

Day Break

Tuesday, 18 October 2016

Company Update

Maple Leaf Cement Factory Limited

Cement

Recommendation	BUY
Target Price	113.0
Last Closing	94.2
Upside	20%

Market Data

Bloomberg Tkr.	MLCF PA
Shares (mn)	527.7
Market Cap (PKRbn USDmn)	49.7 474.6
Exchange	KSE 100

Price Info.

	90D	180D	365D
Abs. Return	(17.1)	(1.2)	33.5
Low	94.2	92.0	64.7
High	113.6	114.3	114.3

Key Company Financials

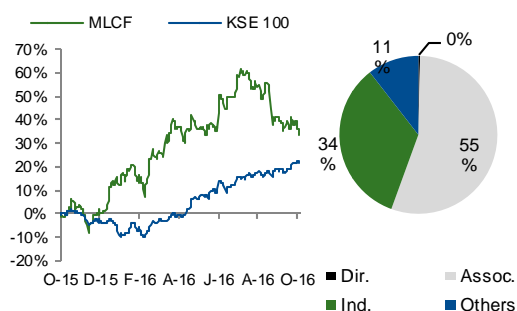
Period End: Jun

PKRbn	FY16A	FY17F	FY18F	FY19F
Total Revenue	23.4	25.1	26.4	27.5
Net Income	4.9	5.3	5.8	6.3
EPS (PKR)	9.3	10.0	11.1	12.0
DPS (PKR)	4.0	4.0	6.0	8.0
Total Assets	32.0	35.3	38.7	41.4
Total Equity	21.3	24.2	27.5	30.1

Key Financial Ratios

ROE (%)	23%	22%	21%	21%
P/E (x)	10.2	9.4	8.5	7.9
P/B (x)	2.3	2.0	1.8	1.7
DY (%)	4.2	4.2	6.4	8.5

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

Rashmina Lalani
 rashmina.lalani@igi.com.pk
 Tel: (+92-21) 111-234-234 Ext.: 826

Maple Leaf Cement Company

Expansion and Coal Power Plant to bring Core Growth Going Forward

- We have rolled forward our target price for Maple Leaf Cement Factory (MLCF) to Jun-17 at PKR 113/share from PKR 104/share for Dec-16. Company is trading at FY17E PE and dividend yield of 9.4x and 4.2%, respectively. With +20% capital upside, we maintain our 'BUY' call on the scrip.
- MLCF plans to expand its cement capacity by 2.4mn tons, which would take company's total capacity to 5.96mn tons. The project is estimated to cost PKR 20bn (USD 79/ton) and financed through a combination of debt and equity. As per management estimations, it would take ~26 months (2.2 years) to bring plant to operation after opening LC with the supplier.
- MLCF has incorporated Maple Leaf Power Limited (MLPL), as its wholly owned subsidiary for incorporating 40MW coal power plant, probable to be operational by 1HFY19. The project is estimated to cost PKR 5.5bn where MLCF is likely to contribute equity investment of PKR 3.3bn.

PKR 113/share Jun-17TP implying a decent upside of +20%

We have rolled forward our target price for Maple Leaf Cement Factory (MLCF) to Jun-17 at PKR 113/share from PKR 104/share for Dec-16. Company is trading at FY17E PE and dividend yield of 9.4x and 4.2%, respectively. With +20% capital upside, we maintain our 'BUY' call on the scrip.

Profitability up by +41%YoY to PKR 9.26/share in FY16

MLCF showed an outstanding growth of +41%YoY to PKR 4.9bn (EPS PKR 9.26) in FY16. We attribute this stellar performance to a) +18%YoY rise in cement despatches to 3.34mn tons, resulting in capacity utilization of 95% as compared to 81% in same period last year, b) 14%YoY decline in cost to PKR 4,015/ton largely on the back of 20%YoY drop in power and fuel cost to PKR 2,000/ton, c) +659bps increase in gross margin to 43%, and d) 60% fall in finance cost as company reduced its debt from PKR 7.3bn in FY15 to PKR 3bn in FY16. However, company's other expenses have shown a sizeable growth of +2.5x in FY16 due to higher WPPF and WWF. The company has fully absorbed available tax losses by the end of 2QFY16, due to which company's tax regime has shifted to statutory tax rate, resulting in higher effective tax rate of 31% in FY16.

