

## Maple Leaf Cement Factory Limited

### Key Takeaways

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

Pakistan Research

### Corporate briefing key takeaways

- MLCF held its corporate briefing yesterday to discuss its FY22 and 1QFY23 financial results and future outlook on the cement sector. Company's profitability grew by 19% YoY to PKR 4.6bn in FY22 and 64% YoY to PKR 1.4bn in 1QFY23.
- The management conveyed that the financing of its brownfield expansion of 2.1mn tons comprises of 64% debt and 36% equity. Out of the 64% debt, 60% debt is on a subsidized rate, which involves LTFE and TERF based financing.
- The current power mix of the company stands at Coal captive plant (53%), WHR (32%), solar (3%) and Grid (12%).
- The management discussed that in order to mitigate the impact of rising international coal prices, the company is sourcing local coal from Dara Adam Khel for its fuel operation, with landed cost hovering around PKR 30,000/ton.
- In addition, the management also mentioned that the current capacity of Dara Adam Khel has increased from 100k tons to 150k tons and due to the proximity advantage, MLCF will likely procure coal on concessionary rates.
- Moreover, the company has also prioritized higher usage of local coal with around 70% share, as local coal yields cost efficiency. Currently, the fuel mix for grey cement comprises of 70% local coal, 25% Afghan coal and 5% alternative coal.
- The company's current coal inventory has an average cost of around PKR 33,550/ton with Afghan coal landed cost of PKR 47,000/ton and Alternative fuel cost around PKR 16,000/ton. MLCF currently has 45 days of coal inventory.
- Retention prices of grey cement hovering around PKR 13,500/ton and is likely to remain the same going forward. Utilization levels of the cement industry is likely to decline to 53% in FY23 as management foresees a 10% YoY decline in local demand. Revenue of the company is expected to grow by 30% YoY due to higher prices.
- With regards to white cement, the management disclosed that MLCF white cement has a higher contribution margin of around 40% to 45% and the company has more than 90% share in local market.
- The management also stated that it is considering another buy back of shares and the decision will be subject to approval from SECP and company board.

#### Key Data

PSX Ticker	MLCF
Target Price (PKR)	45
Current Price (PKR)	27
Upside/(Downside) (%)	+64%
Dividend Yield (%)	0%
Total Return (%)	+64%
12-month High (PKR)	39
12-month Low (PKR)	23
Outstanding Shares (mn)	1,073.35
Market Cap (PKR mn)	29,334
Year End	June

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 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

### Investment Thesis

We have a 'Buy' recommendation on the stock based on our June-23 PT of 45/share. Our price target provides an upside of 64%. Our investment case on MLCF is based on (1) upcoming expansion (2) improved retention prices.

### Risks

Key downside risks to our investments thesis are: (1) higher than anticipated increase in input cost (Coal) (2) lower than anticipated growth in cement demand (3) higher than estimate decline in cement prices (4) lower than anticipated decline 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. Maple Leaf Cement Factory Ltd. also exports its products to Africa, Gulf, and other Asian countries. The company 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)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	29,118	35,640	48,520	62,586	63,369	67,050
Cost of sales	28,532	27,040	35,280	48,304	48,613	42,935
<b>Gross Profit</b>	<b>585</b>	<b>8,601</b>	<b>13,239</b>	<b>14,283</b>	<b>14,756</b>	<b>24,115</b>
SG & A	1,608	2,095	2,461	3,395	3,774	4,130
<b>Operating Profit</b>	<b>(1,023)</b>	<b>6,506</b>	<b>10,778</b>	<b>10,887</b>	<b>10,982</b>	<b>19,986</b>
Other income	146	223	60	129	105	117
Other charges	161	431	1,041	1,363	1,449	2,235
Finance cost	2,897	1,327	1,658	2,811	1,699	986
<b>Profit before tax</b>	<b>(3,934)</b>	<b>4,970</b>	<b>8,139</b>	<b>6,842</b>	<b>7,939</b>	<b>16,882</b>
Taxation	(375)	1,142	3,586	2,258	2,620	5,571
<b>Profit after tax</b>	<b>(3,559)</b>	<b>3,829</b>	<b>4,553</b>	<b>4,584</b>	<b>5,319</b>	<b>11,311</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	49,540	49,150	61,480	63,878	62,998	62,082
Other LT assets	85	80	87	81	80	79
Non-Current Assets	49,624	49,231	61,568	63,959	63,077	62,161
Current assets	17,374	17,338	20,899	26,419	29,093	30,729
<b>Total Assets</b>	<b>66,998</b>	<b>66,569</b>	<b>82,467</b>	<b>90,378</b>	<b>92,170</b>	<b>92,890</b>
Non-Current liabilities	16,408	16,289	23,493	19,798	16,863	14,752
Current liabilities	16,040	11,938	16,687	23,533	22,998	14,576
<b>Total Liabilities</b>	<b>32,448</b>	<b>28,227</b>	<b>40,180</b>	<b>43,331</b>	<b>39,861</b>	<b>29,328</b>
Equity	30,882	35,207	39,783	42,971	48,290	59,601
<b>Total Equity &amp; liabilities</b>	<b>66,998</b>	<b>66,569</b>	<b>82,466</b>	<b>90,377</b>	<b>92,170</b>	<b>92,890</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(3,559)	3,829	4,553	4,584	5,319	11,311
Non-cash Charges	3,602	3,595	3,456	4,784	4,974	5,172
<b>Operating Cash flows</b>	<b>(1,584)</b>	<b>7,002</b>	<b>9,062</b>	<b>7,289</b>	<b>9,067</b>	<b>13,515</b>
<b>FCFF</b>	<b>(4)</b>	<b>4,822</b>	<b>(5,801)</b>	<b>1,998</b>	<b>6,113</b>	<b>9,920</b>
Net borrowings	(2,486)	(4,247)	7,701	697	(3,862)	(9,128)
<b>FCFE</b>	<b>(5,110)</b>	<b>(447)</b>	<b>973</b>	<b>812</b>	<b>1,112</b>	<b>131</b>
Net change in cash	534	(557)	315	1,161	1,053	69
<b>Closing cash</b>	<b>1,059</b>	<b>502</b>	<b>816</b>	<b>1,978</b>	<b>3,031</b>	<b>3,101</b>

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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