

# MLCF

## 1HFY23 Result Review: BUY Stance Maintained

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MLCF has announced its 1HFY23 result where it posted a profit after tax of Rs3.56bn (EPS: Rs3.31) as compared to a profit after tax of Rs2.40bn (EPS: Rs2.24) in the SPLY, which increased by 47.9% YoY due to improved gross margins amid decrease in coal prices.

The company has posted a revenue of Rs30.05bn against Rs22.12bn in SPLY, recording a growth of 35.8% YoY amid an increase in cement bags' prices.

The gross margin has improved to 28.8% as compared to 25.9% in SPLY. SG&A expenses have increased by 27.6% YoY. Moreover, effective taxation has clocked at 32.4% as compared to 28.6% in SPLY.

MLCF is currently trading at a FY23E P/E of 3.9x. Moreover, the scrip is also trading at a FY23E P/B of 0.36x which offers a discount of 45% relative to its historical 3-year average of 0.67x. We have a **BUY** stance on the scrip with a DCF-based Dec-23 TP of Rs30 which provides an upside potential of 35%.

| Rupees' millions             | 2QFY23       | 2QFY22       | YoY            | 1HFY23       | 1HFY22       | YoY            |
|------------------------------|--------------|--------------|----------------|--------------|--------------|----------------|
| Net Sales                    | 17,224       | 12,226       | 40.9% ▲        | 30,051       | 22,121       | 35.8% ▲        |
| Cost of Sales                | -12,152      | -8,425       | 44.2% ▲        | -21,410      | -16,392      | 30.6% ▲        |
| <b>Gross Profit</b>          | <b>5,072</b> | <b>3,801</b> | <b>33.5% ▲</b> | <b>8,641</b> | <b>5,729</b> | <b>50.8% ▲</b> |
| SG&A Expenses                | -777         | -611         | 27.3% ▲        | -1,564       | -1,226       | 27.6% ▲        |
| Other Expenses               | -257         | -303         | 15.3% ▲        | -630         | -467         | 34.8% ▲        |
| <b>Operating Profit</b>      | <b>4,038</b> | <b>2,887</b> | <b>39.9% ▲</b> | <b>6,448</b> | <b>4,037</b> | <b>59.7% ▲</b> |
| Other Income                 | 52           | 29           | 79.2% ▲        | 60           | 40           | 48.5% ▲        |
| Finance Cost                 | -607         | -380         | 59.7% ▲        | -1,250       | -710         | 76.0% ▲        |
| Profit Before Taxation       | 3,483        | 2,536        | 37.4% ▲        | 5,257        | 3,366        | 56.2% ▲        |
| Taxation                     | -1,138       | -695         | 36.3% ▼        | -1,702       | -963         | 76.7% ▲        |
| <b>Profit After Taxation</b> | <b>2,346</b> | <b>1,841</b> | <b>27.4% ▲</b> | <b>3,556</b> | <b>2,404</b> | <b>47.9% ▲</b> |
| Earnings Per Share           | 2.19         | 1.72         | 27.4% ▲        | 3.31         | 2.24         | 47.9% ▲        |
| Dividend                     | -            | -            | -              | -            | -            | -              |
| Bonus                        | -            | -            | -              | -            | -            | -              |
| Gross Margin                 | 29.4%        | 31.1%        | 1.6% ▼         | 28.8%        | 25.9%        | 2.9% ▲         |
| SG&A Expenses to Sales       | -4.5%        | -5.0%        | 0.5% ▼         | -5.2%        | -5.5%        | 0.3% ▼         |
| Other Income to Sales        | 0.3%         | 0.2%         | 0.1% ▲         | 0.2%         | 0.2%         | 0.0% ▲         |
| Ex. Gain / (Loss) to Sales   | -4.5%        | -5.0%        | 0.5% ▼         | -5.2%        | -5.5%        | 0.3% ▼         |
| Effective Taxation           | -32.7%       | -27.4%       | 5.3% ▲         | -32.4%       | -28.6%       | 3.8% ▲         |
| Net Margin                   | 13.6%        | 15.1%        | 1.4% ▼         | 11.8%        | 10.9%        | 1.0% ▲         |

Source: ACPL Research, Company Financials

### Key Statistics

| Symbol               | MLCF   |
|----------------------|--------|
| TP - Dec 23          | 30.00  |
| LDCP                 | 22.36  |
| Upside (%)           | 35     |
| Free Float ('mn)     | 483    |
| Market Cap. (Rs.'mn) | 25,546 |

