

## MLCF

## 1QFY22 Result Review: BUY Stance Maintained

Equity Research | Cement | Monday, 25 October, 2021



MLCF has announced its 1QFY22 result where it posted a profit after tax of Rs563mn (EPS: Rs0.51) as compared to a profit after tax of Rs309mn (EPS: Rs.28) in the same period last year, up by 82% YoY.

The company has posted a revenue of 9.9bn against Rs7.5bn in SPLY, recording a growth of 32% YoY. We note that this growth is attributed to the surge in construction activities amid increase in volumetric sales.

The gross margin has been improved to 19.5% as compared to 16.3% in SPLY due to an increase in retention prices. SG&A expenses have been increased by 72% YoY.

Finally, the other income has been increased by 75% YoY to Rs11mn as compared to Rs45mn during SPLY. Further, the finance cost has also been increased by 30% YoY to Rs330mn as compared to Rs469mn during SPLY.

Going forward, we expect the coal prices to ease down amid worldwide efforts to ensure supply which would reduce the cost pressure. MLCF is currently trading at a FY22E P/E of 2.57x. Moreover, the scrip is also trading at a FY22E P/B of 0.96x which offers a discount of 19% relative to its historical 3-year average of 1.19x. We have a **BUY** stance on the script with a DCF based Jun-22 TP of Rs 65 which provides an upside potential of 69%. Further, the scrip also provides a dividend yield of 2.80%, which makes the total return of 71%.

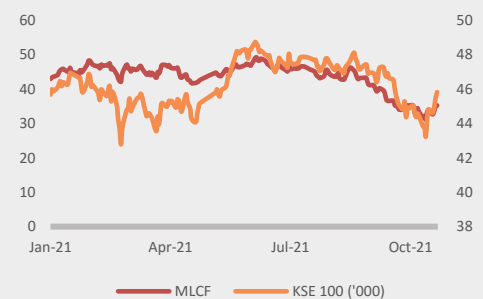
| Rupees' millions             | 1QFY22       | 1QFY21       | YoY            | FY21         | FY20          | YoY              |
|------------------------------|--------------|--------------|----------------|--------------|---------------|------------------|
| Net Sales                    | 9,896        | 7,521        | 31.6% ▲        | 35,640       | 29,118        | 22.4% ▲          |
| Cost of Sales                | -7,967       | -6,292       | 26.6% ▲        | -28,135      | -29,845       | 5.7% ▼           |
| <b>Gross Profit</b>          | <b>1,929</b> | <b>1,229</b> | <b>57.0% ▲</b> | <b>7,505</b> | <b>-728</b>   | <b>1131.5% ▲</b> |
| SG&A Expenses                | -615         | -358         | 72.0% ▲        | -2,088       | -1,602        | 30.4% ▲          |
| Other Expenses               | -164         | -33          | 391.7% ▲       | -365         | -90           | 305.7% ▲         |
| <b>Operating Profit</b>      | <b>1,150</b> | <b>838</b>   | <b>37.3% ▲</b> | <b>5,051</b> | <b>-2,419</b> | <b>308.8% ▲</b>  |
| Other Income                 | 11           | 45           | 75.1% ▼        | 3,732        | 132           | 2727.8% ▲        |
| Finance Cost                 | -330         | -469         | 29.7% ▼        | -1,494       | -2,982        | 49.9% ▼          |
| Profit Before Taxation       | 831          | 413          | 101.1% ▲       | 7,290        | -5,269        | 238.3% ▲         |
| Taxation                     | -268         | -104         | 58.7% ▲        | -1,035       | 426           | 343.2% ▲         |
| <b>Profit After Taxation</b> | <b>563</b>   | <b>309</b>   | <b>81.8% ▲</b> | <b>6,254</b> | <b>-4,843</b> | <b>229.1% ▲</b>  |
| <b>Earnings Per Share</b>    | <b>0.51</b>  | <b>0.28</b>  | <b>81.8% ▲</b> | <b>5.69</b>  | <b>-4.41</b>  | <b>229.1% ▲</b>  |
| <b>Dividend</b>              | <b>0.00</b>  | <b>0.00</b>  |                | <b>0.00</b>  | <b>0.00</b>   |                  |
| <b>Bonus</b>                 | <b>-</b>     | <b>-</b>     |                | <b>-</b>     | <b>-</b>      |                  |
| Gross Margin                 | 19.5%        | 16.3%        | 3.2% ▲         | 21.1%        | -2.5%         | 23.6% ▲          |
| SG&A Expenses to Sales       | -6.2%        | -4.8%        | 1.5% ▲         | -5.9%        | -5.5%         | 0.4% ▲           |
| Other Income to Sales        | 0.1%         | 0.6%         | 0.5% ▼         | 10.5%        | 0.5%          | 10.0% ▲          |
| Ex. Gain / (Loss) to Sales   | -6.2%        | -4.8%        | 1.5% ▲         | -5.9%        | -5.5%         | 0.4% ▲           |
| Effective Taxation           | -32.3%       | -25.1%       | 7.2% ▲         | -14.2%       | -8.1%         | 6.1% ▲           |
| <b>Net Margin</b>            | <b>5.7%</b>  | <b>4.1%</b>  | <b>1.6% ▲</b>  | <b>17.5%</b> | <b>-16.6%</b> | <b>34.2% ▲</b>   |

