



Pakistan Equity | Leather & Tanneries | Company Report

Service Global Footwear Limited

Footwear at the Core, Tyres Adding Value

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SGF TP PKR 158.0/share; Upside of 56%

Symbol	SGF
Recommendation	BUY
Current Price	PKR 101.18
Target Price	PKR 158.0
Potential Upside	56%
Market Cap (mn)	PKR 21,121
Shares (mn)	207
Free Float	24.93%

Source: Company Accounts, Growth Securities

SGF vs KSE 100



Source: PSX, Growth Securities

- We initiate our coverage on Service Global Footwear Limited (SGF) with a Target Price of PKR 158.0/sh offering potential upside of 56% along with the dividend yield of 4.2%, taking total return to 60%. Our investment thesis is based on 1) SLM, An Embedded Growth Asset Beyond Footwear, 2) Export Expansion Driving Global Growth, 3) Dollarized Revenues Providing a Natural Currency Hedge, and 4) Synthetic Footwear A New Growth Engine.
- **SLM — An Embedded Growth Asset Beyond Footwear:** SGF's stake in SLM provides an additional earnings and valuation catalyst beyond its core footwear business. SLM has rapidly scaled TBR tyre sales from 390k units in FY23 to 1.6mn units in FY26, with further capacity expansion planned alongside entry into the PCR segment from 2028. The PCR expansion, with planned capacity of up to 3.0mn tyres by FY30, offers significant potential for import substitution in Pakistan. As SLM continues to scale, its contribution to SGF's associate earnings and the market value of SGF's investment could become increasingly meaningful.
- **Export Expansion, Driving Global Growth:** SGF's established export franchise provides exposure to major footwear markets across Europe, North America, Asia, Africa and Australia. The company's export market share has increased from 27.7% in CY21 to 41.2% in CY25, highlighting its strengthening position in Pakistan's footwear export industry. Supported by established relationships with international brands, a competitive manufacturing cost base and expanding synthetic footwear capacity, SGF is well positioned to capture increasing global sourcing demand and sustain export-led revenue growth.
- **Dollarized Revenues, Providing a Natural Currency Hedge:** SGF's predominantly export-driven revenue base provides a natural hedge against PKR depreciation, as foreign-currency revenues translate into higher rupee revenues when the PKR weakens. The

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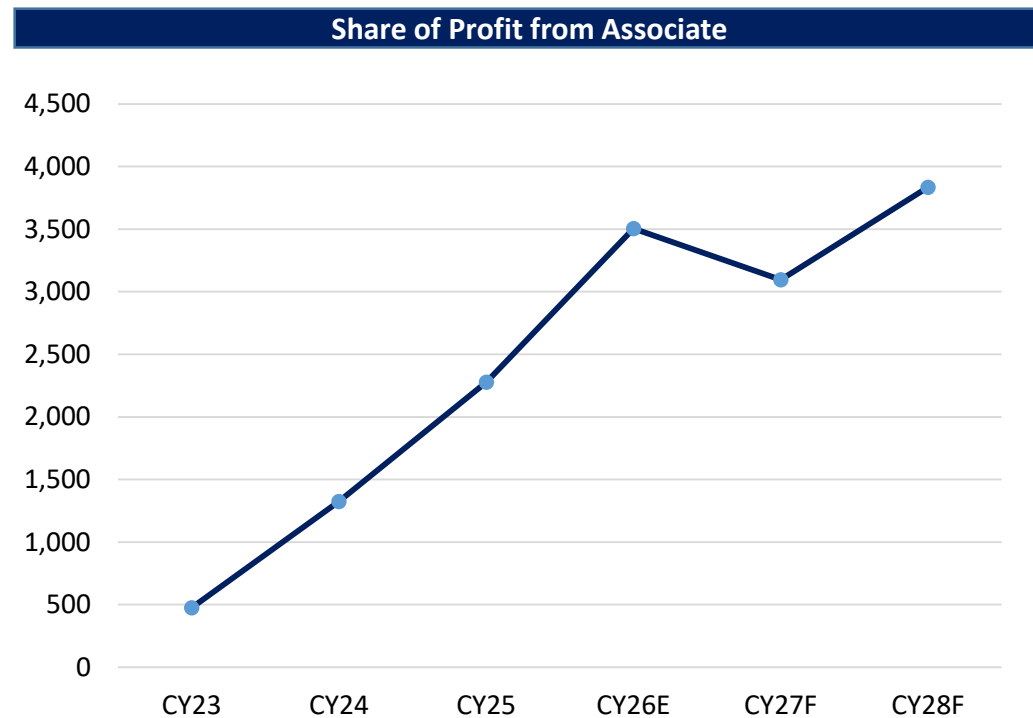
Key Ratios

