06 April 2023

# Maple Leaf Cement Factory Limited

Company Update

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

**Pakistan Research**

## On stronger footings than peers

- **We reiterate our 'BUY' stance on Maple Leaf Cement (MLCF) and have revised our Price Target (PT) upwards from PKR 32/share to PKR 35/share. PT revision is driven by upwards earnings revision due to higher reliance on cheaper domestic coal.**
- **MLCF offers an upside of 37% and is currently trading at FY24E PER of 7.7x, which is at 10% discount to the median FY24 PE of Akseer Cement Universe. MLCF P/B at 0.5x is at a 57% discount to median P/BV of Akseer Cement Universe).**
- **MLCF has a superior-than-peer energy mix with higher share of domestic coal for kiln use and renewable sources for electricity generation, which will likely help the company save an average PKR 180/ton during the next three years. 4% of MLCF's volumes come from white cement, a premium product that earns a higher margin. Cost efficiency and superior product mix will help MLCF exceed industry average EBITDA by PKR 860/ton over the next three years.**
- **With the commencement of 2.1mn expansion, MLCF's market share has risen from 10.6% in FY22 to 11.3% in FY23. As a result, we expect MLCF's dispatches to decline by a lower quantum of 11% in FY23 whereas the industry dispatches to decline by 15%.**
- **We expect MLCF's EPS to fall by 59% YoY in FY24 due to an expected decline in cement prices. We expect cement prices to fall by PKR 130/bag and average PKR 920/bag in FY24 due to weak volumes and utilization levels likely falling below 55%. Resultantly, north players' and MLCF's gross margins are expected to decline by 10pp and MLCF's gross margins to settle at 22% in FY24. International coal prices are estimated at USD 150/ton in FY24, and with Afghan coal available at a 20% discount.**
- **MLCF's recent capacity expansion has raised debt levels and weakened interest coverage. However, the ratios will likely improve substantially over the next three years. MLCF's debt-to-asset ratio would likely fall from 0.28x (industry: 0.27x) in FY22 to 0.26x in FY23 (industry avg: 0.27) and 0.19x in FY24. Interest coverage will deteriorate from 6.5x in FY22 to 5.7x in FY23 and 3.8x in FY24, and then improve significantly to 10.4x in FY25.**

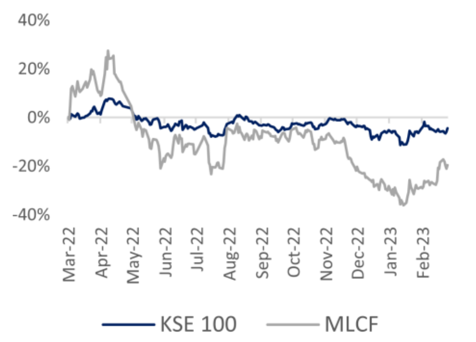
**Production efficiency and superior product mix would yield higher EBITDA Margins**

The MLCF's cement kiln is reinforced with high sulfur resistance, making it capable of withstanding higher proportions of domestic coal as fuel. This reduces reliance on expensive imported or Afghan coal, with up to 70%-75% of MLCF's coal coming from local sources - the highest among its peers. Additionally, 44% of the company's electricity needs are met by renewable sources, while 51% is generated through coal-based power plants. MLCF's superior energy mix is expected to result in average cost savings of PKR 180/ton over the next three years, compared to industry average. However, the company's reported per unit production cost is not the lowest amongst

| Key Data | |
|---|---|
| PSX Ticker | MLCF |
| Target Price (PKR) | 35 |
| Current Price (PKR) | 26 |
| Upside/(Downside) (%) | + 37% |
| Dividend Yield (%) | 0% |
| Total Return (%) | + 37% |
| 12-month High (PKR) | 39 |
| 12-month Low (PKR) | 19 |
| Outstanding Shares (mn) | 1,073.35 |
| Market Cap (PKR mn) | 27,467 |
| Year End | June |

