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Maple Leaf Cement Factory Limited

MLCF - A tree springing fruits!

We initiate coverage on Maple Leaf Cement Factory Limited (MLCF) with December 2015 target price of Rs 76/share, offering an upside potential of 20.7% from closing price of Rs 62.77/share. Our positive stance derives primarily from 1) vigorous earnings hailed; 2) dividend - after 10 years; 3) capacity under-utilized; 4) updated plant including WHR system and Captive power plant; 5) stable domestic sales outlook; 6) increased distributor list; 7) internationally declining coal prices; 8) decreasing discount rate by central bank; 9) leverage burden heading away; 10) contract with Pakistan Railways, putting cherry on top. Maple Leaf Cement Factory is currently trading at PE multiple of 6.7x and 5.8x on FY15 and FY16 respectively. Key downside risk stems from 1) political, law & order issues to affect business climate; 2) any other tax in addition to the Implementation of Alternative Corporate Tax (ACT); 3) lower cement export need a focus.

KEY DATA

KATS Code	MLCF
Reuters Code	MPLF.KA
Current Price (Rs)	62.77
Year High, Low (Rs)	58.70, 44.60
Market Cap (Rs' bn)	33
Market Cap (US$ mn)	331
Shares Outstanding (mn)	527.73
Free Float (%)	45%

Source: KSE, Reuters & WE Research

Source: KSE & WE Research

MLCF Financial Snapshot

	FY14A	FY15E	FY16F	FY17F
Net Sales (Rs mn)	18,969	20,650	21,897	22,817
Gross Profit (Rs mn)	6,523	7,420	7,648	7,032
Profit after Taxation (Rs mn)	2,830	3,500	4,035	4,608
EPS (Rs)	5.36	6.63	7.65	8.73
Book Value (Rs/share)	18.47	25.15	32.08	39.35
DPS (Rs)	-	2	2.5	3
P/E (x)	8.3	6.7	5.8	5.1
P/ BV (x)	2.4	1.8	1.4	1.1
ROE (%)	29.0	26.4	23.8	22.2
ROA (%)	8.9	10.9	12.0	13.0

Source: Company Reports & WE Research

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Valuation: BUY with at Target Price of Rs 76

We have used Discounted Cash Flow (DCF) methodology with assumption of 9.30% Risk free rate and 5% market premium and 4% growth rate, thus our Dec'15 Target Price for MLCF is Rs 76/share offers upside of 20.7%.

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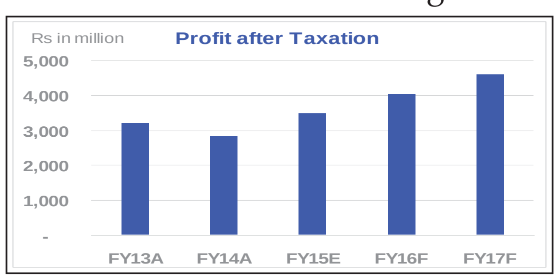
DCF based value of MLCF

Rs in million	**FY15E**	**FY16F**	**FY17F**
Net Income	3,500	4,035	4,608
Non Cash Expense	1,682	1,697	1,713
Change in Working Capital	(1,226)	(728)	(483)
Capex	(316)	(379)	(399)
Principle Debt Payment	(2,149)	(1,840)	(1,676)
Free Cash Flow to Equity	1,490	2,785	3,763
PV of Terminal Value	28,906		
EV	35,945		
(-) Debt	3,058		
(+) Cash	7,111		
Equity Value	39,997		
Shares Outstanding	527.73		
Target Price Dec'15 (Rs)	**76**		

Source: WE Estimates

Vigorous earnings hailed

Maple Leaf is enjoying hefty earning growth depicting an increase of 19.1% YOY; comparing profit after tax of FY15 amounting to Rs 3,500 million compared to Rs 2,830 million in FY14. The expected EPS for FY15 is Rs 6.63 compared to Rs 5.36 in FY14. The net profit margin in FY14 stood at 14.9% that is expected to increase in FY15 reaching at 17%.