	CY24A	CY25A	CY26E	CY27F	CY28F
EPS	5.4	9.4	16.5	14.2	18.2
EPS YoY	-5%	74%	76%	-14%	29%
Price Earnings	12.8	9.6	6.1	7.2	5.6
Price to Book	2.0	2.2	1.9	1.6	1.4
Dividend Yield	5.8%	2.2%	4.9%	4.2%	5.4%
Gross Margins	18.2%	19.7%	19.5%	20.6%	22.0%
EBITDA Margins	6.0%	6.5%	6.6%	7.8%	9.4%
Net Margins	6.4%	9.7%	16.3%	13.3%	16.2%
ROE	15.5%	23.1%	31.7%	22.8%	24.3%
ROA	5.7%	9.3%	13.9%	11.0%	12.6%

Source: Company Accounts, Growth Securities

- company's local manufacturing and labor cost base can also enhance its cost competitiveness in international markets following currency depreciation. While imported raw materials and other foreign-currency costs partially offset this benefit, the dollar-linked nature of SGF's revenues remains a structural advantage, providing partial protection against currency volatility and supporting the competitiveness of its export business.
- **Synthetic Footwear, A New Growth Engine:** SGF is expanding beyond its traditional leather-footwear franchise into the significantly larger synthetic and athletic footwear market through its 51%-owned JV with China's Golden Star Footwear Group. The project will commence operations in 3QCY26 with an initial capacity of 2.0mn pairs, which is planned to scale to 10.0mn pairs across three phases. With the new facility located adjacent to SGF's existing operations, the JV should benefit from operational synergies while broadening the company's product portfolio and addressable market. We view the expansion as a key medium- to long-term catalyst for higher volumes, exports and earnings.
- **Valuation:** We have used a long-term PE multiple to arrive at target price of PKR 158.0/share, with a capital upside of 56% and dividend yield of 4.2%, taking total return to 60%.
- **Risks:** 1) Lower-than-expected export volume growth, 2) Weakness in global footwear demand, 3) PKR appreciation impacting export competitiveness, 4) Lower-than-expected earnings contribution from SLM, and 5) Higher raw material and freight costs.

