

MFL has announced its 2QFY20 result where it posted profit after tax of Rs79mn (EPS: Rs0.64) in 6MFY20 as compared to profit after tax of Rs152mn (EPS: Rs1.24) in same period last year, down by 48.1% YoY.

The company has posted the revenue of Rs3.8bn against Rs3.6bn in SPLY, recording a growth of 5.1% YoY. We note that this growth is attributed to the increase in the international prices of basmati rice by around 11% YoY during the period.

Gross margin has been improved to 13.3% in 6MFY20 as compared to 12.1% in 6MFY19 due to rupee devaluation and improved international prices.

SG&A expenses have grown by 6.5% YoY to Rs238mn in 6MFY20 as compared to Rs223mn during SPLY.

Declined other income by 78% YoY, exchange losses of around Rs13mn, increased finance cost by 28.6% YoY and higher effective taxation of 32% as compared to 17% during SPLY, caused the bottom-line to plunge despite growth in revenues.

MFL is currently trading at FY20E PE of 9.36x. Furthermore, the script is trading at a FY20E P/B of 0.66x which offers a discount of 29% relative to its historical 5-year average of 0.93x. We maintain our **BUY** stance on the script with a DCF based Dec-20 TP of Rs 35 which provides an upside potential of 35%.

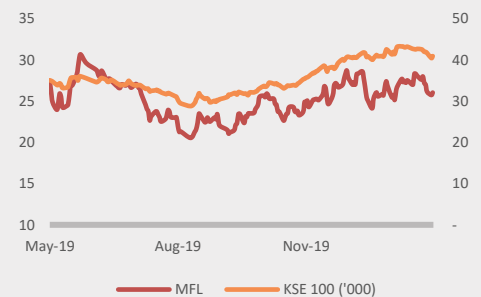
Rupees' millions	2QFY20	2QFY19	YoY	6MFY20	6MFY19	YoY
Net Sales	1,686	1,835	8.1% ▼	3,793	3,610	5.1% ▲
Cost of Sales	-1,438	-1,591	9.6% ▼	-3,290	-3,173	3.7% ▲
<b>Gross Profit</b>	<b>248</b>	<b>244</b>	<b>1.6% ▲</b>	<b>503</b>	<b>437</b>	<b>15.2% ▲</b>
SG&A Expenses	-131	-141	6.9% ▼	-238	-223	6.5% ▲
<b>Operating Profit</b>	<b>116</b>	<b>103</b>	<b>13.2% ▲</b>	<b>265</b>	<b>213</b>	<b>24.3% ▲</b>
Other Income	11	71	84.5% ▼	18	80	78.0% ▼
Exchange Gain / (Loss)	-1	0	-	-13	9	239.2% ▼
Finance Cost	-86	-58	50.2% ▲	-154	-120	28.6% ▲
Profit Before Taxation	40	116	65.6% ▼	116	183	36.7% ▼
Taxation	-19	-15	24.1% ▲	-37	-31	18.5% ▲
<b>Profit After Taxation</b>	<b>21</b>	<b>101</b>	<b>78.8% ▼</b>	<b>79</b>	<b>152</b>	<b>48.1% ▼</b>
<b>Earnings Per Share</b>	<b>0.18</b>	<b>0.83</b>	<b>78.8% ▼</b>	<b>0.64</b>	<b>1.24</b>	<b>48.1% ▼</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	
Gross Margin	14.7%	13.3%	1.4% ▲	13.3%	12.1%	1.2% ▲
SG&A Expenses to Sales	-7.8%	-7.7%	0.1% ▲	-6.3%	-6.2%	0.1% ▲
Other Income to Sales	0.7%	3.9%	3.2% ▼	0.5%	2.2%	1.8% ▼
Ex. Gain / (Loss) to Sales	-7.8%	-7.7%	0.1% ▲	-6.3%	-6.2%	0.1% ▲
Effective Taxation	-46.4%	-12.9%	33.5% ▲	-32.0%	-17.1%	14.9% ▲
<b>Net Margin</b>	<b>1.3%</b>	<b>5.5%</b>	<b>4.2% ▼</b>	<b>2.1%</b>	<b>4.2%</b>	<b>2.1% ▼</b>

Source: ACPL Research, Company Financials

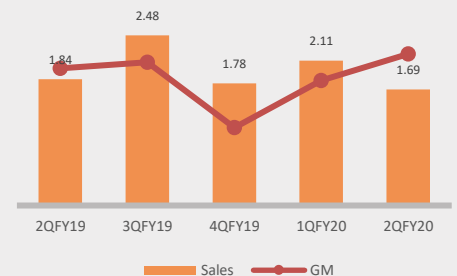
## Key Statistics

Symbol	MFL
TP - Dec 20	35.00
LDPCP	26.02
Upside (%)	34.51
Free Float ('mn)	31
Market Cap. (Rs.'mn)	3,185