Source: WE Research, KSE

As per the management remarks, the company has the ability to generate enough cash to satisfy all three commitments going forward, and thus investors should expect consistent payout going forward. The management further added that "Going forward, we believe all variables are moving in the right direction.

Maple Leaf consumes Pet Coke as 50% of fuel cost, along with imported coal, which reduces its total fuel cost. This enables MLCF to restrict transportation charges linked with the fuel. It is to be noted that 20% lower tonnage of Pet Coke provides the same heating value as of imported coal. MLCF also manufactures SRC (Sulphate Resistance Cement), Low alkali cement and oil well cement with capacity of 1000TPD each. MLCF is the only producer of oil well cement in Pakistan.

Dividends after "A DECADE"

Announcing 10% interim cash dividend after 10 years, the company believed that it is now in a better position to contribute steady payout to investors along with the plans to continue deleveraging and continue with needed capital expenditures. Earlier, it was bound by banks not to allocate dividend prior banks approval due to excessive loan at company's end. As per the management remarks, the company has the ability to generate enough cash to satisfy all three commitments going forward, and thus investors should expect consistent payout going forward. The management further added that "Going forward, we believe all variables are moving in the right direction. Business-pro government, improving economic growth coupled with single digit inflation and expecting to lower the discount rate, and lower coal prices; cement sector earnings are bound to go up."

Updated plant furthr advantage

Maple leaf is currently utilizing updated plant facility that also includes Waste Heat Recovery (WHR) system as well as Captive Power Plant. Furthermore, Maple Leaf consumes Pet Coke as 50% of fuel cost, along with imported coal, which reduces its total fuel cost. This enables MLCF to restrict transportation charges linked with the fuel. It is to be noted that 20% lower tonnage of Pet Coke provides the same heating value as of imported coal. MLCF also manufactures SRC (Sulphate Resistance Cement), Low alkali cement and oil well cement with capacity of 1000TPD each. MLCF is the only producer of oil well cement in Pakistan.

Lower discount rate by central bank

In the latest monetary policy announced by the State Bank of Pakistan (SBP) in March 2015, the discount rate has been reduced to 8% for the next two months. Total cut in the key interest rate in the economy has been reached to 2% since November 2014 partly because of a sharp decline in inflation. We are expecting another cut in discount rate by 0.5% in next monetary policy due in May 2015.

Despite 1HFY15 being relatively slow on account of monsoon, Ramadan and wheat harvest season, local demand grew by 9% and therefore the momentum is expected to continue in 2HFY15 as well.

Stable domestic sales outlook

Pakistani market is maintaining strong local cement prices with grey cement at Rs 498/bag, and white cement at Rs 700/bag. Government has improved the budget of Public Sector Development Program (PSDP) to Rs 525 billion for FY15 as compared to Rs 425 billion in FY14, up 24%. This increase in PSDP will reflect in infrastructure developed projects such as Diamer Bhasha and Dhasu Hydropower projects, creating strong local cement demands. Despite 1HFY15 being relatively slow on account of monsoon, Ramadan and wheat harvest season, local demand grew by 9% and therefore the momentum is expected to continue in 2HFY15 as well.

Source: WE Research

Cement dispatches by Maple Leaf for FY14 stood at 2.2 million tons utilizing its capacity of 82% out of which 66% catered local demand whereas 16% catered international demand. We assume that in coming years the company will utilize at least 88% due to increased PSDP and infrastructure demand, catering 72% local whereas 15% of international demand. Any additional demand will also be welcomed open handedly.

