

MATCO FOODS LIMITED

Company Information

Matco was founded in 1964 and incorporated as a private limited company in 1990. The company operates 5 rice processing and milling plants including paddy drying, husking and processing with annual processing capacity of 134,700MT. Matco is a leading rice exporting (Basmati and IRRI Rice) company with exports to more than 40 countries under the brand name "Falak". Beside rice company also has diversified in to other rice products including Rice Glucose and Rice Protein with current annual production capacity of 10,000MT and 1,000MT respectively.

Present Issue

The Issue comprises of 29.14mn ordinary shares of face value Rs10 each which is 25% of the post-IPO paid up capital. Out of total issue 75% of the total issue size i.e. 21.85mn Ordinary shares will be issued through Book Building process at a Floor Price of Rs26 per share (including a premium of Rs16 per share). The remaining 25% of total issue size i.e. 7.28mn Ordinary Shares will be issued to General Public through retail offer at the Strike Price determined through the Book Building process.

Principal Purpose of Issue

Matco Foods is planning to raise Rs757.71mn (at Rs26). The amount received from IPO will be utilized to increase the capacity of Rice Glucose and Rice Protein plant from existing 10,000MT to 30,000MT and 1000MT to 3000MT respectively. Total cost of expansion is estimated at Rs758mn.

Pakistan in better position to gain International Market Share Pakistan is the 7th largest rice producing country (~7mn tons/annum) and 4th largest rice exporting country (~4mn ton). The basmati rice which can only be cultivated in Pakistan and India is of higher demand in the world. Recently European Union (EU) ordered to limit the Tricyclazole level in Basmati rice to 0.01mg/kg which is found in Indian Basmati rice due to use of some pesticides. However it will take 2 crop cycle for India to reduce its level of Tricyclazole up to EU level. Pakistan is in the best position to capture Indian market share because Pakistan does not use such pesticides. India last year export 350,000 Ton of basmati rice to EU where Pakistan exported 100,000 Ton of basmati rice last year.

Rice Glucose and Protein a game Changer for Matco In October 2017, Matco installed rice glucose and protein plant, further keeping in mind the local and international demand company going to expand their capacity. According to the company, domestic demand of Rice Glucose and Protein currently stand at 220,000MT while global demand stand at 1mn MT. In early phase company plans to capture local market. We expect with full utilization of Glucose plant (based on local sales only) it would contribute ~Rs1.10/share. Moreover MATCO can potentially explore export market where margin is much higher compared to domestic market. We estimate every 3,000MT (i.e 10% of capacity) export sales of rice glucose would add Rs1.32/share to its bottom-line. However we haven't incorporate export sales in our earning estimate.

Hedge against PKR Devaluation Matco's major revenue (i.e ~65%) comes from export sales which is denominated in USD as it offers a potential hedge against PKR depreciation.

Valuation

Our DCF based fair value of June 2018 is Rs35/share, to realize potential capital gain we recommend investors to subscribe book building/IPO up to the price of **Rs30/share**.

Key Risk to Our Estimate

- Lower Rice prices in international market
- Lower Production of Rice Crop
- Delay in expansion of Rice glucose plant
- Lower demand

January 17,2018

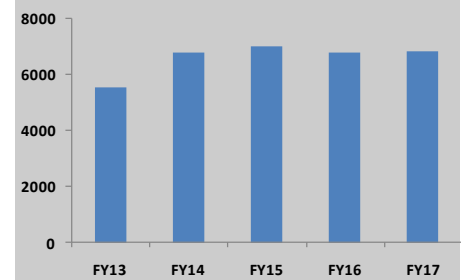
Recommendation	Subscribe
Floor Price	Rs26.00
Out. Shares (mn)	87.42mn
Current Issue (mn)	29.14mn

Project Detail

Particulars	Rs in Millions
Total Cost of Project	758.00
IPO Proceed @ Rs26	757.71
Internal Cash	0.28

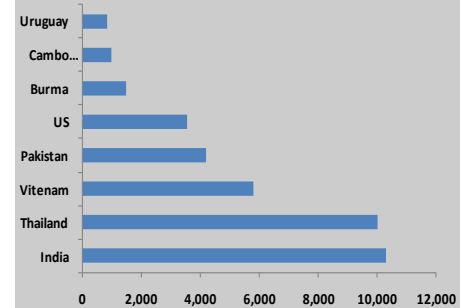
Source: Co. Prospectus

Pakistan Rice Production (000 Tons)



Source: Economic Survey

Country Wise Rice Export (000 Tons)



Source: Statistia.com

Research Department

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Financial Snapshot

<i>Rs in Mn</i>	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Income Statement							
Revenue	6,289	8,160	6,089	5,578	6,134	7,707	9,275
Cost of Good Sold	(5,441)	(7,279)	(5,194)	(4,939)	(5,169)	(6,512)	(7,880)
Gross Profit	848	881	895	639	965	1,195	1,395
Profit Before Taxation	196	254	160	38	342	409	547
Taxation	(65)	(77)	(62)	(34)	(73)	(89)	(110)
Profit After Taxation	131	177	98	4	269	320	437
EPS (Post IPO)	1.12	1.52	0.84	0.03	2.31	2.75	3.75
Gross Margins	13.5%	10.8%	14.7%	11.5%	15.7%	15.5%	15.0%
Net Margins	2.1%	2.2%	1.6%	0.1%	4.4%	4.2%	4.7%
Balance Sheet							
Total Assets	5,844	7,408	7,448	6,907	8,235	8,803	9,771
Equity	1,969	2,099	2,236	2,286	2,571	3,636	4,074
Surplus on Revaluation	269	831	782	599	572	572	572
Total Liabilities	3,606	4,478	4,430	4,022	5,092	4,595	5,126
BV without Surplus	22.5	24	25.6	26.1	29.4	31.19	34.95
ROE	6%	2%	3%	0%	9%	9%	11%
ROA	2%	2%	1%	0%	3%	4%	5%

Source: Co Prospectus, AS Research

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Valuation Methodology

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method (P/E, P/B etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

Rating

BUY	Total Return more than 20% from last closing of market price
HOLD	Total Return is in between 10% and 20% from last closing of market price
REDUCE	Total Return is less than 10% from last closing market price



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