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PAKISTAN
CEMENT

REP-019
MARKET
VISTA

MLCF: Developments augment value

Shahrukh Saleem
shahrukh.saleem@akdsecurities.net
111-253-111 Ext: 637

NEUTRAL

TARGET PRICE (PkR)	SHARE PRICE (PkR)
47.4	42.6
UPSIDE/DOWNSIDE	**DIV. YIELD**
11.2%	1.7%

- **We update our estimates for Maple Leaf Cement Company. (MLCF), incorporating two major developments: i) improved liquidity on the backof deferred loans under SBP's scheme coupled with improving working capital, and ii) recent announcement of extension in WHR capacity to 25MW from 16MW.**
- **In the wake of severe price competition between players, MLCF aggressively pushed product to market, offering discounts and extended credit lines which resulted in worsened working capital cycle (68 days for FY20). Moving forward, situation is expected to improve with working capital cycle expected at 35/30 for FY21/22 (32 days for 1QFY21).**
- **Company has announced increase in WHR capacity to 25MW from current 16MW. Expected to commence in 2QFY22, company will utilize SBP's TERF to finance the project while cost saving from expansion in capacity is expected to lift EPS for FY22/23 by PkR0.20/0.23.**
- **Despite having second lowest cash cost of production from our universe, manageable debt burdens (D/E: 56% vs. 91% of AKD Cement Universe (Ex. LUCK and FCCL)) and earnings growth of 29% of for FY21-24, stock performing 19% during last ~3 weeks has resulted in a Neutral stance with our Jun'21 TP of PkR47.4/sh providing an upside of 11.2%. Buy on dips stance advised.**

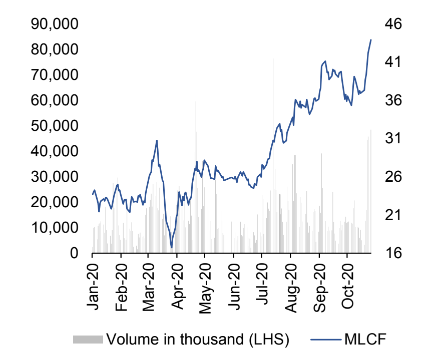
MLCF (Unconsolidated): Valuation snapshot

	FY20	FY21F	FY22F	FY23F
EPS (PkR)	-4.4	2.5	3.3	4.4
DPS (PkR)	0.0	0.7	1.3	2.2
BVPS	28.5	31.0	33.6	36.6
P/E (x)	NM	17.1	12.8	9.8
P/BV (x)	1.5	1.4	1.3	1.2
Div. Yield	0.0%	1.7%	3.2%	5.2%
EBITDA Margins	3%	26%	25%	26%
Gross Margin	-2%	22%	22%	24%
ROE	-15%	8%	10%	12%

Source: Company Reports & AKD Research

Working capital normalization and loan deferral to improve liquidity: We revise our estimates for MLCF after adjusting working capital cycle, incorporating details of deferred loans under SBP's scheme and recent announcement of extension in WHR capacity to 25MW from 16MW. While industry went through a down cycle, discounts increased and working capital cycles became stretched to penetrate into the market and counter increased competition. Consequently, MLCF's working capital cycle increased to 68 days in FY20 against an average of 22 days from FY13-18 while short term borrowing stood at PkR6.6bn as of Jun '20 against PkR4bn as of Jun'19. Moving forward, taking cue from recent rationalization of discounts and high demand growth, we expect cycle to normalize at 35/30 days for FY21/22 (stood at 32 days for 1QFY21). However if demand remains strong, further strengthening of working capital cycle will reduce the need of short term borrowing (as witnessed in FY15-16) thus opening up prospects for further upside. To mitigate impacts of COVID-19 imparted slowdown, SBP announced a deferral policy, allowing companies to defer repayment of loans for a period of one year. With detailed accounts providing exact details of new timelines of loan repayment, further improvement in liquidity is expected as some loans have been extended for one year against our earlier assumption of deferment over remaining period of loan, uplifting our EPS for FY21/22 by PkR0.08/0.05.

MLCF Performance



Source: PSX & AKD Research

Increase in WHR capacity to further uplift earnings: MLCF has recently announced expansion of WHR capacity to 25MW from 16MW. The said measure will provide more credence to MLCF's status of one of the lowest cost producers (PkR234/bag cash cost of production for FY20—second lowest from our universe). Civil work for the project has already commenced while the total cost stands at PkR1.8bn, entirely financed through debt. Company has utilized SBP's Temporary Economic Refinance Facility in this regard and enjoys a subsidized rate of 5% for the facility. Expected to commence in Sep'21, power cost savings are expected to uplift EPS of FY22/23 by PKR0.20/0.23.

Investment Perspective: On the back of upbeat demand and improved pricing dynamics, we expect MLCF to post earnings growth of 29% from FY21-24 where additional impetus will be provided by expansion in WHR's capacity. That said, recent run in the stock price (19% in last ~3 weeks) on the back of upbeat demand numbers for Oct'20 have resulted in little upside. Consequently, our Jun'21 TP of PkR47.4/sh (upside: 11.2%) offers a Neutral stance.

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AKD Securities Limited
602, Continental Trade Centre,
Clifton Block 8, Karachi, Pakistan.
research@akdsecurities.net