Day Break

Wednesday, 07 April 2021

IGI Securities

COMPANY UPDATE

Maple Leaf Cement Factory Limited

Cement

Recommendation		BUY
Target Price:	Dec-21	72.0
Last Closing:	6-Apr-21	44.5
Upside (%):		62.0
Valuation Methodology:		Discounted Cash Flow (DCF)
Time Horizon:		9M

Market Data

Bloomberg Tkr.		MLCF PA
Shares (mn)		1,098.3
Free Float Shares (mn)		494.3
Free Float Shares (%)		45.0%
Market Cap (PKRbn | USDmn)	48.8	293
Exchange		KSE 100

Price Info.	90D	06M	12M
Abs. Return	3.7	23.5	86.2
Lo	42.1	35.4	22.3
Hi	48.2	48.2	48.2

Key Company Financials

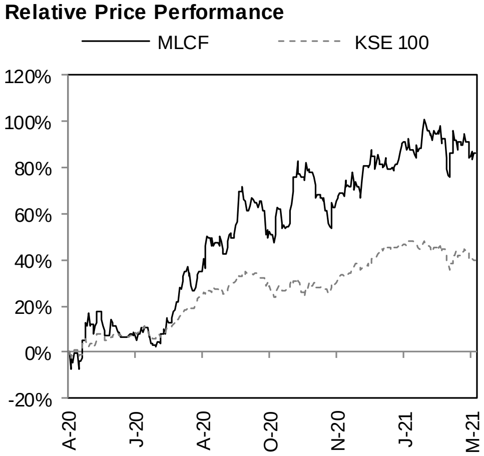
Period End: Jun

PKRbn	2020a	2021f	2022f	2023f
Total Revenue	29.1	33.0	43.3	47.5
Net Income	(3.6)	4.2	7.8	9.4
EPS (PKR)	(3.2)	3.8	7.1	8.5
DPS (PKR)	-	1.0	2.8	3.8
Total Assets	67.0	64.6	85.7	80.8
Total Equity	34.5	37.9	42.5	47.8

Key Financial Ratios

ROE (%)	16.8	n.m.	n.m	11.5
P/E (x)	- 13.7	11.7	6.3	5.2
P/B (x)	1.6	1.5	1.4	1.3
DY (%)	-	2.2	6.2	8.4

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Cements

MLCF: Strong fundamentals to drive earnings performance; reiterate at buy

- We have revised up our earnings estimates and target price for Maple Leaf Cement Factory (MLCF), maintaining a 'buy' call on the script.
- The brown field expansion project is worth PKR 18.5bn (also includes a new WHR plant), financed through 60% debt (PKR 5bn TERF) and 40% equity and is expected to come online by FY23 we opine.
- While MLCF is enjoying certain advantages in its cost base like usage of pet coke, railway contract for coal transportation (extended up to Jun-21) and 40MW coal fired power plant (remains attractive both in terms of power and tax saving), the company boasts a 9mw Waste Heat Recovery (WHR) expansion (commence from Sep-21) will take its total WHR power generation to 25mw. Our inflation assumption stands at +8.8% close to SBP's target range of 7-9%.
- We expect the company EBITDA generation to improve significantly translating into an average EBITDA margins of +26% over the next 3yrs, slightly lower than historic high level of +40% seen back in 2014. As a result company, Debt-EBITDA expected to decline sharply to +1.29x from high of +8.31x in FY20.

Earnings revised up amid rising construction activities and favourable macros

We have revised up our earnings estimates and target price for Maple Leaf Cement Factory (MLCF), maintaining a 'buy' call on the script.

Our earnings revision mainly incorporates latest positive sector, company's efficient cost structure and upcoming expansion leading to earning accretion.