SLM: An Embedded Growth Asset Beyond Footwear

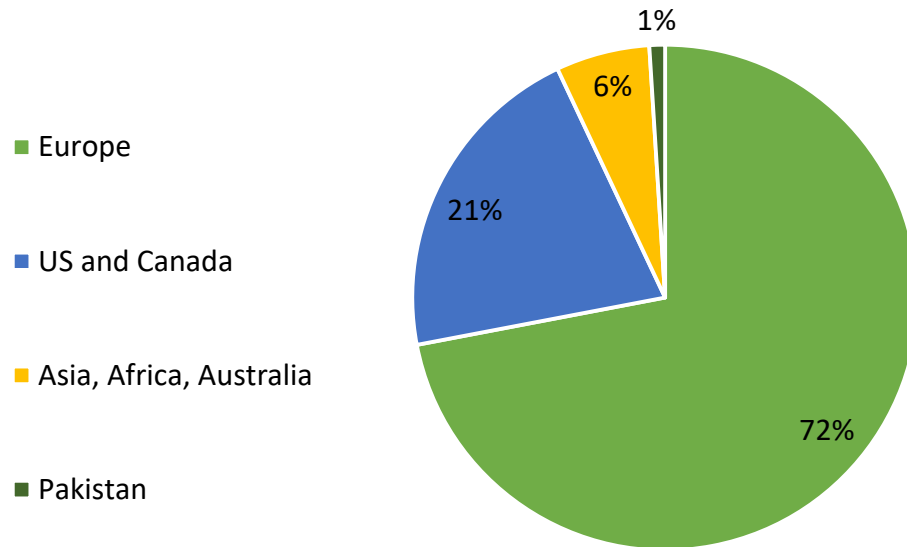


Source: PSX, Growth Securities

- SGF's investment in Service Long March Tyres (SLM) provides an additional avenue of growth beyond its core footwear operations. SLM is Pakistan's first dedicated manufacturer of all-steel Truck and Bus Radial (TBR) tyres, established in 2020 as a joint venture between Service Industries and China's Chaoyang Long March Tyre Co. Ltd.
- The company has rapidly gained market share in a segment historically dominated by imported and smuggled tyres, with tyre sales increasing from approximately 390k units in FY23 to 1.6mn units in FY26. SLM is further expanding its TBR capacity to 2.2mn tyres by FY28 and 2.6mn by FY30, providing a clear pathway for continued volume growth.
- Its cost structure is supported by its location in a Special Economic Zone (SEZ), which provides a 10-year tax exemption through 2032, alongside subsidized long-term financing and investments in solar and wind power that help reduce energy costs. The next major catalyst is SLM's planned entry into the Passenger Car Radial (PCR) segment, with commercial production expected from January 2028. PCR capacity is expected to start at 2.0mn tyres and increase to 2.5mn in FY29 and 3.0mn in FY30. With Pakistan's PCR market estimated at approximately 8.65mn tyres annually, the new segment offers substantial potential for import substitution and domestic market penetration.
- For SGF, SLM provides an additional source of earnings through its associate investment while also creating embedded value outside the company's core footwear business. As SLM continues to scale its operations and diversify into PCR tyres, the contribution from the associate become increasingly meaningful to SGF's overall earnings and valuation.
- SGF's share of profit from SLM is estimated at PKR 3.9bn in CY26, PKR 3.8bn in CY27 and PKR 5.0bn in CY28. The relatively higher contribution in CY26 is primarily attributable to the gain on dilution of SGFL's interest in SLM following its IPO.

Dollarized Revenues Providing a Natural Currency Hedge

SGF's Revenue Mix

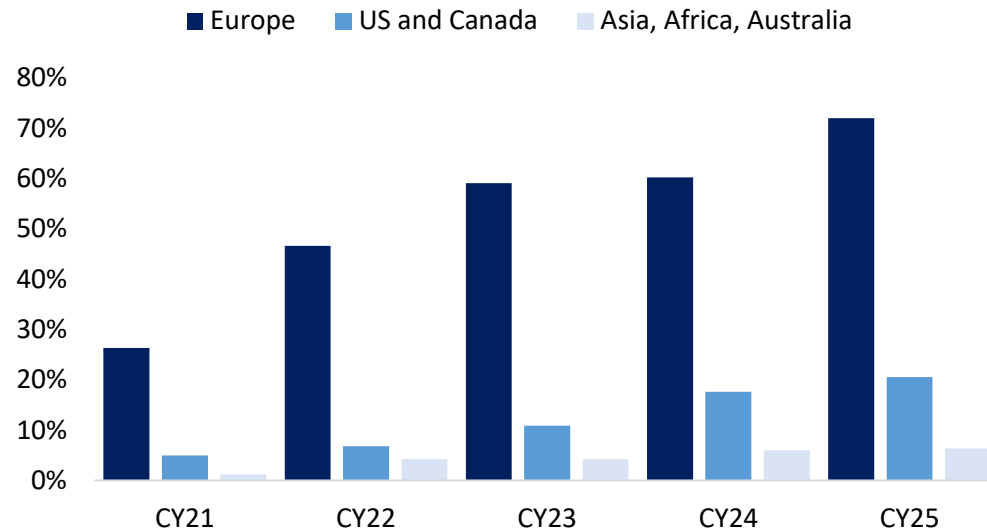


Source: PSX, Growth Securities

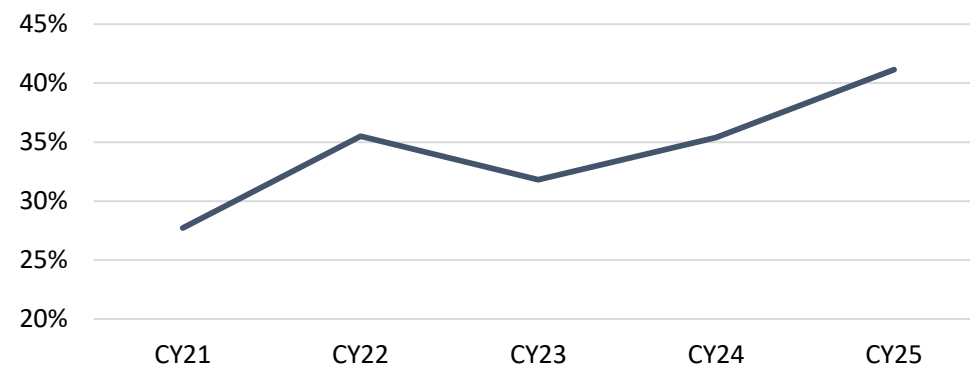
- SGFL's predominantly export-driven revenue base provides a natural hedge against PKR depreciation, as a significant portion of its revenues is denominated in or linked to foreign currencies, particularly the US dollar.
- As export proceeds are converted into PKR, a weaker domestic currency increases the rupee value of foreign-currency revenues, providing support to reported sales growth even when dollar-denominated selling prices remain relatively stable.
- This characteristic differentiates SGF from domestically focused manufacturers whose revenues are primarily denominated in PKR and therefore remain more exposed to the loss of purchasing power associated with currency depreciation.
- The export model can also strengthen SGFL's international competitiveness. With a significant portion of its manufacturing and labor costs incurred locally, PKR depreciation can make Pakistan-based production relatively more competitive against manufacturers operating in higher-cost markets.
- This creates an opportunity for SGFL to maintain or potentially expand its customer base as global brands seek to optimize their sourcing costs. In addition, dollar-linked revenues provide a degree of protection against rising domestic costs, as the rupee value of export receipts can increase alongside currency depreciation.

