MLCF cost efficiency to bode 'well' for future earnings!

CAPEX to Sales | CAPEX to EBITDA: MLCF is grounding for future demand…

Maple Leaf (MLCF) is one of the largest cement production supplier in northern zone of the country, also using pet coke where, recent new Line- III has 80% pet coke usage. In recent PSX announcement, MLCF has purchased 9.5mn shares of Pioneer Cement (PIOC) at PKR 65.11/sh on account of existing 24.76mn shares previously with Maple Capital. Now the total holding of MLCF & Maple Leaf Capital into PIOC stands at 34.26mn share representing 15.08% of the issued capital.

Even though, lacklustre macro economic activity and lower cement offtakes, MLCF 1HFY23 net revenue increases 36%yoy to PKR 30bn Vs 22 bn owning to 'jacked up' selling price. Where local offtakes hit by inflated prices on other hand exports paused on uncompetitive pricing. Now there is a talk that southern zone plants such as DGKC at Hub will take advantage of sea borne exports.

MLCF's usage of pet coke in comparison to expensive Afghan and Richard Bay coal kept company's gross margin at a significant 29%. The implemented cost control measures by MLCF in form of alternative fuel and optimized plant operations will further help in reducing fixed costs.

- 40MW Coal Fired Power Plant (exempted from income tax)
- 37MW waste heat recovery plant representing one third of the power mix of the Company.
- 9.5MW Solar Power Plant.

Considering these trend, the company seems to get better margins in upcoming quarters. MLCF is yielding P/E of 5.6x where average industry P/E is hovering around 5.32x. In addition to it, MLCF P/S is of 0.45, these handful ratios indicating strengthening earning outlook.

MLCF	PKR 25.39
Mkt Cap	27bn
Avg vol. (12m)	4.2mn
Paid up	10.7bn
Authorized	15bn
Beta	1.86
52 Weeks Lo	PKR 19
52 weeks HI	PKR 39.02
Book Value per share	PKR 40.52
Price to Sales	0.45
Capex/EBITDA	50%
EBITDA/Sale	0.26
Debt to Equity	32%
FY22 EPS	PKR 4.16
FY23E EPS	PKR 7.28

Source: Scstrade, Scs Research

PRK bn	Total Debt	Equity	Debt to equity
LUCK	22.33	133.98	14%
KOHC	3.70	30.99	11%
MLCF	21.98	43.94	32%
FCCL	38.97	62.82	38%
ACPL	11.88	17.49	40%
DGKC	47.73	69.99	41%

Source: Company's Financials, Scs Research

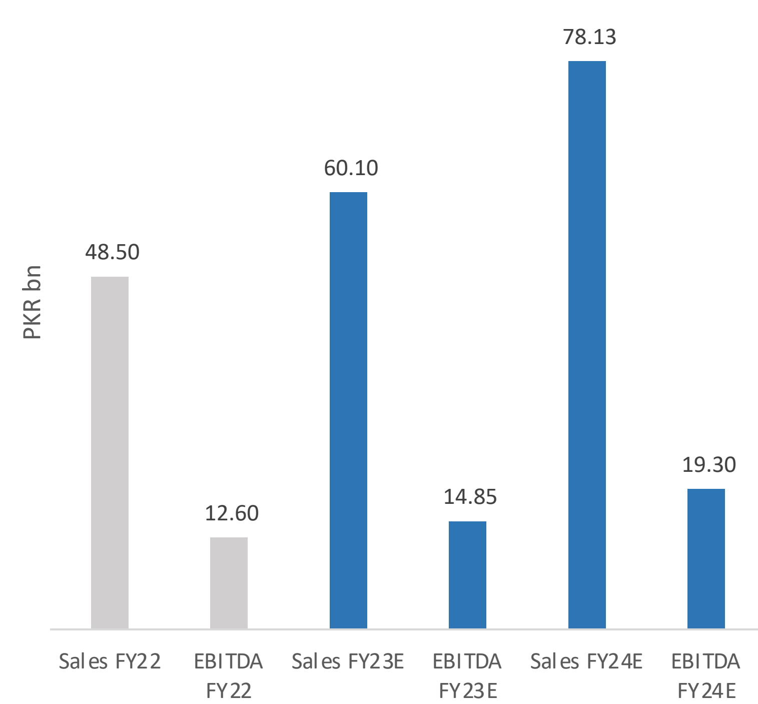
'MLCF debt equity ratio 32%'

MLCF liability increases during the year owning to expansion of brownfield line IV, enhanced waste heat recovery plant (WHRP) capacity at existing lines of cement and solar power projects. However, incremental sales will absorb this debt-equity ratio amid repayments.

MCLF has financed these project by obtaining finances from financial institutions and issuing right shares along with its equity contribution.

MLCF Debt to equity ratio stands at 32% ~PKR 22bn, it could face flash up of its net margins with increased interest rates. Policy rates got yet further enhanced by SBP in April 2023 from 20% to 22% which will further increase the finance cost of the company from 3Q ahead.

Since the gap between policy rate and Export Finance Scheme (EFS) & Long Term Financing Facility (LTFF) rates reduced from 5% to 3%. Hence, the prevailing rate is 17% and will increase to 19% if SBP increases its upcoming policy rate by 2%.



Source: Company's financials, Scs Research

We see finance cost may take away some net margins wherein we see MLCF could still report NPAT growth in FY23.

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  - (Target Price, if any/Current Price - 1) < -10% Negative
  - less than 10% (Target Price, if any/Current Price -1) Hold.
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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