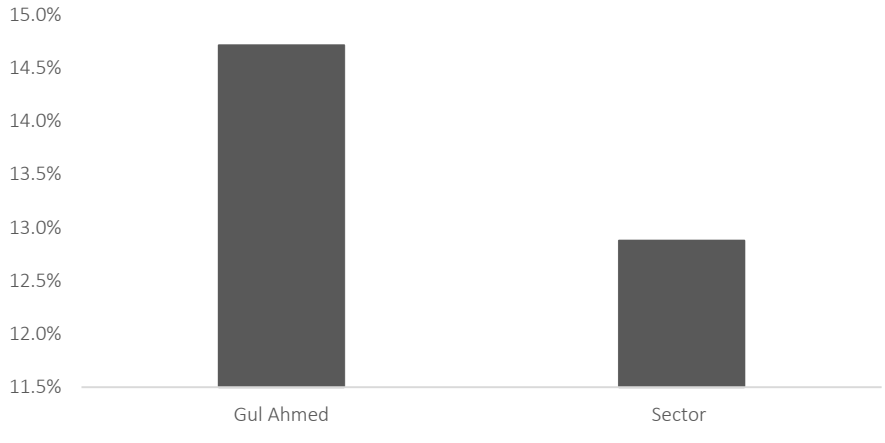
Gul Ahmed Gross Margins Trend



Source: Company Accounts, BMA Research

Sector Profitability Trend: Although GATM's FY26 gross margin of 14.7% remained below its six-year historical average of 18.7%, it outperformed the top-20 textile stocks' composite margin of 12.9% by 1.8ppt.

GATM vs Sector Gross Margin – FY26



Source: Company Accounts, BMA Research

Operating Cost Sensitivity Analysis: Our FY27E base-case COGS stands at PKR 147,763mn. A 5% increase in raw material prices would raise projected COGS to PKR 151,559mn, while a 5% decline would reduce it to PKR 143,966mn, highlighting the Company's sensitivity to raw material price movements. The sensitivity analysis captures a 5% price movement across key raw material inputs, including cotton, synthetic fibers, purchased yarn, greige fabric, dyes and chemicals, among others.

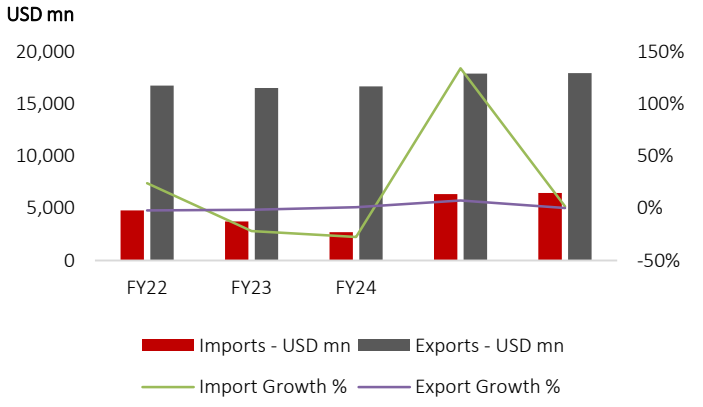
Our FY27E base case assumes 30% renewable energy contribution to the company's energy mix. A 5ppt increase in renewable contribution would reduce fuel and power costs by PKR 326mn, whereas a 5ppt decline would increase costs by PKR 340mn, underscoring the potential impact of the Company's renewable energy transition on operating costs.

Key Risks

- Exposure to Commodity Price Fluctuations
- Import Tariff Uncertainty
- Geopolitical tensions
- Supply chain disruption risk
- Credit Risk
- Renewable Energy Project Execution and Commissioning Delays

