

## Company Update

### Maple Leaf Cement Factory Limited

Cement

<b>Recommendation</b>	<b>BUY</b>
Target Price	104.0
Last Closing	78.4
Upside	33%

#### Market Data

Bloomberg Tkr.	MLCF PA		
Shares (mn)	527.7		
Market Cap (PKRbn   USDmn)	41.4	394.8	

<b>Price Info.</b>	90D	180D	365D
Abs. Return	9.8	4.9	37.5
Low	64.7	64.4	45.8
High	85.0	85.0	85.0

#### Key Company Financials

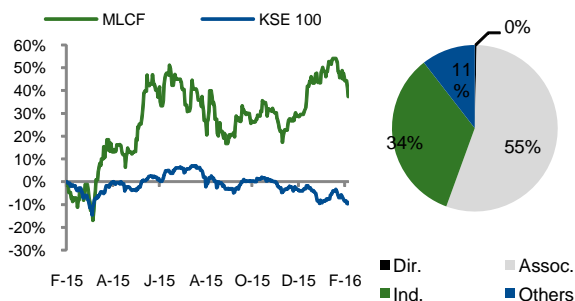
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	20.7	22.5	24.5	26.8
Net Income	3.5	6.5	8.6	9.4
EPS (PKR)	6.5	12.2	16.4	17.9
DPS (PKR)	2.0	4.1	6.6	8.9
Total Assets	31.2	32.4	36.1	41.9
Total Equity	17.7	22.8	28.3	33.6

#### Key Financial Ratios

ROE (%)	20%	28%	31%	28%
P/E (x)	12.0	6.4	4.8	4.4
P/B (x)	2.3	1.8	1.5	1.2
DY (%)	2.6	5.2	8.4	11.3

#### Relative Price Performance & Shareholding



#### About the Company

The Company was incorporated on April 13, 1960 as a public company limited. It is engaged in production and sale of ordinary and white cement. The Company is a subsidiary of Kohinoor Textile Mills Limited.

Source: Bloomberg, KSE 100 & IGI Research

Analyst

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## Maple Leaf Cement Factory Cost Efficiency to come from Coal Power Plant; Intact Buy Stance

- Maple Leaf Cement Company's (MLCF) board approved investment of up to PKR 5bn (USD 48mn) in a wholly owned subsidiary Maple Leaf Power Limited for establishment of 40MW coal fired captive power plant in Sept-15. Company has signed a consortium with local banks for the import of complete equipment for USD 27.2mn in Feb-16.
- In 1HFY16, company has paid off debt to the tune of PKR 1.7bn (PKR 3.29/share) due to healthy cash flow generation, consequently finance cost also declined by 51%YoY to PKR 317mn in 1HFY16. The only long debt on company's balance sheet as of Dec-15 is current portion amounting to PKR 2.8bn.
- We have revised our target price for MLCF to PKR 104/share by Dec-16 from earlier PKR 116/share (down by 10%), based on a) Restricted volumetric sales due to capacity constraints and, b) increase in WACC due to aggressive deleveraging. The scrip is currently trading at FY16E P/E of 6.4x, offering +33% upside, hence we recommend a "Buy" call on MLCF.

#### 40MW Coal Power Plant to bring Cost Efficiency

MLCF's board approved investment of up to PKR 5bn (USD 48mn) in a wholly owned subsidiary Maple Leaf Power Limited for establishment of 40MW coal fired captive power plant in Sept-15. Company has signed a consortium with local banks for the import of complete equipment for USD 27.2mn in Feb-16. The plant is expected to come online in 1HFY18, which is anticipated to provide cheap fuel and reduce company's dependency on national grid and gas.

At current capacity utilization, company requires ~43MW of power and it utilizes a combination of 16.5MW WHR plant and 40MW dual fired (HFO and Gas) captive power plant, along with 50MW grid connections, to fill its power requirements. With coal power plant coming online and depression in oil prices to remain, we expect company's full dependence to shift on its captive plants for current

cement production and future expansion, which is likely to decrease power cost for the company.

