

Pioneer Cement Limited
Result Review

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

Pakistan Research

PIOC: 2QFY23 EPS reported at PKR 5.2, up 77% YoY

- PIOC announced its 2QFY23 financial result today, wherein the company posted an EPS of PKR 5.2, up 77% YoY, compared to an EPS of PKR 2.9 in 2QFY22. This takes cumulative earnings in 1HFY23 to PKR 7.8/share, up 54% YoY. The result came in higher than our expectation due to improved gross margins.
- Topline of the company surged by 20% YoY to PKR 10.3bn in 2Q. Despite 20% YoY decline in despatches, revenue grew due to 50% YoY higher retention prices.
- PIOC's gross margin improved by 6ppts YoY and clocked in at 27% in 2Q. This improvement is mainly on the back of higher quantum of local coal in power mix.
- Finance cost increased by 44% YoY to PKR 853mn during 2Q, compared to PKR 593mn in SPLY, on account of higher interest rates.
- Selling and admin expenses observed a growth of 22% YoY to PKR 75mn, due to inflationary pressure.
- On a sequential basis, earnings of the company increased by 101% QoQ. This is due to higher cement dispatches (+23% QoQ) and improved gross margins (+4ppts).
- We have a 'BUY' recommendation on PIOC with our Dec-23 price target (PT) of PKR 70/share, providing an upside of 20%.

Key Data

PSX Ticker	PIOC
Target Price (PKR)	70
Current Price (PKR)	59
Upside/(Downside) (%)	+ 20%
Dividend Yield (%)	-
Total Return (%)	+ 20%
12-month High (PKR)	81
12-month Low (PKR)	44
Outstanding Shares (mn)	227.1
Market Cap (PKR mn)	13,354
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Net Sales	8,614	10,325	20%	14,811	18,646	26%
Cost of Sales	6,837	7,513	10%	11,572	13,925	20%
Gross Profit	1,777	2,811	58%	3,240	4,721	46%
Selling & Admin. Exp	62	75	22%	126	141	12%
Other Income	9	6	-30%	19	16	-13%
Other Charges	83	185	123%	172	250	45%
Finance cost	593	853	44%	1,173	1,768	51%
Profit before tax	1,049	1,704	62%	1,788	2,579	44%
Taxation	386	529	37%	645	817	27%
Net Income	663	1,175	77%	1,143	1,761	54%
EPS	2.92	5.17	77%	5.03	7.75	54%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	(0.9)	8.7	4.6	12.4	2.7	9.7
EPS Growth	-127%	-1042%	-47%	168%	-78%	263%
DPS	-	-	-	-	-	-
PER	(53.3)	5.7	10.6	4.0	18.3	5.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	(934.9)	7.6	4.0	3.8	7.0	5.3
P/B	1.1	0.9	0.8	0.7	0.7	0.6
ROE	-2.0%	15.8%	7.7%	17.2%	3.6%	11.6%

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 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-23 PT of 70/share. Our price target provides an upside of 20%. 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) higher than anticipated increase 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	FY23E	FY24F	FY25F
Net sales	6,287	21,818	31,879	37,462	30,874	30,918
Cost of sales	6,390	17,700	24,676	29,152	26,369	24,580
Gross Profit	(103)	4,118	7,203	8,310	4,505	6,337
SG & A	361	247	254	303	370	450
Operating Profit	(464)	3,871	6,949	8,007	4,135	5,887
Other income	108	303	40	177	185	204
Other charges	6	153	389	207	45	163
Finance cost	393	1,818	2,656	3,779	3,365	2,624
Profit before tax	(755)	2,203	3,945	4,198	911	3,305
Taxation	(546)	229	2,894	1,385	301	1,090
Profit after tax	(210)	1,974	1,050	2,813	610	2,215

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	41,558	42,945	63,243	67,313	68,878	70,499
Other LT assets	150	153	170	163	168	173
Non-Current Assets	41,708	43,098	63,413	67,476	69,046	70,672
Current assets	7,326	8,382	8,575	11,227	12,078	13,272
Total Assets	49,035	51,481	71,988	78,702	81,124	83,944
Non-Current liabilities	21,545	19,399	25,144	27,214	19,517	14,939
Current liabilities	14,361	16,983	17,073	18,966	28,475	33,658
Total Liabilities	35,906	36,382	42,217	46,180	47,992	48,597
Equity	13,128	15,099	29,771	32,522	33,133	35,347
Total Equity & liabilities	49,035	51,481	71,988	78,702	81,124	83,944

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	(210)	1,974	1,050	2,813	610	2,215
Non-cash Charges	425	981	1,060	1,206	1,248	1,292
Operating Cash flows	967	2,303	11,957	2,671	464	2,643
FCFF	(4,801)	1,563	(8,693)	(72)	(95)	1,489
Net borrowings	5,062	278	(4,476)	2,691	2,705	1,330
FCFE	152	212	(13,877)	87	356	1,061
Net change in cash	155	(28)	251	(491)	356	1,061
Closing cash	366	338	589	98	454	1,515

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

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