Source: ACPL Research, Company Financials

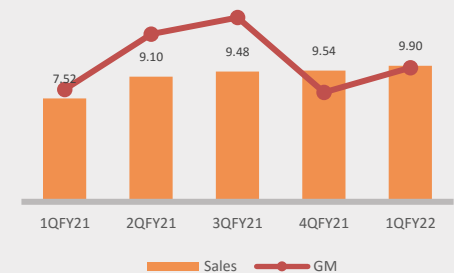
## Key Statistics

| Symbol               | MLCF   |
|----------------------|--------|
| TP - Jun 22          | 65.00  |
| LDPCP                | 35.70  |
| Upside (%)           | 69     |
| Free Float ('mn)     | 494    |
| Market Cap. (Rs.'mn) | 39,156 |

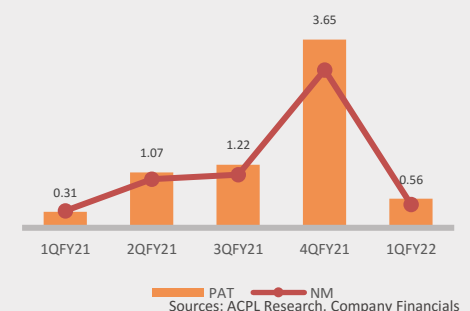
## MLCF vs KSE 100



## Sales (Rs'bn) vs Gross Margin



## PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

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## Financial Projections

| Rupees' millions               | FY19A        | FY20A          | FY21A        | FY22E        | FY23E        | FY24E         | FY25E         |
|--------------------------------|--------------|----------------|--------------|--------------|--------------|---------------|---------------|
| Net sales                      | 26,006       | 29,118         | 35,640       | 52,517       | 62,711       | 74,784        | 89,071        |
| Cost of sale                   | 21,089       | 29,845         | 28,135       | 46,206       | 53,792       | 62,759        | 73,363        |
| <b>Gross profit</b>            | <b>4,917</b> | <b>- 728</b>   | <b>7,505</b> | <b>6,311</b> | <b>8,919</b> | <b>12,025</b> | <b>15,708</b> |
| Selling and promotion expenses | 933          | 817            | 1,116        | 1,644        | 1,963        | 2,341         | 2,788         |
| Administration expenses        | 734          | 785            | 973          | 1,050        | 1,254        | 1,496         | 1,781         |
| Other operating expenses       | 456          | 90             | 365          | 735          | 878          | 1,047         | 1,247         |
| <b>Operating Profit</b>        | <b>2,794</b> | <b>- 2,419</b> | <b>5,051</b> | <b>2,881</b> | <b>4,824</b> | <b>7,142</b>  | <b>9,891</b>  |
| Other operating income         | 43           | 132            | 3,732        | 2,626        | 3,136        | 3,739         | 4,454         |
| Finance cost                   | 1,173        | 2,982          | 1,494        | 1,171        | 913          | 721           | 483           |
| Profit before taxation         | 1,664        | - 5,269        | 7,290        | 4,336        | 7,046        | 10,160        | 13,862        |
| Taxation                       | 199          | - 426          | 1,035        | 1,217        | 1,983        | 2,864         | 3,917         |
| <b>Profit after taxation</b>   | <b>1,465</b> | <b>- 4,843</b> | <b>6,254</b> | <b>3,119</b> | <b>5,063</b> | <b>7,296</b>  | <b>9,945</b>  |
| EPS                            | <b>1.33</b>  | <b>- 4.41</b>  | <b>5.69</b>  | <b>2.84</b>  | <b>4.61</b>  | <b>6.64</b>   | <b>9.05</b>   |

