

Pakistan Equity | Strategy

March 14, 2022

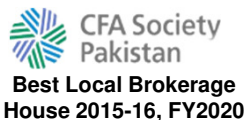
Pakistan Mid Cap Conference 2022 Key Takeaways



TPL Properties



AVANCEON



Topline Research

research@topline.com.pk

Tel: +9221-35303330 Ext:133

Topline Securities, Pakistan

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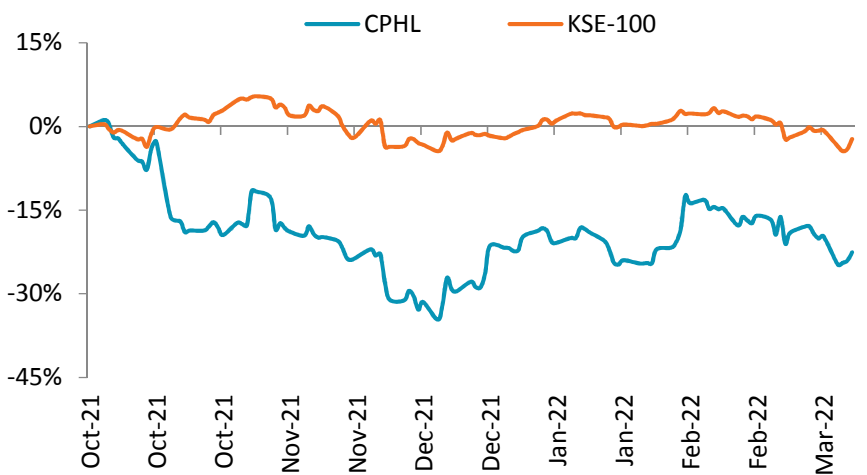
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Citi Pharma Limited (CPHL)

Not Rated

KATS Code	CPHL
Bloomberg Code	CPHL PA
Reuters Code	CPHL.KA
Market Price	Rs34.49
Market Cap	Rs7.9bn/US\$44.1mn
Free float Market Cap	Rs2.8bn/US\$15.4mn
1-Yr Avg. Daily Vol. (mn)	2.7
1-Yr Avg. Daily Val. (mn)	Rs113.6/US\$0.7
1-Yr High/ Low	Rs53.3/29.1
Estimated free float	35%
Share outstanding (mn)	228.46
Index weight	0.11%

Relative performance: CPHL vs. KSE-100 Index



Source: PSX, Topline Research

- Topline Securities recently organized Pakistan Mid Cap Conference 2022 where 9 leading Mid Cap Companies participated in the event providing them a platform to showcase their companies to leading local and foreign fund managers. The conference received an overwhelming response from the participants.
- The conference started with a session on Citi Pharma (CPHL) where the key speaker was Mr. Rizwan Ahmed, CEO CPHL.
- As per the management, CPHL is enjoying the privilege for being the only company in Pakistan which has all 3 licenses to produce, (i) basic APIs (active pharmaceutical ingredient), (ii) semi-basic APIs and (iii) Formulations.
- In Pakistan, the top 5 selling medicines includes Augmentin, Omeprazole, Panadol, Brufen and Novidat. Among them, four medicines (excluding Omeprazole) are included in portfolio of Citi Pharma's Active Pharmaceutical Ingredient (API).
- Under API segment, the revenue from Amoxicillin, Cefixime and Ciprofloxacin are expected to follow the trend as witnessed by Paracetamol. Furthermore, introduction of new APIs (Ascorbic Acid, Chloroquine Phosphate, and Hydroxy Chloroquine Sulfate) along with existing APIs will help grow CPHL's revenue at 5-year CAGR (FY21-25) of 32%.
- Under Formulation segment, the company's current portfolio includes 17 products which is expected to add further 40-50 products in the next 2-3 years as expanding in formulation creates natural synergies for CPHL. In addition, the company also plans to add vials coupled with offering branded manufacturing for local pharma.
- In addition, the planned expansion of formulation segment coupled with dedicated facilities for (i) Penicillin and (ii) Cephalosporin will add new revenue streams in the CPHL's topline.



Citi Pharma Limited (CPHL)