Exhibit: Financial Highlights

PKR mn	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Revenue	6,497	5,656	15%	23,433	20,720	13%
Gross Profit	3,009	2,083	44%	10,022	7,496	34%
Selling and Admin	496	462	7%	1,846	1,695	9%
Other Expense	302	74	306%	660	263	151%
Finance Cost	16	203	-92%	436	1,083	-60%
PBT	2,218	1,352	64%	7,118	4,501	58%
Tax	839	242	246%	2,233	1,047	113%
Net profit	1,379	1,109	24%	4,885	3,454	41%
EPS	2.61	2.10		9.26	6.55	
DPS	2.50	1.00		4.00	2.00	
Key Ratios						
Gross Margin	46%	37%		43%	36%	
Net Margin	21%	20%		21%	17%	
Effective Tax Rate	38%	18%		31%	23%	

Source: IGI Research, Company Financials

Expansion – The only way Forward

MLCF plans to expand its cement capacity by 2.4mn tons, which would take company's total capacity to 5.96mn tons. The project is estimated to cost PKR 20bn (USD 79/ton) and financed through a combination of debt and equity. As per management estimations, it would take ~26 months (2.2 years) to bring plant to operation after opening LC with the supplier.

Company is currently operating its plant at 95%, implying limited room to capitalize on the growing cement demand expected in the next decade. We believe expansion is the only way forward for the company to maintain its market share in the industry.

40 MW Coal Power Plant-moving towards further cost efficiency

MLCF has incorporated Maple Leaf Power Limited (MLPL), as its wholly owned subsidiary setting up a 40MW coal power plant, expected to be operational by 1HFY19. The project is estimated to cost PKR 5.5bn where MLCF is likely to contribute equity investment of PKR 3.3bn. As per FY16 detailed financials, company has already invested 660mn in MLPL.

With coal power plant coming online along with cement plant expansion, company's power dependence on national grid would reduce to 10-15% of total power requirement as compared to ~25-30% at current capacity utilization, resulting in fuel efficiency and savings. (We haven't yet incorporated this into our model.)

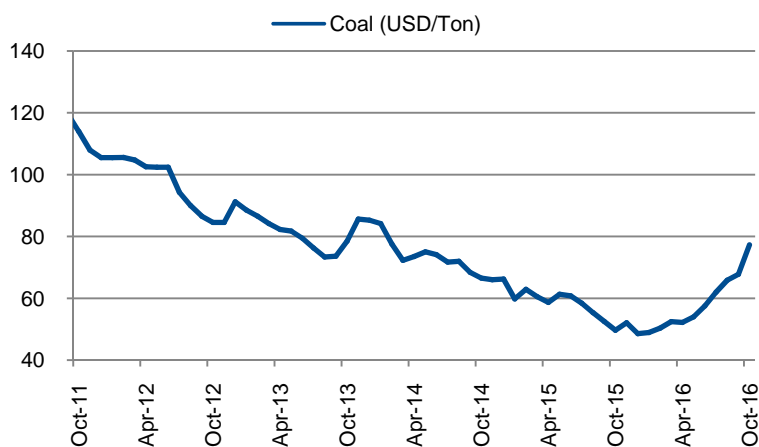
Coal Prices Rebound – Unpredictable Move

International coal prices have increased exorbitantly from USD 49/ton in Jan-16 to USD 86/ton in Oct-16, resulting in steep +76% jump. Multiple reasons account for recent price hike, including a) production cuts and reduction of working days

on coal mines in China, b) firmer land transportation rules in China jacking up the freight cost, and c) higher coal demand in some regions ahead of winters. However, it is yet to be seen if the recent price convergence towards north is a short term phenomenon or theming a long term price direction, considering coal demand expected to decline from India as the country moves towards higher domestic production and increase production from China coal miners, incase price stays at current level for a considerable period of time.

We have revised our coal assumptions from USD 64/USD69/ton to USD 72/USD81/ton for FY17E/FY18F, and assumed manufacturers to gradually increase cement price in domestic market. However, if the company chooses not to pass-on the impact, earnings would decline by 5%/10% from our estimates in FY17E/FY16F for MLCF.

Exhibit: International Coal (Richard Bay) reversing the price trend from Apr-16



Source: IGI Research, Bloomberg

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is more than -10%, from its last closing price(s)

Time Horizon: Jun - 2017

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2016 IGI Finex Securities Limited

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-6	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbotabad)	Tel: (92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore Stock Exchange Limited | Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651