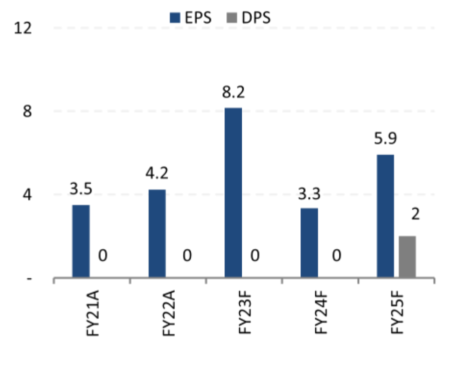
*Source: Company Accounts, Akseer Research*

Relative Performance Graph




*Source: Akseer Research*

EPS DPS Outlook




*Source: Akseer Research*

| Key Financial Ratios | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
|---|---|---|---|---|---|---|
| EPS | (3.24) | 3.49 | 4.24 | 8.15 | 3.34 | 5.91 |
| EPS Growth | -220.4% | - | 21.5% | 92.2% | -59.0% | 76.9% |
| DPS | - | - | - | - | - | 2.00 |
| PER | - | 7.33 | 6.03 | 3.14 | 7.66 | 4.33 |
| Dividend Yield | - | - | - | - | - | 7.8% |
| EV/EBITDA | 5.20 | 16.20 | 4.23 | 3.47 | 2.40 | 3.39 |
| P/B | 0.76 | 0.80 | 0.69 | 0.58 | 0.54 | 0.48 |
| ROE | - | 10.9% | 11.4% | 18.6% | 7.1% | 11.1% |

Source: Company Financials, Akseer Research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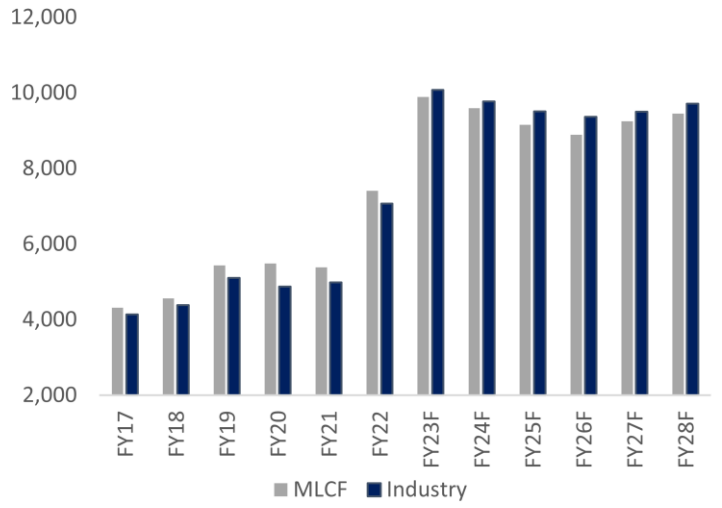
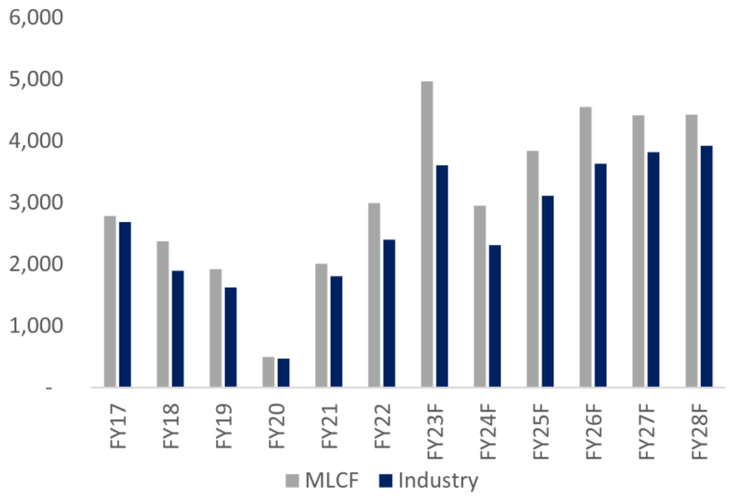
COGS Per Ton




*Source: Akseer Research*

EBITDA Per Ton




*Source: Akseer Research*

peers, due to presence of costlier white cement in the mix, which sells at a 60-70% premium compared to grey cement. 4% of MLCF volumes come from white cement. Cost efficiency and superior product mix will help MLCF exceed industry average EBITDA by PKR 860/ton over the next three years.

