

MLCF

FY20 Result Review: Stance Downgraded to HOLD

Equity Research | Cement | Friday, 11 September, 2020

MLCF has announced its 4QFY20 result where it posted a loss after tax of Rs4.8n (LPS: Rs4.41) in FY20 as compared to a profit after tax of Rs1.5bn (EPS: Rs1.33) in the same period last year, down by 430.5% YoY.

Despite the economic contractionary phase and COVID-19 adversities, the company has posted the revenue of Rs29.1bn against Rs26bn in SPLY, recording a growth of 12% YoY.

Gross margin has been squeezed to -2.5% in FY20 as compared to 18.9% in FY19 due to rupee devaluation during the period and decrease in retention prices. SG&A expenses have been decreased by 3.9% YoY to Rs1.6bn in FY20 as compared to Rs1.7bn during SPLY.

Despite the increase in other income by 206.9% YoY, an increase in finance cost by 154.3% YoY caused the bottom-line to plunge.

Going forward, the offtake is expected to improve from the current fiscal year. MLCF is currently trading at a FY21E P/B of 0.97x which offers a discount of 23% relative to its historical 5-year average of 1.25x. We have a **HOLD** stance on the script with a DCF based Jun-21 TP of Rs 45 which provides an upside potential of 13%.

Rupees' millions	4QFY20	4QFY19	YoY	FY20	FY19	YoY
Net Sales	6,021	7,641	21.2% ▼	29,118	26,006	12.0% ▲
Cost of Sales	-6,773	-6,633	2.1% ▲	-29,845	-21,089	41.5% ▲
Gross Profit	-752	1,009	174.5% ▼	-728	4,917	114.8% ▼
SG&A Expenses	-406	-544	25.5% ▲	-1,602	-1,667	3.9% ▼
Other Expenses	11	-195	105.6% ▲	-90	-456	80.3% ▼
Operating Profit	-1,147	269	526.0% ▼	-2,419	2,794	186.6% ▼
Other Income	16	20	19.3% ▼	132	43	206.9% ▲
Finance Cost	-600	-330	81.7% ▲	-2,982	-1,173	154.3% ▲
Profit Before Taxation	-1,730	-40	4183.7% ▼	-5,269	1,664	416.6% ▼
Taxation	299	355	15.8% ▼	426	-199	314.1% ▼
Profit After Taxation	-1,431	315	555.0% ▼	-4,843	1,465	430.5% ▼
Earnings Per Share	-1.30	0.29	555.0% ▼	-4.41	1.33	430.5% ▼
Dividend	0.00	0.50		0.00	0.50	
Bonus	-	-		-	-	
Gross Margin	-12.5%	13.2%	25.7% ▼	-2.5%	18.9%	21.4% ▼
SG&A Expenses to Sales	-6.7%	-7.1%	0.4% ▼	-5.5%	-6.4%	0.9% ▼
Other Income to Sales	0.3%	0.3%	0.0% ▲	0.5%	0.2%	0.3% ▲
Ex. Gain / (Loss) to Sales	-6.7%	-7.1%	0.4% ▼	-5.5%	-6.4%	0.9% ▼
Effective Taxation	-17.3%	-878.8%	861.5% ▼	-8.1%	-12.0%	3.9% ▼
Net Margin	-23.8%	4.1%	27.9% ▼	-16.6%	5.6%	22.3% ▼

Source: ACPL Research, Company Financials

Key Statistics

Symbol	MLCF
TP - Jun 21	45
LDGP	39.71
Upside (%)	13.32
Free Float ('mn)	494
Market Cap. (Rs.'mn)	43,615

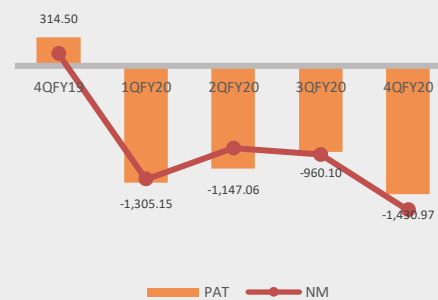
MLCF vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

Umer Hayat

Phone: (+92) 42 38302028; Ext: 116

Email: umer.hayat@abbasiandcompany.com

Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Net sales	20,720	23,433	23,992	25,699	26,006	29,118	31,051	34,734	36,792
Cost of sale	13,224	13,411	14,510	18,677	21,089	29,845	27,112	28,493	29,747
Gross profit	7,496	10,022	9,482	7,023	4,917	- 728	3,938	6,241	7,045
Selling and promotion expenses	1,314	1,360	1,275	736	933	817	848	948	1,004
Administration expenses	381	486	621	731	734	785	745	834	883
Other operating expenses	263	660	536	572	456	90	517	578	612
Operating Profit	5,537	7,517	7,050	4,983	2,794	- 2,419	1,829	3,881	4,546
Other operating income	46	36	139	56	43	132	171	191	202
Finance cost	1,083	436	318	644	1,173	2,982	1,921	1,521	1,183
Profit before taxation	4,501	7,118	6,870	4,395	1,664	- 5,269	79	2,551	3,565
Taxation	1,047	2,233	2,093	763	199	- 426	22	708	994
Profit after taxation	3,454	4,885	4,777	3,632	1,465	- 4,843	57	1,843	2,571
EPS	3.14	4.45	4.35	3.31	1.33	- 4.41	0.05	1.68	2.34