Export Expansion Driving Global Growth

SGF Consolidated Exports - Revenue



SGF – Exports Market Share

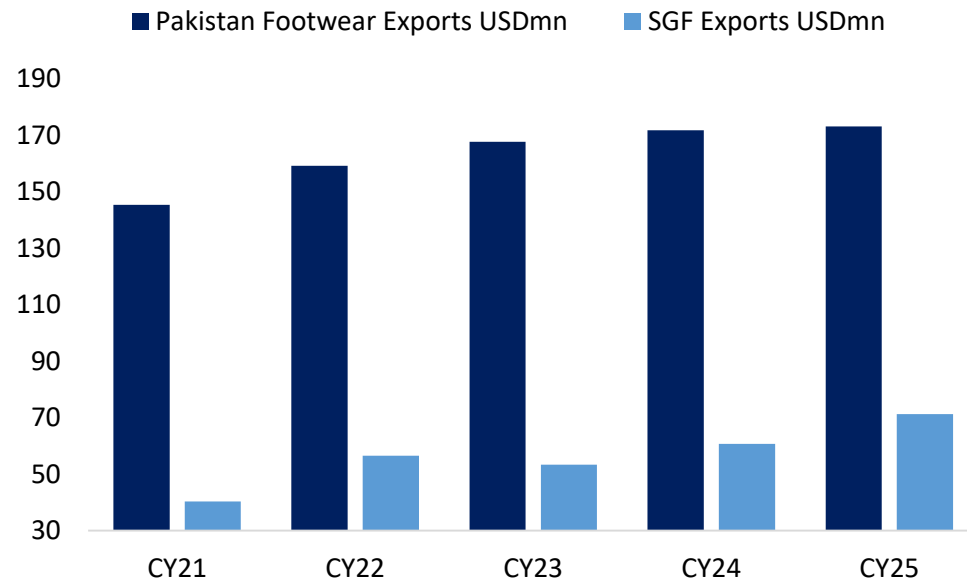


Source: PSX, Growth Securities

- SGF's export-oriented business model provides access to a diversified pool of international footwear markets, with the company exporting across Europe, the United States and Canada, as well as markets in Asia, Africa and Australia. This geographical diversification provides SGF with exposure to a broader customer base and reduces dependence on any single market, while allowing the company to participate in the significantly larger global footwear industry.
- SGF has also strengthened its position in Pakistan's footwear export market, with its export market share increasing from 27.7% in CY21 to 35.5% in CY22, 31.8% in CY23, 35.4% in CY24 and 41.2% in CY25. The sustained improvement in export share highlights SGFL's growing presence among international customers and its ability to compete with global footwear manufacturers on quality, cost and delivery capabilities.
- The company's established relationships with international brands and retailers provide a strong foundation for securing recurring orders and expanding into new product categories and geographies. This is particularly important as global brands continue to diversify their sourcing bases and seek cost-efficient manufacturing locations.
- Furthermore, the company's ongoing expansion into synthetic and athletic footwear through the SAGF joint venture should significantly broaden its addressable market and allow SGF to participate in the much larger non-leather footwear segment. As additional capacity comes online, we expect SGF to be better positioned to capture incremental international demand, increase export volumes and further strengthen its share of Pakistan's footwear exports, supporting sustained top-line growth over the medium to long term.

Synthetic Footwear: A New Growth Engine

Pakistan Footwear Exports vs SGF's Exports



Source: IMF, PSX, Growth Securities

- Building on its established leather-footwear franchise, SGF is entering the rapidly expanding non-leather/synthetic footwear segment, which represents approximately 85% of the global footwear market. The company has partnered with Golden Star Footwear Group Limited (GSFGL), a Chinese footwear manufacturer, through Service Athletic Global Footwear (SAGF), in which SGF holds a controlling 51% stake while GSFGL owns 49%.
- The joint venture is focused on manufacturing sneakers, athletic and other non-leather footwear for both domestic and export markets, allowing SGF to diversify beyond its traditional leather-footwear portfolio and address a significantly larger global market.
- Phase I of the project, with an estimated investment of US\$6.5mn, will be financed through equity contributions in proportion to each party's shareholding. The project will commence operations in 3QCY26, with an initial annual production capacity of 2.0mn pairs. The project is planned to scale in three phases, increasing capacity to 5.0mn pairs in Phase II and 10.0mn pairs in Phase III. Importantly, the facility will be located adjacent to SGF's existing Muridke production facility, enabling operational synergies across infrastructure, workforce, sourcing and supply-chain activities.
- We believe the venture with GSFGL represents a major structural growth opportunity for SGF, as the company can leverage its existing export relationships and manufacturing expertise to penetrate the much larger global synthetic and athletic footwear market. Over time, increasing utilization of the new capacity could provide a meaningful uplift to SGF's production volumes, exports and earnings.

