

Date: June 04, 2012

KSE – 13,816

MTL – PKR 493

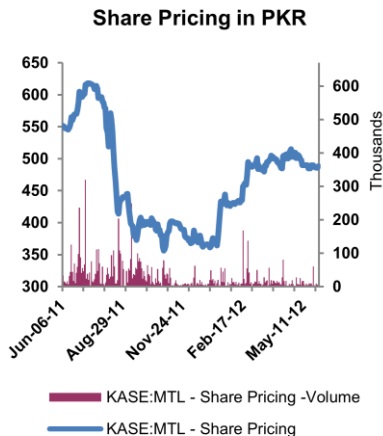
MTL YTD STATISTICS:

High – PKR 617.94

Low – PKR 355.77

Shares Outstanding: 36,61mn

Market Capitalization: PKR18, 085mn

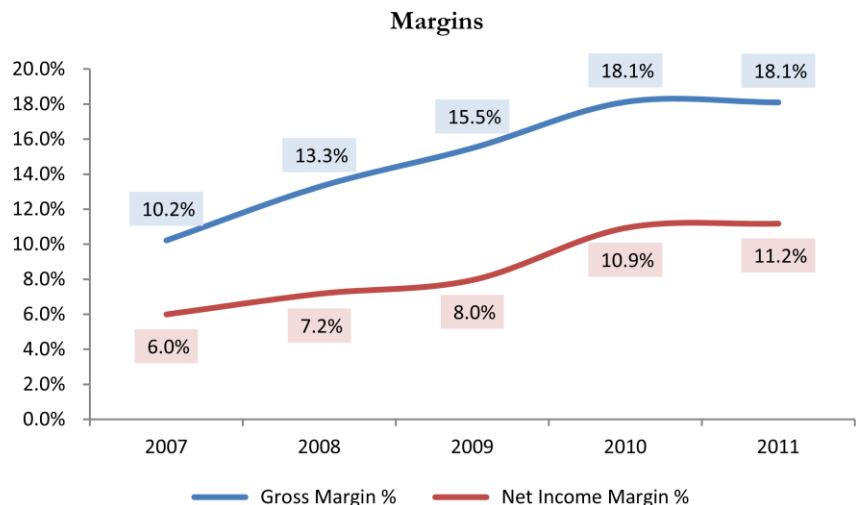


Company Background

Millat Tractors Limited is a Pakistan-based company engaged in the assembly and manufacture of agricultural tractors, implements and multi-application products. Millat Industrial Products Limited is the Company's 64.09%-owned subsidiary, which is engaged in manufacturing vehicles, industrial and domestic batteries, cells and components.

9MFY12 Operational Performance

In 9MFY12, the company's topline decreased by 31.8% due to a levy of 16% which was later slashed to 5%. Gross margins, however, increased to 17.4% from 17.1% a year earlier on the back of lower production costs. With lower sales, the company was able to reduce its marketing & distribution expenses, along with administrative costs. Net margin for the company inched lower to 10.11% from 10.39% in the corresponding period last year. With a reduction in the levy and the government keen on boosting agricultural income in the upcoming budget, we expect sales to pick up in the near term.



Triggers

- Demand for tractors usually increases with the onset of Kharif and Rabi seasons
- Tractor sales shall pick up on account of reduction in sales tax to 5% (from 16%)
- Custom duty on imported tractor parts reduced from 35% to 30%, which was less than the markets expectation.

Risks

- Poor agro-mechanics and lower farmer income levels on the back of depressed cotton prices in the international market

Recommendation

MTL currently stands at PKR 493, PKR 87 below the fair value of PKR 580. YTD average stock price has been PKR 454. YTD, the stock has made a high of PKR 617.94 and low of PKR 355.77. The full year EPS is expected to settle at PKR 50, with PKR 32.73 already posted over 9MFY12. Going forward, Research expects demand to pick up in 4QFY12, with the start of the Rabi harvest. At current price level, we have a Buy stance on MTL (FY12F PER: 9.86x), which offers an upside of ~17% to our target price of PKR 580/share.