

## MLCF

## 9MFY20 Result Review: BUY Stance Maintained

Equity Research | Cement | Friday, 24 April, 2020

MLCF has announced its 3QFY20 result where it posted Loss after tax of Rs3.4n (LPS: Rs3.11) in 9MFY20 as compared to profit after tax of Rs1.2bn (EPS: Rs1.05) in same period last year, down by 396.5% YoY.

Despite the economic contractionary phase and winter season, the company has posted the revenue of Rs23.1bn against Rs18.4bn in SPLY, recording a growth of 25.8% YoY.

Gross margin has been squeezed to 0.1% in 9MFY20 as compared to 21.3% in 9MFY19 due to rupee devaluation of around 17% during the period and decrease in retention prices. SG&A expenses have grown by 6.6% YoY to Rs1.2bn in 9MFY20 as compared to Rs1.1bn during SPLY.

Lastly, increase in finance cost by 182.7% YoY caused the bottom-line to plunge.

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. MLCF is currently trading at a FY21E P/B of 0.91x which offers a discount of 27% relative to its historical 5-year average of 1.25x. We maintain our **BUY** stance on the script with a DCF based Jun-21 TP of Rs 40 which provides an upside potential of 48%.

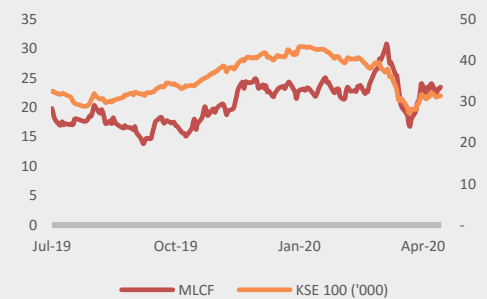
Rupees' millions	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	6,914	6,027	14.7% ▲	23,097	18,365	25.8% ▲
Cost of Sales	-6,823	-4,883	39.7% ▲	-23,072	-14,456	59.6% ▲
<b>Gross Profit</b>	<b>91</b>	<b>1,144</b>	<b>92.0% ▼</b>	<b>24</b>	<b>3,908</b>	<b>99.4% ▼</b>
SG&A Expenses	-353	-377	6.4% ▲	-1,196	-1,122	6.6% ▲
Other Expenses	-55	-14	303.9% ▼	-101	-261	61.4% ▼
<b>Operating Profit</b>	<b>-317</b>	<b>753</b>	<b>142.2% ▼</b>	<b>-1,273</b>	<b>2,525</b>	<b>150.4% ▼</b>
Other Income	19	8	146.3% ▲	116	23	410.6% ▲
Finance Cost	-690	-270	155.5% ▲	-2,382	-843	182.7% ▲
Profit Before Taxation	-988	491	301.3% ▼	-3,539	1,705	307.6% ▼
Taxation	28	-140	119.7% ▼	127	-554	122.9% ▼
<b>Profit After Taxation</b>	<b>-960</b>	<b>350</b>	<b>374.1% ▼</b>	<b>-3,412</b>	<b>1,151</b>	<b>396.5% ▼</b>
<b>Earnings Per Share</b>	<b>-0.87</b>	<b>0.32</b>	<b>374.1% ▼</b>	<b>-3.11</b>	<b>1.05</b>	<b>396.5% ▼</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	1.3%	19.0%	17.7% ▼	0.1%	21.3%	21.2% ▼
SG&A Expenses to Sales	-5.1%	-6.3%	1.2% ▼	-5.2%	-6.1%	0.9% ▼
Other Income to Sales	0.3%	0.1%	0.1% ▲	0.5%	0.1%	0.4% ▲
Ex. Gain / (Loss) to Sales	-5.1%	-6.3%	1.2% ▼	-5.2%	-6.1%	0.9% ▼
Effective Taxation	-2.8%	-28.6%	25.8% ▼	-3.6%	-32.5%	28.9% ▼
<b>Net Margin</b>	<b>-13.9%</b>	<b>5.8%</b>	<b>19.7% ▼</b>	<b>-14.8%</b>	<b>6.3%</b>	<b>21.0% ▼</b>

Source: ACPL Research, Company Financials

## Key Statistics

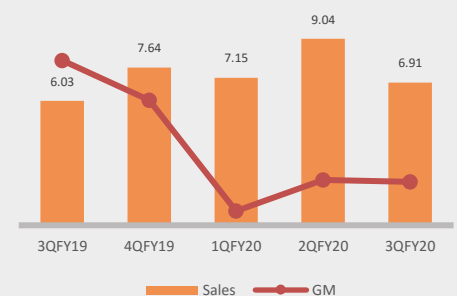
Symbol	MLCF
TP - Jun 21	40.00
LDPCP	26.96
Upside (%)	48.37
Free Float ('mn)	267
Market Cap. (Rs.'mn)	29,612