- **Maple like other has been riding the wave of positive sector development:** Overall cement sector has so far remained bullish, with stocks prices up nearly ~65% since Jun-20, reflecting overall cement sector sales up by ~17% (~18% domestic and ~11% exports) to 43mt in 9mFY21. MLCF has been no exception either. Company 9mFy21 sales volumes clocked in 3.6mt, maintaining its domestic market share to ~8%. More importantly, company has been able to retain its top position in terms of retention prices thanks to rising share of white cement in its sales mix (white cement contributes nearly 2-3% in sales mix whereas in value terms its about 10-15%. Maple holds 95% market share in white cements. Management expects further increase in white cement sales in coming 4-5years due to growing demand).
- **Brown field expansion further improve its market share its market share:** Following the recent expansion spree namely from LUCK, KOHC, FCCL, CHCC & ACPL; to further improve its market share, MLCF too has announced a brownfield expansion project Line-4 of 8,000tpd (2.4mt) at its existing site in Daud Khel located in Mianwali district. Moreover, the company in its recent psx notice as a part of its de-bottlenecking conducted BMR activities which resulted in Line-3 capacity by 500tpd to 7,800tpd (operational commencement from May-21). This as per our estimates will have positive annualised eps bearing of PKR 0.6. Nevertheless this along with Line-4 expansion will take maple overall rated capacity to 8.3mn.t taking nearly ~11% of the market share.
- **Availability of TERF financing will lead to reduced financial costs:** The 2.4mt expansion project is worth PKR 18.5bn (also includes a new WHR plant), financed through 60% debt (PKR 5bn TERF) and 40% equity and is

expected to come online by FY23 we opine. Currently the Temporary Economic Refinancing Facility (TERF) total financing limit has been set to a maximum of PKR 5.0bn with average rate of 3.5%-5.0% significantly lower than existing KIBOR lending rate of ~7.5%. This alone based on our estimate could lead to a saving of PKR 650-700mn in interest cost savings over the tenure of loan (5yrs).

- **Already efficient energy mix to add another WHR plant:** While MLCF is enjoying certain advantages in its cost base like usage of pet coke, railway contract for coal transportation (extended up to Jun-21) and 40MW coal fired power plant (remains attractive both in terms of power and tax saving), the company boasts a 9mw Waste Heat Recovery (WHR) expansion (commence from Sep-21) will take its total WHR power generation to 25mw.

  Moreover, with the addition of this WHR expansion and existing 17 mw captive and 24mw FO plant pretty much make Maple Leaf Company less reliant on national grid. In terms of cost saving, we estimate this will reduces company's existing energy cost/ton by ~5-6%, adding nearly PKR ~0.6/share in its bottom-line on a recurring basis. Not only this, extensive WHR plant setup and existing 17mw captive and 24mw FO plant will completely put the company off the national grid, making it less prone to potential electricity tariff hikes in future as mulled by government authorities.

- **Export potential to India could be another key catalyst:** Although in a limbo, potential exports to India will bode favourably. To recall, the company in past has exported nearly 25% of its export to India in FY18 at higher margins. In a recent past, company exports Afghanistan at minimal margins however, persistence of this trend at better margins will force us to revisit our investment case.

Valuation yet to catch up looks attractive amid rising earnings

Based on our revised assumption and outlook, we now expect EPS CAGR of +30.79% in the next 3yrs; PKR 3.81/7.07 in FY21/22f. We have incorporated a +15% volumetric sales growth assumption, relatively stable +8% growth in cement prices in FY22. Backed by our assumption, we expect the company EBITDA generation to improve significantly translating into an average EBITDA margins of +26% over the next 3yrs, slightly lower than historic high level of +40% seen back in 2014. As a result company, Debt-EBITDA expected to decline sharply to +1.29x from high of +8.31x in FY20.

Exhibit: MLCF revised eps and dividend assumptions

PKR mn	FY19A	FY20A	FY21E	FY22E	FY23E
Revised L/EPS	3.57	-3.89	3.81	7.07	8.52
Earlier L/EPS	3.57	-3.89	2.90	5.20	7.30
Change	0%	0%	91%	187%	122%
Revised DPS	0.5	0.0	1.0	2.8	3.8
Earlier DPS	0.5	0.0	0.5	2.0	3.3
Change	0%	0%	50%	75%	50%

Source: IGI Research

Recommendation

MLCF's stock price has been stuck in the sideways, oscillating in range of PKR 37-45/share since Oct-20. Given favourable sector dynamics and MLCF organic growth outlook, we arrive at our Dec-21, target price PKR 72/share which takes total return from current price of PKR 44 to +62%, putting a firm 'Buy' call on the script (Valuation estimates using a ~+19% cost of equity).

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