

Maple Leaf Cement Factory Limited

Result Review

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

Pakistan Research

MLCF: 3QFY22 consolidated EPS came in at PKR 1.42, up 30% YoY

- MLCF reported its 3QFY22 results today wherein the company posted a consolidated profit after tax of PKR 1.56bn (EPS PKR 1.42/share), up 30% YoY and 52% YoY for 9MFY22. The 9MFY22, earnings of the company clocked in at PKR 4.32bn (EPS PKR 3.93/share), up 52% YoY. The result is also accompanied with an announcement to Buy-back 25mn share and cancels the same to reduce share capital of the company.
- Topline of the company grew by 27% YoY to settle at PKR 11.99bn during 3QFY22 compared to PKR 9.46bn in 3QFY21. This growth is primarily on the back of 42% YoY improved cement retention price of PKR 526/bag, despite the fact that company's dispatches went down by 11% YoY.
- MLCF's gross margin settled at 27.4% in 3QFY22, up 1ppts YoY compared to 3QFY21. We believe that higher cement retention prices, use of cheaper Afghan coal and pet coke resulted in higher gross margins.
- The company reported finance expense of PKR 474mn, up 56% YoY in 3Q due to higher short-term borrowings coupled with higher interest rates.
- On a sequential basis, earnings of the company declined by 18% QoQ, largely due to the rising cost of goods coupled with lower cement dispatches. Resultantly, gross margin of the company plunged 4% QoQ.
- We have a 'BUY' recommendation on MLCF with our April-22 price target (PT) of PKR 55/share, providing an upside of 45% from current levels.

Key Data

PSX Ticker	MLCF
Target Price (PKR)	55
Current Price (PKR)	38
Upside/(Downside) (%)	+ 45%
Dividend Yield (%)	-
Total Return (%)	+ 45%
12-month High (PKR)	50.90
12-month Low (PKR)	30.83
Outstanding Shares (mn)	1098
Market Cap (PKR mn)	36,245
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
Net Sales	9,457	11,990	27%	26,035	34,091	31%
Cost of Sales	6,939	8,704	25%	19,876	24,729	24%
Gross Profit	2,519	3,286	30%	6,160	9,362	52%
Selling & Admin. Exp	579	616	6%	1,351	1,824	35%
Other Income	58	(16)	-127%	172	26	-85%
Other Charges	119	123	4%	281	625	122%
Finance cost	304	474	56%	1,047	1,150	10%
Profit before tax	1,575	2,058	31%	3,653	5,790	58%
Taxation	372	494	33%	805	1,469	83%
Net Income	1,203	1,563	30%	2,849	4,321	52%
EPS	1.10	1.42	30%	2.59	3.93	52%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	2.7	(3.2)	3.5	5.0	7.6	7.15
EPS Growth	-66%	NM	NM	43%	52%	-6%
DPS	0.50	-	-	0.00	0.00	4.00
PER	14.1	NM	10.9	7.6	5.0	5.3
Dividend Yield	1.3%	0.0%	0.0%	0.0%	0.0%	10.5%
EV/EBITDA	4.6	6.2	20.6	5.6	4.0	2.9
P/B	0.8	1.1	1.2	1.0	0.9	0.7
ROE	8.6%	-11.5%	10.9%	13.8%	17.3%	14.0%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Maple Leaf Cement Factory Limited (MLCF) has been computed using Free cash flow to Firm (FCFF) method. We have used a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 55/share. Our price target provides total return of 45%. Our investment case on MLCF is based on (1) higher cement dispatches following election year and resumption in export activities and 2) higher than industry retention prices.

Risks

Key downside risks to our investments thesis are: (1) higher than anticipated increase in input cost (Coal, FO, Gas) (2) lower than anticipated growth in cement demand (3) higher than estimate decline in cement prices (4) prolonged pandemic situation (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	51,410	62,700	65,540
Cost of sales	19,944	28,532	27,040	38,073	44,342	47,379
Gross Profit	6,062	585	8,601	13,337	18,358	18,161
SG & A	1,674	1,608	2,095	2,861	3,943	4,880
Operating Profit	4,387	(1,023)	6,506	10,477	14,414	13,280
Other income	52	146	223	223	234	242
Other charges	549	161	431	316	441	432
Finance cost	1,231	2,897	1,327	2,729	2,607	2,131
Profit before tax	2,659	(3,934)	4,970	7,655	11,601	10,960
Taxation	199	(375)	1,142	2,169	3,287	3,105
Profit after tax	2,460	(3,559)	3,829	5,486	8,314	7,855

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	52,096	49,540	49,150	54,289	59,162	58,071
Other LT assets	90	85	80	83	81	80
Non-Current Assets	52,187	49,624	49,231	54,372	59,243	58,151
Current assets	14,727	17,374	17,338	31,345	34,416	37,184
Total Assets	66,913	66,998	66,569	85,717	93,658	95,334
Non-Current liabilities	20,279	16,408	16,289	26,797	23,705	20,289
Current liabilities	14,227	16,040	11,938	15,640	18,049	15,356
Total Liabilities	34,506	32,448	28,227	42,438	41,754	35,645
Equity	28,523	30,882	35,207	39,816	48,131	55,985
Total Equity & liabilities	66,913	66,998	66,569	85,717	93,659	95,335

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,460	(3,559)	3,829	5,486	8,314	7,855
Non-cash Charges	2,658	3,602	3,595	3,511	4,386	4,015
Operating Cash flows	6,509	(1,584)	7,002	9,235	11,259	11,500
FCFF	(634)	(4)	4,822	2,542	3,871	10,105
Net borrowings	2,461	(2,486)	(4,247)	11,480	(1,754)	(6,383)
FCFE	688	(5,110)	(447)	12,066	249	2,195
Net change in cash	(160)	534	(557)	11,644	557	2,122
Closing cash	525	1,059	502	12,145	12,702	14,824

Source: Company Accounts, Akseer Research

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Valuation Methodology

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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JV employs a three- tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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