Capacity can be utilized more

As per the latest figures released by the All Pakistan Cement Manufacturers Association (APCMA) the cement sales in 9MFY15 stood at 25.78 million tons witnessing rise of 4.06% when compared to sales of 24.78 million tons in FY14. The local sales during the year were 20.34 million tons increasing by 8.43% YoY. The cement dispatches in North were 16.91 million tons in FY15 which is 9.04% more from 15.51 million tons in FY14 while the cement dispatches in South were 3.43 million tons during the year increasing by 5.54% from 3.25 million tons in FY14. The export sales were 5.44 million declining by 9.58% YoY in FY13. Cement dispatches by Maple Leaf for FY14 stood at 2.2 million tons utilizing its capacity of 82% out of which 66% catered local demand whereas 16% catered international demand. We assume that in coming years the company will utilize at least 88% due to increased PSDP and infrastructure demand, catering 72% local whereas 15% of international demand. Any additional demand will also be welcomed open handedly.

Cheaper coal price is bringing blessing in disguise to the cement manufacturers, as their major processing is dependent upon it..

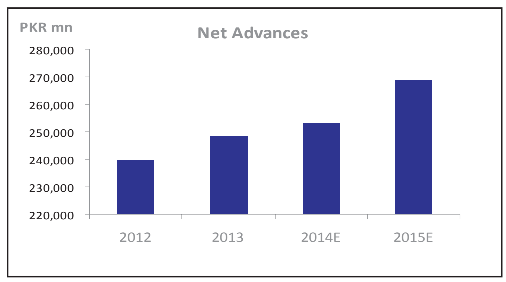
Company balance sheet saw sharp decline in the loan section during the past few years. We are expecting it to get further reduced to Rs 3.6 billion in FY15 as compared to Rs 5.5 billion in FY14. Lower financial charges will also help in giving boost to the earning.

Increased distributor list

MLCF originally had a distributor network of four distributors allowing them significant bargaining power in the case of slowdown in demand. These distributors were in a position of demanding lower ex-factory prices in order to maintain their own margins in the low demand and high supply scenario. This blackmailing has been overcome, as the company now has a network of +450 dealers which has not only significantly reduced receivables per dealer but have also resulted in lower bargaining power of the dealers.

Internationally declining coal prices

Global market is watching constant decline in coal prices that have been declined up to 21% annually from US$ 77.1/metric ton in quarter January-March 2014 to US$ 61.4/metric ton in quarter January-March 2015. Cheaper coal price is bringing blessing in disguise to the cement manufacturers, as their major processing is dependent upon it.



Source: Company Reports & WE Research

Leverage burden heading away

Maple Leaf Cement's top management has put all its efforts to get rid of loan burden that it was maintaining for years. As a result, we saw sharp decline in the loan section of balance sheet during the past few years. We are expecting it to get further reduced to Rs 3.6 billion in FY15 as compared to Rs 5.5 billion in FY14. Lower financial charges will also help in giving boost to the earnings.

Contract with Pakistan Railways, putting cherry on top

A five year contract has been signed amongst Maple Leaf and Pakistan Railways according to which the railways will transport 28,000 tons of coal every month from Karachi Port to Maple Leaf Cement Factory located in Mianwali. On its way back, it will carry 22,000 tons for of cement from the plant to Karachi every month for export via sea. This contract will permit to reduce inland freight.

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WE Detailed Report

May 2015

Key Risks

Cement Price Risk
End of cartelization will likely ignite a price war which can pose a downside risk to our projections.

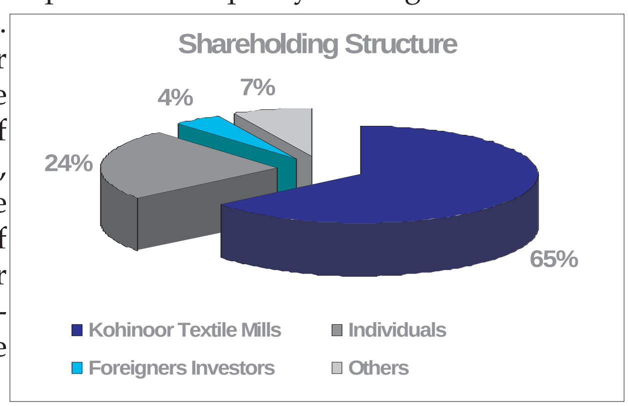
Political, law & order issues to affect business climate
Targeted raids by rangers and police to arrest criminals linked with political parties creating uneasiness. Any clash in result would badly affect the market.