Valuation: Trading at discount of 24% to its 5 year average P/E

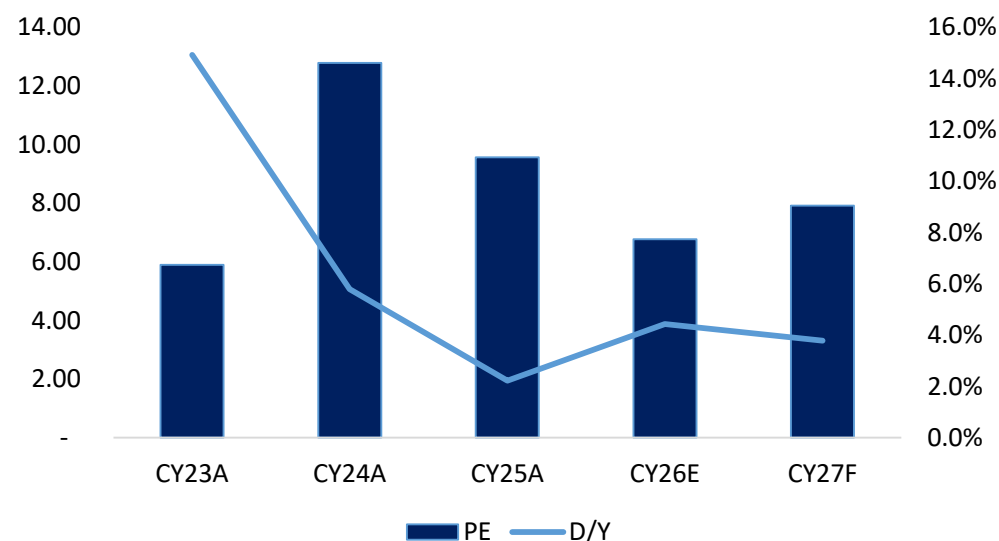
Valuation Assumption

Risk Free Rate	12.0%
Risk Premium	6.0%
Beta	0.99
Discount Rate	17.9%
Growth Rate	8.0%

Source: Growth Securities

- We have used a long-term PE multiple to arrive at target price of PKR 158.0/share, with a capital upside of 56% and dividend yield of 4.2%, taking total return to 60%.
- In DCF, we have applied a cost of equity of 17.9%, which is derived from a risk-free rate of 12%, equity risk premium of 6%. The terminal growth rate assumed is 8.0%. Through DCF, we arrived at a valuation of PKR 183.4/share.
- While for PE multiple, we have calculated 5-Year average PE of SGF which is 9.42x excluding outliers (CY21/22) and calculated fair value of PKR 158.0/share.
- SGF is trading at a forward P/E of 6.13x and 7.17x for CY26E and CY27F, respectively.

P/E and DY (%)



Source: Company Account, Growth Securities

Key Risks:

1. Lower-than-expected export volume growth
2. Weakness in global footwear demand
3. PKR appreciation impacting export competitiveness
4. Lower-than-expected earnings contribution from SLM
5. Adverse changes in export policies and taxation
6. Higher raw material and freight costs

Cash flow based and historical valuations

Cash Flow Based Valuation (FCFE)

PKRmn	CY27F	CY28F	CY29F	CY30F	CY31F	CY32F	CY33F
Net Income	2,922	3,763	4,822	5,948	6,908	6,381	5,604
Add: Depreciation	400	461	523	587	652	719	787
▲ in Working Capital	(398)	(103)	(237)	(292)	(177)	(218)	(229)
Less: Capex	(1,082)	(1,109)	(1,136)	(1,165)	(1,194)	(1,224)	(1,254)
Add: Net Borrowing	76	488	291	534	207	456	509
Free Cash Flow to Equity	1,918	3,500	4,262	5,612	6,396	6,113	5,418
Discount Factor	0.5	1.5	2.5	3.5	4.5	5.5	6.5
Discounted FCFE	1,766	2,732	2,822	3,150	3,044	2,467	1,854
PV of Future Cash Flows	17,834						
PV of Terminal Value	20,140						
Equity Value	37,975						
Outstanding shares (mn)	207.1						
Value/Share (PKR)	183.4						