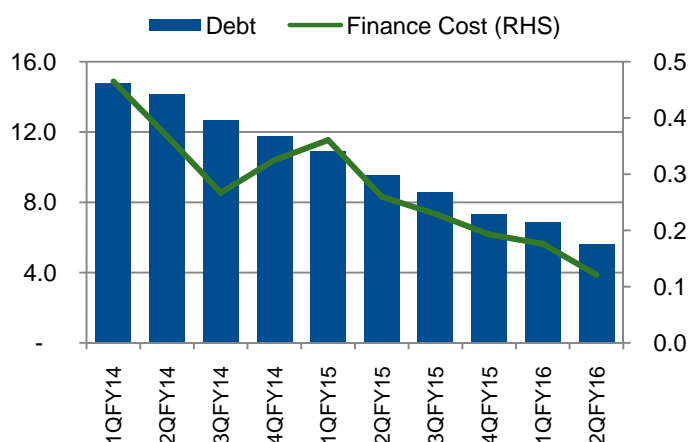
### Outstanding Cement Growth Asserting Expansion

Our base case assumes local dispatches to grow by +11%YoY whereas exports to decline by 30%YoY, for the next 4 years (FY16-20). However, with +14%YoY (+11%YoY for MLCF) growth already witnessed in industry’s local dispatches during 7MFY16, the case of actual growth surpassing our assumption is strong. Given our base case assumption, company is likely to reach capacity utilization of ~96% in FY17, which implies the need of additional to capacity in order to reap benefits from CPEC projects. For that matter we expect company to expand its current capacity, which is also indicated by the company announcements of setting up a coal power plant of 40MW.

### Aggressive Deleveraging still on Track

In 1HFY16, company has paid off debt to the tune of PKR 1.7bn (PKR 3.29/share) due to healthy cash flow generation as a result of growth in volumetric sales, intact local cement prices and declining input cost. Consequently, finance cost also declined by 51%YoY to PKR 317mn in 1HFY16. The only long debt on company’s balance sheet as of Dec-15 is current portion amounting to PKR 2.8bn.

**Exhibit: MLCF Debt Profile (PKRmn)**



Source: IGI Research, Bloomberg

This early retirement of debt, has positioned the company to generate higher free cash flow thus indicating possibility of increased future pay-outs or investment in Maple Leaf Power Limited / capacity expansion. We estimate company’s balance sheet to be debt free (long term debt) by the end of FY17.

### EPS PKR 2.84, DPS PKR 1.50 in 2QFY16

Maple Leaf Cement Factory (MLCF) posted profit of PKR 1.5bn (EPS PKR 2.84) in 2QFY16, depicting a growth of +68%YoY. Company also announced cash dividend of PKR 1.50/share along with the result. Total dispatches during the period under review grew by +16%YoY/+21%QoQ to 849k tons taking 2QFY16 capacity utilization to 101%. Company’s gross margin increased by 734bps YoY to 44% in 2QFY16, owing to decline in fuel and power cost. Finance costs also declined by 52%YoY in 2QFY16 on the back of continuous deleveraging and lower interest rates.

**Exhibit: Financial Highlights**

PKR mn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Revenue	5,894	5,221	13%	10,860	9,675	12%
Gross Profit	2,587	1,909	36%	4,413	3,488	27%
Selling and Admin	471	428	10%	887	818	8%
Other Expenses	109	76	43%	185	121	53%
Finance Cost	131	270	-52%	317	641	-51%
PBT	1,880	1,144	64%	3,033	1,933	57%
Tax	385	256	51%	691	500	38%
Net profit	1,495	888	68%	2,342	1,434	63%
EPS	2.84	1.68	69%	4.44	2.72	63%
DPS	1.50	1.00	50%	1.50	1.00	50%
Key Ratios						
Gross Margin	44%	37%		41%	36%	
Net Margin	25%	17%		22%	15%	
Effective Tax Rate	20%	22%		23%	26%	

Source: IGI Research, Company Financials

**Recommendation**

We have revised our target price for MLCF to PKR 104/share by Dec-16 from earlier PKR 116/share (down by 10%), based on a) Restricted volumetric sales due to capacity constrains and, b) increase in WACC due to aggressive deleveraging. The scrip is currently trading at FY16E P/E of 6.4x , offering +33% upside, hence we recommend a **“Buy”** call on MLCF.

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Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF(Discounted Cash Flow)

#### Time Horizon

- Dec - 2016

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in exchange rate
- Changes in Circular Debt quantum

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