Source: ACPL Research, Company Financials

## Horizontal Analysis

|                                | FY19A         | FY20A          | FY21A           | FY22E         | FY23E        | FY24E        | FY25E        |
|--------------------------------|---------------|----------------|-----------------|---------------|--------------|--------------|--------------|
| Net sales                      | 1.2%          | 12.0%          | 22.4%           | 47.4%         | 19.4%        | 19.3%        | 19.1%        |
| Cost of sale                   | 12.9%         | 41.5%          | -5.7%           | 64.2%         | 16.4%        | 16.7%        | 16.9%        |
| <b>Gross profit</b>            | <b>-30.0%</b> | <b>-114.8%</b> | <b>-1131.5%</b> | <b>-15.9%</b> | <b>41.3%</b> | <b>34.8%</b> | <b>30.6%</b> |
| Selling and promotion expenses | 26.8%         | -12.4%         | 36.6%           | 47.4%         | 19.4%        | 19.3%        | 19.1%        |
| Administration expenses        | 0.4%          | 7.0%           | 23.9%           | 8.0%          | 19.4%        | 19.3%        | 19.1%        |
| Other operating expenses       | -20.3%        | -80.3%         | 305.7%          | 101.4%        | 19.4%        | 19.3%        | 19.1%        |
| <b>Operating Profit</b>        | <b>-43.9%</b> | <b>-186.6%</b> | <b>-308.8%</b>  | <b>-43.0%</b> | <b>67.4%</b> | <b>48.0%</b> | <b>38.5%</b> |
| Other operating income         | -23.1%        | 206.9%         | 2727.8%         | -29.6%        | 19.4%        | 19.3%        | 19.1%        |
| Finance cost                   | 82.0%         | 154.3%         | -49.9%          | -21.6%        | -22.0%       | -21.1%       | -33.0%       |
| Profit before taxation         | -62.1%        | -416.6%        | -238.3%         | -40.5%        | 62.5%        | 44.2%        | 36.4%        |
| Taxation                       | -73.9%        | -314.1%        | -343.2%         | 17.5%         | 63.0%        | 44.4%        | 36.8%        |
| <b>Profit after taxation</b>   | <b>-59.7%</b> | <b>-430.5%</b> | <b>-229.1%</b>  | <b>-50.1%</b> | <b>62.3%</b> | <b>44.1%</b> | <b>36.3%</b> |
| EPS                            | <b>-59.7%</b> | <b>-430.5%</b> | <b>229.1%</b>   | <b>-50.1%</b> | <b>62.3%</b> | <b>44.1%</b> | <b>36.3%</b> |

Source: ACPL Research, Company Financials

## Key Ratios

| Profitability Ratios |     | FY19A | FY20A  | FY21A | FY22E | FY23E | FY24E | FY25E |
|----------------------|-----|-------|--------|-------|-------|-------|-------|-------|
| GP Margin            | %   | 18.91 | -2.50  | 21.06 | 12.02 | 14.22 | 16.08 | 17.64 |
| OP Margin            | %   | 10.74 | -8.31  | 14.17 | 5.49  | 7.69  | 9.55  | 11.10 |
| NP Margin            | %   | 5.63  | -16.63 | 17.55 | 5.94  | 8.07  | 9.76  | 11.17 |
| ROE                  | %   | 4.80  | -15.46 | 16.64 | 7.66  | 11.34 | 14.50 | 17.13 |
| ROCE                 | %   | 2.77  | -9.09  | 11.88 | 5.98  | 9.48  | 12.64 | 15.27 |
| ROA                  | %   | 2.22  | -7.34  | 9.67  | 5.00  | 7.97  | 10.81 | 13.46 |
| Cost per ton         | 'mn | 5.87  | 5.75   | 5.85  | 9.00  | 9.13  | 9.29  | 9.47  |
| EBITDA per ton       | 'mn | 1.39  | 0.14   | 0.98  | 0.61  | 0.74  | 0.88  | 1.01  |

| Liquidity Ratios      |   | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|-----------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Current               | x | 1.00  | 1.08  | 1.38  | 1.14  | 1.24  | 1.46  | 1.67  |
| Acid-test             | x | 0.23  | 0.27  | 0.34  | -0.08 | 0.14  | 0.26  | 0.42  |
| Cash to current liab. | x | 0.03  | 0.07  | 0.06  | -0.44 | -0.23 | -0.14 | 0.00  |