PE Multiple Valuation

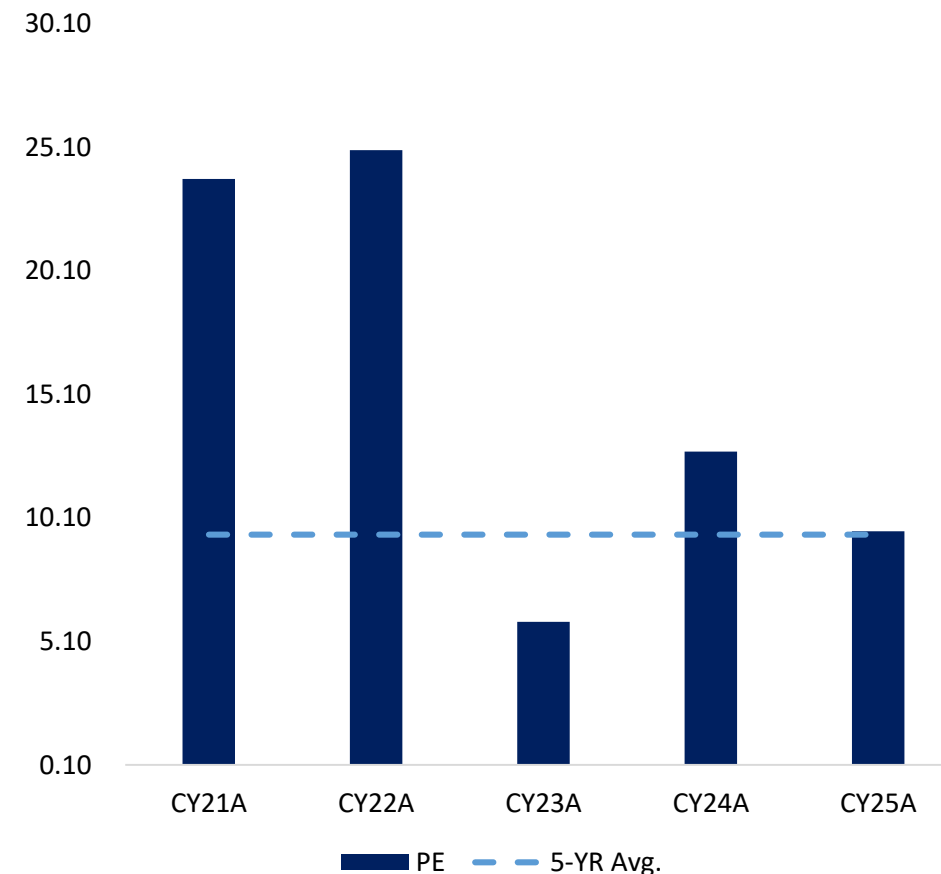
Forward EPS	18
Exit Multiple	10.0
Target Price	182
Equity Value/Share	158.0

Blended Equity

Value/Sh.	170.7
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Source: Company Accounts, Growth Securities

