

Pioneer Cement Limited
Result Review

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

Pakistan Research

PIOC: 2QFY22 EPS settles at PKR 2.92, up 3% YoY and 38% QoQ

- PIOC announced its financial result today, wherein the company posted profit after tax of PKR 663mn (EPS PKR 2.92) during 2QFY22, up 3% YoY and 38% QoQ. This takes 1HFY22 earnings to PKR 1.1bn (EPS PKR 5.03), up 88% YoY.
- Topline of the company surged by 60% YoY to PKR 8.6bn in 2Q mainly due to 10% YoY increase in cement dispatches to 0.98mn tons and improved cement retention prices, up 46% YoY to PKR 440/bag.
- Despite higher coal prices, the company's gross margin remained 20.6% in 2Q vs 15.5% in SPLY. Increased margins can be attributed to higher cement dispatches, better retention prices and higher reliance on in house power generation.
- Finance cost of the company increased by 45% YoY to PKR 593mn during 2Q due to higher interest rates.
- Effective tax rate clocked in higher at 36.8% in 2Q vs tax credit in SPLY, restricting the bottomline growth.
- On a sequential basis, earnings of the company increased by 38% QoQ. This is due to higher cement dispatches (+26% QoQ) and improved retention prices (11% QoQ). However, gross margin declined by 3% QoQ owing to higher coal prices.
- We have a 'BUY' recommendation on PIOC with our Dec-22 price target (PT) of PKR 150/share, providing an upside of 79%.

Key Data

PSX Ticker	PIOC
Target Price (PKR)	150
Current Price (PKR)	83
Upside/(Downside) (%)	+ 79%
Dividend Yield (%)	-
Total Return (%)	+ 79%
12-month High (PKR)	145
12-month Low (PKR)	66
Outstanding Shares (mn)	227.1
Market Cap (PKR mn)	18,946
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	5,378	8,614	60%	9,371	14,811	58%
Cost of Sales	4,546	6,837	50%	8,231	11,572	41%
Gross Profit	832	1,777	113%	1,139	3,240	184%
Selling & Admin. Exp	64	62	-3%	128	126	-2%
Other Income	77	9	-89%	198	19	-91%
Other Charges	26	83	223%	26	172	571%
Finance cost	409	593	45%	839	1,173	40%
Profit before tax	411	1,049	155%	345	1,788	418%
Taxation	(235)	386	NM	(261)	645	NM
Net Income	646	663	3%	607	1,143	88%
EPS	2.84	2.92	3%	2.67	5.03	88%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	3.48	(0.92)	8.7	8.70	20.6	20.3
EPS Growth	-52%	NM	NM	0%	136%	-2%
DPS	2.00	-	-	-	6.25	6.00
PER	24.0	NM	9.6	9.6	4.1	4.1
Dividend Yield	2.4%	-	-	0.0%	7.5%	7.2%
EV/EBITDA	17.0	NM	9.2	6.0	3.9	3.9
P/B	1.8	1.8	1.5	1.3	1.1	0.9
ROE	7.5%	NM	15.8%	13.7%	26.4%	22.0%

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 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 150/share. Our price target provides an upside of 79%. Our investment case on PIOC is based on (1) nearing election period (2) higher contribution from coal power plant and (3) improved retention prices.

Risks

Key downside risks to our investments thesis are: (1) Prolonged increase in coal prices (2) lower than anticipated growth in cement demand (3) Reluctance in passing on higher cost impact.

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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	9,734	6,287	21,818	29,213	31,421	31,435
Cost of sales	7,599	6,390	17,700	22,873	21,182	21,566
Gross Profit	2,135	(103)	4,118	6,340	10,239	9,869
SG & A	325	361	247	309	369	471
Operating Profit	1,809	(464)	3,871	6,031	9,870	9,398
Other income	73	108	303	118	117	118
Other charges	288	6	153	192	455	447
Finance cost	271	393	1,818	3,175	2,960	2,602
Profit before tax	1,323	(755)	2,203	2,781	6,573	6,467
Taxation	533	(546)	229	805	1,902	1,867
Profit after tax	790	(210)	1,974	1,976	4,671	4,600

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	36,107	41,558	42,945	42,207	43,301	43,886
Other LT assets	141	150	153	158	163	168
Non-Current Assets	36,247	41,708	43,098	42,365	43,464	44,054
Current assets	6,030	7,326	8,382	9,634	10,721	11,989
Total Assets	42,277	49,035	51,481	52,000	54,185	56,043
Non-Current liabilities	19,268	21,545	19,399	15,981	10,763	6,912
Current liabilities	9,688	14,361	16,983	19,411	23,507	25,950
Total Liabilities	28,956	35,906	36,382	35,392	34,270	32,862
Equity	13,321	13,128	15,099	16,608	19,915	23,182
Total Equity & liabilities	42,277	49,035	51,481	52,000	54,185	56,044

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	790	(210)	1,974	1,976	4,671	4,600
Non-cash Charges	509	425	981	1,030	1,071	1,104
Operating Cash flows	3,486	967	2,303	2,989	3,510	4,044
FCFF	(10,048)	(4,801)	1,563	4,952	3,448	4,206
Net borrowings	10,747	5,062	278	(2,364)	(105)	(902)
FCFE	537	152	212	333	1,240	1,453
Net change in cash	(282)	155	(28)	(144)	(134)	110
Closing cash	211	366	338	193	60	170

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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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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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