

Maple Leaf Cement Factory Limited

Result Review

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

Pakistan Research

Higher than expected gross margins lifted 2QFY22 EPS to PKR 1.75, up 79% YoY

- MLCF reported its 2QFY22 results today wherein the company posted highest ever quarterly consolidated profit after tax of PKR 1.9bn (EPS PKR 1.75/share), up 79% YoY and 129% QoQ. For 1HFY22, earnings of the company clocked in at PKR 2.8bn (EPS PKR 2.51/share), up 70% YoY. The result was higher than our expectation owing to better than anticipated gross margins.
- Topline of the company grew by 34% YoY to settle at PKR 12.2bn during 2QFY22 compared to PKR 9.1bn in 2QFY21. This growth is primarily on the back of 48% YoY improved cement retention price of PKR 500/bag, despite the fact that company's dispatches went down by 9% YoY.
- MLCF's gross margin settled at 31.8% in 2QFY22, up 7ppts YoY compared to 2QFY21. We believe that higher cement retention prices, use of cheaper Afghan coal and pet coke and recently added WHR plant of 9.3MW resulted in higher gross margins.
- Selling & admin expense surged by 29% YoY to PKR 611mn in 2Q owing to higher transportation expenses.
- The company reported finance expense of PKR 323mn, up 15% YoY in 2Q due to higher borrowings along with higher interest rates.
- On a sequential basis, earnings of the company remained higher by 129% QoQ supported by higher local cement dispatches of 9% QoQ along with improved retention prices of 14% QoQ. Resultantly, gross margin of the company went up by 9ppts QoQ.
- We have a 'BUY' recommendation on MLCF with our Dec-22 price target (PT) of PKR 55/share, providing an upside of 67% from current levels.

Key Data

PSX Ticker	MLCF
Target Price (PKR)	55
Current Price (PKR)	33
Upside/(Downside) (%)	+ 67%
Dividend Yield (%)	-
Total Return (%)	+ 67%
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)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	QoQ
Net Sales	9,100	12,226	34%	16,621	22,121	33%
Cost of Sales	6,881	8,337	21%	12,937	16,025	24%
Gross Profit	2,219	3,889	75%	3,684	6,096	65%
Selling & Admin. Exp	475	611	29%	834	1,228	47%
Other Income	69	31	-55%	114	42	-63%
Other Charges	114	323	182%	162	502	209%
Finance cost	317	365	15%	743	676	-9%
Profit before tax	1,381	2,620	90%	2,058	3,732	81%
Taxation	311	701	126%	433	974	125%
Net Income	1,070	1,919	79%	1,625	2,757	70%
EPS	0.97	1.75	79%	1.48	2.51	70%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	2.7	(3.2)	3.5	4.8	7.6	7.2
EPS Growth	-66%	NM	NM	37%	58%	-6%
DPS	0.50	-	-	-	5.00	4.00
PER	12.3	NM	9.5	6.9	4.4	4.6
Dividend Yield	1.5%	-	-	0.0%	15.2%	12.1%
EV/EBITDA	4.2	5.8	18.8	5.0	3.7	2.6
P/B	0.7	1.0	1.0	0.9	0.8	0.7
ROE	8.6%	-	10.9%	13.3%	17.4%	15.6%

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 67%. 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	38,409	44,342	47,379
Gross Profit	6,062	585	8,601	13,001	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	10,141	14,414	13,280
Other income	52	146	223	223	234	242
Other charges	549	161	431	306	441	432
Finance cost	1,231	2,897	1,327	2,730	2,607	2,131
Profit before tax	2,659	(3,934)	4,970	7,328	11,601	10,960
Taxation	199	(375)	1,142	2,076	3,287	3,105
Profit after tax	2,460	(3,559)	3,829	5,252	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	31,204	34,181	31,458
Total Assets	66,913	66,998	66,569	85,576	93,424	89,608
Non-Current liabilities	20,279	16,408	16,289	26,797	23,705	20,289
Current liabilities	14,227	16,040	11,938	15,734	18,049	15,356
Total Liabilities	34,506	32,448	28,227	42,531	41,754	35,645
Equity	28,523	30,882	35,207	39,582	47,896	50,259
Total Equity & liabilities	66,913	66,998	66,569	85,577	93,424	89,609

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,460	(3,559)	3,829	5,252	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	9,063	11,197	11,500
FCFF	(634)	(4)	4,822	2,369	3,809	10,105
Net borrowings	2,461	(2,486)	(4,247)	11,487	(1,761)	(6,383)
FCFE	688	(5,110)	(447)	11,900	180	2,195
Net change in cash	(160)	534	(557)	11,478	488	(3,369)
Closing cash	525	1,059	502	11,979	12,467	9,098

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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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%

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