

Maple Leaf Cement...it isn't a dark horse

We have revisited MLCF model wherein we estimate company to operate around 75%-77% capacity utilization & given our thrust of retention price, we estimate MLCF to notch FY17 EPS range of Rs 10.5/sh – Rs 11.2/sh.

PE range...This delineates FY17 PE range of 10x -10.4x. MLCF has a historical payout ratio of around 43% (wherein it has already paid interim dividend of Rs2/sh) and we expect another cash dividend announcement despite the fact that the company has announced it's another 7000tons per day expansion (as per company books). **MLCF may be delineating lower PE as against FY17 PE of DGKC as per our estimation.**

Expansion galore....MLCF informed to establish letter of credit in favor of FLSmidth A/S, Denmark for supply and setting up of production line. As per books, it is targeted to begin commercial operations within 26 months after the signing of contract. MLCF is already operating with capacity of 3.4mn tons. We expect DGKC production capacity increase at Hub may come earlier. Also Fauji Cement line 2 re-initiation may come during FY18 (as per their books & optimistic reviews). However, we assign emphasis on MLCF given its dam quality product versus FCCL road quality stuff.

PSDP factor....Finance minister have announced Rs1 trillion PSDP in recent finance bill for FY18 wherein substantial amount has been earmarked for Dasu & Diamer Bhasha where we expect DGKC & MLCF could be candidates given dam quality cement demand. As per industry channel checks, total industry cement consumption could be around 1mn ton each at least for both these two projects and we expect cement industry as whole to seek benefit in one way or the other.

MLCF is also part of small cap MSCI list.

FY17 operations remained sanguine.....During 9MFY17, MLCF produced 2.54mn tons vs 2.42mn tons wherein there is decrease in export volumes. MLCF reported 9MFY17 EPS of Rs 7.68/sh as against Rs6.64/sh reported in the same period last year. This is despite the fact that coal prices touched a high of \$107/ton during Nov 2016. However, it receded to \$86/ton as per *index mundi*. MLCF operating profits also increased given increase in margins over retention price. Also we saw MLCF took advantage of lower interest rate cycle.

We expect MLCF EPS may increase going forward in FY18 as per our model (without expansion impact EPS estimation could be Rs 12/sh – Rs13/sh given our thrust of firmed up bag rates, industry demand especially in Punjab & KPK province & ongoing hydro projects etc.

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