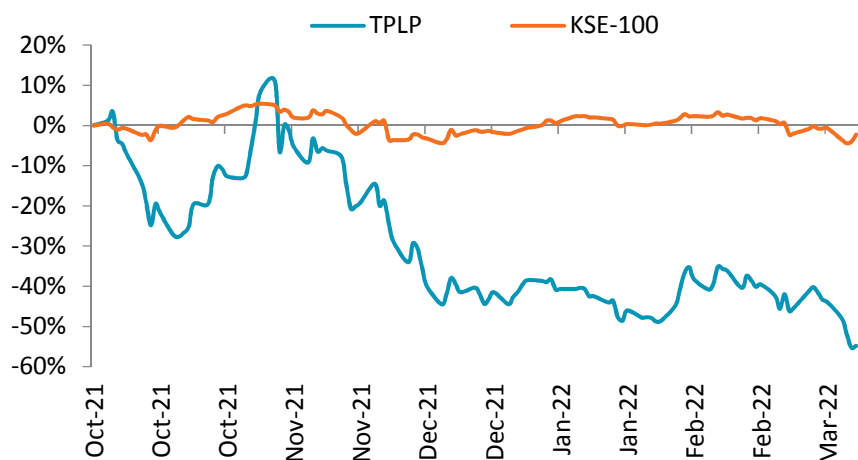
- The company's Cephalosporin plant has also been completed and got the manufacturing contract of the leading pharmaceutical which is expected to commence operations by May this year. By the end of this year, the company is expected to complete overall formulations projects.
- The company is also planning to provide toll manufacturing facility to leading pharmaceutical producers which will be an added advantage as CPHL in the North will save ~50% transportation cost for Southern Pharma players and thus provides one-stop solution. On this, the company is expecting gross margins between 20%-25%.
- The company intends to develop three dedicated units for Capsules, Tablets and Vials with the capacity of 4.5mn tablets, 4.2mn capsules/day and 200,000 vials/day, respectively. Also, the company is also willing to engage in vertical integration by setting up a state-of-the-art 200 beds hospital facilities at Lahore.
- Despite the announcement of increase in Paracetamol price, it has not been implemented in market till yet. Still, Panadol tablet is available at Rs1.7 per tablet.
- Due to an order from a leading multinational company, the company recently developed a plan to work on its Nutraceutical plant. The grey work of the plant is expected to complete by March-22 end which will be followed by Drug Regulatory Authority of Pakistan (DRAP) visit in May-22 and its approvals later on.
- The company's manufacturing facility spans over of 46.2 acres (largest pharma production facility in Pakistan) of freehold land with more than 527,384 Sq. feet of covered area that allows the company to expand further in both API and formulation segment and provide one-stop solution to pharma industry.
- To note, the geographic advantage of CPHL makes it also the most effective pharmaceutical facility in Pakistan in terms of supply-chain.

TPL Properties (TPLP)

Not Rated

KATS Code	TPLP
Bloomberg Code	TPLP PA
Reuters Code	TPLP.KA
Market Price	23.72
Market Cap	Rs9.3bn/US\$52.1mn
Free float Market Cap	Rs3.7bn/US\$20.8mn
1-Yr Avg. Daily Vol. (mn)	7.5
1-Yr Avg. Daily Val. (mn)	Rs294.3/US\$1.8
1-Yr High/ Low	Rs67.8/8.2
Estimated free float	40%
Share outstanding (mn)	392.87
Index weight	0.12%

Relative performance: TPLP vs. KSE-100 Index



Source: PSX, Topline Research

- The second session was on TPL Properties (TPLP) where the key speaker for the session was Mr. Jamil Akbar, COO TPL Properties.
- TPLP is a real estate property developer that invests, purchase, develop and build real estate to sell, rent out commercial and residential buildings, houses, shops, plots or other premises.
- Key business lines include 1) Real estate development of owned projects, 2) Development management which provides services to clients related to real estate projects, 3) Asset management of investment portfolio under REIT, and 4) Property management services for developed real estate owned/operated by TPLP.
- TPLP is planning to launch the largest and first hybrid REIT fund of US\$500mn in Pakistan under which three major projects are, 1) One Hoshang, 2) TPL Technology Park, and 3) Mangrove.
- TPLP will hold 40% in REIT fund with initial the fund size would be Rs18bn out of which Rs7.1bn will be contributed from TPLP and the rest would be financed through equity. TPLP foresees fee income of REITs to likely grow as the NAV of the project increases.
- To recall, TPLP sold Centrepont to Bank Al-Habib for Rs7.75bn in May 2021, generating an IRR of 22% including the capital gains and rental income as per the management.
- TPL REIT Management Company (RMC) management fee would be 1.5% of Net Asset Value (NAV) and performance fee would be 15% of gains above the threshold level.
- In order to attract the international investors TPLP is also incorporating TPL Investment Management firm in Abu Dhabi which would allow the foreign investors to pour the investment into TPL REIT fund.
- Listing timeline of TPL REIT fund is expected to be within three years from the initial close.

TPL Properties (TPLP)

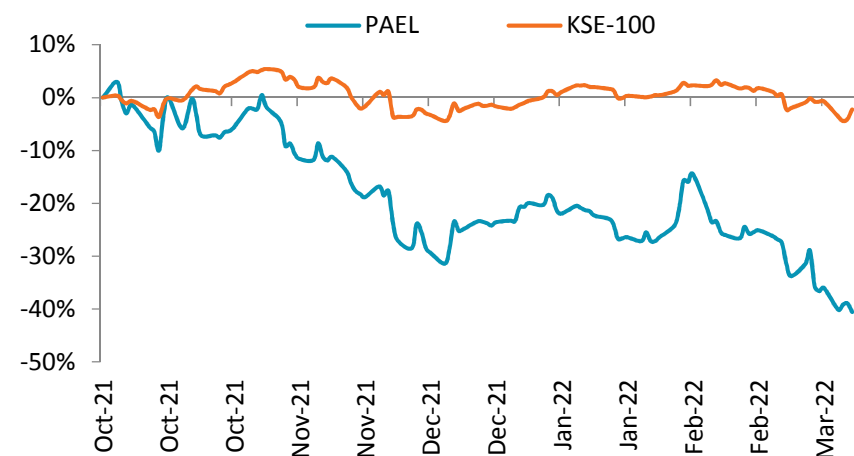
- TPL Technology Park – TPLP is planning to develop a tech park (offices + business hotel) in Karachi aiming to generate revenue from sale and rental income. The project completion timeline is 4Q2024 with project IRR of 27%+. TPL REIT will own the project with part sale and lease of offices. It will also own and operate hotels in the project.
- Mangrove – It would be a mid-rise waterfront mixed use development, multiple towers with a built-up area of 10+ Mn square feet located in Korangi. TPLP plans to sell the plots and units. IRR of the project is anticipated at 30%+. The company has already completed the acquisition of 40 acres of land in Korangi Cantonment. The company have an aim to have off-plan sales of the developed units and plots.
- One Hoshang – This project is a luxury residential tower that TPL is going to develop on one of the prime locations in Karachi at Hoshang Road, Civil Lines. Expected IRR of the project is 20%+ and is expected to complete by 4Q2024.
- The future rental agreements on the properties have not been yet firmed up as per the management but as far the commercial agreements are concerned in respect to Technology Park or any other property, the company will be seeking to go with the market practice.
- On a question on how TPL REIT fund will differentiate with Dolmen City REIT (DCR), which is the other listed REIT fund, the management stated that DCR is a single project/property based fund (Dolmen City) whereas TPL REIT fund will have multiple projects under its umbrella with developmental and rental projects.