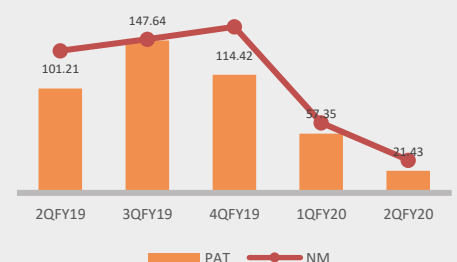
## MFL vs KSE 100



## Sales (Rs'bn) vs Gross Margin



## PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

M. Fawad Naveed

Phone: (+92) 42 38302028; Ext: 117

Email: fawad@abbasiandcompany.com

## Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	6,089	5,578	6,134	6,869	7,863	9,403	10,103	10,964	11,643
Cost of sales	-5,194	-4,939	-5,169	-5,862	-6,949	-8,138	-8,682	-9,360	-9,870
<b>Gross profit</b>	<b>895</b>	<b>639</b>	<b>965</b>	<b>1,007</b>	<b>915</b>	<b>1,266</b>	<b>1,421</b>	<b>1,604</b>	<b>1,773</b>
Distribution cost	-274	-284	-292	-300	-167	-235	-253	-274	-291
Administrative expenses	-166	-159	-175	-198	-240	-348	-374	-406	-431
Other operating expenses	-5	-5	-16	-22	-31	-37	-39	-43	-45
<b>Profit from operations</b>	<b>450</b>	<b>191</b>	<b>482</b>	<b>487</b>	<b>476</b>	<b>646</b>	<b>756</b>	<b>882</b>	<b>1,006</b>
Other income	3	51	72	91	260	90	97	105	112
Finance cost	-294	-204	-212	-240	-276	-351	-331	-306	-262
<b>Profit before income tax</b>	<b>160</b>	<b>38</b>	<b>342</b>	<b>338</b>	<b>460</b>	<b>385</b>	<b>522</b>	<b>681</b>	<b>856</b>
Income tax expense	-62	-34	-73	-29	-47	-45	-67	-88	-108
<b>Profit for the year</b>	<b>98</b>	<b>4</b>	<b>269</b>	<b>308</b>	<b>414</b>	<b>340</b>	<b>455</b>	<b>593</b>	<b>747</b>
EPS	<b>0.80</b>	<b>0.03</b>	<b>2.20</b>	<b>2.52</b>	<b>3.38</b>	<b>2.78</b>	<b>3.71</b>	<b>4.85</b>	<b>6.11</b>
EBITDA	<b>604</b>	<b>336</b>	<b>620</b>	<b>649</b>	<b>648</b>	<b>853</b>	<b>975</b>	<b>1,114</b>	<b>1,252</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	-25.38%	-8.39%	9.98%	11.98%	14.47%	19.59%	7.44%	8.53%	6.19%
Cost of sales	-28.65%	-4.91%	4.66%	13.41%	18.53%	17.12%	6.68%	7.81%	5.45%
<b>Gross profit</b>	<b>1.62%</b>	<b>-28.62%</b>	<b>51.12%</b>	<b>4.35%</b>	<b>-9.22%</b>	<b>38.38%</b>	<b>12.31%</b>	<b>12.88%</b>	<b>10.54%</b>
Distribution cost	-19.09%	3.80%	2.69%	2.83%	-44.32%	40.67%	7.44%	8.53%	6.19%
Administrative expenses	26.03%	-4.15%	10.28%	13.05%	21.32%	44.77%	7.44%	8.53%	6.19%
Other operating expenses	-26.20%	-6.58%	247.21%	40.35%	37.30%	19.59%	7.44%	8.53%	6.19%
<b>Profit from operations</b>	<b>11.47%</b>	<b>-57.58%</b>	<b>152.41%</b>	<b>0.92%</b>	<b>-2.13%</b>	<b>35.57%</b>	<b>16.98%</b>	<b>16.72%</b>	<b>14.10%</b>
Other income	-98.09%	1350.71%	41.52%	26.66%	186.18%	-65.23%	7.44%	8.53%	6.19%
Finance cost	-11.61%	-30.71%	4.00%	13.12%	14.93%	27.27%	-5.69%	-7.56%	-14.17%
<b>Profit before income tax</b>	<b>-37.16%</b>	<b>-76.26%</b>	<b>801.35%</b>	<b>-1.24%</b>	<b>36.33%</b>	<b>-16.29%</b>	<b>35.36%</b>	<b>30.58%</b>	<b>25.56%</b>
Income tax expense	-19.74%	-45.20%	114.73%	-59.69%	58.38%	-2.96%	48.45%	31.14%	22.69%
<b>Profit for the year</b>	<b>-44.78%</b>	<b>-96.00%</b>	<b>6768.91%</b>	<b>14.63%</b>	<b>34.22%</b>	<b>-17.79%</b>	<b>33.62%</b>	<b>30.50%</b>	<b>25.99%</b>
EPS	<b>-44.78%</b>	<b>-96.00%</b>	<b>6768.91%</b>	<b>14.63%</b>	<b>34.22%</b>	<b>-17.79%</b>	<b>33.62%</b>	<b>30.50%</b>	<b>25.99%</b>
