



CEMENT | MLCF | BUY



Date: 15th July'24

REP # 048



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Maple Leaf Cement (MLCF) – “BUY”

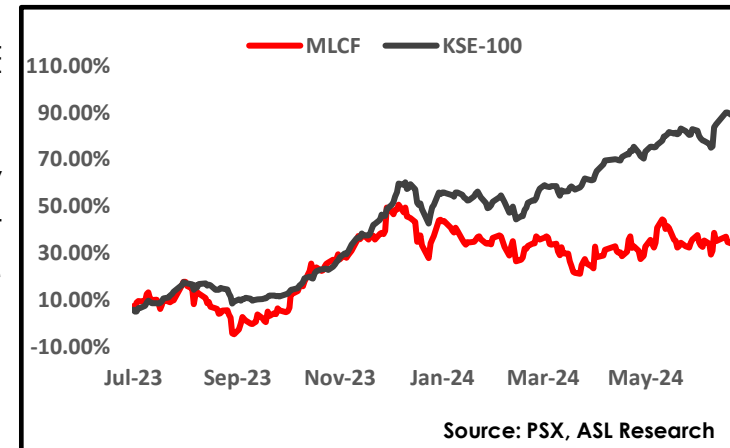


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- **We initiate our detailed coverage on Maple Leaf Cement Factory Limited (MLCF) with a FY25 target price of Rs.56/sh. offering upside of 47% from today close price. MLCF is our preferred pick due to: (1) the utilization of coal-fired power plant, solar power generation and waste heat recovery unit has led to a more efficient power generation system, resulting in a decrease in the cost per unit of electricity production (2) timely expansion of new cement line (3) installation of new solar power project of 7.5 MV to neutralize the recent increase in power cost.**
- MLCF has achieved impressive 3-yea (FY21-FY23) revenue CAGR of 29%. Additionally, gross margin has seen a significant increase of 563bps, reaching a 26% in FY23, compared to 21% in FY21.
- We estimated an unconsolidated EPS forecast of Rs10.30 and Rs13.28 for FY25E and FY26E respectively.
- MLCF is one of largest cement producer of Pakistan with production capacity of 23,666 tons per day, with a largest single cement manufacturing unit at single site in Pakistan. Production plants are powered by cutting edge technology that helps to dominate locally and internationally.

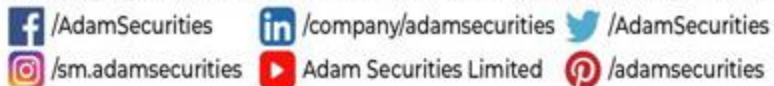
"Buy" Rated	
KATS Code	MLCF
Bloomberg Code	MLCF PA
Market Price	38.39
Target Price	56.45
Market Cap	Rs40.22bn/USD144.4mn
Free float Market Cap	Rs18.1bn/USD64.98mn
1-Yr High/ Low	Rs43.3/Rs26.52
Average Daily Volume	6,082,329
Free Float	471.4 million (45%)
Outstanding Shares	1,047.56 million

Source: PSX, ASL Research



Source: PSX, ASL Research

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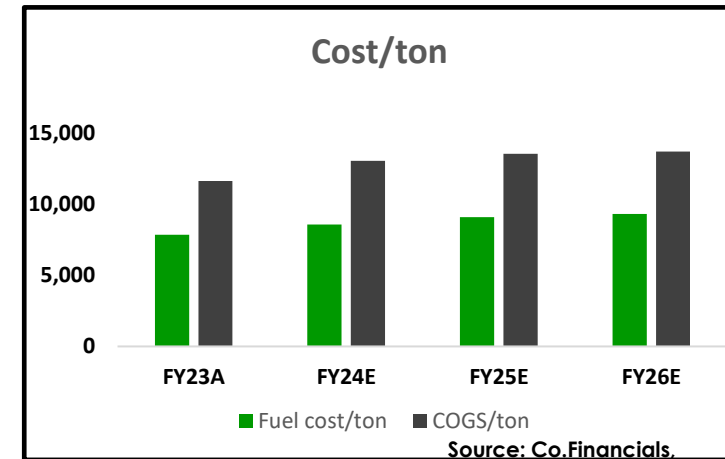
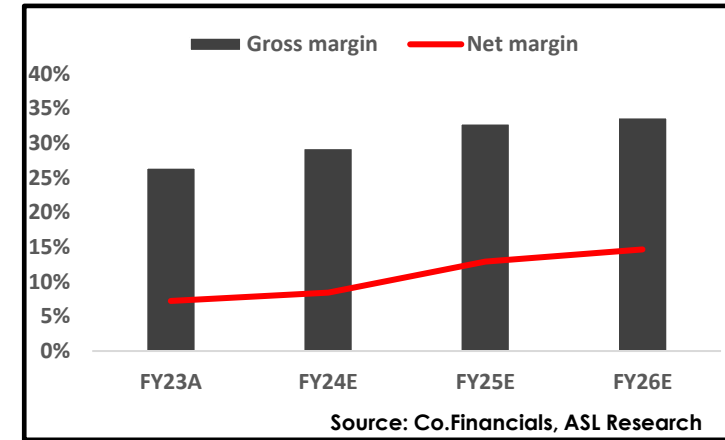
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Efforts to reduce dependence on national grid to improve margins

