

**Pioneer Cement Limited**  
Result Preview

PSX: PIOC Bloomberg: PIOC: PA Reuters: PION: KA

Pakistan Research

## 1QFY23 EPS is likely to settle at PKR 2.29, up 8% YoY

- Pioneer Cement is scheduled to announce its 1QFY23 financial result on 28<sup>th</sup> September, 2022, where we expect the company to report an EPS of PKR 2.29 for 1QFY23 compared to an EPS of PKR 2.12 in 1QFY22, up 8% YoY.
- Net sales are anticipated to augment by 32% YoY to PKR 8.17bn during 1QFY23 on account of improved retention prices (up 69% YoY). This is despite lower cement utilization of 48% in 1QFY23 vs 77% in 1QFY22.
- PIOC's gross margin is expected to remain stagnant at 24% in 1QFY23 despite a significant increase in coal prices by 54%. We have assumed higher reliance of captive power plant for power supply rather than grid as it is an expensive source of power generation compared to grid.
- Finance cost of the company is anticipated to grow by 70% YoY to PKR 986mn during 1QFY23 due to higher interest rates.
- We have a 'BUY' recommendation on PIOC with our June-23 price target (PT) of PKR 85/share, providing an upside of 25%.

### Key Data

PSX Ticker	PIOC
Target Price (PKR)	85
Current Price (PKR)	68
Upside/(Downside) (%)	+25%
Dividend Yield (%)	+0%
Total Return (%)	+ 25%
12-month High (PKR)	106
12-month Low (PKR)	53
Outstanding Shares (mn)	227
Market Cap (PKR mn)	15,446
Year End	June

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

	1QFY22	1QFY23F	YoY
Net Sales	6,197	8,167	32%
Cost of Sales	4,735	6,239	32%
<b>Gross Profit</b>	<b>1,463</b>	<b>1,928</b>	<b>32%</b>
Selling & Admin. Exp	64	88	38%
Other Income	10	51	417%
Other Charges	89	51	-42.7%
Finance cost	580	986	70%
<b>Profit before tax</b>	<b>739</b>	<b>854</b>	<b>16%</b>
Taxation	259	333	29%
<b>Net Income</b>	<b>480</b>	<b>521</b>	<b>8%</b>
EPS	2.12	2.29	8%

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
EPS	(0.9)	8.7	4.6	4.4	6.6	23.7
EPS Growth	-127%	-1042%	-47%	-4%	49%	258%
DPS	-	-	-	-	-	-
PER	(71.5)	7.6	14.3	14.9	10.0	2.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	(1,032.2)	8.3	4.5	5.6	6.1	3.3
P/B	1.4	1.2	1.1	1.0	0.9	0.7
ROE	-2.0%	15.8%	7.7%	6.9%	9.4%	25.1%

Source: Company Accounts, Akseer Research

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### Valuation Basis

Our PT for Pioneer Cement Limited (PIOC) has been computed using Free cash flow to Firm (FCFF) method. We have used a risk free rate of 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

### Investment Thesis

We have a 'Buy' recommendation on the stock based on our June-23 PT of 85/share. Our price target provides an upside of 25%. Our investment case on PIOC is based on (1) improved retention prices and 2) higher utilization of captive coal power plant.

### Risks

Key downside risks to our investments thesis are: (1) higher than anticipated increase in input cost (Coal) (2) lower than anticipated growth in cement demand (3) higher than estimate decline in cement prices (4) lower than anticipated decline in interest rates.

### Company Description

Pioneer Cement Limited produces and sells cement in Pakistan. The company offers ordinary Portland cement, a building material for use in structural works. It also provides sulphate resistant cement for use in underground structures where soils are rich in sulfate salts. The company also exports its products to Afghanistan, India, Middle East, Europe, and Africa. Pioneer Cement Limited was incorporated in 1986 and is headquartered in Lahore, Pakistan.

### Financial Highlights – PIOC

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	6,287	21,818	31,879	38,238	35,146	35,650
Cost of sales	6,390	17,700	24,676	32,438	29,365	24,593
<b>Gross Profit</b>	<b>(103)</b>	<b>4,118</b>	<b>7,203</b>	<b>5,799</b>	<b>5,781</b>	<b>11,057</b>
SG & A	361	247	254	352	600	730
<b>Operating Profit</b>	<b>(464)</b>	<b>3,871</b>	<b>6,949</b>	<b>5,447</b>	<b>5,181</b>	<b>10,327</b>
Other income	108	303	40	204	244	239
Other charges	6	153	389	204	244	239
Finance cost	393	1,818	2,656	3,944	2,947	2,338
<b>Profit before tax</b>	<b>(755)</b>	<b>2,203</b>	<b>3,945</b>	<b>1,504</b>	<b>2,234</b>	<b>7,989</b>
Taxation	(546)	229	2,894	496	733	2,607
<b>Profit after tax</b>	<b>(210)</b>	<b>1,974</b>	<b>1,050</b>	<b>1,008</b>	<b>1,502</b>	<b>5,382</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	41,558	42,945	63,243	67,367	69,396	71,515
Other LT assets	150	153	170	163	168	173
<b>Non-Current Assets</b>	<b>41,708</b>	<b>43,098</b>	<b>63,413</b>	<b>67,530</b>	<b>69,564</b>	<b>71,688</b>
Current assets	7,326	8,382	8,575	11,164	13,289	12,383
<b>Total Assets</b>	<b>49,035</b>	<b>51,481</b>	<b>71,988</b>	<b>78,694</b>	<b>82,852</b>	<b>84,071</b>
Non-Current liabilities	21,545	19,399	25,144	19,478	15,645	12,110
Current liabilities	14,361	16,983	17,073	28,500	34,989	34,361
<b>Total Liabilities</b>	<b>35,906</b>	<b>36,382</b>	<b>42,217</b>	<b>47,977</b>	<b>50,634</b>	<b>46,470</b>
Equity	13,128	15,099	29,771	30,717	32,219	37,601
<b>Total Equity &amp; liabilities</b>	<b>49,035</b>	<b>51,481</b>	<b>71,988</b>	<b>78,695</b>	<b>82,853</b>	<b>84,071</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(210)	1,974	1,050	1,008	1,502	5,382
Non-cash Charges	425	981	1,060	1,538	1,607	1,679
<b>Operating Cash flows</b>	<b>967</b>	<b>2,303</b>	<b>11,957</b>	<b>2,850</b>	<b>1,440</b>	<b>5,382</b>
<b>FCFF</b>	<b>(4,801)</b>	<b>1,563</b>	<b>(8,693)</b>	<b>(169)</b>	<b>(214)</b>	<b>3,158</b>
Net borrowings	5,062	278	(4,476)	3,968	2,968	(2,596)
<b>FCFE</b>	<b>152</b>	<b>212</b>	<b>(13,877)</b>	<b>1,157</b>	<b>773</b>	<b>(1,013)</b>
Net change in cash	155	(28)	251	569	763	(1,023)
<b>Closing cash</b>	<b>366</b>	<b>338</b>	<b>589</b>	<b>1,158</b>	<b>1,921</b>	<b>898</b>

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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