Pak Elektron (PAEL)

'Buy' Rated

KATS Code	PAEL
Bloomberg Code	PAEL PA
Reuters Code	PKEL.KA
Market Price	Rs16.72
Market Cap	Rs7.9bn/US\$44.1mn
Free float Market Cap	Rs4.2bn/US\$23.3mn
1-Yr Avg. Daily Vol. (mn)	2.7
1-Yr Avg. Daily Val. (mn)	Rs78.8/US\$0.47
1-Yr High/ Low	Rs36.73/16.72
Estimated free float	50%
Share outstanding (mn)	497.68
Index weight	0.11%

Relative performance: PAEL vs. KSE-100 Index



Source: PSX, Topline Research

- The key speaker in Pak Elektron (PAEL) was Manzar Hassan, CFO of Pak Elektron.
- Pak Elektron Limited (PAEL), mainly operates in two key segments including Power and Appliances, which contributes around 42% and 58% to the total revenue respectively.
- Pakistan Electronics' market currently stands at Rs245bn which is expected to reach Rs670bn by 2026. The electronics market is sub divided into two main categories; (i) Appliances (Rs220bn/US\$1.3bn) and (ii) Screens (Rs25bn). Under Appliances, Refrigerators and Air Conditioners have a share of 38% each.
- The company believe that Appliances segment is anticipated to witnessed strong growth going forward amid improving economic growth, rising GDP/Capita and increasing urbanization.
- The management believes that market penetration is still on the lower side under Appliance's segment as the penetration of Air conditioner, Water Dispenser and LED TV currently stands at 15%, 5% and 9%, respectively. Although, the penetration in Refrigerator and Washing Machine are on higher side but still technological advancements are required in these segments.
- In LED Market, the company believe that the penetration is 9%. Around 71% of overall market uses CRT TVs which could be gradually replaced and the company is targeting this market. In the next 5-years, the penetration is expected to increase to 16%.
- The management believe that PAEL's market shares across all appliances market will improve and target is to be in the top 3 brands within each category by 2025.

Pak Elektron (PAEL)

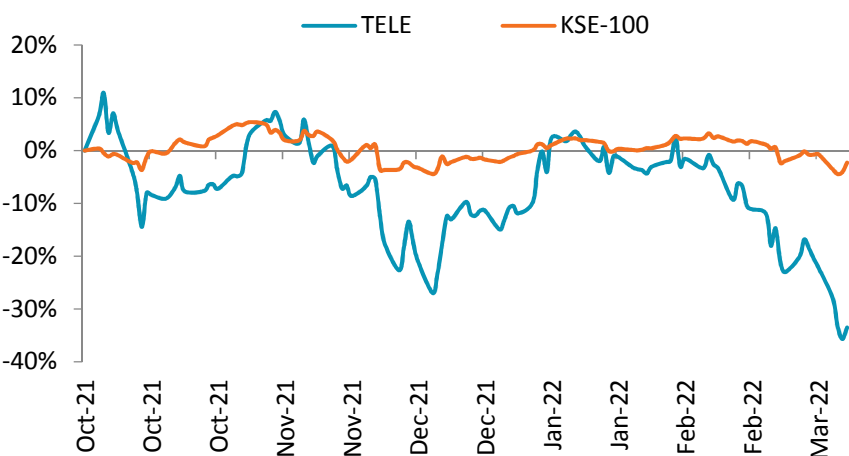
- There are around 2,600 appliances dealers in Pakistan out of which PAEL has a market share of around 58%. These nationwide network of dealers enable company to reach a wide universe of customers and provide quality after sales service.
- The company has also planned to bring new capacities under Refrigerators, Deep Freezers and Air Conditioners categories by 2025.
- Under the Power division, the company enjoys 90% market share in power transformers whereas in other segments (Distribution Transformers, Switch Gears and Energy Meters) the company is yet to achieve its target market share. Currently, the market shares on these segments are 18-25%.
- The company expects that rising urbanization and Govt. investment in power transmission will be positive drivers for the segment growth.
- The company expect 35-40% growth in Power division whereas in Appliances, PAEL expects 25-30% growth. This growth includes both volumetric and inflationary impact.
- Gross Margin of the company is expected to remain same which we have witnessed in the last 3 years.

