

Pioneer Cement Limited
Result Review

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

Pakistan Research

1QFY23 EPS clocked in at PKR 2.58, up 22% YoY

- PIOC announced its 1QFY23 results today wherein the company posted an EPS of PKR 2.58 compared to an EPS of PKR 2.12 in 1QFY22.
- Topline of the company augmented by 34% YoY to PKR 8.3bn during 1QFY23 on account of improved retention prices (up 72% YoY). This is despite a decline in local dispatches by 22% YoY, on the back of flash flooding coupled with torrential rain.
- PIOC's gross margin clocked in at 23.0% in 1QFY23 vs 23.6% in 1QFY22. Despite higher coal and energy prices, company was able to maintain its margins due to higher retention prices.
- Despite lower sales volumes, PIOC recorded higher selling and distribution expenses, up 3% YoY, on account of rising inflation.
- Finance cost of the company grew by 58% YoY to PKR 915mn during 1QFY23 due to increase in the interest rates and higher short term borrowing.
- We have a 'BUY' recommendation on PIOC with our June-23 price target (PT) of PKR 85/share, providing an upside of 24%.

Key Data

PSX Ticker	PIOC
Target Price (PKR)	85
Current Price (PKR)	66
Upside/(Downside) (%)	+24%
Dividend Yield (%)	0%
Total Return (%)	+ 24%
12-month High (PKR)	106
12-month Low (PKR)	53
Outstanding Shares (mn)	227
Market Cap (PKR mn)	15,443
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QFY22	1QFY23	YoY
Net Sales	6,197	8,322	34%
Cost of Sales	4,735	6,412	35%
Gross Profit	1,463	1,910	31%
Selling & Admin. Exp	64	66	3%
Other Income	10	10	1%
Other Charges	89	65	-27%
Finance cost	580	915	58%
Profit before tax	739	874	18%
Taxation	259	288	12%
Net Income	480	586	22%
EPS	2.12	2.58	22%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
EPS	(0.9)	8.7	4.6	4.4	7.0	23.3
EPS Growth	-127%	-	-47%	-4%	58%	232%
DPS	-	-	-	-	-	-
PER	-	7.8	14.7	15.3	9.7	2.9
Dividend Yield	-	-	-	-	-	-
EV/EBITDA	-	8.4	4.6	5.7	6.1	3.3
P/B	1.5	1.2	1.1	1.1	1.0	0.7
ROE	-	15.8%	7.7%	6.9%	9.9%	24.7%

Source: Company Accounts, Akseer Research

Altamash Hemani
altamash.hemani@alphacapital.com.pk

Valuation Basis

Our PT for Pioneer Cement Industry (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 24%. 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. 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
Gross Profit	(103)	4,118	7,203	5,799	5,781	11,057
SG & A	361	247	254	352	600	730
Operating Profit	(464)	3,871	6,949	5,447	5,181	10,327
Other income	108	303	40	204	249	246
Other charges	6	153	389	204	116	386
Finance cost	393	1,818	2,656	3,944	2,947	2,338
Profit before tax	(755)	2,203	3,945	1,504	2,366	7,849
Taxation	(546)	229	2,894	496	776	2,561
Profit after tax	(210)	1,974	1,050	1,008	1,591	5,288

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
Non-Current Assets	41,708	43,098	63,413	67,530	69,564	71,688
Current assets	7,326	8,382	8,575	11,164	13,378	12,378
Total Assets	49,035	51,481	71,988	78,695	82,942	84,066
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
Total Liabilities	35,906	36,382	42,217	47,977	50,634	46,470
Equity	13,128	15,099	29,771	30,717	32,308	37,596
Total Equity & liabilities	49,035	51,481	71,988	78,695	82,942	84,066

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(210)	1,974	1,050	1,008	1,591	5,288
Non-cash Charges	425	981	1,060	1,538	1,607	1,679
Operating Cash flows	967	2,303	11,957	2,850	1,626	5,386
FCFF	(4,801)	1,563	(8,693)	(169)	(28)	3,163
Net borrowings	5,062	278	(4,476)	3,968	2,968	(2,596)
FCFE	152	212	(13,877)	1,157	959	(1,008)
Net change in cash	155	(28)	251	579	959	(1,008)
Closing cash	366	338	589	1,168	2,127	1,118

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

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.

Ratings Criteria

JV employs a three- tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8,
off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.pk