

Maple Leaf Cement.... Joining the Expansion Bandwagon

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We re-initiate our coverage of MLCF. Our thrust for coverage is due to their announced expansion.

- The company is doing an expansion in their current location. MLCF will be adding 2.1mn tpa, enhancing their total capacity to 5.5mn tpa.
- The expansion is to come live by FY18. This is aligned with increase in demand for cement in the country where infrastructure development is now priority.
- Apart from ordinary grey cement, MLCF also produces white cement where it controls 90% of the market share; that contributes around 8% to the total revenue.
- MLCF is installing a 40MW coal fired power project. This company is already enjoying a diversified energy mix.

MLCF @ 122.20
52 Week Low 70.40
52 Week High 125.14
Total no. of shares 527.73mn
Market Capitalization Rs 64.23bn
Enterprise value Rs70bn
Beta 1.24
Annual EPS FY16 9.26

Premise...

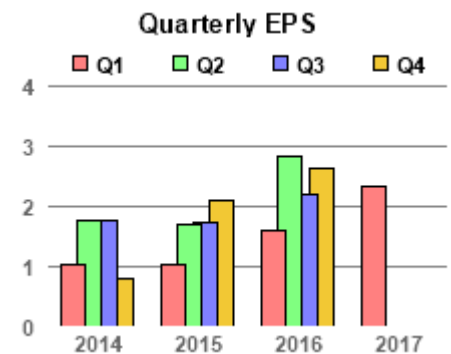
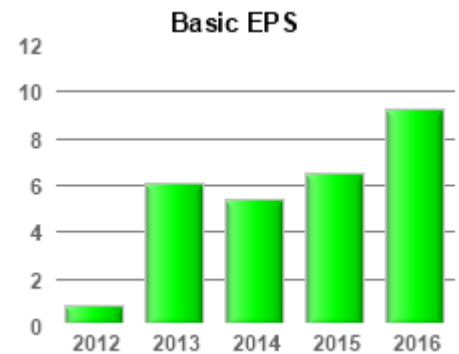
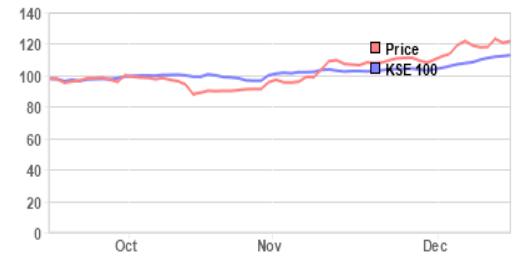
MLCF has joined the expansion bandwagon following other players (LUCK, CHCC, ACPL, and DGKC). MLCF plant is in Daud Khel of Mianwali district and caters to the northern zone of the country. Pakistan is currently witnessing construction industry boom with enhanced expenditure by both public and private sector. The company will be benefiting to the increased demand of cement, considering continuous expenditure by government in development projects in respect of CPEC and otherwise.

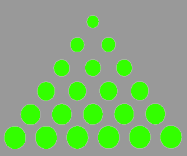
Coal fired power plant...

MLCF is currently installing a 40MW coal fired power plant for a cheaper source of energy. The project is expected to come live by the end of FY17. Considering a stable outlook in the prices of coal, we are expecting MLCF to benefit from a decrease in operational expenses. The plant is being setup through a wholly owned subsidiary viz. Maple Leaf Power Limited.

Diversified energy mix...

The company is already using a diversified energy mix from different sources. MLCF already have a WHR plant which provides more than 25% of the energy. After the operational commencement of coal fired power plant the company dependency on Grid and Furnace Oil will be exceptionally minimized.

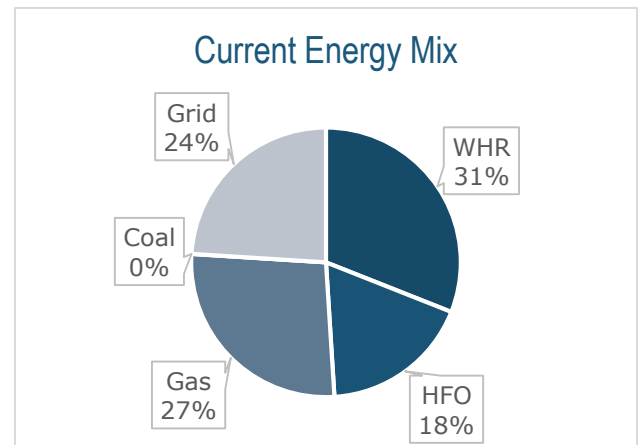




Financials...

Considering increase in prices of cement, in light of rising demand, we expect a rise in topline by more than 5%. The controlled cost will result in a rise of operating profit rise of 19%, resulting in an increase in bottom line by 23%.

MLCF have made an early payment of the Sukuk and is standing at an excellent liquidity position. The long-term loan to assets ratio of the company is 16.88%. However, due to investment in the coal fired power plant with expected outlay of Rs 5bn and plant expansion with expected outlay of more than Rs 18bn, we expect an increase in leverage position. The rise in liabilities and effect of finance cost has been incorporated in the model. We expect the company to pay a dividend of Rs 4.5/sh in FY17. (table source MLCF books)



MLCF Estimated P&L			
Rs 000'	FY17E	FY16	chg
Net Sales	24,816,042	23,432,696	6%
Cost of Sales	13,335,995	13,410,564	-1%
Gross Profit	11,480,046	10,022,132	15%
Other income	36,032	36,396	-1%
Operating Cost	2,499,377	2,505,486	0%
Operating Profit	9,016,702	7,553,042	19%
Finance Cost	413,714	435,504	-5%
PBT	8,602,987	7,117,538	21%
Tax	2,580,896	2,232,953	16%
PAT	6,022,091	4,884,585	23%
EPS Rs/sh	11.41	9.26	23%
DPS	4.50	4.00	13%

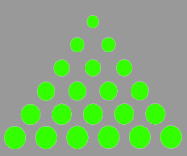
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ValuationCheaper than peers

In the cement universe, MLCF is deciphering FY17 PE of 10.8x as per our forecasted EPS. Hence its being cheaper versus peers. The average cement sector leading PE is 15x as per our working.



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