Trading at discount to its 5 year average P/E

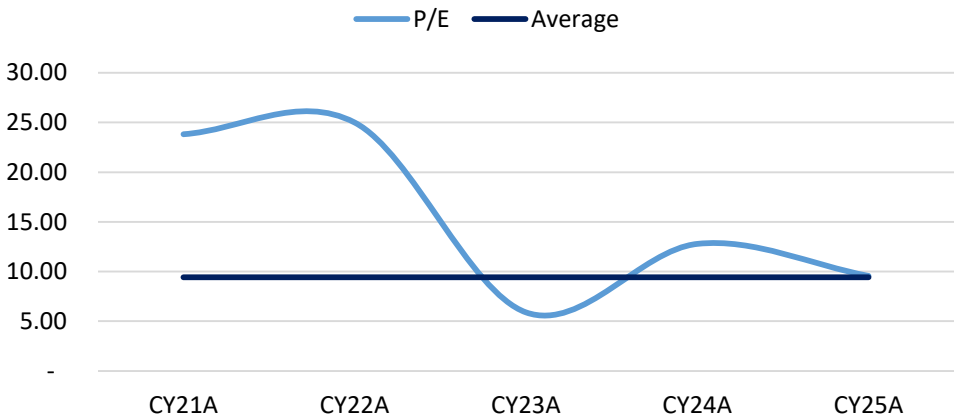


Source: PSX, Company Accounts, Growth Securities

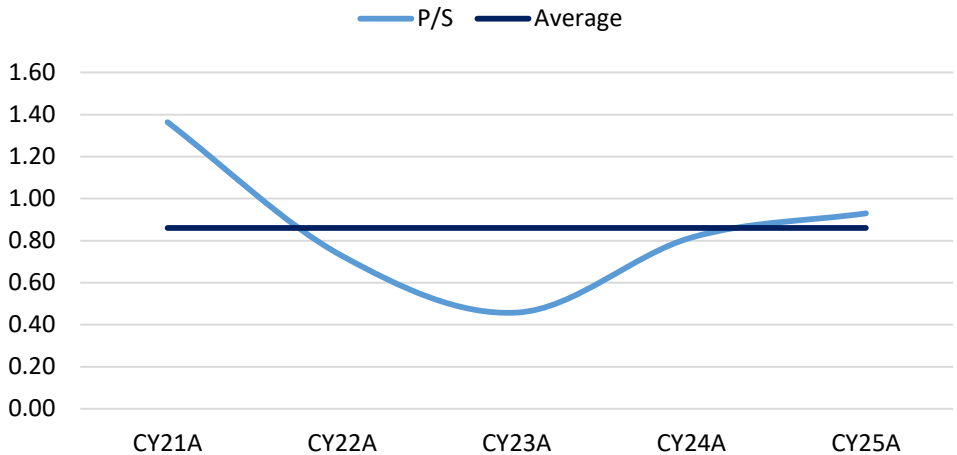
Valuation Metrics



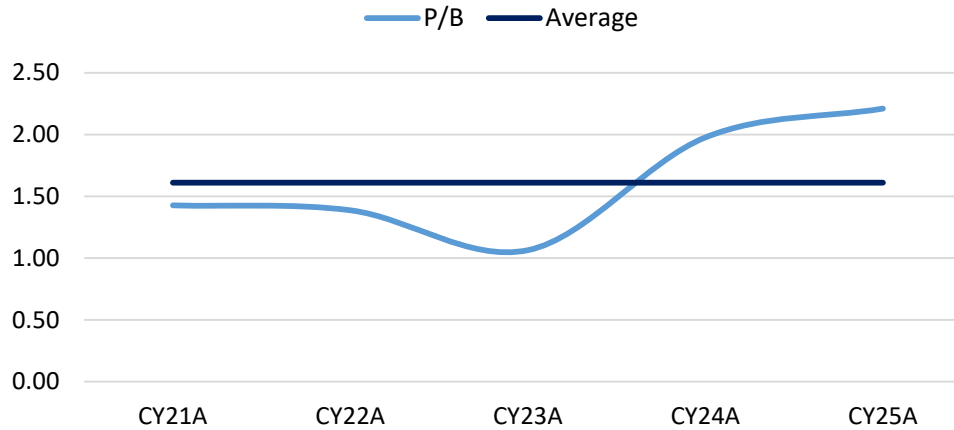
PE Trend



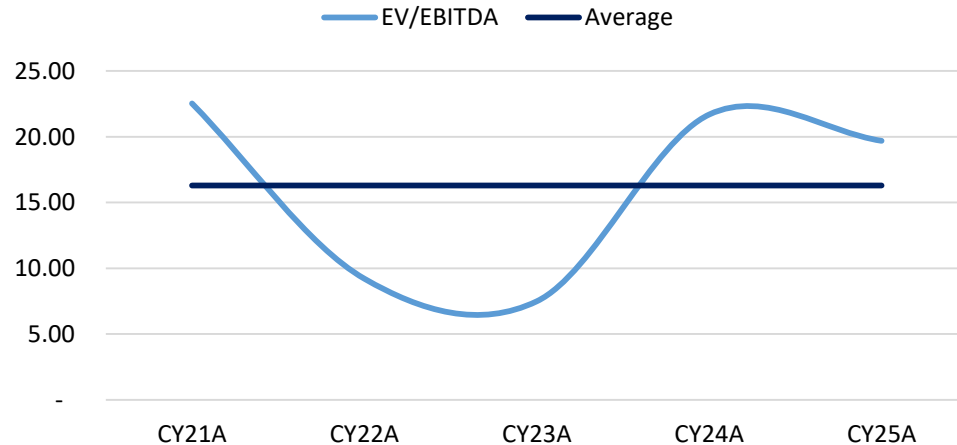
PS Trend



PB Trend



EV/EBITDA Trend



Source: Company Account, PSX, Growth Securities

Financial Summary

Income Statement					
PKRmn	CY24A	CY25A	CY26E	CY27F	CY28F
Net sales	17,467	19,935	20,941	21,914	23,214
Cost of sales	14,289	16,016	16,848	17,411	18,097
Gross profit	3,179	3,919	4,093	4,504	5,117
Dist. Exp.	1,619	1,958	2,057	2,152	2,280
Admin Exp.	792	952	1,000	1,047	1,109
Operating profit	767	1,009	1,036	1,305	1,728
Finance cost	678	499	583	589	565
Other Income	323	183	94	94	94
Other Exp.	100	78	82	86	91
Profit before tax	1,635	2,893	3,971	3,820	5,001
Taxation	522	954	555	898	1,239
Profit After Tax	1,113	1,938	3,415	2,922	3,763