**Recent expansion will help MLCF outperform industry volumes**

Although the cement industry dispatches are expected to contract by around 15% in FY23 due to a weak construction activity, MLCF's dispatches are projected to decline by a smaller quantum of 11%, as the company's recent expansion of 2.1 mn tons has increased its capacity-based market share from 10.6% in FY22 to 11.3% in FY23. However, we anticipate that the company's dispatches will increase by an average of 3% annually during FY24-FY28, while the industry is projected to grow at an average of 5% annually during the same period, as newer capacities come online.

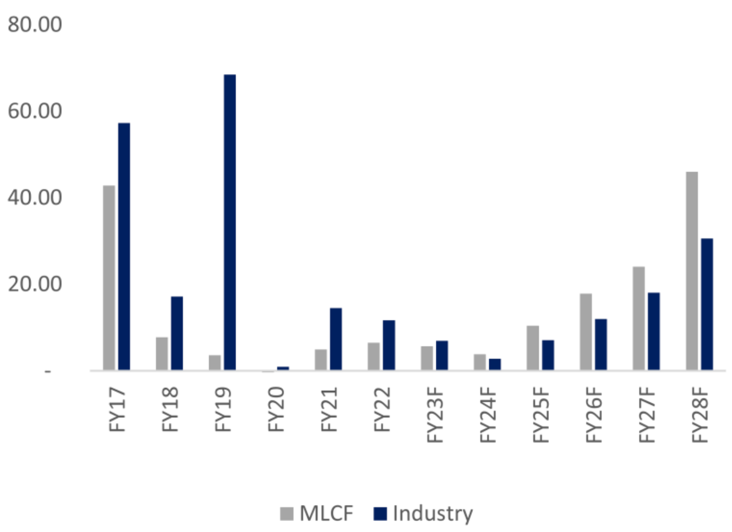
**FY24 EPS is expected to fall 59% YoY after 92% jump expected in FY23 EPS**

We anticipate MLCF EPS to clock in PKR 3.34 during FY24, witnessing a steep decline of 59% YoY. Decline in earnings can be attributed to downward revision in cement prices, which will likely be averaging ~PKR 920/bag in FY24. Resultantly, MLCF's gross margins are likely to clock in at 22% during FY24, whereas industry average gross margins to clock in 17%. Decline in cement bag prices is largely due to upcoming capacity, as we anticipate cement capacity in FY24 to reach 88mntpa from 76mntpa in FY23. Moreover, we have estimated international coal prices to average USD 150/ton in FY24 while Afghan coal to trade at a 20% discount.

**Leverage on an improving trend; interest coverage to deteriorate in FY23-24 before sharp recovery in FY25**

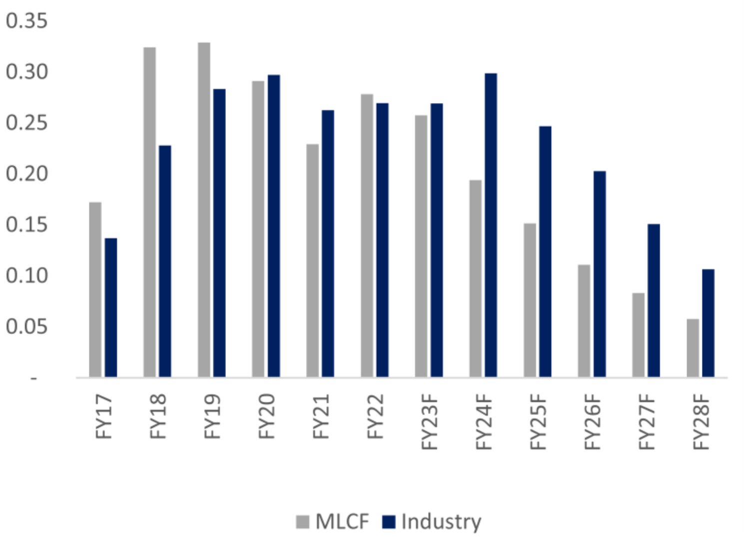
During FY22, MLCF's debt-to-asset ratio stood at 0.28x (industry average was 0.27) and interest coverage ratio was 6.50x (industry average was 11.70x times), as the company had incurred bulk of its capex on the expansion but it was yet to commence operations. With the commencement of expansion, MLCF's debt-to-asset ratio will gradually decline to 0.26x in FY23 and 0.19x in FY24. However, due to high interest rates and expected decline in cement prices, interest cover will weaken to 5.70x in FY23 and 3.84x in FY24, before starting a steep improvement FY25 onwards.

