

Rating	Overweight
Target Price	PKR 220 (4% Upside)
Current Price	PKR 212.5

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Underweight	Neutral	Overweight
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Key Themes & Implications

Looming capacity additions in the South which is expected to increase overall capacity by 47% is expected to weigh on investor sentiment in short run and financial performance of the company in the long run.

Share Information

Market Cap (PKR/US\$)	24.34bn / 0.23bn
52-Week Range	157.74 - 212.52
Daily Avg. Volume	0.05mn
Shares Outs.	114.5mn
Free Float	20%

Performance

	1M	3M	12M
Absolute	24.2%	23.7%	16.2%
Rel. to Index	20.0%	21.3%	8.5%

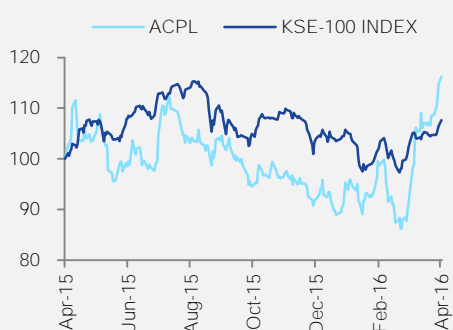
Major Shareholder

Pharaon Holding S.A.L.	84.1%
Al Meezan Inv. Mgmt Limited	1.0%

Valuation

	FY15A	FY16E	FY17F	FY18F
P/E (x)	11.0	9.1	7.9	7.7
P/B (x)	2.7	2.3	1.8	1.5
EV/EBITDA (x)	6.7	4.5	3.5	2.8
Dividend Yield	7.1%	0.0%	0.0%	0.0%

Performance



Source: Elixir Research, Company Accounts, PSX, CIQ

Company Profile

Maple Leaf Cement Factory Limited produces and sells cement primarily in Pakistan. The company primarily offers ordinary Portland cement and white cement. Maple Leaf Cement Factory Limited also exports its products to Africa, Gulf, and other Asian countries. The company was founded in 1956 and is headquartered in Lahore, Pakistan. Maple Leaf Cement Factory Limited is a subsidiary of Kohinoor Textile Mills Limited.

Attock Cement Pakistan Limited

Positives Priced In; HOLD

We upgrade ACPL's FY16/17/18 earnings estimates by 6/11/12% after incorporating improved sales mix along with slightly lower fuel and power costs.

Sales mix of the company is estimated to tilt towards local dispatches (i.e. ~73/27% in 3QFY16) with strong demand emanating from a flurry of big ticket real estate projects.

That said we however contend that complete displacement of export volume in favor of high margin local sales will likely not materialize as our correspondence with key southern players (LUCK and ACPL) indicate their reluctance to completely retreat from export market.

Furthermore, looming expansions in south which are estimated to increase overall capacity in the south by 47% will likely alter demand/supply dynamics of the market in our view with downward pressure in cement prices likely to be witnessed in FY19 when both ACPL's and DGK C's capacities are scheduled to come online.

We therefore have reduced our cement price assumption by 6% across FY19-21.

Even though, ACPL's earnings are expected to remain robust for the next two years, we believe minimal payout in order to finance expansion (expected D/E of 60/40%) and looming significant capacities will likely weigh on investor sentiment in the short run and financial performance of the company in the long run.

Our Dec-16 PT of PKR220/sh (9%) offers an upside of 4% to last closing. HOLD!

Investment case upgraded on improving sales mix... We upgrade our investment case on ACPL increasing our Dec-16 PT by 9% to PKR220/sh (9%) after incorporating improved sales mix of the company on account of robust local dispatch (i.e. 73/27% in 3QFY16) where we believe strong demand growth emanating from a flurry of big ticket real estate projects in Karachi is expected to improve overall sales mix of southern players. That said, we however contend that complete displacement of export volume in favor of high margin local sales will likely not materialize as our correspondence with key southern players (LUCK and ACPL) indicate their reluctance to completely retreat from export market and maintaining a hedge to falling local demand.

... But looming expansions in South warrant caution: While historically southern market, dominated mostly by LUCK and ACPL, has fared relatively better with respect to demand/supply situation where cement producers have been able to charge premium prices compared to Northern players despite their lower fuel costs emanating from their proximity to sea port. That said, entry of a major northern player into southern market will likely alter market dynamics where cumulative capacity additions (i.e. ACPL's 1.2mn tpa and DGKC's 2.8mn tpa) is expected to increase overall capacity by ~47% in the south. Thus, significant increase in capacity will likely bring demand/supply disequilibrium and put downward pressure on prices when capacities come online where we expect ACPL's and DGKC's new plants to come online by Jan-2018 and 2HFy18 respectively. We therefore have reduced our cement price assumption by 6% across FY19-21.

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Disclosures

Please refer to the important disclosures at the back of this report.

Even though, ACPL's earnings are expected to remain robust for the next two years, we believe minimal payout in order to finance expansion (expected D/E of 60/40%) and looming significant capacity additions will likely weigh on investor sentiment in the short run and financial performance of the company in the long run.

Value accretive Iraq project in doldrums: Our channel checks indicate that the company's clinker project in Iraq is in doldrums where its equity partner has exhibited lukewarm attitude towards the project. Recall that the company had already been accorded approval for equity remittance of USD24mn early last year (Mar-2015). While we view the project to be value accretive for the company given 1) huge demand/supply gap in the country and 2) strong financial performance of LUCK's operating unit where its JV has posted 28% growth in bottom line during 1HFY16 to ~PKR830mn, scrapping of the project is likely to be met with pessimism.

3QFY16 earnings expected to clock in at PKR6.87/sh: Board of Directors of ACPL are scheduled to meet on 13th April, 2016 where we expect the company to declare 9MFY16 earnings at PKR16.94/sh, up 18% YoY while 3Q earnings are estimated to clock in at PKR6.87/sh, up 27% YoY. We also expect the company to provide update on its expansion plans including Iraq clinker project. Growth in bottom line is expected to largely emanate from expansion in top line on the back of increased dispatch growth estimated at 12% coupled with lower manufacturing costs emanating from subdued fuel and power costs. Furthermore, ACPL's sales mix during the quarter is estimated to have improved considerably to 73/27%, significantly better compared to 63/37% in SPLY.

Investment case: We have revised our earnings estimates for ACPL by ~6/11/12% for FY16/17/18 incorporating improved sales mix and slightly lower our fuel and power costs and consequently upgrade our Dec-16 PT to PKR220/sh (9%). While the stock has rallied by 24% in last one month on the back of expectations of robust local sales and improving sales mix, we opine that complete displacement of sizable export volume from current mix remains unlikely. HOLD!

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Disclosures

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Overweight: Our Target Price is more than 10% above the current share price, and we expect the share price to reach the target on a 1 year time horizon.

Neutral: We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on 1 year time horizon.

Underweight: Our Target Price is less than 10% below the current share price, and we expect the share price to reach the target on 1 year time horizon.

2. Definitions

Time Horizon: Our analysts make recommendations on a 1 year time horizon. In other words, they expect a given stock to reach their target price within that time.

Fair Value: We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration e.g. DCF (discounted cash flow) or SOTP (Sum of the Parts) analysis.

Target Price: This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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