

**MAPLE LEAF CEMENT FACTORY LTD (MLCF)**

Oct 07, 2016

**BUY**

Price Target : PKR 112.99/share

Closing Price : PKR 98.35/share

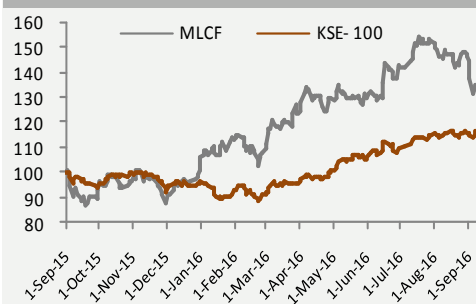
**COMPANY DATA**

52-week Price Range (PKR)	114.31—64.48
No. of Shares Outstanding (mn)	527.73
Market Cap (PKRmn)	51,987.07
Market Cap (USDmn)	497.56
Free Float (mn shares)	45%
Year End	Jun
KATS Code	MLCF

Source: KSE

Key Ratios (x/%)	FY16A	FY17E	FY18E	FY19E
P/E (x)	10.59	11.42	9.96	8.64
P/B (x)	2.41	2.14	1.89	1.65
EBITDA Margin %	40%	37%	41%	42%

Source: Company Accounts, Nael Research

**RELATIVE TO KSE – 100**


Source: KSE

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- **We revise our estimates on MLCF with 'Buy' rating:** Our Jun-17 DCF based price target of PKR 113/sh implies 15% upside potential from current price levels of PKR 98.35/sh.
- **Strong growth potential of the industry:** Upsurge in the local demand expected from strong infrastructure development & positive outlook of CPEC projects will bode well for companies with room for potential capacity utilization.
- **Swift repayment of its entire Sukuk loan:** The recent trend of swift repayment to reduce leverage is unlikely to sustain as we expect the debt of MLCF to increase on account of the recent announced expansion of 2.1mn tons.
- **Operational efficiencies to charge in post 40MW Coal fired CPP:** Meanwhile, the whole sector is undergoing expansionary projects, MLCF is working with a dual strategy of obtaining cost efficiencies alongside its expansion plan to meet the demand.
- **Diversified energy and power mix:** The diversified energy and power mix of MLCF provides advantage of benefitting from commodity downturn.
- **Investment Risk:** Key risks to our investments thesis are 1) Price volatility 2) Surge in commodity prices 3) Decline in local demand 4) Price war 5) Hike in interest rate.

**Strong growth potential of the industry** Upsurge in the local demand expected from strong infrastructure development & positive outlook of CPEC projects has pushed companies with room for potential capacity additions. The current capacity utilization of MLCF is around 96% (FY16A), which provides smooth pose to cater the demand in its region i.e. upper north of Punjab .

**Swift repayment of its entire Sukuk loan of PKR 8bn:** The company has been able to retire its entire sukuk loan of PKR 8bn by 3QFY16—way too earlier from its scheduled tenure which had to end by December, 2018. This has facilitated the company with a better D/E ratio of 7: 93 and a substantial reduction in the finance cost by 60%YoY which pulled the PBT up by 58%YoY in FY16A in comparison to the corresponding year of FY15A. As the company announced an expansion of 2.1mn tpa at the existing plant site it may require significant financing to back this project costing ~ PKR 20bn. The management has declared to establish L/Cs for this brown-field project during the current month of October, 2016 and also set target to commence operations from 3QFY18E.

**Operational efficiencies to charge in post 40MW Coal fired CPP:** Meanwhile, the whole sector is undergoing expansionary projects, MLCF is working with a dual strategy of obtaining cost efficiencies alongside its expansion plan to meet the demand. With an initiative of formation of solely owned entity i.e. Maple Leaf Power Limited and Installation of 40MW coal fired power plant ( expected to be operational by 1QFY18) would substantially enhance company's cost competitiveness. We expect this new coal based captive power plant to reduce the total power cost of the company by ~31% in FY18E, whereas an additional impact of PKR 1.14/sh is also expected to be witnessed in FY18E.

**Diversified energy and power mix:** The diversified energy and power mix of MLCF provides advantage of benefitting from commodity downturn. If the commodity prices remains subdued the company will tentatively improve its gross margins by reducing its fuel & power cost. However, an uptick in coal/fuel prices as the case currently is, due to production cut by China; may cast a negative impact by narrowing the gross earnings and margins of the company.

**Investment Case**

We revise our investment case on MLCF with ‘Buy’ recommendation using DCF method/FCFF (Free Cash Flow to Firm) methodology to derive the intrinsic value of MLCF at PKR 113/sh. The following assumptions have been incorporated to arrive at our price target. Our revised investment case accounts for the recent change in 10yr PIB rates to 7.72%.

- Terminal growth rate of 4%
- Risk free rate of 7.72% (10yr PIB)
- Market Risk Premium of 6%
- Adjusted Beta of 1.40 (using 5yrs)

Based on the above assumptions, MLCF’s Jun-17 PT is reckoned at PKR 113/share, offering 15% upside potential from its closing price of Oct 6th, 2016. The stock offers a Dividend Yield% of 4%.

FINANCIAL HIGHLIGHTS						
PKR MN	FY16A	FY17E	FY18E	FY19E	FY20E	FY21E
Sales	23,433	23,669	24,501	26,607	28,673	29,412
COGS	13,411	14,721	14,546	15,389	16,791	16,673
GP	10,022	8,948	9,955	11,218	11,882	12,739
EBIT	7,553	6,742	7,900	9,008	9,327	10,126
PBT	7,118	6,472	7,420	8,550	8,888	9,869
NP	4,885	4,530	5,194	5,985	6,221	6,909
EPS	9.26	8.58	9.84	11.34	11.79	13.09

Source: Company Accounts, Nael Research

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**Disclosure Related to Author**

\*\* The analyst mentioned on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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<b>Stock Recommendation</b>	<b>Return</b>
BUY	> 15%
HOLD	> -15% to < 15%
SELL	< -15%