Telecard Limited (TELE)

Not Rated

KATS Code	TELE
Bloomberg Code	TELE PA
Reuters Code	TELE.KA
Market Price	Rs11.96
Market Cap	Rs3.8bn/US\$21.1\$mn
Free float Market Cap	Rs3.6bn/US\$20.3mn
1-Yr Avg. Daily Vol. (mn)	16.2
1-Yr Avg. Daily Val. (mn)	Rs267.6/US\$1.6
1-Yr High/ Low	Rs24.36/5.59
Estimated free float	96%
Share outstanding (mn)	315.00
Index weight	0.05%

Relative performance: TELE vs. KSE-100 Index



Source: PSX, Topline Research

- The key speaker was Mr. Aamir Hussain, CEO Telecard Limited (TELE).
- The principle activity of TELE is to provide (1) local loop voice and internet services, (2) long distance & international voice services, (3) ICT & VAS solutions, and (4) Tower & Infra share business.
- TELE owns 100% stake in Supernet which holds 1) SES (100% stake), 2) Supersecure (80% stake), 3) SuperInfra (100% stake), and (4) phoenix Global FZA (100% stake).
- Under the umbrella of Supernet, company offers connectivity, security, power solution and IT & infrastructure.
- Company focuses on (1) to be the key enabler of IT adoption and digitization in Pakistan, (2) to be a one stop shop for all IT and communication needs of customers, (3) to be the cyber security partner of choice for enterprise, and (4) build and overseas platform to extend services outside of Pakistan.
- Pakistan IT market is around US\$3.5bn and targeted to be around US\$20bn by 2025, as per the Board of Investment (BoI).
- One of the incentives announced by government for IT sector includes zero tax on exports.
- Supernet also secured long term contract for supply of IT & infrastructure equipment worth Rs400mn along with infrastructure development projects worth Rs150mn and multiple contracts from Zarai Taraqati Bank worth over Rs400mn.
- Supernet secured a sizeable telecommunications infrastructure development project from a Pakistani mobile network operator worth Rs150mn.

Telecard Limited (TELE)

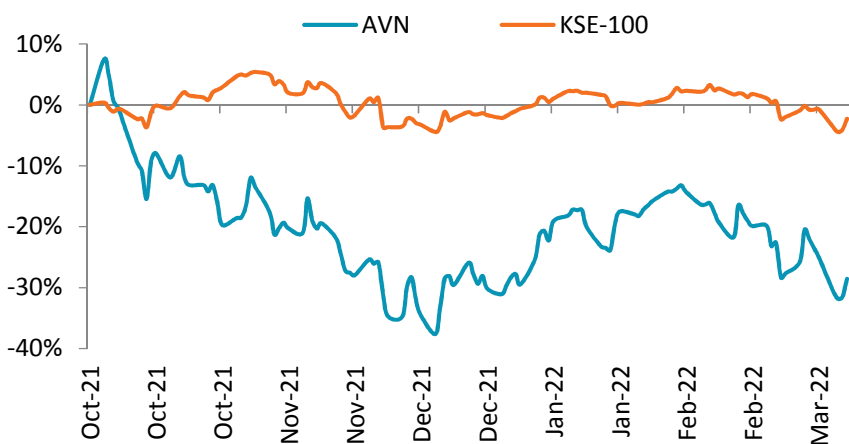
- Government has also shifted its focus towards digital automation and Cybersecurity as evident from approval of National Cybersecurity Policy, Personal Data Protection bill and National Cloud Policy among others. Furthermore, recent high profile cyber attacks on National Bank and FBR continues to increase demand for cyber security.
- Supersecure won major deals for implementation of new cyber security initiatives in banking and finance segments. Revenue from this segment is expected to clock in at Rs300-350mn in FY22.
- The major sector the company caters to include Oil & Gas, Energy, Telco, Pharmaceuticals, FMCG, Textile, Education and Financial Services.
- The Supernet IPO is slightly delayed however company is closely engaged with its advisors and expected to conclude IPO soon.

Avanceon Limited (AVN)

Not Rated

KATS Code	AVN
Bloomberg Code	AVN PA
Reuters Code	AVN.KA
Market Price	Rs92.33
Market Cap	Rs24.0bn/US\$134.1\$mn
Free float Market Cap	Rs9.8bn/US\$54.9mn
1-Yr Avg. Daily Vol. (mn)	3.0
1-Yr Avg. Daily Val. (mn)	Rs320.6/US\$1.9
1-Yr High/ Low	Rs139.79/73.57
Estimated free float	41%
Share outstanding (mn)	259.76
Index weight	0.55%

