



## Today's Daily

### ■ MLCF: Energy realignment towards coal

We review our investment case of MLCF with a revised Dec'17 TP of PkR140/share, offering 15% upside. Our thesis is premised upon tax efficiency derived from its subsidiary Maple Leaf Power (MLPL), complete substitution of electricity sources other than from WHR and earnings growth through expansion. In this backdrop, MLCF in its generation license application intimated that it would fulfill ~63% of electricity requirement from its 40MW coal captive power plant. We estimate MLPL to result in operational savings of PkR2.11/share from FY18F. Similarly, we await financial close of MLCF's 2.21mn tpa Brownfield expansion (expected to come online in Jan'19) before incorporating it in our estimates. In this regard, we estimate Brownfield expansion to raise our TP by PkR42/share (based on 50% utilization in first year of operation). Despite impressive 64%/16% returns during CYTD/FYTD, MLCF still trades at a relatively cheap FY17F/FY18F PE of 10.8x/9.8x compared with AKD Cement Universe's 13.8x/11.3x. Our revised Dec'17 TP of PkR140/share offers 15% upside. **ACCUMULATE.**

#### KSE100 - Index

Current	47,210.06
Previous	46,938.59
Chg.	0.58%

#### Mkt Cap. (PkRbn/US\$bn)

Current	9,402 / 89.68
Previous	9,381 / 89.48
Chg.	0.22%

#### Daily Turnover (mn)

Current	450.31
Previous	344.15
Chg.	30.8%

#### Value Traded (PkRmn/US\$m)

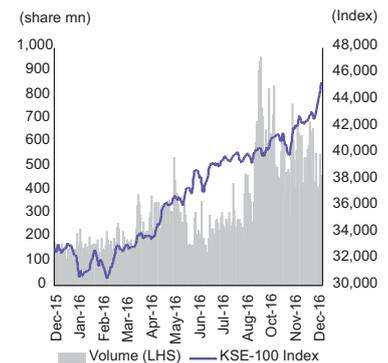
Current	21,710 / 207.08
Previous	19,408 / 185.12
Chg.	11.9%

**AKD Daily**

Wednesday, Dec 21, 2016

## News and Views

- As per SBP, the current account deficit has widened sharply by 91% to US\$2.6mn during the 5MFY17, owing to rising gap in foreign trade and declining inflows of remittances.
- PSMC has decided to launch the standard model of Suzuki Celerio in Mar'17.
- The GoP has deregulated the CNG sector and its end consumer pricing by empowering the CNG business owners to fix the prices of the commodity. There will be no control of the OGRA on price determination.
- As per PBS, Textile exports went down by 1.94% to US\$5.1bn during 5MFY17. Whereas, overall exports recorded at US\$8.2bn.
- The government has conditionally lifted an import ban on Indian cotton and allowed unloading of stuck cargoes of 12k bales from the neighboring country.



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**Maple Leaf Power to add greater value:** MLCF's 40MW coal captive power plant is expected to come online in 1QFY18F. The company's management apprised that partial shipment of equipment related to coal fired power plant have started and civil works are continuing. The company also filed application for generation license with NEPRA, indicating its plans to fulfill 58MW existing power requirement through 36.5MW coal power or 63% of total requirement. The generation application also indicated that coal power generation would be the cheapest source of power (~PkR6.23/KWH) after WHR, and thus, it plans to substitute its dependence on expensive grid electricity (average of peak/off-peak rates: PkR11/KWH) and gas based captive power generation (PkR10.92/KWH). MLPL's earnings are expected to be tax-exempt as suggested by the financial projections in its generation application. The management expects MLPL to contribute PkR1.881bn (PkR3.57/share) towards consolidated earnings, while MLPL is anticipated to maintain a payout of 90%. While we have not incorporated MLPL as a separate entity in our estimates (due to awaited generation license and tariff approval), we estimate that it will result in operational savings of PkR2.11/share from FY18F and contribute PkR15/share towards TP. The impact on earnings and TP would be slightly higher when MLPL will be accounted as a separate entity.

**Early starter in second round of expansions:** MLCF has been quick to implement its expansion plans. The company's management noted that its 2.21mn tpa Brownfield expansion is expected to cost around PkR20bn while it is expected to come online in Jan'19. While expansion will be a great value enhancer due to its relatively early COD, we have not yet accounted for the expansion as we wait for the financial close. We believe that MLCF's strong balance sheet position post early retirement of debt

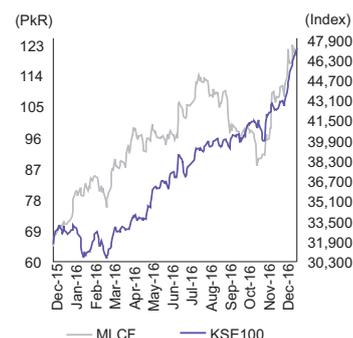
KATS Code	MLCF
Bloomberg Code	MLCF.PA
Price PkR	122.02
Market Cap (PkRmn)	64,394
Market Cap (US\$mn)	613.69
Shares (mn)	527.73
3M High (PkR)	123.08
3M Low (PkR)	87.99
1Yr High (PkR)	123.08
1Yr Low (PkR)	70.91
3M Avg Turnover '000	1,869.11
1 Yr Avg Turnover '000	1,883.76
3M Avg DT Value (PkRmn)	198.99
3M Avg DT Value (US\$mn)	1.90
1Yr Avg DT Value (PkRmn)	180.48
1Yr Avg DT Value (US\$mn)	1.72

### Valuation Snap shot

	FY15A	FY16A	FY17F	FY18F
EPS (PkR)	6.5	9.3	11.3	12.5
EPS Growth	22%	41%	22%	11%
Dividend yield	2%	3%	5%	5%
PER (x)	18.6	13.2	10.8	9.8
EV/EBIDTA (x)	9.4	6.7	5.7	5.2
ROE	20%	23%	23%	22%
ROA	11%	15%	15%	15%

Source: Co. Report & AKD Research

### MLCF Vs. KSE-100 Index



Source: KSE & AKD Research



allows it to raise debt capital for expansion. In this regard, we estimate that the expansion will likely be financed through debt equity mix of 50/50. Based on 50% utilization assumption in first year of operations, we estimate that the plant will result in average incremental earnings (between FY19-23F)/TP of PkR4.45/PkR42 per share.

**Investment Perspective:** Despite impressive 64%/16% returns during CYTD/FYTD, MLCF still trades at a relatively cheap FY17F/FY18F PE of 10.8x/9.8x compared with AKD Cement Universe of 13.8x/11.3x. In addition, the stock offers decent dividend yield of 4.5% compared with AKD Cement Universe's 2.6%. Our revised Dec'17 TP of PkR140/share advocates an Accumulate stance.



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Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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