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Today's Daily

■ MLCF: Expansion to add value

Incorporating the 2.19mn tpa brownfield expansion (expected to come online in 4QFY19) into our estimates, we revisit our investment case on MLCF with a revised Jun'18 (DCF based) TP of PkR179/sh. On one hand, this expansion is expected to enhance the company's capacity that remains constrained (utilization: 97% in 11MFY17 vs. 92% in FY16) while making room available to catch up with the rising domestic demand (dispatches growth of 15.5%/9.4% in FY16/11FY17) on the other hand. In this regard, the capacity expansion is estimated to raise our TP by PkR32/sh resulting in average incremental earnings (between FY20-23F) of PkR4.64/sh. Besides this, work on MLCF's 40MW coal captive power plant (MLPL) is in its completion stages and is expected to come online by Aug'17. Being the cheapest source of electricity after WHR, the coal power plant is likely to fulfill ~75% of the company's total electricity requirement, resulting in operational savings of PkR1.72/sh from FY18F. Having lost 14%CYTD, MLCF currently trades at a relatively cheap valuation set FY18F PE of 8.9x compared with AKD Cement Universe's PE of 11.2x.

KSE100 - Index

Current 46,593.34
Previous 46,858.56
Chg. -0.57%

Mkt Cap. (PkRbn/US\$bn)

Current 9,494 / 90.52
Previous 9,365 / 89.28
Chg. 1.38%

Daily Turnover (mn)

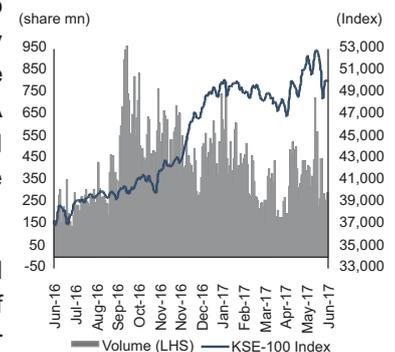
Current 170.26
Previous 129.87
Chg. 31.1%

Value Traded (PkRmn/US\$m)

Current 9,143 / 87.16
Previous 7,470 / 71.22
Chg. 22.4%

News and Views

- As per news reports, the GoP is seeking powers from the parliament to impose surcharges on electricity consumers and to bring the regulatory bodies (NEPRA, PTA, FAB, OGRA and PPRA) under the administrative control of respective ministries. In this regard, amended draft of NEPRA Act has been referred to the parliament without approval from Council of Common Interest (CCI), which is mandatory requirement under the constitution.
- As per recent data released by MoPD&R, the GoP has released PkR98.83bn under PSDP in FY17 (vs. budgeted allocation of PkR162.58bn) for various power and water projects. Of the total, power sector received PkR74.34bn (vs. target allocation of PkR130.86bn), while PkR24.29bn issued for the water projects (vs. budgeted allocation of PkR31.716bn).
- The GoP and China are considering to include the Diamer-Bhasha Dam under the umbrella of China-Pakistan Economic Corridor (CPEC). Earlier in 2006, the World Bank committed to fund the 4500MW hydro-power project but declined to fund after 10 years citing project location in disputed territory.



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MLCF: Expansion to add value

Incorporating the 2.19mn tpa brownfield expansion (expected to come online in 4QFY19) into our estimates, we revisit our investment case on MLCF with a revised Jun'18 (DCF based) TP of PkR179/sh. On one hand, this expansion is expected to enhance the company's capacity that remains constrained (utilization: 97% in 11MFY17 vs. 92% in FY16) while making room available to catch up with the rising domestic demand (dispatches growth of 15.5%/9.4% in FY16/11FY17) on the other hand. In this regard, the capacity expansion is estimated to raise our TP by PkR32/sh resulting in average incremental earnings (between FY20-23F) of PkR4.64/sh. Besides this, work on MLCF's 40MW coal captive power plant (MLPL) is in its completion stages and is expected to come online by Aug'17. Being the cheapest source of electricity after WHR, the coal power plant is likely to fulfill ~75% of the company's total electricity requirement, resulting in operational savings of PkR1.72/sh from FY18F. Having lost 14%CYTD, MLCF currently trades at a relatively cheap valuation set FY18F PE of 8.9x compared with AKD Cement Universe's PE of 11.2x.

Expansion on its way: Addressing capacity constraint (utilization: 97% in 11MFY17 vs. 92% in FY16) that has remained a key obstacle in sustaining earnings growth momentum over the medium term, MLCF's brownfield expansion of 2.19mn tpa cement line is likely to increase its capacity by 64% to 5.55mn tpa. At the same time it allows the company to cater to the rising local demand (dispatches growth of 15.5%/9.4% in FY16/11FY17) particularly in the backdrop of CPEC led activities. This capacity expansion is estimated to raise our TP by PkR32/sh and is expected to result in average incremental earnings (between FY20-23F) of PkR4.64/sh. The estimated capex for the expansion stands at PkR23bn which will likely be financed through a debt and equity mix of 50:50. In this regard, we believe MLCF's improved capital structure (D/E: 11% in Mar'17) allows it significant room to comfortably finance the expansion. The company, after signing the EPC contract, has established Letter of Credit as of Mar'17. The plant is expected to start commercial operations within 26mth of the signing of the EPC contract (Mar'19).

Maple Leaf Power to add greater value: Work on MLCF's 40MW coal captive power plant has entered in its final stages and is expected to come online in 1QFY18F. Major shipments of equipment relating to plant have reached at site and installation of equipment and related civil works are also in completion stage. Being the cheapest source of electricity after WHR, MLPL is to result in operational savings of PkR1.72/sh from FY18F, fulfilling ~75% of the company's total electricity requirement.

Investment Perspective: Having lost 14%CYTD, MLCF currently trades at a relatively cheap FY17F/FY18F PE of 10.7x/8.9x compared to AKD Cement Universe's PE of 15.2x/11.2x. With fundamentals remaining sound (earnings CAGR of 15%), we continue to remain bullish on the stock with our revised Jun'18 (DCF based) TP of PkR179/sh, offering 63% upside. BUY!

MLCF: EPS & TP Revision

EPS (PkR)	FY18F	FY19F	FY20F	FY21F	TP-Jun'18
New	12.00	14.54	15.08	17.76	179
Old	12.47	13.80	14.02	15.65	152
Change	-4%	5%	8%	13%	18%

Source: Co. Reports & AKD Research

Expansion Details:

Capacity (mn tpa)	2.21
Project cost (PkRbn)	23
Debt (%)	50%
Equity (%)	50%
Completion period (mth)	26
COD	Mar'19

Source: Co. Reports & AKD Research

MLCF: Capacity Utilization

Period	Capacity (mn tpa)	Utilization
FY17	3.53	95%
FY18	3.53	101%
FY19	4.10	93%
FY20	5.83	73%
FY21	5.83	78%

Source: Co. Reports & AKD Research



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



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