Relative performance: AVN vs. KSE-100 Index



Source: PSX, Topline Research

- The key speaker was Mr. Bakhtiar H. Wain, CEO & Founder Avanceon Limited (AVN).
- The principal activity of the AVN is to provide industrial automation, process control and systems integration solutions.
- AVN plans to achieve US\$100mn revenue by the end of 2024. US\$40mn from UAE & North region, US\$40mn from Qatar & Saudi region and US\$20mn from Pakistan region.
- The revenue mix will be combination of both which includes order and revenue generation. To note, revenue generation always lags order generation.
- The company has already expanded in the above geographies. The operating cost of the expansion would be low because most of the back offices are situated in Pakistan.
- The industries company is targeting to capture includes Food & Beverages, Oil & Gas, Chemicals & Petro Chemicals among others.
- The principal activity of OCTOPUS (subsidiary of AVN) is to carry out Information technology enabled services which includes online data storage, online monitoring of cost and production efficiency, online monitoring and maintenance of plant & machinery etc.
- Octopus's business model is divided into three segments which includes (1) OmniConnet, (2) Topware and (3) After-Market Service (AMS).
- OmniConnect establishes big data and dashboards with in hours and on a fixed basis and without any coding or programming. Topware is subscription based decision support solution for digital dashboarding, analytics and prediction. AMS, which is the aftermarket support, has been the driving factor in covering almost 50% of the fixed cost with over 50 service agreements.

Avanceon Limited (AVN)

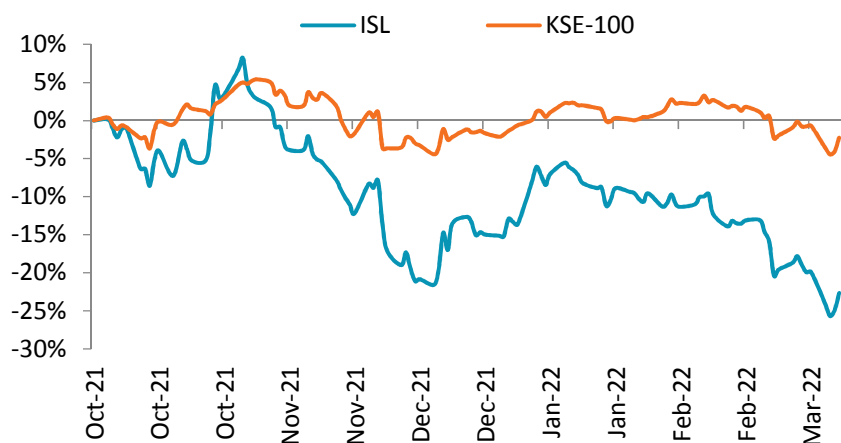
- In terms of geographical expansion, the key growth areas for company would be Pakistan and Middle East in the medium term. Once adequate market share is captured, the company would focus on USA and other West markets.
- Octopus has added 50 employees and targeting to add further 20 employees. The company plans to incentivize and increase its employee base for future expansions.
- The policy of stock option will be launched soon as the company has got approval from SECP last week. AVN already has stock option for the people who are contributing to revenue.
- The company has backlog of order worth US\$45mn.
- AVN is not facing any major issues amid supply side disruption.
- Recent IT incentives includes free movement of currency and tax exemption will have positive impact on AVN and OCTOPUS.

International Steels Limited (ISL)

'Buy' Rated

KATS Code	ISL
Bloomberg Code	ISL PA
Reuters Code	INTE.KA
Market Price	Rs57.94
Market Cap	Rs25.2bn/US\$141.0mn
Free float Market Cap	Rs8.8bn/US\$49.3mn
1-Yr Avg. Daily Vol. (mn)	1.3
1-Yr Avg. Daily Val. (mn)	Rs111.8/US\$0.7
1-Yr High/ Low	Rs100.36/55.22
Estimated free float	35%
Share outstanding (mn)	435.00
Index weight	0.34%

Relative performance: ISL vs. KSE-100 Index



Source: PSX, Topline Research

- The key speaker for the session was Mr. Yousuf Mirza, CEO International Steel (ISL).
- ISL is anticipating a 7% growth in the flat steel industry which is expected to reach 1.563mn tons by FY24 (CRC: 817k tons & Coated: 746k tons) vs industry size of 1.295mn tons in FY21 (CRC: 671k tons & Coated: 624k tons).
- Dumping from FATA PATA region have not only dented the flat steel industry but have also impacted other industries. FATA PATA region is exempted from 17% sales tax in which case the domestic flat steel manufacturer was unable to adjust it against the input tax sales made in the region. As a result, it becomes the part of cost which is around Rs34k/tons. This exemption is valid till June 30, 2022 and is unlikely to be withdrawn before that.
- The company is targeting to export around 100k tons in FY22. Due to Russia-Ukraine tensions the supply side has been severely affected internationally.
- In FY22 to date, multiple industries have witnessed slowdown thus impacting the overall sales volume of the company. However, the monthly sales volumes are hovering around 55-60k tons per month better than 2QFY22.
- Moving forward, Auto sector, Pipes Industry, and Agriculture sector are likely to drive the demand for flat steel.
- The company is trying to manage the volumes by tapping new export destinations where the margins are quite better than preceding years. The company has also invested in the state-of-the-art service center offering value added products.
- Looking forward, ISL is expecting the HRC-CRC spread to remain the same as current spread and the Hot Rolled Coil (HRC) prices are likely to be US\$1000/ton for the rest of the current fiscal year.

