

MATCO FOODS LIMITED

- MFL is set to announce its FY18 results next week, wherein we expect MFL to post FY18E estimated PAT of Rs325mn (EPS: Rs2.79) as compare to PAT of Rs269mn (EPS: Rs2.31) up by 21% YoY. We expect increase in earning to emanate from 1) Devaluation of PKR, 2) Rise in rice export volumes & 3) Addition of Rice Glucose and Protein Plant
- Ban of Indian basmati rice by EU due to Tricyclazole limit, higher demand from African countries and one-off weather shocks in Bangladesh and Madagascar has damaged rice crops as a result Pakistan overall rice export has witness an increased by 16.54% in FY18.
- Last year MFL has setup a rice glucose plant with the capacity of 10,000 MT while another plant of 20,000 MT is in installation phase and expected to be operational by FY19.
- We expect MFL to post FY18E and FY19E EPS of around Rs2.79 and Rs3.95, currently trading at a P/E of around 13.98x and 9.87x respectively. We have a BUY stance on the stock with Jun-19 TP of Rs47share

MFL Major Beneficiary of Rising Rice Exports

- Pakistan is the 7th largest rice producing country (~7.4mn tons/annum) and 4th largest rice exporting country (~4mn ton). Devaluation of PKR, demand from African Countries, one-off weather shocks in Bangladesh and Madagascar, and Tricyclazole level limit imposed by EU on basmati which has hampered Indian export has resulted in overall increase of Pakistani rice export by 16.54% (FY18)
- Recently European Union (EU) ordered to limit the Tricyclazole level in Basmati rice which made it difficult for the India to export rice to EU countries which has created room for Pakistani exporters. Decline in demand from Middle East countries due to lower public spending and imposition of VAT is being offset by higher export to EU Countries.
- We expect devaluation of PKR and demand from EU to result in increase in export going forward. MFL being the largest basmati rice exporter of Pakistan is the major beneficiary

Rice Glucose and Protein another addition in Product Portfolio of MFL

- Last year MFL installed rice glucose and protein plant of 10,000MT and 1000MT respectively, keeping in view local and international demand company is expanding its current capacity by installing another plant of 20,000MT and 2,000MT of rice glucose and protein. According to estimate domestic demand of Rice Glucose and Protein is stand ~220,000MT while global demand stands ~1mn MT. We expect full utilization of Glucose plant based on local sales to contribute ~Rs1.10/share to the bottomline
- Moreover in export market margin is much higher compared to the domestic market, so we have estimated that every 3,000MT (i.e. 10% of capacity) export sales would add ~Rs1.32/share to its bottom-line

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

Valuation

- We expect MFL to post FY18E and FY19E EPS of around Rs2.79 and Rs3.95 currently trading at P/E of around 13.98x and 9.87x respectively. We have a BUY stance on the stock with Jun -19 TP of Rs47

Key Risk to Our Estimate

- Lower Rice prices in international market
- Lower crop yield
- Delay in expansion of Rice glucose plant
- Lower demand
- Lower than estimated rupee devaluation

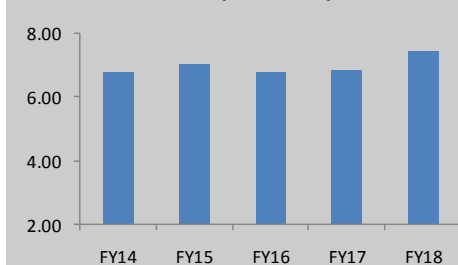
KATS Symbol	MFL
Reuters Symbol	MFL.KA
Target Price	Rs47
LDCP	Rs39.00
Outstanding Shares (mn)	116.57
Free Float (mn)	46.63
Market Cap (mn Rs)	4,546.31

Earning Estimate

	FY17A	FY18E	FY19E
EPS	2.31	2.79	3.95
P/E	16.90	13.98	9.87

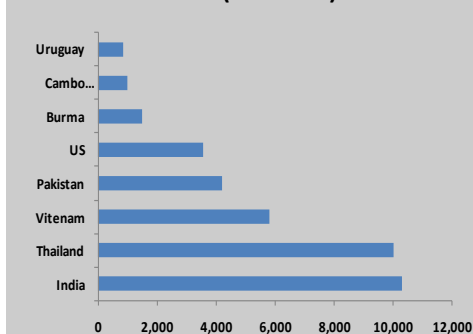
Source: Co. Financials, AS Research

Pakistan Rice Production (000 Tons)



Source: Economic Survey

Country Wise Rice Export (000 Tons)



Source: Statistia.com

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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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