

MLCF EV/ton \$29 | PE 5.3x, HOLD @39.5 | 2QFY24 Forecast

Monday, 1 January 2024

We continue our coverage in Maple Leaf Cement Factory (MLCF). Based on current outlook after cement bag price increase we expect sales of MLCF to rise in 2QFY24 & following quarters. If we assume selling price per 50 kg bag of cement to rise by 5% and simultaneously cement dispatches increased by 5% then our model yield EPS of PKR 1.84/sh in 2QFY24. MLCF yield FY24 PE of 5.3x wherein FCCL yielded FY24 PE of 3.6x. MLCF trades at a higher PE vs KSE 100 PE of 4.5x. **HOLD**

FY24 assumptions...During the year, we expect annual production may increase up to 8.19 million ton after installation of line 4. So the EV/ton of MLCF is \$29.3/ton which is slightly lowest than that of FCCL and against entire cement industry. In 2QFY24 we assumed taxes, super tax and duty to be same as that of 1QFY24. The Finance cost however is decreased in 2QFY24 according to our amortization schedule.

Coal Prices.... We see that global price of coal have decreased in 1QFY24 due to demand constraints and they are fairly comparable with Afghan coal. During this period company relied more on Darra and other local fuels.

Rate Hike...MLCF was able to combat NEPRA rate hikes by depending largely on its own power generation source. This cost cutting effort has contributed in improved margins as compared to same quarter from last year.

Other Costs...The Finance cost in 1QFY24 was PKR 946 mn which is a 69% increase from PKR 561 mn in 1QFY23. The main reason for rise in finance cost is subsequent to capitalization of line 4 operation. Since the commencement of Line 4 operation the domestic sales have increased by 15.77% on yoy basis.

The 100% owned subsidiary of MLCF which is MLPL have favorably impacted consolidated results of MLCF by achieving savings in power cost. However, there is a increase in super tax from 4% in 1QFY23 to 10% in 1QFY24.

Future Outlook...We expect demand of cement in domestic market will increase because of increased spending in construction sector despite budget constraints and upcoming elections. MLCF has expanded its reliance on local and alternative fuel.

The government is aiming to increase electricity rate because of pressure from IMF. To fight this situation MLCF is focusing to increase the use of renewable energy and alternatives in order to decrease its reliance on National Grid. The solar power project of MLCF is under process and it will increase the generation capacity.

Scripts	EV PKR mn	Capacity M Ton	EV/Ton PKR	EV/Ton (\$)
FCCL	90,530	10,600,000	8,541	30.3
MLCF	67,670	8,190,000	8,263	29.3

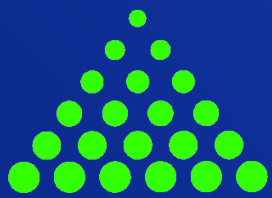
Source: SCS Research, company books

PKR in '000'	1QFY24	2QFY24E
Revenue	16,675,567	18,511,326
COGS	(11,447,934)	(12,708,200)
Gross Profit	5,227,633	5,803,126
Expenses:		
Distribution Expense	(1,151,205)	(1,277,937)
Admin Expenses	(407,493)	(452,353)
Finance cost	(945,961)	(885,205)
Other income	75,492	83,803
Other Expense	(335,860)	(372,834)
Total Expenses	(2,765,027)	(2,904,527)
Profit before tax	2,462,606	2,898,600
Taxation	(836,436)	(928,517)
Profit after tax	1,626,170	1,970,083
EPS	1.52	1.84
Net Margins	9.75%	10.64%

Sensitivity Analysis for EPS (2QFY24)

Change in Cement Selling Price (Per 50 kg bag)	Change in Dispatches							
		-1.0%	1.0%	3.0%	5.0%	7.0%	9.0%	11.0%
	-3.0%	1.49	1.54	1.59	1.63	1.68	1.73	1.77
	-1.0%	1.54	1.59	1.64	1.68	1.73	1.78	1.83
	1.0%	1.59	1.64	1.69	1.73	1.78	1.83	1.88
	3.0%	1.64	1.69	1.74	1.78	1.83	1.88	1.93
	5.0%	1.68	1.73	1.78	1.84	1.89	1.94	1.99
	7.0%	1.73	1.78	1.83	1.89	1.94	1.99	2.04
	9.0%	1.78	1.83	1.88	1.94	1.99	2.04	2.09
	11.0%	1.83	1.88	1.93	1.99	2.04	2.09	2.15
13.0%	1.87	1.93	1.98	2.04	2.09	2.15	2.20	

Source: SCS Research



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 - (Target Price, if any/Current Price - 1) < -10% Negative
 - less than 10% (Target Price, if any/Current Price -1) Hold
- The time duration is the financial reporting period of Subject Company.

Valuation method

Following research techniques adopted to calculate target price/recommendation

Price to earnings & Price to Book, EV-EBITDA multiple

Discounted Cash flows or Dividend Discount Model or Enterprise Value