International Steels Limited (ISL)

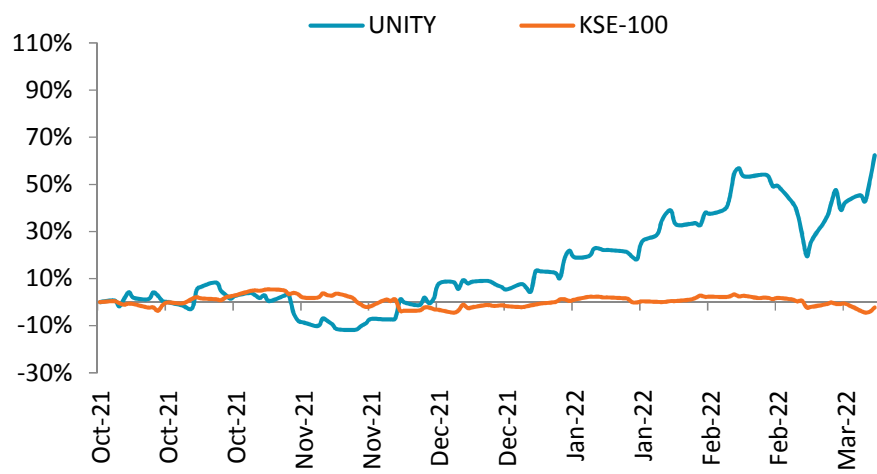
- ISL is actively working on the project of backward integration (HRC plant) and the management is engaged with the government to provide tariff protection as the project is highly capital intensive.
- ISL is investing Rs1.23bn in expanding its production facilities through debottlenecking which will enhance Cold Rolled steel (CRC) capacity by 120k MT per annum. Post expansion both the rewinding+ Enhanced Cold Rolled Steel Capacity and modified skin passing capacity will be 350k tons from existing capacity of 230ktons.
- ISL has also introduced C & Z purlins products which is used in the construction sector currently being offered in various thickness and length at service center located at Port Qasim.

Unity Foods Limited (UNITY)

'Hold' Rated

KATS Code	UNITY
Bloomberg Code	UNITY PA
Reuters Code	UNITY.KAR
Market Price	Rs25.0
Market Cap	Rs29.9bn/US\$167.0mn
Free float Market Cap	Rs11.9bn/US\$66.8mn
1-Yr Avg. Daily Vol. (mn)	13.1
1-Yr Avg. Daily Val. (mn)	Rs451.7/US\$2.7
1-Yr High/ Low	Rs49.36/21
Estimated free float	40%
Share outstanding (mn)	1,194.05
Index weight	0.40%

Relative performance: UNITY vs. KSE-100 Index



Source: PSX, Topline Research

- The key speaker for the session was Amir Shehzad, Executive Director Unity Foods Limited.
- Despite PKR devaluation and high uncertainty in commodity markets, the company posted net revenue of Rs37bn during 1HFY22, up by 25% YoY. The company had to incur Rs1bn of exchange losses.
- During 1HFY22, Industrial and Oil segment contributed around 65% towards overall revenue, followed by Consumer Packs (12%) and Palm Kernel Expeller (10%), respectively.
- The company has planned some developments for the ongoing fiscal year which includes, (i) drive towards ESG Compliance, (ii) product portfolio expansion, and (iii) launch of Value Bundle and Unity Express.
- The main purpose behind Value Bundle is to serve basic household necessities and provide (i) One stop solution, (ii) Customized household needs, (iii) Ease of delivery, and (iv) Cost saving for customers.
- Unity Express has recently been introduced as a pilot venture to (i) provide access to Unity products through retail outlet, (ii) serve as warehouse and distribution network and (iii) facilitate online sales via various platforms.
- The company planned to bring at least 55-56 facilities across the country to distribute company's products that will provide its products to ~100 satellite stores for its further distribution and sales.
- The company is actively looking for acquisition opportunities in Punjab under flour and rice segment to allow them for better penetration facilities in the largest market of Pakistan.
- The company expects that high energy prices may result in fuel inflation and it is difficult to forecast prices in the current environment.

Unity Foods Limited (UNITY)

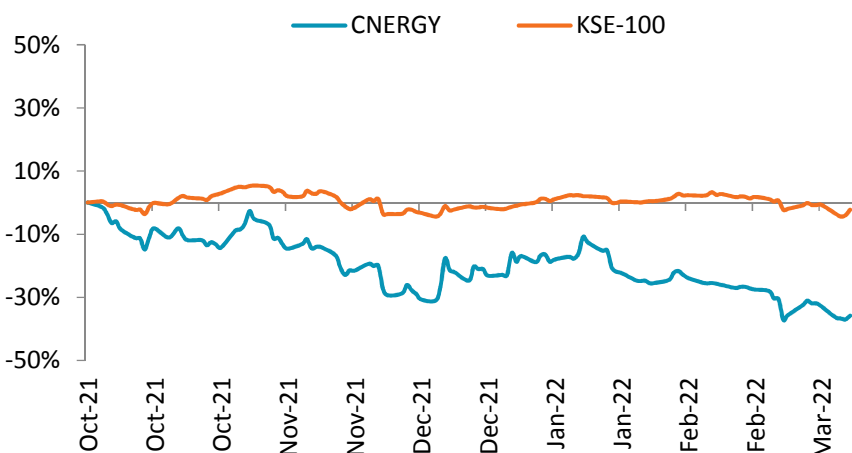
- The company plans to focus more on Consumer packs segment to close at ~18-19% mix towards overall revenue (same as FY21). Thus, the overall revenue is expected to reach ~Rs75-80bn by FY22.
- As of 1HFY22, UNITY's equity stands at Rs17bn which includes the first portion i-e Rs3bn of right proceeds however remaining portion will be added in 3QFY22.
- Gross margins of the company improved to 9.5% during 1HFY22 as compared to 8.5% in 1HFY21 where major contribution of ~65% coming from Industrial & Oil segment followed by Consumer Packs (21%) and PKE (12%).
- Selling & Distribution expenses as % of sales reduced to 1.7% during 1HFY22 from 1.8% during FY21 where major portion that is 46% comes from freight and forwarding cost which increased by 43%. However, Admin expenses as % of sales increased from 0.6% during FY21 to 0.8% during 1HFY22 due to rise in salaries and wages expense.

