

# Pakistan Cements

## MLCF PA: Standing strong in challenging times

Domestic cement industry has remained under pressure since last 12-18 months as local dispatches witnessed a decline of 13% in 8MFY23 to clock in at 27.2mn tons vs. 31.42mn tons in SPLY. This was mainly attributed to multiple headwinds on macro front such as inflationary pressures, low private & public sector spending and high commodity prices, which were further exacerbated by flood, political uncertainty and PKR devaluation against greenback, all of which kept the local cement demand suppressed. Additionally, export sales showed no signs of recovery due to political and economic instability in Afghanistan. Furthermore, exports to other countries remained unviable due to high production cost and increase in freight charges.

Despite the slowdown in volumetric sales MLCF's topline witnessed the highest ever revenue during 1HFY23. This is mainly attributable to higher retention prices and a healthy market share maintained by the company through expanding capacity over the years to match the growing size of the market. Along with the growing market share, company has also relied on its own power generation, which provides a cushion against abrupt increase in electricity charges. Thus, we recommend a 'BUY' stance on MLCF with a DCF-based target price of PKR39 for Dec'23, offering 58% upside potential. At current valuations, MLCF's is trading at an EV/ton of ~US\$20.4 compared to 5-year average of ~US\$83.72. On an EV/EBIDTA basis, the stock is trading at 2.8x as compared to 5-year average of 7.68x. Our liking for the stock emanates from the following facts i) Capacity enhancement to enhance market share, ii) TERF/LTFF facility to keep finance cost in check and iii) Higher margins on the back of operational efficiency.

Key risks to our investment thesis include: i) Increase in interest rates, ii) Slowdown in construction activity, iii) Price competition amongst players, iv) Increase in energy and input prices and v) Change in regulatory environment.

### Driving Growth with operational Efficiency

In line with the industry, MLCF has also increased its capacity which came online in Nov'22. The production line enhanced company's current clinker capacity by ~37% from 5.7mn tons to 7.8mn tons and capacity based market share to ~9.8%.

On efficiency front, a new 12MW WHR capacity is also being added, which increases the total capacity to 37MW from 25MW. Along with that, MLCF has also added 7.5MW solar capacity which took solar plant's total capacity to 12.5MW. To note, MLCF achieved highest gross margins during 1HFY23 compared to ISL universe cement companies. This is mainly attributable to company's reliance on own power generation sources,

### Maple leaf cement factory Ltd

**BUY** **HOLD** **SELL**

We recommend **BUY** with Dec'23 DCF based target price of PKR39/sh, providing 58% Capital Upside

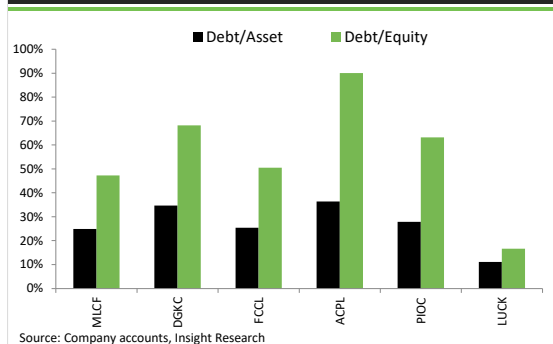
Current Price		24.9
Market cap	PKR b	26.7
Market cap	US\$ m	95
Free Float Market cap	US\$ m	43
30-day Avg. turnover	m Shares	8.4
30-day Avg. turnover	PKR m	213.9
52 week range	PKR/sh	19.00-39.02
Shares Outstanding	m	1,073
Free float	%	45%
Major Sponsors		Saigol Group
Bloomberg Ticker		MLCF PA

Financials* (PKR mn)	FY22	FY23E	FY24E
Sales	48,520	62,699	64,921
Cost of sales	35,280	43,559	46,780
Gross Profit	13,240	19,140	18,140
Finance Cost	1,658	2,014	1,574
Profit Before Tax	8,140	13,114	12,245
Profit after Tax	4,554	9,311	8,576
Key Ratios*	FY22	FY23E	FY24E
EPS	4.2	8.7	8.0
DPS	-	-	-
Gross Margins	27.3%	30.5%	27.9%
P/E	6.3	2.9	3.1
EV/ton (\$)	59.0	21.1	12.2
EV/EBITDA	4.4	2.2	2.0

Source: Company Accounts, Insight Research

\*Consolidated

Debt to assets & Debt to equity (%): MLCF vs. ISL universe



which consists of coal fired power plants of 40MW, followed by WHR (37MW) and solar (5MW), which remains company’s cheapest energy source.

