



Millat tractors : Good road ahead...

Millat tractors reported 12% higher net profit of Rs 2.13bn (EPS Rs 53.11) for FY13 against Rs 1.9bn (EPS Rs 54.03) in last year. Company reported 12% higher net sales of Rs 22.7bn in FY13 against Rs 20.13bn in FY12, the gross profit margin stood at same position of 17.5% in both years. The higher sales are due to the company's exports business performance.

Export Business: A green field ahead

MTL's key product Messey Ferguson tractor has high demand in Pakistan as well as in overseas which leads the company to operate plant on over capacity.

Currently company has 30,000 tractors per annum production capacity, but for the last two years company is producing more than 32,000 tractors per annum to meet the exceeding demand.

We expect that company may go for expanding the production capacity in future because company sees a green area for their products in overseas. This time we also see MTL tractors going to China as well owing to supplier's arrangement under the auspices of Messy Ferguson of UK. We will take the impact of 1000 units.

Punjab government tractor scheme: to boost the sales

In December 2012, Punjab government conducted tractor scheme for farmers which increased tractor sales by more than 10, 000 units. In FY13, government has already imposed ban on importing the tractors so local demand is full filled by the two local companies Al Ghazi and Millat tractors. Being a market leader with 65% market share Millat tractors has competitive edge over other peer.

It is also expected that Punjab government will soon come with 2nd phase of same tractor scheme in first half of FY14 which will also beef up company production.

Millat Industrial products limited- Subsidiary company

MTL holds 64% stake in Millat Industrial Products limited which is engaged in manufacturing the automotive batteries for MTL as well as after sale market in local and overseas market. With massive energy crisis in country, batteries demand for UPS usage is increasing and we are positive for higher sales in upcoming months which will also give support to MTL earnings.

Valuation:

Usually company reports relatively lower EPS in 1Q as compared to other quarters. Based on future incremental earnings in 2HFY14 MTL yields PE of 9x, we set our HOLD stance for MTL. The endeavor by Fauji Foundation to acquire MTL holdings is seems to be in progress.

Triggers

- **Tractor sales pick up in Sept. onwards**
- **Exports to China**
- **Price increase effect to come in coming quarters. The prices of different variants increased by 4% - 5%**
- **MTL to continue over capacity Production**
- **The impact of floods is lesser as against last year and even then tractor sales remained robust**
- **The deal between FF and MTL management is in a ping pong stage**
- **Govt. of Punjab may come up with new schemes in Dec - Jan**

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