Cnergyico PK Limited (CENERGY)

Not Rated

KATS Code	CENERGY
Bloomberg Code	CENERGY PA
Reuters Code	CENERGY.KAR
Market Price	Rs5.26
Market Cap	Rs28.0bn/US\$156.8mn
Free float Market Cap	Rs8.4bn/US\$47mn
1-Yr Avg. Daily Vol. (mn)	21.1
1-Yr Avg. Daily Val. (mn)	Rs204.9/US\$1.2
1-Yr High/ Low	Rs13/5.2
Estimated free float	30%
Share outstanding (mn)	5,329.88
Index weight	0.37%

Relative performance: CENERGY vs. KSE-100 Index



Source: PSX, Topline Research

- The key speaker was Mr. Faizan, Senior Manager Finance, Cnergyico PK Limited (CENERGY) formerly BYCO.
- CENERGY owns two refineries with total production capacity of 156k bpd and only company with 100% Naphtha conversion into Premier Motor Gasoline (PMG). The company has also started procuring Naphtha from local refinery and converting into PMG to generate extra margins.
- The company has also own marketing network with over 430+ retail network across Pakistan. Furthermore, CENERGY is negotiating to acquire approx. 57% stake in Puma Energy Pakistan (Pvt) limited. Puma owns 542 retail stations and storage capacity of HSD (7,530 MT) and MG (2,789 MT).
- Pakistan oil consumption is expected to reach 22.7mn tons in FY22 from 20.1mn tons in FY21 and peak of 25.9mn tons in FY17. Product mix would be MOGASS (MO) 40% followed by High Speed Diesel (HSD) of 39%, Furnace Oil (FO) of 17% and 3% of other products.
- Excluding FO, oil consumption is expected to reach 18.9mn tons in FY22 from 16.5mn tons in FY21 and peak of 17.7mn tons in FY18.
- 43% of Pakistan's oil product demand is being imported while rest 57% is procured locally as per the company.
- Average oil prices has increased by 40% in last two months. That said, delta/spread between finished product and crude oil have also increased to US\$10-12 in case of MO and HSD. Furthermore, with increase of international oil prices, the working capital requirement also increased significantly. Current GRM are above US\$5/liter.
- In 1HFY22, company incurred exchange loss of Rs1.4bn and inventory loss of Rs659mn.

Cnergyico PK Limited (CENERGY)

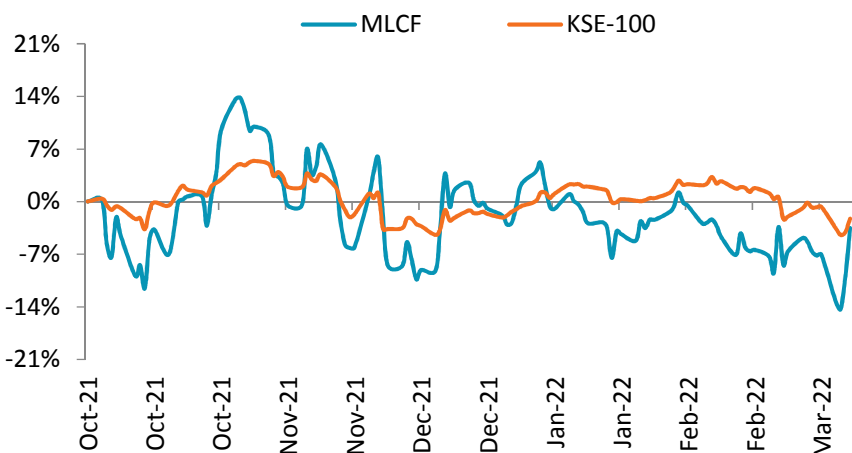
- Recent Government's decision to cut prices of petrol and diesel by Rs10/liter despite increase in international oil prices has created price differential claims which is being borne by OMCs and refineries. To cater this issue, government has set up a mechanism to disburse the claim within 7 days from the close of fortnight.
- CENERGY has started working on Fluid Catalytic Cracker (FCC) and Diesel Hydrodesulphurization (DHDS) units to convert FO to MO and HSD. The total estimated cost of the project would be US\$756mn. The project is estimated to complete in 4 years.
- Government is planning to incentives upgradation of local refineries along with establishment of new refineries. Though the policy is yet to be approved but will provide much needed stimulus for the refineries.
- The proposed incentive includes;
 - 1) 10% duty on import of MG and HSD.
 - 2) The proceeds will contribute up to 25% of the project cost.
 - 3) Duty on crude to be abolished.
 - 4) 20 Year tax holiday for new refinery.
 - 5) Exemption from duties and taxes on import of equipment or material.
- The current custom duty on import of crude oil is 2.5% while custom duty on import of diesel and petrol is 10% including deemed duty of 7.5%. If the refinery policy is approved, custom duty of 2.5% will be removed from FY23 onwards.
- The current throughput of CENERGY is 30%.

