

**Pioneer Cement Limited**  
Result Preview

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

Pakistan Research

**PIOC: 3QFY23 EPS is likely to settle at PKR 3.53, up 65% YoY**

- PIOC is scheduled to announce its 3QFY23 financial result on 28<sup>th</sup> April, 2023, where we expect the company to report an EPS of PKR 3.53 for 3QFY23 compared to an EPS of PKR 2.14 in 3QFY22, up 65% YoY. This will take 9MFY23 EPS to PKR 11.28, up 57% YoY. On a QoQ basis, EPS is expected to decline by 32% due to a 13% QoQ decline in volumes.
- Net sales are anticipated to increase by 18% YoY to PKR 9.1bn during 3QFY23 on account of improved retention prices, up 41% YoY. This is despite a 13% YoY decline in local cement dispatches.
- PIOC's gross margin is expected to clock in at 26% in 3QFY23 vs 21% in 3QFY22. Higher margins can be attributed to greater use of local coal vs more expensive imported coal, as well as steep increase in retention prices.
- Finance cost of the company is anticipated to grow by 25% YoY to PKR 957mn during 3Q due to higher interest rates.
- We have a 'BUY' recommendation on PIOC with our Dec-23 price target (PT) of PKR 85/share, providing an upside of 19%.

**Key Data**

PSX Ticker	PIOC
Target Price (PKR)	85
Current Price (PKR)	71
Upside/(Downside) (%)	+19%
Dividend Yield (%)	+0%
Total Return (%)	+ 19%
12-month High (PKR)	106
12-month Low (PKR)	53
Outstanding Shares (mn)	227
Market Cap (PKR mn)	16,195
Year End	June

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	3QFY22	3QFY23F	YoY	9MFY22	9MFY23F	YoY
Net Sales	7,728	9,094	18%	22,539	27,741	23%
Cost of Sales	6,078	6,728	11%	17,650	20,654	17%
<b>Gross Profit</b>	<b>1,650</b>	<b>2,366</b>	<b>43%</b>	<b>4,890</b>	<b>7,087</b>	<b>45%</b>
Selling & Admin. Exp	58	67	15%	184	209	13%
Other Income	9	6	-29%	27	22	-18%
Other Charges	78	185	136%	250	434	74%
Finance cost	764	957	25%	1,937	2,725	41%
<b>Profit before tax</b>	<b>757</b>	<b>1,163</b>	<b>54%</b>	<b>2,545</b>	<b>3,741</b>	<b>47%</b>
Taxation	272	361	33%	917	1,178	29%
<b>Net Income</b>	<b>485</b>	<b>802</b>	<b>65%</b>	<b>1,629</b>	<b>2,563</b>	<b>57%</b>
EPS	2.14	3.53		7.17	11.28	

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
EPS	(0.9)	8.7	4.6	17.0	7.7	16.3
EPS Growth	-127%	-1042%	-47%	268%	-55%	111%
DPS	-	-	-	-	-	-
PER	(53.3)	5.7	10.6	2.9	6.4	3.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	(934.9)	7.6	4.0	2.7	3.8	2.3
P/B	1.1	0.9	0.8	0.6	0.6	0.5
ROE	-2.0%	15.8%	7.7%	22.2%	9.1%	16.2%

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 85/share. Our price target provides an upside of 19%. 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	37,563	30,280	30,362
Cost of sales	6,390	17,700	24,676	28,225	25,009	22,788
<b>Gross Profit</b>	<b>(103)</b>	<b>4,118</b>	<b>7,203</b>	<b>9,339</b>	<b>5,271</b>	<b>7,574</b>
SG & A	361	247	254	315	387	464
<b>Operating Profit</b>	<b>(464)</b>	<b>3,871</b>	<b>6,949</b>	<b>9,024</b>	<b>4,883</b>	<b>7,110</b>
Other income	108	303	40	221	217	236
Other charges	6	153	389	284	128	271
Finance cost	393	1,818	2,656	3,194	2,362	1,561
<b>Profit before tax</b>	<b>(755)</b>	<b>2,203</b>	<b>3,945</b>	<b>5,767</b>	<b>2,609</b>	<b>5,513</b>
Taxation	(546)	229	2,894	1,903	861	1,818
<b>Profit after tax</b>	<b>(210)</b>	<b>1,974</b>	<b>1,050</b>	<b>3,864</b>	<b>1,749</b>	<b>3,695</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	41,558	42,945	63,243	59,675	58,727	57,772
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>59,838</b>	<b>58,895</b>	<b>57,945</b>
Current assets	7,326	8,382	8,575	11,990	10,507	11,148
<b>Total Assets</b>	<b>49,035</b>	<b>51,481</b>	<b>71,988</b>	<b>71,828</b>	<b>69,402</b>	<b>69,093</b>
Non-Current liabilities	21,545	19,399	25,144	23,477	19,408	15,847
Current liabilities	14,361	16,983	17,073	14,777	14,672	14,230
<b>Total Liabilities</b>	<b>35,906</b>	<b>36,382</b>	<b>42,217</b>	<b>38,255</b>	<b>34,080</b>	<b>30,077</b>
Equity	13,128	15,099	29,771	33,573	35,322	39,016
<b>Total Equity &amp; liabilities</b>	<b>49,035</b>	<b>51,481</b>	<b>71,988</b>	<b>71,828</b>	<b>69,402</b>	<b>69,093</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(210)	1,974	1,050	3,864	1,749	3,695
Non-cash Charges	425	981	1,060	1,169	1,571	1,583
<b>Operating Cash flows</b>	<b>967</b>	<b>2,303</b>	<b>11,957</b>	<b>2,778</b>	<b>3,511</b>	<b>4,680</b>
<b>FCFF</b>	<b>(4,801)</b>	<b>1,563</b>	<b>(8,693)</b>	<b>7,317</b>	<b>4,471</b>	<b>5,098</b>
Net borrowings	5,062	278	(4,476)	(3,249)	(3,206)	(3,263)
<b>FCFE</b>	<b>152</b>	<b>212</b>	<b>(13,877)</b>	<b>1,928</b>	<b>(319)</b>	<b>788</b>
Net change in cash	155	(28)	251	1,351	(319)	788
<b>Closing cash</b>	<b>366</b>	<b>338</b>	<b>589</b>	<b>1,939</b>	<b>1,621</b>	<b>2,409</b>

Source: Company Accounts, Akseer Research

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