Unexpected rise in International Coal Prices
A sharp rise in international coal prices would harm gross margins of the company, resulting in a downside risk to our projections.

Interest Rates Risk
We have incorporated discount rate at 7.5% in our projection; any deviation from our assumption will pose down side risk to our projections.

Company Introduction

Maple Leaf Cement Company (MLCF) is the fifth largest cement manufacturing company of Pakistan backed by Kohinoor-Maple Leaf Group. The company has a distinct feature of making Ordinary Portland Cement, white cement, Low alkali cement, sulphate resistant cement and Oil Well Cement. Maple Leaf is the only local Cement manufacturer producing Oil Well Cement. Kohinoor acquired the ownership and management of Maple Leaf Cement under the privatization policy of the government of Pakistan in 1992. Presently Kohinoor Textile Mills is the holding company of MLCF. Currently, the company have annual capacity of 3.37 million tons per anum and 0.18 million tons of white cementt



Source: Company Report

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MLCF - Financial Highlights

Valuation

	FY14A	FY15F	FY16F	FY17F
EPS (Rs)	5.36	6.63	7.65	8.73
Book Value (Rs/share)	18.47	25.15	32.08	39.35
DPS (Rs)	-	2	2.5	3
P/E (x)	8.3	6.7	5.8	5.1
P/BV(x)	2.4	1.8	1.4	1.1
P/BV(x)	-	3.2	4.0	4.8

Source: Company Reports & WE Research

Key Ratio Analysis

	FY14A	FY15F	FY16F	FY17F
Current Ratio (x)	1.0	1.5	2.1	2.8
ROE (%)	29.0	26.4	23.8	22.2
ROA (%)	8.9	10.9	12.0	13.0
Gross Margin (%)	34.4	35.9	34.9	30.8
Net Margin (%)	14.9	17.0	18.4	20.2
Sales Growth (%)	9.3	8.9	6.0	4.2
PAT Growth (%)	(12.2)	23.7	15.3	14.2

Source: Company Reports & WE Research

Income Statement

Rs in million	FY14A	FY15F	FY16F	FY17F
Sales	18,969	20,650	21,897	22,817
Cost of Goods Sold	12,446	13,230	14,249	15,786
Gross Profit	6,523	7,420	7,648	7,032
Distribution Cost	1,054	1,049	1,116	247
Administrative Expense	297	313	331	350
Other operating Expenses	197	303	310	322
Operating Profit	4,975	5,755	5,891	6,112
Other Income	81	77	233	449
Finance Cost	1,465	1,286	884	578
Profit before Taxation	3,590	4,546	5,241	5,984
Taxation	760	1,046	1,205	1,376
Profit after Taxation	2,830	3,500	4,035	4,608
Profit to ordinary shareholders	2,830	3,500	4,035	4,608

Source: Company Reports & WE Research

Balance Sheet

Rs in million	FY14A	FY15F	FY16F	FY17F
Share Capital	5,277	5,277	5,277	5,277
Shareholder Equity	14,641	18,162	21,822	25,659
Non Current Liabilities	10,138	7,989	6,149	4,472
Current Liabilities	7,133	6,077	5,574	5,286
Total Liabilities	17,270	14,066	11,722	9,759
Non Current Assets	24,766	23,404	22,089	20,778
Current Assets	7,145	8,824	11,456	14,640
Total Assets	31,911	32,228	33,545	35,418

Source: Company Reports & WE Research

Cash Flow Statement

Rs in million	FY14A	FY15F	FY16F	FY17F
Cash from Operations	2,265	3,955	5,004	5,838
Cash from Investing activities	(726)	(319)	(382)	(402)
Cash from Financing	(1,856)	(2,128)	(2,215)	(2,447)
Net change in Cash	(317)	1,508	2,407	2,989
Beginning Cash balance	524	207	1,715	4,122
Ending Cash balance	207	1,715	4,122	7,111

Source: Company Reports & WE Research

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