

Maple Leaf Cement Factory Limited

Analyst Briefing Takeaways

PSX: MLCF Bloomberg: MLCF: PA Reuters: MPLF.PSX

Pakistan Research

MLCF: 1QFY22 Analyst briefing key takeaways

- MLCF held its analyst briefing yesterday to discuss its FY21 and 1QFY22 financial results. The company recorded net sales of PKR 35.6bn in FY21 compared to PKR 29.1bn in FY20, witnessing 22% growth YoY. The growth momentum continued into 1QFY22 with topline growing by 32% YoY to settle at PKR 9.9bn compared to PKR 7.5bn in 1QFY21.
- Margins during FY21 surged significantly by 22pps to 24% accredited to better retention prices. Better retention prices also gave room for margin accretion of 3pps to 22% during 1QFY22 compared to 19% in 1QFY21.
- Moving forward, the company expects moderate growth in demand with PSDP releases being the major catalyst.
- MLCF's brownfield expansion of 2.1mn tons along with a 7MW WHR plant is expected to achieve COD by 2QFY23. The total financing cost is expected to be around PKR 20.5bn where PKR 15bn is targeted through debt including (TERF PKR 2.5bn and LTFF PKR 5bn) and the rest through internal cash generation.
- The company also mentioned that 5MW solar plant is expected to come online by 2QFY22 which is going to yield cost efficiency. To highlight, the current power mix of the company comprises of CFPP (53%), WHR (34%), dual HFO/RLNG (10%) and Grid (3%).
- The management discussed that in order to mitigate the impact of rising international coal prices, the company is sourcing Afghan coal for its CFPP with landed cost hovering around PKR 26,500/ton.
- Moreover, the company has also prioritized higher usage of pet coke with around 60% share as pet coke yields cost efficiency through higher heating value. Currently, pet coke usage is surfacing around 75% for Line 1, 50% for Line 2 and 20% for Line 3.
- The company has secured coal inventory at an average cost of USD 118/ton for 2QFY22 and USD 150/ton till February-22.
- Regarding company's dividend policy, the management explained that payout would be contingent upon healthy EBITDA generation.
- The current retention of MLCF is around PKR 9,000/ton with the cement prices retailing at PKR 710/bag in North.
- We have a 'BUY' recommendation on MLCF with a Jun-22 price target (PT) of PKR 65/share, providing a potential upside of 90%.

Key Data

PSX Ticker	MLCF
Target Price (PKR)	65
Current Price (PKR)	34
Upside/(Downside) (%)	+ 90%
Dividend Yield	0%
Total Return (%)	+ 90%
12-month High (PKR)	50.90
12-month Low (PKR)	30.83
Outstanding Shares (mn)	1,098
Market Cap (PKR mn)	37,343
Year End	June

Source: Company Accounts, Akseer Research

Mohammad Raza
mohammad.raza@akseerresearch.com

Valuation Basis

Our PT for Maple Leaf Cement Factory Limited (MLCF) has been computed using Free cash flow to equity (FCFE) method. We have used a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of PKR 65/share. Our price target provides a potential upside of 90%. Our revised investment case on MLCF is based on (1) nearing election period (2) higher PSDP releases and (3) improved retention prices

Risks

Key risks to our investment thesis include 1) higher than anticipated increase in input cost (Coal, FO, Gas), 2) lower than anticipated growth in cement demand 3) higher than estimated decline in cement prices 4) prolonged pandemic situation and 5) increase in interest rates.

Company Description

Maple Leaf Cement Factory Ltd. produces and sells cement primarily in Pakistan. The company offers ordinary Portland cement and white cement. The company also exports its products to Africa, Gulf, and other Asian countries. MLCF was founded in 1956 and is headquartered in Lahore, Pakistan. Maple Leaf Cement Factory Ltd. operates as a subsidiary of Kohinoor Textile Mills Limited.

Financial Highlights - MLCF

Income Statement (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	26,006	29,118	35,640	48,350	51,163	45,859
Cost of sales	19,944	28,532	27,040	38,585	39,603	33,839
Gross Profit	6,062	585	8,601	9,764	11,560	12,021
SG & A	1,674	1,608	2,095	2,440	2,908	3,512
Operating Profit	4,387	(1,023)	6,506	7,324	8,652	8,508
Other income	52	146	223	224	235	242
Other charges	549	161	431	272	301	310
Finance cost	1,231	2,897	1,327	1,113	1,741	1,620
Profit before tax	2,659	(3,934)	4,970	6,163	6,845	6,820
Taxation	199	(375)	1,142	1,746	1,939	1,932
Profit after tax	2,460	(3,559)	3,829	4,417	4,906	4,888

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	52,096	49,540	49,150	60,422	58,880	56,365
Other LT assets	90	85	80	83	81	80
Non-Current Assets	52,187	49,624	49,231	60,505	58,961	56,444
Current assets	14,727	17,374	17,338	20,856	23,638	21,288
Total Assets	66,913	66,998	66,569	81,361	82,599	77,732
Non-Current liabilities	20,279	16,408	16,289	25,055	20,846	16,476
Current liabilities	14,227	16,040	11,938	13,705	14,344	12,415
Total Liabilities	34,506	32,448	28,227	38,760	35,190	28,891
Equity	28,523	30,882	35,207	38,747	43,653	45,246
Total Equity & liabilities	66,913	66,998	66,569	81,362	82,599	77,733

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,460	(3,559)	3,829	4,417	4,906	4,888
Non-cash Charges	2,658	3,602	3,595	3,511	4,373	4,459
Operating Cash flows	6,509	(1,584)	7,002	8,958	9,401	9,186
FCFF	(634)	(4)	4,822	(5,027)	7,820	8,405
Net borrowings	2,461	(2,486)	(4,247)	7,359	(3,130)	(4,536)
FCFE	688	(5,110)	(447)	1,535	3,443	2,708
Net change in cash	(160)	534	(557)	1,504	3,341	(751)
Closing cash	525	1,059	502	2,006	5,347	4,597

Source: Company Accounts, Akseer Research

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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.

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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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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