EBITDA	<b>16.65%</b>	<b>-44.43%</b>	<b>84.62%</b>	<b>4.70%</b>	<b>-0.24%</b>	<b>31.74%</b>	<b>14.27%</b>	<b>14.26%</b>	<b>12.37%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	14.70	11.45	15.74	14.66	11.63	13.46	14.07	14.63	15.23
NP Margin	%	1.61	0.07	4.38	4.49	5.26	3.62	4.50	5.41	6.42
OP Margin	%	7.40	3.43	7.86	7.09	6.06	6.87	7.48	8.04	8.64
ROE	%	3.24	0.14	8.56	7.47	9.18	7.02	8.57	10.06	11.25
ROCE	%	13.83	5.97	13.24	10.70	9.60	13.29	15.36	17.16	18.03
ROA	%	1.31	0.06	3.27	3.41	4.32	2.94	3.97	5.20	6.72
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	1.32	1.37	1.32	1.52	1.48	1.31	1.33	1.37	1.50
Quick	x	0.04	0.04	0.04	0.20	0.06	0.12	0.01	-0.06	-0.17
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Inventory Turnover	x	1.09	1.06	1.06	1.13	1.34	1.39	1.30	1.33	1.36
Inventory Days		334.48	344.94	344.10	323.14	271.68	261.73	280.92	274.49	267.77
Receivables Days		2.63	3.35	5.04	4.54	8.77	7.33	6.82	6.29	5.92
Payables Days		22.98	14.42	23.49	14.07	13.03	13.03	13.03	13.03	13.03
Operating Cycle		314.13	333.87	325.66	313.61	267.41	256.03	274.71	267.75	260.66
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
DPS		0.00	0.00	0.00	0.70	0.00	0.00	0.00	0.00	0.00
Div. Yield	%	0.00	0.00	0.00	2.69	0.00	0.00	0.00	0.00	0.00
Dividend Cover	x	0.00	0.00	0.00	3.60	0.00	0.00	0.00	0.00	0.00
Retention	%	100.00	100.00	100.00	72.21	100.00	100.00	100.00	100.00	100.00
Payout	%	0.00	0.00	0.00	27.79	0.00	0.00	0.00	0.00	0.00
No. of Shares	('m)	122.40	122.40	122.40	122.40	122.40	122.40	122.40	122.40	122.40
EPS		0.80	0.03	2.20	2.52	3.38	2.78	3.71	4.85	6.11
BVPS		24.66	23.57	25.68	33.73	36.82	39.60	43.31	48.16	54.27
P/E	x	32.57	813.35	11.84	10.33	7.70	9.36	7.01	5.37	4.26
Sales per share		49.75	45.57	50.12	56.12	64.24	76.82	82.54	89.58	95.12
P/BV	x	1.06	1.10	1.01	0.77	0.71	0.66	0.60	0.54	0.48
P/S	x	0.52	0.57	0.52	0.46	0.41	0.34	0.32	0.29	0.27
Solvency Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Total Debt to Equity	x	1.24	1.18	1.38	1.08	1.01	1.34	1.18	0.99	0.76
L.T Debt to Equity	x	0.07	0.05	0.11	0.07	0.07	0.04	0.03	0.01	0.01
Total Debt to Assets	x	0.50	0.49	0.53	0.49	0.47	0.56	0.54	0.51	0.46
L.T Debt to Assets	x	0.03	0.02	0.04	0.03	0.03	0.02	0.01	0.01	0.00
Interest Cover	x	1.53	0.94	2.28	2.03	1.73	1.84	2.28	2.88	3.83

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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SELL	Less than and equal to -5%

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Market Weight	Neutral
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### RESEARCH DEPARTMENT

6 - Shadman, Lahore  
 Phone: (+92) 42 38302028; Ext 116, 117  
 Email: research@abbasiandcompany.com  
 web: www.abbasiandcompany.com

### HEAD OFFICE

6 - Shadman, Lahore  
 Phone: (+92) 42 38302028  
 Email: info@abbasiandcompany.com  
 web: www.abbasiandcompany.com

### BRANCH OFFICE

42 - Mall Road, Lahore  
 Phone: (+92) 42 37320707  
 Email: info@abbasiandcompany.com  
 web: www.abbasiandcompany.com