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Net sales	9.2%	13.1%	2.4%	7.1%	1.2%	12.0%	6.6%	11.9%	5.9%
Cost of sale	6.3%	1.4%	8.2%	28.7%	12.9%	41.5%	-9.2%	5.1%	4.4%
Gross profit	14.9%	33.7%	-5.4%	-25.9%	-30.0%	-114.8%	-641.3%	58.5%	12.9%
Selling and promotion expenses	24.6%	3.5%	-6.2%	-42.3%	26.8%	-12.4%	3.7%	11.9%	5.9%
Administration expenses	28.5%	27.4%	27.8%	17.6%	0.4%	7.0%	-5.0%	11.9%	5.9%
Other operating expenses	33.3%	150.6%	-18.7%	6.7%	-20.3%	-80.3%	473.9%	11.9%	5.9%
Operating Profit	11.3%	35.7%	-6.2%	-29.3%	-43.9%	-186.6%	-175.6%	112.2%	17.1%
Other operating income	-42.7%	-21.2%	282.0%	-59.8%	-23.1%	206.9%	29.4%	11.9%	5.9%
Finance cost	-26.1%	-59.8%	-26.9%	102.3%	82.0%	154.3%	-35.6%	-20.8%	-22.2%
Profit before taxation	25.4%	58.1%	-3.5%	-36.0%	-62.1%	-416.6%	-101.5%	3148.7%	39.7%
Taxation	37.7%	113.3%	-6.3%	-63.5%	-73.9%	-314.1%	-105.1%	3168.9%	40.5%
Profit after taxation	22.1%	41.4%	-2.2%	-24.0%	-59.7%	-430.5%	-101.2%	3141.0%	39.5%
EPS	22.1%	41.4%	-2.2%	-24.0%	-59.7%	-430.5%	101.2%	3141.0%	39.5%

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	-2.50	12.68	17.97	19.15
OP Margin	%	26.72	32.08	29.38	19.39	10.74	-8.31	5.89	11.17	12.36
NP Margin	%	16.67	20.85	19.91	14.13	5.63	-16.63	0.18	5.31	6.99
ROE	%	19.56	22.89	20.15	12.14	4.80	-15.92	0.19	5.71	7.52
ROCE	%	14.98	20.07	15.70	7.41	2.77	-9.26	0.12	4.00	5.68
ROA	%	11.06	15.25	12.31	6.18	2.22	-8.71	0.11	3.47	4.66
Cost per ton	'mn	4.50	3.91	4.42	4.82	5.87	5.97	6.12	6.28	6.46
EBITDA per ton	'mn	2.45	2.78	2.62	1.88	1.39	0.16	1.06	1.44	1.52

Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	0.91	1.69	1.34	1.07	1.00	0.37	0.47	0.57	0.95
Acid-test	x	0.12	0.26	0.19	0.15	0.23	-0.26	-0.23	-0.22	0.09
Cash to current liab.	x	0.03	0.08	0.05	0.05	0.03	-0.41	-0.41	-0.42	-0.08

Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Average Inventory	'mn	1,179	1,040	1,087	1,247	1,466	2,100	2,348	2,293	2,194
Inventory Turnover	x	11	13	13	15	14	14	12	12	14
Inventory Days		33	28	27	24	25	26	32	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	-78	-72	-75	-68
Utilization	%	85	95	95	107	96	73	76	78	79
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	10.0	9.6	9.0	8.3
Total Market Share	%	8.4	8.6	8.3	8.2	7.8	8.9	8.3	7.6	6.9

Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	Rs.	3.14	4.45	4.35	3.31	1.33	-4.41	0.05	1.68	2.34
DPS	Rs.	2.00	4.00	3.75	2.50	0.50	0.00	0.02	0.63	0.88
Div. Yield	%	0.07	0.15	0.14	0.09	0.02	0.00	0.00	0.02	0.03
Dividend Cover	x	1.57	1.11	1.16	1.32	2.67	0.00	2.67	2.67	2.67
BVPS	Rs.	16.08	19.43	21.59	27.23	27.78	27.70	27.75	29.41	31.12
Payout	%	63.59	89.94	86.22	75.60	37.48	0.00	37.48	37.48	37.48
Retention	%	36.41	10.06	13.78	24.40	62.52	100.00	62.52	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	520.58	16.06	11.52
Sales per share		18.86	21.33	21.84	23.40	23.68	26.51	28.27	31.62	33.50
P/BV		1.68	1.39	1.25	0.99	0.97	0.97	0.97	0.92	0.87
Price to Sales		1.43	1.26	1.23	1.15	1.14	1.02	0.95	0.85	0.80

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	0.72	0.56	0.43	0.32
L.T. Debt to Equity	x	0.04	0.07	0.13	0.43	0.56	0.46	0.32	0.23	0.17
Interest Cover	x	5.11	17.26	22.14	7.74	2.38	-0.81	0.95	2.55	3.84

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months.

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication.

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

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

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
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

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

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