Maple Leaf Cement (MLCF)

'Buy' Rated

KATS Code	MLCF
Bloomberg Code	MLCF PA
Reuters Code	MPLF.KA
Market Price	Rs33.91
Market Cap	Rs37.2bn/US\$208.3mn
Free float Market Cap	Rs16.8bn/US\$93.7mn
1-Yr Avg. Daily Vol. (mn)	4.3
1-Yr Avg. Daily Val. (mn)	Rs176.2/US\$1.1
1-Yr High/ Low	Rs49.3/30.1
Estimated free float	45%
Share outstanding (mn)	1,098.35
Index weight	0.50%

Relative performance: MLCF vs. KSE-100 Index



Source: PSX, Topline Research

- The key speaker was Mr. Mohsin Naqvi, Group Director Finance Maple Leaf Group.
- Maple Leaf Cement Company (MLCF) is targeting to complete the line 4 expansion in October 2022 and post expansion capacity MLCF would be the 4th largest player in the industry with a single site capacity of 7.7mn tons.
- Management explained that the overall overhead cost would be lower in this new line, as this expansion is brownfield.
- On the exports front the company is not foreseeing robust growth given higher sea freight charges.
- For diversification, the company has installed 5MW solar plants and would further add 7.5MW solar plants by April 15, 2022. With the new cement expansion, MLCF is also planning to install a 7.5MW solar plant.
- The company is carrying cheap coal inventory of ~Rs26-31k/ton of Afghanistan coal whereas the current booking rate is Rs42k/ton.
- The current coal mix is 65% of Afghani coal with a mix of local coal and around 35% of Pet coke for its power and fuel requirement. The company holds local coal inventory of Rs22-23k/ton.
- The cement industry in the north has partially shifted toward Afghan and local coal given the spike in Richard Bay coal prices. There is an inflow of 250-300tons/month of Afghani coal imports in Pakistan. The company anticipates that Afghanistan would ramp up their production output given the source of income in Afghanistan is very low.
- Local coal volumes output is quite low in the country given its limited availability.

Maple Leaf Cement (MLCF)

- MLCF has launched HD wall putti which is a perfect substitution of distemper which is used to surface the walls and then the wall is painted. The response of this product is overwhelming from the market. Currently, the capacity is 2.5ktons/month. This product has substituted around 60% of the market in India when it was launched as per the management.
- The company is also considering enhancing the white cement line going forward. White cement has contributed around 10% in sales revenue and 20% in profits as the product offers healthy margins.
- Presently, cement prices in the north region are in the range of Rs770/bag to Rs810/bag as against last six-month average price of Rs667/bag and FY21 average price of Rs540/bag. Uptick is witnessed in price owing to hikes in coal prices, sea and inward freight charges, and higher energy prices.
- Pertaining to a question on the cost of borrowing, the company stated that it enjoys concessional financing rates as the company has availed TERF and LTFF of Rs10.5bn with a rate of 3.25%.

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Contact Us

Mr. Mohammed Sohail	CEO	Dir: +92 (21) 35303333-4	sohail@topline.com.pk
Research Team:			
Mr. Umair Naseer	Associate Director Research	+92 (21) 35303330-2	umair.naseer@topline.com.pk
Mr. Sunny Kumar	Senior Research Analyst	+92 (21) 35303330-2	sunny@topline.com.pk
Mr. Mehroz Khan	Research Analyst	+92 (21) 35303330-2	mehroz@topline.com.pk
Mr. Saad Ziker	Research Analyst	+92 (21) 35303330-2	saad.ziker@topline.com.pk
Mr. Fahad Qasim	Senior Manager Research	+92 (21) 35303330-2	fahad.qasim@topline.com.pk
Mr. Faraz	Assistant Manager Database	+92 (21) 35303330-2	faraz@topline.com.pk
Equity Sales Team:			
Ms. Samar Iqbal	Head of International Equity Sales	Dir: +92 (21) 35370799	samar.iqbal@topline.com.pk
Mr. Saad Hashmi	Head of Retail Sales	Dir: +92 (21) 35303428	hashmi@topline.com.pk
Mr. Ali Najib	Senior Manager Equity Sales	Dir: +92 (21) 35303428	ali.najib@topline.com.pk
Mr. Muhammad Arbash	Senior Manager Equity Sales	Dir: +92 (21) 35303343	m.arbash@topline.com.pk
Mr. Nabeel Haroon	Senior Manager International Equity Sales	Dir: +92 (21) 35370799	nabeel.haroon@topline.com.pk
Mr. Mohammad Yakub	Senior Manager Equity Sales	Dir: +92 (21) 35370799	mohammad.yakub@topline.com.pk

Corporate Office:

8th Floor Horizon Tower,
Plot 2/6, Block-3, Clifton, Karachi
Tel: +9221-35303330-2
Fax: +9221-35303349