### MLCF vs KSE 100



### Sales (Rs'bn) vs Gross Margin



### PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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## Financial Projections

| Rupees' millions               | FY20A          | FY21A        | FY22A         | FY23E         | FY24E         | FY25E         | FY26E         |
|--------------------------------|----------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Net sales                      | 29,118         | 35,538       | 48,520        | 60,396        | 62,747        | 65,519        | 69,392        |
| Cost of sale                   | 29,845         | 28,135       | 36,244        | 43,813        | 44,779        | 46,811        | 49,404        |
| <b>Gross profit</b>            | <b>- 728</b>   | <b>7,403</b> | <b>12,275</b> | <b>16,583</b> | <b>17,968</b> | <b>18,707</b> | <b>19,989</b> |
| Selling and promotion expenses | 817            | 1,014        | 1,484         | 1,776         | 1,845         | 1,926         | 2,040         |
| Administration expenses        | 785            | 813          | 971           | 1,365         | 1,418         | 1,481         | 1,568         |
| Other operating expenses       | 90             | 524          | 952           | 1,268         | 1,318         | 1,376         | 1,457         |
| <b>Operating Profit</b>        | <b>- 2,419</b> | <b>5,051</b> | <b>8,868</b>  | <b>12,174</b> | <b>13,387</b> | <b>13,925</b> | <b>14,923</b> |
| Other operating income         | 132            | 3,732        | 57            | 121           | 125           | 131           | 139           |
| Finance cost                   | 2,982          | 1,494        | 1,741         | 3,219         | 2,442         | 2,067         | 776           |
| Profit before taxation         | - 5,269        | 7,290        | 7,184         | 9,075         | 11,071        | 11,988        | 14,286        |
| Taxation                       | - 426          | 1,035        | 3,557         | 2,921         | 3,554         | 3,840         | 4,567         |
| <b>Profit after taxation</b>   | <b>- 4,843</b> | <b>6,254</b> | <b>3,626</b>  | <b>6,154</b>  | <b>7,517</b>  | <b>8,148</b>  | <b>9,719</b>  |
| EPS                            | - 4.51         | 5.83         | 3.38          | 5.73          | 7.00          | 7.59          | 9.06          |

Source: ACPL Research, Company Financials

## Horizontal Analysis

|                                | FY20A          | FY21A           | FY22A         | FY23E        | FY24E        | FY25E       | FY26E        |
|--------------------------------|----------------|-----------------|---------------|--------------|--------------|-------------|--------------|
| Net sales                      | 12.0%          | 22.1%           | 36.5%         | 24.5%        | 3.9%         | 4.4%        | 5.9%         |
| Cost of sale                   | 41.5%          | -5.7%           | 28.8%         | 20.9%        | 2.2%         | 4.5%        | 5.5%         |
| <b>Gross profit</b>            | <b>-114.8%</b> | <b>-1117.5%</b> | <b>65.8%</b>  | <b>35.1%</b> | <b>8.4%</b>  | <b>4.1%</b> | <b>6.8%</b>  |
| Selling and promotion expenses | -12.4%         | 24.1%           | 46.4%         | 19.7%        | 3.9%         | 4.4%        | 5.9%         |
| Administration expenses        | 7.0%           | 3.7%            | 19.4%         | 40.5%        | 3.9%         | 4.4%        | 5.9%         |
| Other operating expenses       | -80.3%         | 482.4%          | 81.7%         | 33.2%        | 3.9%         | 4.4%        | 5.9%         |
| <b>Operating Profit</b>        | <b>-186.6%</b> | <b>-308.8%</b>  | <b>75.6%</b>  | <b>37.3%</b> | <b>10.0%</b> | <b>4.0%</b> | <b>7.2%</b>  |
| Other operating income         | 206.9%         | 2727.8%         | -98.5%        | 113.4%       | 3.9%         | 4.4%        | 5.9%         |
| Finance cost                   | 154.3%         | -49.9%          | 16.5%         | 84.9%        | -24.1%       | -15.3%      | -62.5%       |
| Profit before taxation         | -416.6%        | -238.3%         | -1.5%         | 26.3%        | 22.0%        | 8.3%        | 19.2%        |
| Taxation                       | -314.1%        | -343.2%         | 243.5%        | -17.9%       | 21.6%        | 8.1%        | 18.9%        |
| <b>Profit after taxation</b>   | <b>-430.5%</b> | <b>-229.1%</b>  | <b>-42.0%</b> | <b>69.7%</b> | <b>22.1%</b> | <b>8.4%</b> | <b>19.3%</b> |
| EPS                            | -430.5%        | 229.1%          | -42.0%        | 69.7%        | 22.1%        | 8.4%        | 19.3%        |