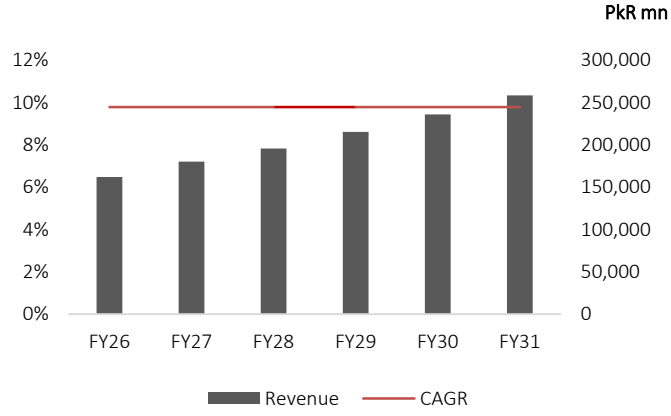
GATM - Graphical Overview

Textile Growth %



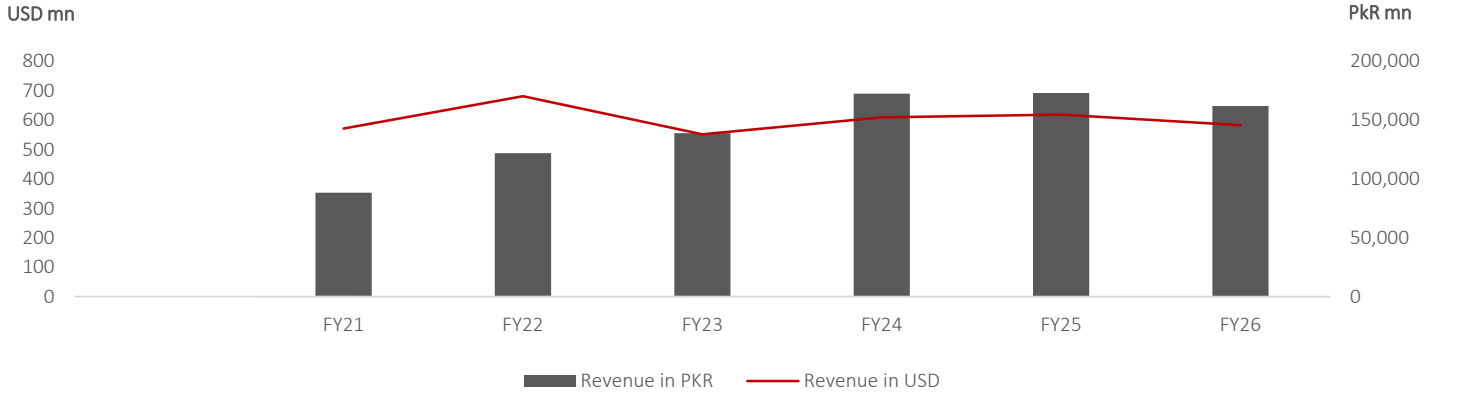
Source: Company Accounts, BMA Research

GATM - Revenue Forecast



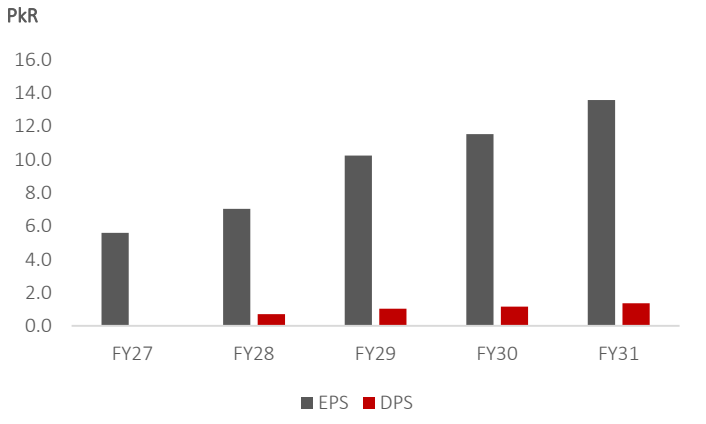
Source: Company Accounts, BMA Research

GATM Local and Export Revenues



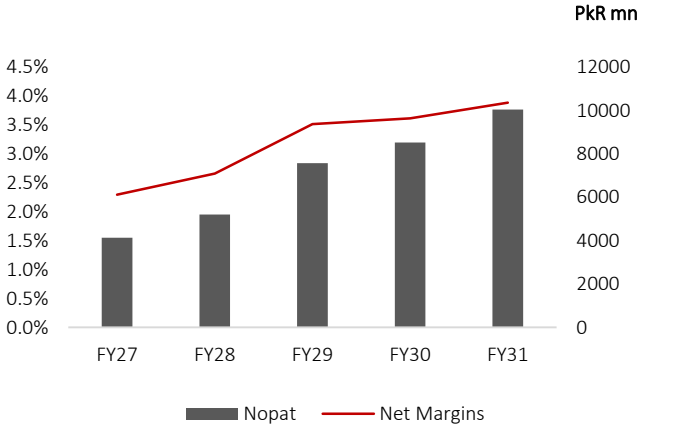
Source: Company Accounts, BMA Research

EPS and DPS Projections - PkR



Source: Company Accounts, BMA Research

NOPAT and Net Margin



Source: Company Accounts, BMA Research

GATM - Financial Projections

PkR mn	FY26	FY27E	FY28F	FY29F	FY30F
Sales	162,008	180,191	195,683	215,401	235,886
COGS	138,175	147,763	159,406	173,867	190,572
Gross Profit	**23,834**	**32,428**	**36,277**	**41,534**	**45,314**
Op. Exp	18,597	20,412	21,970	23,663	25,499
Op. Profit	5,237	12,017	14,307	17,871	19,815
Other Inc.	2,258	1,158	726	916	697
Fin. Cost	5,606	5,491	5,624	5,682	5,806
PBT	1,889	7,684	9,409	13,105	14,706
Taxation	1,277	3,548	4,204	5,535	6,179
PAT - Continued	612	4,136	5,204	7,570	8.528
EPS (PkR)	**0.8**	**5.6**	**7.0**	**10.2**	**11.5**
PkR mn	FY26A	FY27E	FY28F	FY29F	FY30F
Fixed Assets	59,424	59,612	59,632	59,546	59,370
Other LT Assets	6,178	5,917	5,712	5,785	5,944
Non-current Assets	65,602	65,529	65,344	65,331	65,314
Current Assets	90,591	97,984	105,060	115,280	127,679
Total Assets	**156,193**	**163,513**	**170,404**	**180,611**	**192,993**
NC Liabilities	20,743	15,701	12,150	9,299	7,628
C. Liabilities	83,973	92,201	97,438	103,446	109,729
Total Liabilities	104,717	107,902	109,588	112,746	117,357
Equity	51,476	55,611	60,816	67,865	75,636
Total Equity & Liabilities	156,193	163,513	170,404	180,611	192,993

About the Company: Gul Ahmed Textile Mills Limited (GATM) is a Karachi-based composite textile company. It was incorporated in 1953, is a subsidiary of Gul Ahmed Holdings (Private) Limited, and manufactures and sells textile products. It is a vertically integrated home-textile exporter, covering spinning, weaving, processing and finished goods. Its retail business was demerged in 2021 into the wholly owned subsidiary Ideas (Pvt) Limited, which gives the group a domestic fashion and lifestyle arm alongside its export operations.