Interest Cover Times




*Source: Akseer Research*

Debt to Asset Ratio




*Source: Akseer Research*

### 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 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

### Investment Thesis
We have a 'Buy' recommendation on the stock based on our Dec-23 PT of 35/share. Our price target provides an upside of 37%. Our investment case on MLCF is based on (1) Recent expansion (2) Change in cost structure.

### 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 | 61,047 | 53,876 | 54,504 |
| Cost of sales | 28,532 | 27,040 | 35,280 | 41,788 | 42,313 | 39,241 |
| **Gross Profit** | **585** | **8,601** | **13,239** | **19,259** | **11,563** | **15,263** |
| SG & A | 1,608 | 2,095 | 2,461 | 3,001 | 3,396 | 3,758 |
| **Operating Profit** | **(1,023)** | **6,506** | **10,778** | **16,258** | **8,167** | **11,506** |
| Other income | 146 | 223 | 60 | 130 | 105 | 115 |
| Other charges | 161 | 431 | 1,041 | 1,349 | 1,154 | 1,684 |
| Finance cost | 2,897 | 1,327 | 1,658 | 2,854 | 2,127 | 1,108 |
| **Profit before tax** | **(3,934)** | **4,970** | **8,139** | **12,185** | **4,991** | **8,829** |
| Taxation | (375) | 1,142 | 3,586 | 3,434 | 1,407 | 2,488 |
| **Profit after tax** | **(3,559)** | **3,829** | **4,553** | **8,751** | **3,584** | **6,340** |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---|---|---|---|---|---|---|
| | **FY20A** | **FY21A** | **FY22A** | **FY23F** | **FY24F** | **FY25F** |
| PPE | 49,540 | 49,150 | 61,480 | 68,734 | 66,684 | 64,580 |
| Other LT assets | 85 | 80 | 87 | 81 | 80 | 79 |
| Non-Current Assets | 49,624 | 49,231 | 61,568 | 68,815 | 66,764 | 64,660 |
| Current assets | 17,374 | 17,338 | 20,899 | 24,744 | 24,351 | 28,370 |
| **Total Assets** | **66,998** | **66,569** | **82,467** | **93,559** | **91,115** | **93,030** |
| Non-Current liabilities | 16,408 | 16,289 | 23,493 | 23,143 | 19,992 | 16,664 |
| Current liabilities | 16,040 | 11,938 | 16,687 | 18,893 | 16,146 | 15,184 |
| **Total Liabilities** | **32,448** | **28,227** | **40,180** | **42,036** | **36,139** | **31,848** |
| Equity | 30,882 | 35,207 | 39,783 | 47,137 | 50,722 | 57,062 |
| **Total Equity & liabilities** | **66,998** | **66,569** | **82,467** | **93,559** | **91,115** | **93,030** |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) | | | | | | |
|---|---|---|---|---|---|---|
| | **FY20A** | **FY21A** | **FY22A** | **FY23F** | **FY24F** | **FY25F** |
| Net Income | (3,559) | 3,829 | 4,553 | 8,751 | 3,584 | 6,340 |
| Non-cash Charges | 3,602 | 3,595 | 3,456 | 4,715 | 4,836 | 4,961 |
| **Operating Cash flows** | **(1,584)** | **7,002** | **9,062** | **10,623** | **9,053** | **12,385** |
| **FCFF** | **(4)** | **4,822** | **(5,801)** | **711** | **7,796** | **10,324** |
| Net borrowings | (2,486) | (4,247) | 7,701 | 1,124 | (6,428) | (3,635) |
| **FCFE** | **(5,110)** | **(447)** | **973** | **(214)** | **(159)** | **5,893** |
| Net change in cash | 534 | (557) | 315 | 445 | (293) | 5,756 |
| **Closing cash** | **1,059** | **502** | **816** | **1,262** | **969** | **6,725** |

Source: Company Accounts, Akseer Research

**Disclaimer**



**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.

**Ratings Criteria**

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

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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