**Optimal fuel mix to keep margins elevated**

During 1HFY23, the company posted a gross profit of ~31%, compared to the average gross margins of ~23% of ISL universe. The higher gross margins are mainly attributable to an efficient coal mix. To note, similar to other industry players, MLCF is also using a mix of local/afghan coal and alternative fuel to optimize its fuel cost. However, the company’s share of local coal in fuel mix remained higher compared to its peers, accounting for ~60%-70%. This is mainly due to the company's new production line, which allows them to use coal with high sulphur content. Additionally, company is also benefiting from using pet coke, which is cost-effective due to its higher energy content. Furthermore, management has also initiated different measures, which include the use of alternative fuels and optimized plant operations, with a focus on reducing fixed costs. This allows the company to enjoy higher gross margins in the foreseeable future compared to its peers.

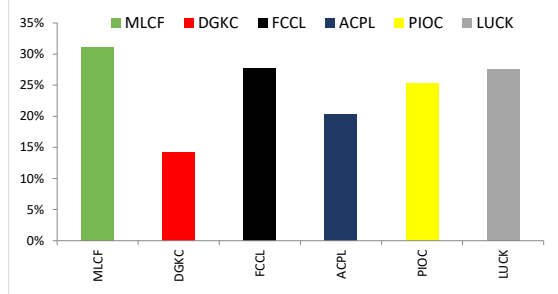
**TERF/LTFF facility to keep finance cost in check**

For expansion, company availed TERF & LTFF facility which will keep company insulated from rising interest rates and maintain finance cost at a comfortable level. Currently, company’s debt-to-asset ratio stands at ~25% compared to average debt to asset ~27% of ISL universe. Whereas debt to equity stands at ~47% compared to ~58% of ISL universe. We believe that in current high interest rate environment MLCF is relatively better placed as compared to its peer, thanks to company’s subsidized financing which allow them to shield against higher interest rate charges.

**Outlook**

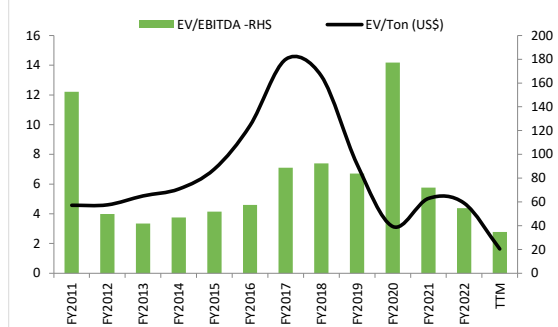
During FY23TD, ~11.9mn capacity has been added, taking industry total capacity to ~83.6mn. On the flipside, dispatches remained depressed to clocked in at 29.8mn, down by 17% during 8MFY23, keeping industry utilization at lower side. Thus, with almost ~9mn tons more capacity to come online by FY24 coupled with increase cost of construction, political uncertainty and low PSDP utilization, there is a fear among market participants that industry demand might take significant hit. This sentiment has also been witnessed in cement stock performances, which have brought cement companies to unprecedented discounts.

1HFY23 Gross margins (%): MLCF vs. ISL universe



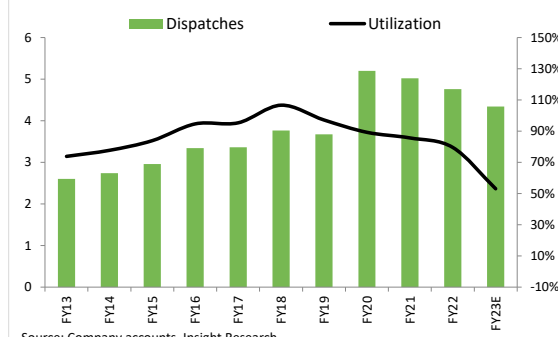
Source: Company accounts, Insight Research

MLCF: \$EV/ton & EV/EBITDA



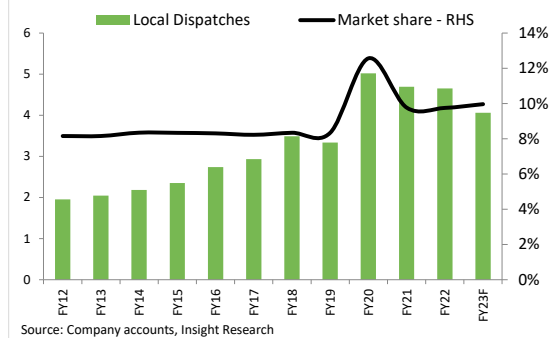
Source: Company accounts, Insight Research

MLCF: Dispatches (mn tons) vs. Capacity Utilization (%)



Source: Company accounts, Insight Research

MLCF: Dispatches (mn tons) vs. Market share (%)



Source: Company accounts, Insight Research

**IMPORTANT DISCLAIMER AND DISCLOSURES**

**Disclaimer:** This report has been prepared by **Insight Securities (Private) Ltd**, hereinafter referred as 'ISL' and is provided for information purposes only. Under no circumstances is to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Statements regarding future prospects may not be realized while all such information and opinions are subject to change without notice. ISL recommends investors to independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

Investments in capital markets are subject to market risk and ISL accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular need of individuals, who should seek further advice before making any investment or rely upon their own judgment and acumen before making any investment. The views expressed in this document are those of the ISL Research Department and do not necessarily reflect those of ISL or its directors.