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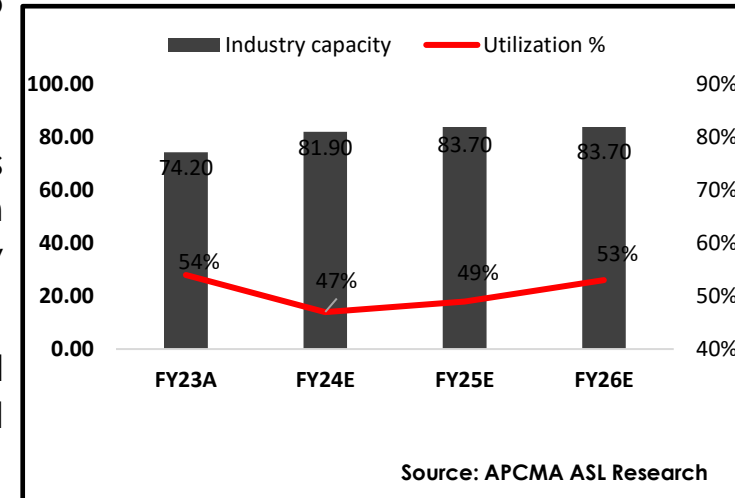
- We expect MLCF unconsolidated gross margin to remain within 33%-34% over (FY25-26). In 3QFY24 company reported gross margin of 28%. On cumulative basis gross margin for 9MFY24 increased by 195bps, arriving at 30.4% as compared to 28.4% SPLY. Increase in Gross Profit was due to higher cement prices and decrease in international coal prices from Rs60.8k/ton to in FY23 to Rs37.3K/ton.
- We project net profit margin to reach 13%-15% over fiscal years 2025 and 2026. This improvement is anticipated due to an easing of monetary policy, which will reduce the company's financing costs. It's important to note that as of the 3QFY24, company debt-to-equity ratio sits at 34%.
- To offset high power generation cost, company has diversified range of power generation sources and depends on its own power generation.
- MLCF generates power from coal fired power plant (CFPP), solar power plant, and waste heat recovery unit (WHR). Which are the cheapest source of electricity for company. All the cost cutting efforts outlined above have contributed to higher margins as compared to the same period of last year.
- The company is focusing on increasing the alternative fuel and energy sources in order to reduce reliance of national grid. MLCF is installing 7.5 MV solar power plant, which will further reduce the cost and solar power generation capacity to increase to 20 MV.



- In FY24 Pakistan economy suffered from stabilization phase. Government dedicated efforts to complete Stand-By Arrangement (SBA) which have yielded significant progress in reinstating economic stability. Economy to experience moderate growth 2.3%-2.4% even in the cost push inflationary scenario, leading the SBP towards monetary tightening of EIR of 20.5%.
- Pakistan and International Monetary Fund (IMF) have reached Extended Fund Facility (EFF) with Pakistan for \$7bn, New IMF program will strengthen fiscal, monetary policy measures and will help removing economic distortions to spur private sector-led growth
- In FY24, local cement dispatches declined by 5% to 38.18mn tons, compared to 40.01mn tons in FY23. Decline was witnessed due to (1) tight monetary policy (2) lower PSDP utilization (3) high construction cost.
- In FY24 cement exports increased by 56% YoY to 7.11mn tons. Increase in exports were noticed is due to industry's efforts to explore new markets. Notably, Pakistan made its first-ever cement shipment to the United Kingdom and is currently exploring opportunities in Mexico, France, and Germany.
- We expect cement sales to show growth of 8% and 9% with local utilization will improve from 47% to 49% and 53% in FY25 and FY26, respectively. This is, amid expectation of economic stability, new IMF program and robust export growth.