## MLCF vs KSE 100



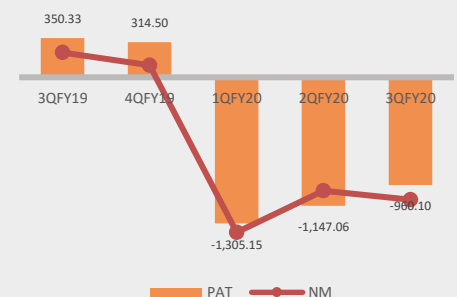
— MLCF — KSE 100 ('000)

## Sales (Rs'bn) vs Gross Margin



— Sales — GM

## PAT (Rs'mn) vs Net Margin



— PAT — NM

Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Net sales	20,720	23,433	23,992	25,699	26,006	25,367	30,316	33,880	37,741
Cost of sale	13,224	13,411	14,510	18,677	21,089	25,231	26,905	28,787	30,891
<b>Gross profit</b>	<b>7,496</b>	<b>10,022</b>	<b>9,482</b>	<b>7,023</b>	<b>4,917</b>	<b>136</b>	<b>3,411</b>	<b>5,093</b>	<b>6,849</b>
Selling and promotion expenses	1,314	1,360	1,275	736	933	693	828	925	1,030
Administration expenses	381	486	621	731	734	609	728	813	906
Other operating expenses	263	660	536	572	456	76	504	564	628
<b>Operating Profit</b>	<b>5,537</b>	<b>7,517</b>	<b>7,050</b>	<b>4,983</b>	<b>2,794</b>	<b>- 1,241</b>	<b>1,352</b>	<b>2,792</b>	<b>4,285</b>
Other operating income	46	36	139	56	43	140	167	186	208
Finance cost	1,083	436	318	644	1,173	2,457	1,921	1,521	1,183
Profit before taxation	4,501	7,118	6,870	4,395	1,664	- 3,558	- 402	1,457	3,310
Taxation	1,047	2,233	2,093	763	199	- 973	- 111	405	925
<b>Profit after taxation</b>	<b>3,454</b>	<b>4,885</b>	<b>4,777</b>	<b>3,632</b>	<b>1,465</b>	<b>- 2,585</b>	<b>- 291</b>	<b>1,053</b>	<b>2,386</b>
EPS	<b>3.14</b>	<b>4.45</b>	<b>4.35</b>	<b>3.31</b>	<b>1.33</b>	<b>- 2.35</b>	<b>- 0.27</b>	<b>0.96</b>	<b>2.17</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Net sales	6.3%	7.5%	1.9%	3.6%	-1.7%	-27.5%	11.2%	10.5%	10.4%
Cost of sale	1.5%	-6.3%	46.9%	0.4%	-3.6%	-11.0%	7.9%	7.5%	7.8%
<b>Gross profit</b>	<b>15.5%</b>	<b>30.4%</b>	<b>-51.6%</b>	<b>15.3%</b>	<b>4.1%</b>	<b>-75.7%</b>	<b>45.6%</b>	<b>34.5%</b>	<b>26.7%</b>
Selling and promotion expenses	12.7%	48.0%	-20.3%	65.9%	-23.8%	-21.2%	11.2%	10.5%	10.4%
Administration expenses	20.2%	14.9%	8.9%	13.5%	7.9%	-5.4%	11.2%	10.5%	10.4%
Other operating expenses	25.9%	37.8%	-49.7%	6.9%	5.0%	-93.1%	1012.1%	-9.9%	6.7%
<b>Operating Profit</b>	<b>14.7%</b>	<b>30.2%</b>	<b>-54.9%</b>	<b>13.8%</b>	<b>5.5%</b>	<b>-83.7%</b>	<b>41.9%</b>	<b>60.4%</b>	<b>36.5%</b>
Other operating income	25.8%	40.4%	64.7%	-76.5%	42.5%	-45.1%	11.2%	10.5%	10.4%
Finance cost	-32.3%	-28.7%	-69.6%	-3.4%	-27.8%	63.1%	-29.5%	-25.4%	-15.9%
Profit before taxation	26.0%	37.9%	-49.8%	4.3%	7.7%	-85.9%	57.9%	66.5%	37.8%
Taxation	-17.0%	57.6%	-46.6%	-49.2%	137.4%	-90.2%	61.1%	69.4%	39.9%
<b>Profit after taxation</b>	<b>56.7%</b>	<b>30.4%</b>	<b>-51.3%</b>	<b>31.2%</b>	<b>-17.6%</b>	<b>-83.5%</b>	<b>56.9%</b>	<b>65.5%</b>	<b>37.1%</b>
EPS	<b>56.7%</b>	<b>30.4%</b>	<b>-51.3%</b>	<b>31.2%</b>	<b>-17.6%</b>	<b>-83.5%</b>	<b>56.9%</b>	<b>65.5%</b>	<b>37.1%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	36.18	42.77	39.52	27.33	18.91	0.54	11.25	15.03	18.15
OP Margin	%	26.72	32.08	29.38	19.39	10.74	-4.89	4.46	8.24	11.36
NP Margin	%	16.67	20.85	19.91	14.13	5.63	-10.19	-0.96	3.11	6.32
ROE	%	19.56	22.89	20.15	12.14	4.80	-7.91	-0.90	3.15	6.73
ROCE	%	14.98	20.07	15.70	7.41	2.77	-4.74	-0.59	2.23	5.13
ROA	%	11.06	15.25	12.31	6.18	2.22	-4.41	-0.53	1.98	4.36
Cost per ton	'mn	4.50	3.91	4.42	4.82	5.87	5.93	6.07	6.23	6.41
EBITDA per ton	'mn	2.45	2.78	2.62	1.88	1.39	0.44	0.95	1.18	1.39

Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	0.91	1.69	1.34	1.07	1.00	0.57	0.52	0.57	0.90
Acid-test	x	0.12	0.26	0.19	0.15	0.23	-0.04	-0.17	-0.20	0.04
Cash to current liab.	x	0.03	0.08	0.05	0.05	0.03	-0.18	-0.34	-0.40	-0.13

Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Average Inventory	'mn	1,179	1,040	1,087	1,247	1,466	1,910	2,150	2,296	2,245
Inventory Turnover	x	11	13	13	15	14	13	13	13	14
Inventory Days		33	28	27	24	25	28	29	29	27
Receivables Days		12	14	15	17	38	38	38	38	25
Payables Days		87	86	90	105	142	142	142	142	120
Operating Cycle		-42	-43	-48	-64	-79	-76	-75	-75	-68
Utilization	%	85	95	95	107	96	73	76	79	83
Export Revenue	%	21	18	13	7	9	6	5	4	4
Local Revenue	%	79	82	87	93	91	94	95	96	96
Export Market Share	%	1.7	1.5	1.1	0.6	0.7	0.5	0.4	0.3	0.3
Local Market Share	%	8.3	8.3	8.2	8.5	8.3	9.7	9.5	9.2	9.0
Total Market Share	%	4.7	4.6	4.4	4.3	4.2	4.7	4.5	4.3	4.1

Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
EPS	Rs.	3.14	4.45	4.35	3.31	1.33	-2.35	-0.27	0.96	2.17
DPS	Rs.	2.00	4.00	3.75	2.50	0.50	0.00	0.00	0.36	0.81
Div. Yield	%	0.07	0.15	0.14	0.09	0.02	0.00	0.00	0.01	0.03
Dividend Cover	x	1.57	1.11	1.16	1.32	2.67	0.00	0.00	2.67	2.67
BVPS	Rs.	16.08	19.43	21.59	27.23	27.78	29.75	29.49	30.45	32.26
Payout	%	63.59	89.94	86.22	75.60	37.48	0.00	0.00	37.48	37.48
Retention	%	36.41	10.06	13.78	24.40	62.52	100.00	100.00	62.52	62.52
No. of Shares	'000	1,098	1,098	1,098	1,098	1,098	1,098	1,098	1,098	1,098
P/E		8.57	6.06	6.20	8.15	20.21	0.00	0.00	28.13	12.41
Sales per share		18.86	21.33	21.84	23.40	23.68	23.10	27.60	30.85	34.36
P/BV		1.68	1.39	1.25	0.99	0.97	0.91	0.91	0.89	0.84
Price to Sales		1.43	1.26	1.23	1.15	1.14	1.17	0.98	0.87	0.78

Gearing Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Debt to Equity	x	0.31	0.14	0.28	0.64	0.73	0.67	0.53	0.41	0.31
L.T. Debt to Equity	x	0.04	0.07	0.13	0.43	0.56	0.42	0.30	0.22	0.16
Interest Cover	x	5.11	17.26	22.14	7.74	2.38	-0.51	0.70	1.84	3.62

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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