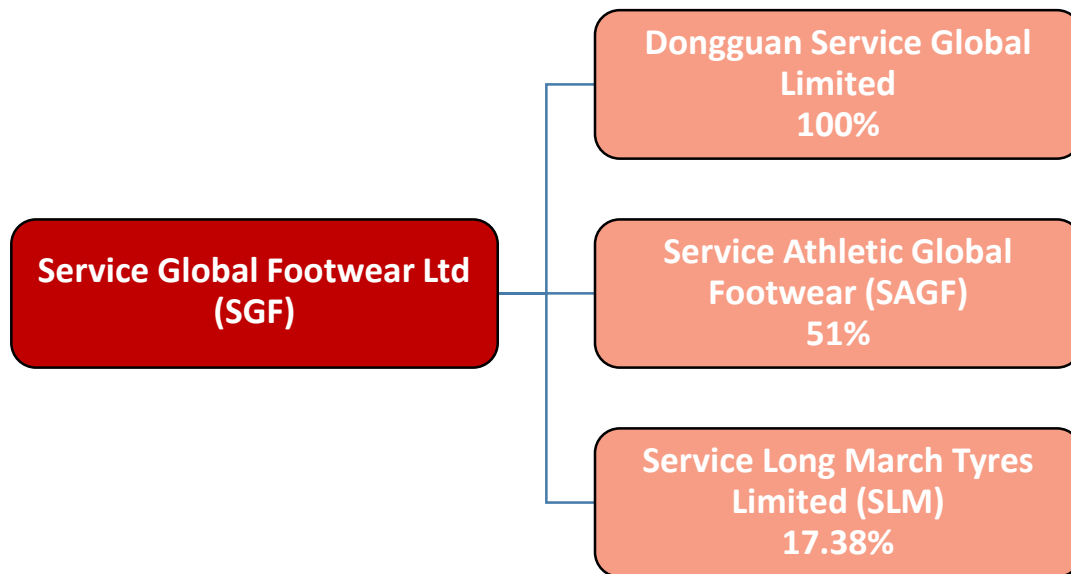
Source: Company Accounts, Growth Securities

Balance Sheet					
PKRmn	CY24A	CY25A	CY26E	CY27F	CY28F
Non-Current Assets	6,914	9,944	13,414	16,014	18,778
Current Assets	12,529	10,995	11,130	10,530	11,139
Total Assets	19,443	20,940	24,544	26,545	29,917
Equity	7,201	8,391	10,782	12,827	15,461
Non-Current Liabilities	771	2,102	1,680	1,649	1,395
Current Liabilities	11,471	10,447	12,082	12,069	13,062
Total Equity & Liabilities	19,443	20,940	24,544	26,545	29,918

Source: Company Accounts, Growth Securities

SGF: About the company

Shareholding Structure



Source: Company Account, Growth Securities

- Service Global Footwear Limited (SGF) is Pakistan's largest footwear exporter, accounting for approximately one-third of the country's footwear exports. The company has established a strong position in the global footwear market, exporting more than 5mn pairs annually across 30+ countries and five continents. SGF serves leading global brands and retailers across North America, Europe, Australia and other international markets, offering a diverse portfolio of both leather and non-leather footwear.
- The SGF Group comprises Service Global Footwear Limited, its wholly owned Chinese subsidiary Dongguan Service Global Limited, and Service Athletic Global Footwear (Private) Limited (SAGF), in which SGF holds a 51% equity stake. Beyond its core footwear operations, SGF also maintains a strategic 17.38% investment in Service Long March Tyres Limited (SLM). This investment provides SGF with additional exposure to the rapidly expanding tyre manufacturing business, complementing its core export-led footwear franchise.
- Sustainability is an increasingly important part of SGF's manufacturing strategy, with the company positioned among Asia's early solar-powered footwear manufacturers and relying significantly on renewable energy for its operations. Further strengthening its international supply-chain capabilities, SGF maintains a sourcing, supply-chain and product development presence in China, providing connectivity with global suppliers and supporting product development and procurement.
- Its current manufacturing facility is located at 10-KM Muridke–Sheikhupura Road, Muridke, spread across approximately 12,710 square meters (136,816 sq. ft.), with a covered building area of around 79,760 sq. ft.

Analyst Certification and Disclosures



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Rating System and Valuation Methods

‘Buy’ – Total stock return > 15%

‘Hold’ – Total stock return > 0% and < 15%

‘Sell’ – Total stock return < 0%

Growth Securities (Pvt.) Limited uses different valuation methods such as 1) Discounted Cash Flow, 2) Relative Valuation (PE, PB, PS etc.), 3) Asset Based Valuation etc.

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