Segment Information: The Company operates across multiple segments of the textile value chain, comprising Spinning, which involves the production of various yarn qualities using natural and synthetic fibres; Home Textile, encompassing the manufacturing of a diverse range of home textile products; Retail, involving the sale of textile goods and other products through physical retail outlets and online channels; and Others, which includes weaving, fibre bleaching, knitting, yarn dyeing and dyed yarn fabric operations.

Group Structured and Subsidiary Operations: The Group has further expanded its subsidiary network through the incorporation of Gul Ahmed Ecofab (Private) Limited and Gul Ahmed Circular Fabrics (Private) Limited in March 2025, focusing on textile manufacturing, distribution and recycling of textile waste into yarns and fabrics, respectively. Its indirect subsidiaries, including GTM USA Corporation, Sky Home Corporation, Vantona Home Limited and JCCO 406 Limited, extend the Group's international footprint through commission agency services, trading, import, wholesale and distribution of textile and home textile products across overseas markets. Collectively, these entities strengthen the Group's international distribution network while broadening its presence across the textile value chain.

We do not factor in an **IPO of Ideas** in our forecasts, as we do not anticipate any listing in the foreseeable future.

Workforce Rationalization and Operational Transformation: The Company's average workforce declined by approximately 24% YoY, from 17,377 employees in FY25 to 13,274 in FY26, reflecting workforce rationalization, particularly within the apparel segment. The reduction is part of a broader operational restructuring, as management increasingly emphasizes technological advancement, automation and productivity enhancement to establish a leaner and more efficient operating structure.

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Old rating Hinoontem

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)