| Activity Ratios     |     | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|---------------------|-----|-------|-------|-------|-------|-------|-------|-------|
| Average Inventory   | 'mn | 1,466 | 1,759 | 1,728 | 2,216 | 2,999 | 3,512 | 4,102 |
| Inventory Turnover  | x   | 14    | 17    | 16    | 21    | 18    | 18    | 18    |
| Inventory Days      |     | 25    | 22    | 22    | 18    | 20    | 20    | 20    |
| Receivables Days    |     | 38    | 39    | 39    | 40    | 38    | 38    | 38    |
| Payables Days       |     | 142   | 97    | 97    | 90    | 95    | 95    | 95    |
| Operating Cycle     |     | -79   | -37   | -36   | -32   | -36   | -36   | -36   |
| Utilization         | %   | 96    | 89    | 77    | 88    | 101   | 116   | 133   |
| Export Revenue      | %   | 9     | 3     | 4     | 3     | 3     | 3     | 3     |
| Local Revenue       | %   | 91    | 97    | 96    | 97    | 97    | 97    | 97    |
| Export Market Share | %   | 0.7   | 0.4   | 0.3   | 0.3   | 0.3   | 0.3   | 0.2   |
| Local Market Share  | %   | 8.3   | 12.6  | 9.8   | 10.3  | 10.7  | 11.2  | 11.7  |
| Total Market Share  | %   | 7.8   | 10.9  | 8.4   | 8.6   | 8.8   | 9.0   | 9.2   |

| Investment Ratios |      | FY19A | FY20A  | FY21A  | FY22E | FY23E | FY24E | FY25E |
|-------------------|------|-------|--------|--------|-------|-------|-------|-------|
| EPS               | Rs.  | 1.33  | -4.41  | 5.69   | 2.84  | 4.61  | 6.64  | 9.05  |
| DPS               | Rs.  | 0.50  | 0.00   | 0.00   | 1.00  | 1.50  | 2.00  | 2.00  |
| Div. Yield        | %    | 1.40  | 0.00   | 0.00   | 2.80  | 4.20  | 5.60  | 5.60  |
| Dividend Cover    | x    | 2.67  | 0.00   | 0.00   | 2.84  | 3.07  | 3.32  | 4.53  |
| BVPS              | Rs.  | 27.78 | 28.52  | 34.21  | 37.05 | 40.66 | 45.80 | 52.86 |
| Payout            | %    | 37.48 | 0.00   | 0.00   | 35.21 | 32.54 | 30.11 | 22.09 |
| Retention         | %    | 62.52 | 100.00 | 100.00 | 64.79 | 67.46 | 69.89 | 77.91 |
| No. of Shares     | '000 | 1,098 | 1,098  | 1,098  | 1,098 | 1,098 | 1,098 | 1,098 |
| P/E               |      | 26.76 | 0.00   | 6.27   | 12.57 | 7.74  | 5.37  | 3.94  |
| Sales per share   |      | 23.68 | 26.51  | 32.45  | 47.81 | 57.10 | 68.09 | 81.10 |
| P/BV              |      | 1.28  | 1.25   | 1.04   | 0.96  | 0.88  | 0.78  | 0.68  |
| Price to Sales    |      | 1.51  | 1.35   | 1.10   | 0.75  | 0.63  | 0.52  | 0.44  |

| Gearing Ratios      |   | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E | FY25E |
|---------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Debt to Equity      | x | 0.73  | 0.70  | 0.40  | 0.28  | 0.20  | 0.15  | 0.12  |
| L.T. Debt to Equity | x | 0.56  | 0.48  | 0.25  | 0.16  | 0.11  | 0.09  | 0.08  |
| Interest Cover      | x | 2.38  | -0.81 | 3.38  | 2.46  | 5.28  | 9.91  | 20.48 |

Source: ACPL Research, Company Financials

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|             |                           |             |                             |             |                        |
|-------------|---------------------------|-------------|-----------------------------|-------------|------------------------|
| <b>TP</b>   | Target Price              | <b>CAGR</b> | Compound Annual Growth Rate | <b>FCF</b>  | Free Cash Flows        |
| <b>FCFE</b> | Free Cash Flows to Equity | <b>FCFF</b> | Free Cash Flows to Firm     | <b>DCF</b>  | Discounted Cash Flows  |
| <b>PE</b>   | Price to Earnings Ratio   | <b>PB</b>   | Price to Book Ratio         | <b>BVPS</b> | Book Value Per Share   |
| <b>EPS</b>  | Earnings Per Share        | <b>DPS</b>  | Dividend Per Share          | <b>ROE</b>  | Return of Equity       |
| <b>ROA</b>  | Return on Assets          | <b>SOTP</b> | Sum of the Parts            | <b>LDCP</b> | Last Day Closing Price |

### VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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|--------------|----------------------------|
| BUY          | Greater than 15%           |
| HOLD         | Between -5% to 15%         |
| SELL         | Less than and equal to -5% |

| Sector Rating | Sector Outlook |
|---------------|----------------|
| Overweight    | Positive       |
| Market Weight | Neutral        |
| Underweight   | Negative       |

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