MILLAT TRACTORS LIMITED

1QFY16 - Result Overview

MTL’s 1QFY16 profit after tax stands at Rs252mn (EPS: Rs5.69) a decline of 48% YoY against 1QFY15 profit after tax of Rs488mn (EPS: Rs11.03). A similar trend was also seen on QoQ basis as profitability declined by 58% against 4QFY15 profit after tax of Rs597mn (EPS: Rs13.47). The decline in earnings was primarily attributable to decline in sales volumes as the farmers waited for the launch of a subsidiary scheme which was announced in the provisional budget. We also note that the decline in commodity prices locally and internationally has left the farmer cash strapped. Moreover devaluation of Pak Rupee against the USD (a decline of 1.06% on QoQ basis impacted cost of imported components) has resulted in further erosion of gross margins.

Outlook

MTL has recently signed a fresh contract with AGCO, which enables the company to export Pakistani made tractors on the international market. We believe this event will play a significant role in improving company’s volumetric sales, as we note that MTL has the capacity to produce 50,000 tractors annually, (on 3 shifts) and production against the capacity was around 28,000 units (on 2 shifts) in FY15 which gives the company ample opportunity to produce at higher capacity utilization. On local front subsidy on fertilizers and financial aid for cultivating rice and cotton is expected to improve the farmers’ purchasing power. On the contrary rumors regarding shelved tractor scheme and the entrance of new players (Belarus, Minsk Tractor Works) in local industry could potentially reduce the MTL’s market share in local industry

Recommendation

MTL is currently trading at Rs627.93/share with P/E of 12.56x and could potentially yield around 8% on its FY16E estimated earnings of Rs50/share. Going forward on a recurring basis, we expect that the company would be able to sell around 9,000 units on quarterly basis initially, which according to our estimates could translate into earning of ~Rs60/shares. We recommend ‘Buy’ stance on scrip based on potential of further growth in the profitability.

Company Information

Millat Tractors Limited is a public limited company incorporated in Pakistan and is listed on all the stock exchanges in Pakistan. The Company is engaged in assembling and manufacturing of agricultural tractors, implements and multi-application products.

Financial Highlights

ROE (%) 50.57
BV/Share (Rs./share) 112.29
Shareholder’s Equity (Bn) 4.97
Capacity Utilization 94%

Market Data:

Price (November 12, 2015) 627.93
Mkt. Cap. (Bn) 27.811
52-Week Range 702.97-529.04
Outstanding shares (Mn) 44.29
Free Float (Mn) 17.72

November 13, 2015

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