	FY23A	FY24E	FY25E	FY26E
Industry sales	44.6	45.3	49.0	53.2
YoY	-16%	2%	8%	9%
MLCF sales	4.27	3.90	4.23	4.63
YoY	-10%	-9%	8%	9%
Industry exports	4.6	7.1	8.1	8.7
YoY	-13%	56%	14%	7%
MLCF exports "000"	130.0	163.9	181.5	193.9
YoY	18%	26%	11%	7%

Source: APCMA ASL Research



Source: APCMA ASL Research



"Valuation Approach: Target Price of PKR56/share with a 47% Upside"



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- We have incorporated FCFF valuation approach to come up with a June 2025 TP of Rs56/sh. Our valuation is based on discounted cashflow (DCF) methodology. We have used a risk-free-rate of 16.6% and market risk premium of 5.6% with a beta of 1.57, our estimated cost of equity is 25.4%.
- Capital structure of MLCF is showing 31% weight in debt while remaining 69% comes from equity. Thus, arriving at WACC of 23.7% which has taken into effect and reflects as a discount factor in FCFF.
- We believe cashflows to improve in FY25 due to expectations of stable increase in exports, with rupee to devaluate on market determined basis, revival of international economy and stabilizing freight charges. We expect coal prices will remain stable during FY25 and FY26 which indicate improvement in gross margins.
- According to the assumptions, company's total enterprise value is Rs81.2bn comprised of Rs22bn value to debt holders and PKR59.13bn portion of equity holders, thus, recommending BUY on MLCF with TP of Rs56.4 for FY25, an upside of 47% against the current price.

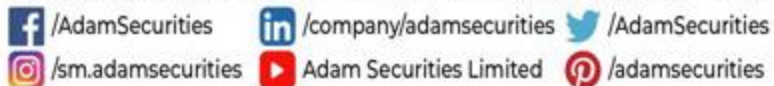
Valuation Snapshot	FY23A	FY24E	FY25E	FY26E
Profit after tax	4,492	5,934	10,793	13,907
Depreciation & Amortization	3,472	3,527	3,685	3,835
Interest (1-tax rate)	1,336	2,749	2,536	2,337
Capax	-9,042	-4,988	-4,814	-5,440
WC	-4,923	1,594	1,494	-2,695
FCFF	10,020	1,620	10,993	17,648

Source: ASL Research

MLCF - Valuation criteria	
Risk free rate	16.6%
Market Risk Premium	5.6%
Beta	1.6
Cost of Equity	25.4%
Equity	48,547
Debt	22,044
WACC	24%

Source: ASL Research

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Income Statement				
Rsmn	FY23A	FY24E	FY25E	FY26E
Net Sales / Revenue	62,075	70,486	83,609	94,747
Cost Of Sales	45,652	49,844	56,143	62,788
Gross Profit	16,424	20,642	27,466	31,959
Selling And Distribution Expenses	2,001	5,286	4,473	4,166
Administrative Expenses	1,381	1,755	2,023	2,230
Other Operating Expenses	1,187	1,008	1,254	1,529
Other Income	147	367	179	211
Finance Cost	2,751	4,180	3,786	3,487
Profit Before Taxation	9,251	8,856	16,108	20,757
Profit Before Taxation	4,492	5,934	10,793	13,907
EPS (Rs)	4.18	5.66	10.30	13.28

Source: Co.Financials, ASL Research

Balance sheet				
Rsmn	FY23A	FY24E	FY25E	FY26E
Non-Current Assets	67,468	68,919	70,049	71,655
Current Assets	22,240	24,926	33,223	45,219
Total Assets	89,708	93,846	103,272	116,874
Equity	44,913	48,547	59,340	71,089
Non-Current Liabilities	28,580	23,107	23,814	24,033
Current Liabilities	16,215	22,192	20,118	21,752
Total Equity & Liabilities	89,708	93,846	103,272	116,874

Source: Co.Financials, ASL Research

Key Ratios				
	FY23A	FY24E	FY25E	FY26E
Gross margin	26%	29%	33%	34%
Net margin	7.2%	8.42%	12.91%	14.68%
Operating margin	21%	19%	25%	27%
P/E Ratio	6.8	6.71	5.48	4.25
Return on asset	5.01%	6.32%	10.45%	11.90%
Return on equity	10%	12.22%	18.19%	19.56%