Source: ACPL Research, Company Financials

## Key Ratios

| Profitability Ratios |     | FY20A  | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|----------------------|-----|--------|-------|-------|-------|-------|-------|-------|
| GP Margin            | %   | -2.50  | 20.83 | 25.30 | 27.46 | 28.64 | 28.55 | 28.81 |
| OP Margin            | %   | -8.31  | 14.21 | 18.28 | 20.16 | 21.34 | 21.25 | 21.51 |
| NP Margin            | %   | -16.63 | 17.60 | 7.47  | 10.19 | 11.98 | 12.44 | 14.01 |
| ROE                  | %   | -15.46 | 16.66 | 8.94  | 9.32  | 10.23 | 9.98  | 50.40 |
| ROCE                 | %   | -9.09  | 11.62 | 5.52  | 6.88  | 7.95  | 8.23  | 34.98 |
| ROA                  | %   | -7.34  | 9.44  | 4.41  | 9.42  | 10.70 | 10.73 | 10.84 |
| Cost per ton         | 'mn | 5.75   | 5.67  | 7.72  | 11.26 | 11.26 | 11.52 | 11.78 |
| EBITDA per ton       | 'mn | 0.14   | 0.92  | 1.17  | 4.06  | 4.26  | 4.29  | 4.38  |

| Liquidity Ratios      |   | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|-----------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Current               | x | 1.08  | 1.48  | 1.25  | 1.13  | 1.38  | 1.67  | 2.40  |
| Acid-test             | x | 0.27  | 0.22  | 0.19  | -0.10 | 0.17  | 0.45  | 1.12  |
| Cash to current liab. | x | 0.07  | 0.04  | 0.05  | -0.26 | 0.01  | 0.28  | 0.95  |

| Activity Ratios     |     | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|---------------------|-----|-------|-------|-------|-------|-------|-------|-------|
| Average Inventory   | 'mn | 1,759 | 1,965 | 2,423 | 2,668 | 2,670 | 2,760 | 2,900 |
| Inventory Turnover  | x   | 17    | 14    | 15    | 16    | 17    | 17    | 17    |
| Inventory Days      |     | 22    | 25    | 24    | 22    | 22    | 22    | 21    |
| Receivables Days    |     | 39    | 19    | 16    | 16    | 16    | 16    | 16    |
| Payables Days       |     | 97    | 97    | 92    | 95    | 95    | 95    | 95    |
| Operating Cycle     |     | -37   | -53   | -51   | -56   | -57   | -57   | -57   |
| Utilization         | %   | 89    | 86    | 80    | 47    | 49    | 50    | 51    |
| Export Revenue      | %   | 3     | 7     | 2     | 3     | 3     | 3     | 3     |
| Local Revenue       | %   | 97    | 93    | 98    | 97    | 97    | 97    | 97    |
| Export Market Share | %   | 0.4   | 0.6   | 0.2   | 0.2   | 0.2   | 0.2   | 0.2   |
| Local Market Share  | %   | 12.6  | 9.8   | 9.8   | 7.6   | 7.4   | 7.1   | 7.0   |
| Total Market Share  | %   | 10.9  | 8.7   | 9.0   | 7.0   | 6.8   | 6.6   | 6.5   |

| Investment Ratios |      | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|-------------------|------|-------|-------|-------|-------|-------|-------|-------|
| EPS               | Rs.  | -4.51 | 5.83  | 3.38  | 5.73  | 7.00  | 7.59  | 9.06  |
| DPS               | Rs.  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| Div. Yield        | %    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| Dividend Cover    | x    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| BVPS              | Rs.  | 29.18 | 34.98 | 37.79 | 61.49 | 68.49 | 76.08 | 17.97 |
| Payout            | %    | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| Retention         | %    | 100   | 100   | 100   | 100   | 100   | 100   | 100   |
| No. of Shares     | '000 | 1,073 | 1,073 | 1,073 | 1,073 | 1,073 | 1,073 | 1,073 |
| P/E               |      | 0.00  | 3.84  | 6.62  | 3.90  | 3.19  | 2.95  | 2.47  |
| Sales per share   |      | 27.13 | 33.11 | 45.20 | 56.27 | 58.46 | 61.04 | 64.65 |
| P/BV              |      | 0.77  | 0.64  | 0.59  | 0.36  | 0.33  | 0.29  | 1.24  |
| Price to Sales    |      | 0.82  | 0.68  | 0.49  | 0.40  | 0.38  | 0.37  | 0.35  |

| Gearing Ratios      |   | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|---------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Debt to Equity      | x | 0.70  | 0.43  | 0.62  | 0.36  | 0.29  | 0.21  | 0.44  |
| L.T. Debt to Equity | x | 0.48  | 0.34  | 0.46  | 0.27  | 0.21  | 0.14  | 0.15  |
| Interest Cover      | x | -0.81 | 3.38  | 5.09  | 3.78  | 5.48  | 6.74  | 19.24 |

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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