

MFL has announced its 3QFY20 result where it posted profit after tax of Rs98mn (EPS: Rs0.80) in 9MFY20 as compared to profit after tax of Rs299mn (EPS: Rs2.45) in same period last year, down by 67.4% YoY.

The company has posted the revenue of Rs6.7bn against Rs6.1bn in SPLY, recording a growth of 10.4% YoY. We note that this growth is attributed to the increase in the international prices of basmati rice during the period.

Gross margin has been squeezed to 10.3% in 9MFY20 as compared to 12.8% in 9MFY19 due to higher input cost.

SG&A expenses have decreased by 10.3% YoY to Rs345mn in 9MFY20 as compared to Rs385mn during SPLY.

Decline in other income by 83.7% YoY, increased finance cost by 36.3% YoY and higher effective taxation of 30.9% as compared to 17.2% during SPLY, caused the bottom-line to plunge despite growth in revenues.

Going forward, we expect the sales to remain sluggish during fourth quarter owing to COVID-19 crisis. However, the offtake is expected to improve from next fiscal year. MFL is currently trading at FY21E PE of 12.45x. Furthermore, the script is trading at a FY21E P/B of 0.51x which offers a discount of 29% relative to its historical 5-year average of 0.71x. We downgrade our stance to **HOLD** with a DCF based Jun-21 TP of Rs 22.

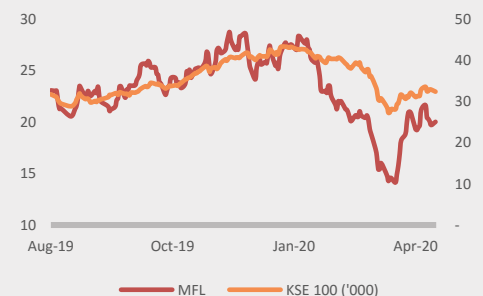
Rupees' millions	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	2,929	2,476	18.3% ▲	6,722	6,086	10.4% ▲
Cost of Sales	-2,738	-2,132	28.4% ▲	-6,028	-5,306	13.6% ▲
<b>Gross Profit</b>	<b>191</b>	<b>344</b>	<b>44.6% ▼</b>	<b>694</b>	<b>780</b>	<b>11.1% ▼</b>
SG&A Expenses	-107	-162	33.7% ▼	-345	-385	10.3% ▼
<b>Operating Profit</b>	<b>83</b>	<b>182</b>	<b>54.3% ▼</b>	<b>348</b>	<b>395</b>	<b>11.9% ▼</b>
Other Income	8	75	89.9% ▼	25	155	83.7% ▼
Exchange Gain / (Loss)	50	0	-	37	9	293.6% ▲
Finance Cost	-115	-78	48.3% ▲	-269	-198	36.3% ▲
Profit Before Taxation	25	179	85.8% ▼	141	362	61.0% ▼
Taxation	-7	-31	78.8% ▼	-44	-62	30.1% ▼
<b>Profit After Taxation</b>	<b>19</b>	<b>148</b>	<b>87.3% ▼</b>	<b>98</b>	<b>299</b>	<b>67.4% ▼</b>
<b>Earnings Per Share</b>	<b>0.15</b>	<b>1.21</b>	<b>87.3% ▼</b>	<b>0.80</b>	<b>2.45</b>	<b>67.4% ▼</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>0%</b>	<b>-</b>	
Gross Margin	6.5%	13.9%	7.4% ▼	10.3%	12.8%	2.5% ▼
SG&A Expenses to Sales	-3.7%	-6.5%	2.9% ▼	-5.1%	-6.3%	1.2% ▼
Other Income to Sales	0.3%	3.0%	2.8% ▼	0.4%	2.5%	2.2% ▼
Ex. Gain / (Loss) to Sales	-3.7%	-6.5%	2.9% ▼	-5.1%	-6.3%	1.2% ▼
Effective Taxation	-26.1%	-17.4%	8.6% ▲	-30.9%	-17.2%	13.7% ▲
<b>Net Margin</b>	<b>0.6%</b>	<b>6.0%</b>	<b>5.3% ▼</b>	<b>1.5%</b>	<b>4.9%</b>	<b>3.5% ▼</b>

Source: ACPL Research, Company Financials

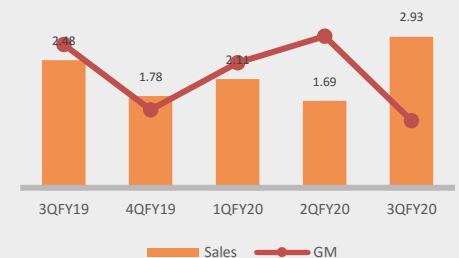
## Key Statistics

Symbol	MFL
TP - Jun 21	22.00
LDCP	20.00
Upside (%)	11.94
Free Float ('mn)	31
Market Cap. (Rs.'mn)	2,448

