

Millat Tractors Limited

Result Review

PSX: MTL Bloomberg: MTL: PA Reuters: MILM. KA

Pakistan Research

2QFY19 EPS clocked in at PKR 15.84, down 56% YoY

- MTL announced its financial results for 2QFY19 where the company has posted an EPS of PKR 15.84, down 56% YoY. Whereas EPS for 1HFY19 clocked in at PKR 41.20, down by 34% YoY. The company announced interim cash dividend of PKR 45.00/share.
- Topline declined 37% YoY during 2QFY19 dragged by 40% YoY decline in volumetric sales of tractors. However, impact of decline in sales is likely to be somewhat mitigated by multiple upward revisions of tractor prices during the period under consideration. Furthermore, the topline for 1HFY19 declined by 14% YoY on the back of 20% YoY decline in tractor sales during the period under consideration.
- Gross margins during 2QFY19 are trimmed by 8.4pps YoY to 16.0% due to rise in raw material costs resulting from PKR devaluation and rise in commodity prices. Similarly, gross margins during 1HFY19 is contracted by 4.4pps to 18.7%.
- Selling and admin expenses rose 4% YoY during 2QFY19. Whereas the same surged by 1% YoY during 1HFY19.
- We estimate our Dec-19 PT of PKR 696/share. Our PT implies downside of 19.9% along with a dividend yield of 17.6%. We have a 'HOLD' recommendation.

Key Data

PSX Ticker	MTL
Target Price (PKR)	696
Current Price (PKR)	870
Upside/(Downside) (%)	- 20%
Dividend Yield (%)	18%
Total Return (%)	- 2%
12-month High (PKR)	900
12-month Low (PKR)	870
Outstanding Shares (mn)	57.96
Market Cap (PKR mn)	38,536
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY18	2QFY19	YoY	1HFY18	1HFY19	YoY
Net Sales	9,254	5,868	-37%	18,223	15,606	-14%
Cost of Sales	6,987	4,926	-29%	14,007	12,690	-9%
Gross Profit	2,267	942	-58%	4,216	2,916	-31%
Distri. & Admin. Exp.	223	232	4%	533	537	1%
Other Income	428	472	10%	556	572	3%
Other Charges	174	277	59%	300	397	32%
Profit before tax	2,297	881	-62%	3,937	2,532	-36%
Taxation	685	179	-74%	1,158	707	-39%
Net Income	1,612	702	-56%	2,778	1,825	-34%
EPS	36.39	15.84	-56%	62.73	41.20	-34%
DPS	60.00	45.00	-25%	60.00	45.00	-25%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
EPS	39.52	96.12	120.43	92.94	99.29	107.40
EPS Growth	-27%	143%	25%	-23%	7%	8%
DPS	50.00	95.00	115.00	93.00	99.00	107.00
PER	22.0	9.1	7.2	9.4	8.8	8.1
Dividend Yield	5.7%	10.9%	13.2%	10.7%	11.4%	12.3%
EV/EBITDA	13.0	4.7	3.9	5.2	4.9	4.1
P/B	9.3	6.7	6.8	7.2	6.8	4.8
ROE	42.3%	74.0%	94.3%	76.9%	78.0%	59.3%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Millat Tractors Limited (MTL) has been computed using Free cash flow to equity (FCFE) method. We have used a risk free rate of 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0%.

Investment Thesis

We have a 'HOLD' recommendation on the stock based on our Dec-19 PT of PKR 696/share which result in a downside of 19.9% along with a dividend yield of 17.6%. Our investment case on MTL is based on (1) Timid growth in tractor sales from FY19 (2) margins to trim going forward as the company has peaked in primary margin (3) dividend payout to remain stable.

Risks

Key downside risks to our investments thesis are: 1) lower than anticipated growth in tractor sales, 2) increase in sales tax rate on tractor.

Company Description

Millat Tractors Limited is principally engaged in assembling, manufacturing and marketing of agricultural tractors, implements and multi-application products including forklift trucks and generators in Pakistan and in participation with AGCO for tapping into African & Middle Eastern markets. The company was founded in 1964 and is headquartered in Sheikhpura, Pakistan.

Financial Highlights - MTL

Income Statement (PKR mn)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
Net sales	16,914	30,014	38,517	33,551	35,684	38,078
Cost of sales	13,578	22,917	30,082	26,949	28,998	31,205
Gross Profit	3,336	7,097	8,435	6,602	6,686	6,873
SG & A	775	1,008	1,122	1,137	1,217	1,302
Operating Profit	2,560	6,089	7,313	5,465	5,470	5,571
Other income	272	610	1,046	844	1,103	1,346
Other charges	197	455	577	496	523	560
Finance cost	15	2	2	5	5	5
Profit before tax	2,621	6,242	7,780	5,807	6,044	6,352
Taxation	871	1,985	2,446	1,684	1,632	1,588
Profit after tax	1,750	4,258	5,334	4,123	4,412	4,764

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
PPE	673	725	727	716	682	651
Other LT assets	657	783	968	1,018	1,028	1,038
Non-Current Assets	1,331	1,508	1,695	1,733	1,711	1,689
Current assets	8,321	15,622	14,877	14,122	15,070	18,038
Total Assets	9,651	17,131	16,572	15,855	16,781	19,728
Non-Current liabilities	102	31	94	73	76	80
Current liabilities	5,407	11,350	10,823	10,202	10,822	11,648
Total Liabilities	5,510	11,381	10,917	10,275	10,898	11,728
Equity	4,142	5,750	5,655	5,580	5,883	8,000
Total Equity & liabilities	9,651	17,130	16,572	15,855	16,782	19,728

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
Net Income	1,750	4,258	5,334	4,123	4,412	4,764
Non-cash Charges	70	71	71	71	70	67
Operating Cash flows	3,975	8,276	4,737	4,449	5,107	5,976
FCFF	3,938	8,155	4,665	4,393	5,074	5,945
Net borrowings	-	-	-	-	-	-
FCFE	3,928	8,153	4,663	4,390	5,070	5,941
Net change in cash	1,480	(501)	(1,541)	3,452	751	3,116
Closing cash	2,562	2,061	520	3,972	4,724	7,839

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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