ISL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their clients. ISL, as a full-service firm, has/intends to have business relationships, including investment-banking relationships, with the companies in this report. Investors should be aware of that the ISL may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision. This report may not be reproduced, distributed or published by any recipient for any purpose whatsoever without prior written approval by ISL. Action may be taken for unauthorized reproduction, distribution or publication.

**ISL Stock Rating System:** ISL employs a 3-tier rating mechanism i.e 'BUY', 'HOLD' and 'SELL', which is based upon the level of expected annualized return for a specific stock. When total annualized return (capital gain + dividends) exceeds 22%, a 'BUY' rating is assigned. A 'SELL' rating is issued whenever total annualized return is less than negative 5% and for return in between the 2 ranges, 'HOLD' rating is meted out. An 'Under Review' stance is given if ISL research stance depends upon the outcome of an uncertain event having significant impact on the valuations. Different securities firms use a variety of rating terms/systems to describe their recommendations. Similar rating terms used by other securities companies may not be equivalent to ISL rating system.

Time horizon is usually the annual financial reporting period of the company (unless otherwise mentioned in the report). Ratings are updated daily and can therefore change daily. They can change because of a move in the stock's price, a change in the analyst's estimate of the stock's fair value, a change in the analyst's assessment of a company's business risk, or a combination of any of these factors. In addition, research reports contain information carrying the analyst's views and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations.

**Target price risk disclosures:** Any inability to compete successfully in the markets may harm the business. This could be a result of many factors which may include (but not limited to) geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company may enter into transactions, including transactions in derivative instruments, to manage/offset certain of these exposures.

**Valuation Methodology:** To arrive at our period end target prices, ISL uses different valuation methodologies including

- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

**Frequently Used Acronyms**

<b>TP</b>	Target Price	<b>DCF</b>	Discounted Cash Flows	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DDM</b>	Dividend Discount Model
<b>SOTP</b>	Sum of the Parts	<b>P/E</b>	Price to Earnings ratio	<b>P/Bv</b>	Price to Book ratio
<b>P/S</b>	Price to Sales	<b>EVA</b>	Economic Valued Added	<b>BVPS</b>	Book Value per Share
<b>EPS</b>	Earnings per Share	<b>DPS</b>	Dividend per Share	<b>DY</b>	Dividend Yield
<b>ROE</b>	Return on Equity	<b>ROA</b>	Return on Assets	<b>CAGR</b>	Compounded Annual Growth Rate

**ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES**

**Analyst Certification:** The research analyst(s), if any, denoted by AC on the cover of this report, who exclusively reports to the research department head, primarily involved in the preparation, writing and publication of this report, certifies that (1) the views expressed in this report are unbiased and independent opinions of the Research Analyst(s) which 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.

The research analyst or any of its close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months. The Research analyst or its close relatives have not traded in the subject security in the past 7 days and will not trade in next 5 days.

**Disclosure of Financial Interest:** ISL or any of its officers and directors does not have a significant financial interest (above 1% of the value of the securities of the subject company) in the securities of the subject company. Under normal course of business, ISL, their respective directors, officers, representatives, employees and/or related persons may have a long or short position in any of the securities or other financial instruments mentioned or issues described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise. ISL or its employees may trade contrary to the recommendation given by ISL Research through this report or any other. ISL may be providing, or have provided within the previous twelve months, significant advice or brokerage services to the subject company. ISL may have, within the past twelve months, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all, the entities mentioned in this report or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company. Close relative of one of the Research Analysts in ISL is currently under employment in the middle management of HBL (a stock covered by ISL), as branch manager. Apart from this, ISL or any other of its officers and directors have neither served as a director/officer in any company under ISL research coverage in the past 3 years nor received any compensation from the subject company in the past 12 months.

ISL Research Dissemination Policy: ISL endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

---

**Insight Securities (Pvt.) Limited**

Suite 509, Business and Finance Centre,

I. I. Chundrigar Road , Karachi, Pakistan

+92-21-32462541-44