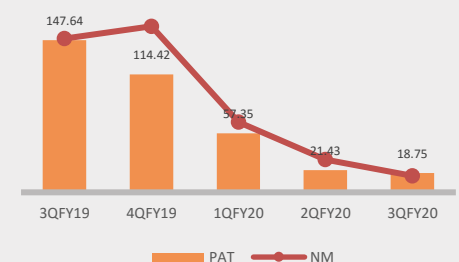
## MFL vs KSE 100



## 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	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	6,089	5,578	6,134	6,869	7,863	8,614	9,255	10,054	10,665
Cost of sales	-5,194	-4,939	-5,169	-5,862	-6,949	-7,706	-8,220	-8,867	-9,343
<b>Gross profit</b>	<b>895</b>	<b>639</b>	<b>965</b>	<b>1,007</b>	<b>915</b>	<b>908</b>	<b>1,035</b>	<b>1,186</b>	<b>1,322</b>
Distribution cost	-274	-284	-292	-300	-167	-187	-201	-218	-231
Administrative expenses	-166	-159	-175	-198	-240	-256	-275	-299	-317
Other operating expenses	-5	-5	-16	-22	-31	-34	-36	-39	-42
<b>Profit from operations</b>	<b>450</b>	<b>191</b>	<b>482</b>	<b>487</b>	<b>476</b>	<b>432</b>	<b>523</b>	<b>630</b>	<b>732</b>
Other income	3	51	72	91	260	78	83	90	96
Finance cost	-294	-204	-212	-240	-276	-343	-325	-302	-260
<b>Profit before income tax</b>	<b>160</b>	<b>38</b>	<b>342</b>	<b>338</b>	<b>460</b>	<b>166</b>	<b>281</b>	<b>419</b>	<b>568</b>
Income tax expense	-62	-34	-73	-29	-47	-50	-84	-126	-170
<b>Profit for the year</b>	<b>98</b>	<b>4</b>	<b>269</b>	<b>308</b>	<b>414</b>	<b>116</b>	<b>197</b>	<b>293</b>	<b>398</b>
EPS	<b>0.80</b>	<b>0.03</b>	<b>2.20</b>	<b>2.52</b>	<b>3.38</b>	<b>0.95</b>	<b>1.61</b>	<b>2.39</b>	<b>3.25</b>
EBITDA	<b>604</b>	<b>336</b>	<b>620</b>	<b>649</b>	<b>648</b>	<b>639</b>	<b>742</b>	<b>862</b>	<b>977</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%	9.55%	7.44%	8.63%	6.08%
Cost of sales	-28.65%	-4.91%	4.66%	13.41%	18.53%	10.89%	6.68%	7.87%	5.36%
<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>-0.68%</b>	<b>13.93%</b>	<b>14.64%</b>	<b>11.40%</b>
Distribution cost	-19.09%	3.80%	2.69%	2.83%	-44.32%	11.85%	7.44%	8.63%	6.08%
Administrative expenses	26.03%	-4.15%	10.28%	13.05%	21.32%	6.45%	7.44%	8.63%	6.08%
Other operating expenses	-26.20%	-6.58%	247.21%	40.35%	37.30%	9.55%	7.44%	8.63%	6.08%
<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>-9.32%</b>	<b>21.08%</b>	<b>20.53%</b>	<b>16.10%</b>
Other income	-98.09%	1350.71%	41.52%	26.66%	186.18%	-70.14%	7.44%	8.63%	6.08%
Finance cost	-11.61%	-30.71%	4.00%	13.12%	14.93%	24.66%	-5.26%	-7.08%	-14.02%
<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>-63.94%</b>	<b>69.21%</b>	<b>48.98%</b>	<b>35.69%</b>
Income tax expense	-19.74%	-45.20%	114.73%	-59.69%	58.38%	6.78%	69.21%	48.98%	35.69%
<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>-71.91%</b>	<b>69.21%</b>	<b>48.98%</b>	<b>35.69%</b>
EPS	<b>-44.78%</b>	<b>-96.00%</b>	<b>6768.91%</b>	<b>14.63%</b>	<b>34.22%</b>	<b>-71.91%</b>	<b>69.21%</b>	<b>48.98%</b>	<b>35.69%</b>
EBITDA	<b>16.65%</b>	<b>-44.43%</b>	<b>84.62%</b>	<b>4.70%</b>	<b>-0.24%</b>	<b>-1.29%</b>	<b>16.13%</b>	<b>16.18%</b>	<b>13.33%</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	10.54	11.18	11.80	12.39
NP Margin	%	1.61	0.07	4.38	4.49	5.26	1.35	2.13	2.91	3.73
OP Margin	%	7.40	3.43	7.86	7.09	6.06	5.02	5.65	6.27	6.86
ROE	%	3.24	0.14	8.56	7.47	9.18	2.51	4.08	5.73	7.22
ROCE	%	13.83	5.97	13.24	10.70	9.60	9.30	11.76	14.41	16.38
ROA	%	1.31	0.06	3.27	3.41	4.32	1.02	1.79	2.76	3.98
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	1.32	1.37	1.32	1.52	1.48	1.28	1.26	1.25	1.30
Quick	x	0.04	0.04	0.04	0.20	0.06	0.15	0.02	-0.11	-0.28
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Inventory Turnover	x	1.09	1.06	1.06	1.13	1.34	1.36	1.30	1.33	1.36
Inventory Days		334.48	344.94	344.10	323.14	271.68	268.28	280.92	274.42	267.87
Receivables Days		2.63	3.35	5.04	4.54	8.77	8.00	7.45	6.86	6.46
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	263.25	275.34	268.25	261.31
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	3.50	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	0.95	1.61	2.39	3.25
BVPS		24.66	23.57	25.68	33.73	36.82	37.77	39.38	41.77	45.02
P/E	x	25.04	625.17	9.10	7.94	5.92	21.06	12.45	8.35	6.16
Sales per share		49.75	45.57	50.12	56.12	64.24	70.37	75.61	82.14	87.13
P/BV	x	0.81	0.85	0.78	0.59	0.54	0.53	0.51	0.48	0.44
P/S	x	0.40	0.44	0.40	0.36	0.31	0.28	0.26	0.24	0.23
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	1.41	1.29	1.15	0.92
L.T Debt to Equity	x	0.07	0.05	0.11	0.07	0.07	0.05	0.03	0.02	0.01
Total Debt to Assets	x	0.50	0.49	0.53	0.49	0.47	0.57	0.57	0.55	0.51
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	1.26	1.61	2.09	2.82

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

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

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- II. Dividend Discount Model
- III. Relative Valuation Model
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