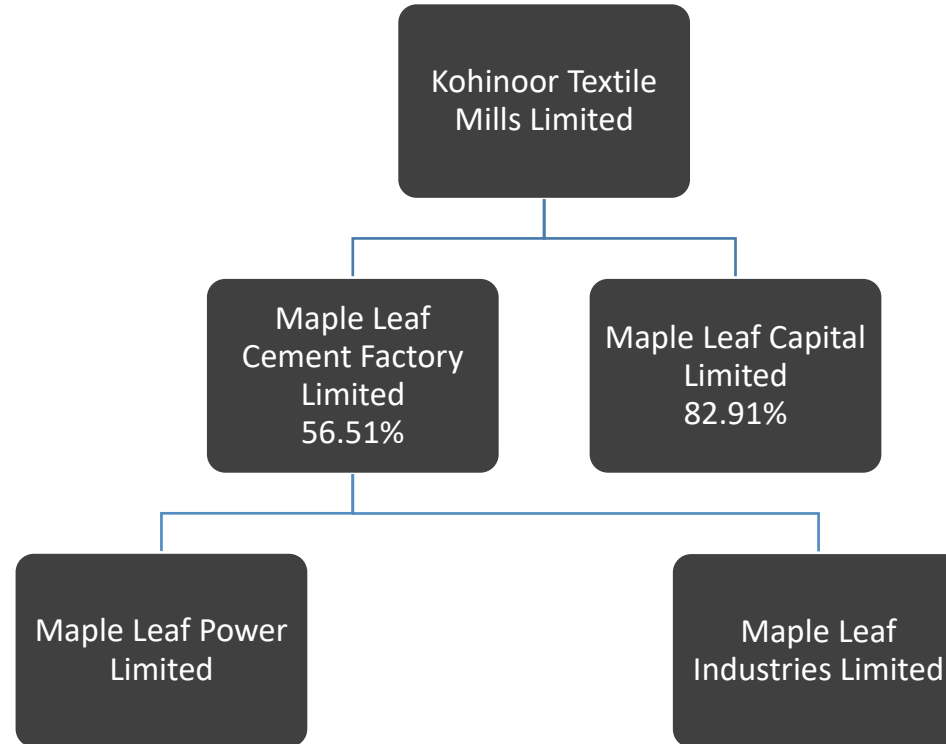
Source: Co.Financials, ASL Research



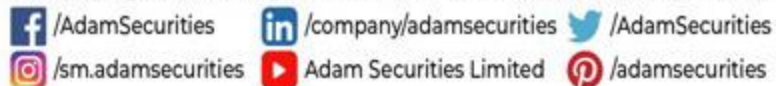
Group Structure (Shareholding Pattern)



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About Maple Leaf Cement

- Maple Leaf Cement Factory Limited was incorporated in Pakistan on 13 April 1960 under the Companies Act, 1913 (now the Companies Ordinance, 1984) as a public company limited by shares.
- The principal activity of the Company is production and sale of cement. The Company is a subsidiary of Kohinoor Textile Mills Limited ("the Holding Company").
- Maple Leaf Cement is largest single cement production site in Pakistan, located in Daud Khel, Punjab. It is one of the pioneers of cement in Pakistan. Currently, the company has four operational lines for production cement and one line for production of white cement in which it owns 90% market share. Total installed clinker production capacity is 7.8mn tons per year or 23,666 tons per day.
- The company sales and market its products in Pakistan with presence mainly in north and center regions. Company also exports its products to different countries including Afghanistan, Middle East and other African countries.
- The Total market capitalization of MLCF is about Rs40.22bn and \$144.4mn, which is around 5% of total market capitalization of the cement sector.

Product Features & Capacities

- MLCF have range of products which includes Ordinary Portland Cement, Sulphate Resistant Cement, Low Alkali Cement, White Cement, Wall Coat, HD Putty and White Plast



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1) Discounted Cash flow method 2) SOTP method 3) Justified Price to Book Value method and 4) FCFE or FCFF method.

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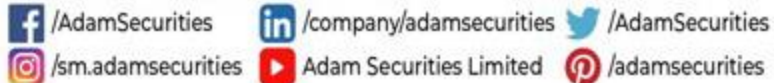
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Stance Criterion	
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Sell	≤10.0%
Hold	Between - 10.0% to 15.0%

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