

Pioneer Cement Limited
Result Review

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

Pakistan Research

PIOC: 4QFY22 LPS clocked in at PKR 2.55

- PIOC announced its 4QFY22 results today wherein the company posted a LPS of PKR 2.55 compared to an EPS of PKR 3.00 in 4QFY21. This takes FY22 EPS to PKR 4.62 vs PKR 8.69 in FY21, down 47% YoY. The result was lower than our expectation mainly due to higher than anticipated tax charges.
- Topline of the company augmented by 51% YoY to PKR 9.3bn during 4QFY22 on account of improved retention prices (up 60% YoY). This is despite a decline in local dispatches by 5% YoY, which can be attributed to a halt in government spending towards PSDP.
- PIOC's gross margin clocked in at 25% in 4QFY22 vs 23% in 4QFY21. Company recorded higher margins on account of increase in retention prices and effective management of coal.
- Finance cost of the company grew by 47% YoY to PKR 719mn during 4Q due to increase in the interest rates accompanied with increase in short term borrowing.
- PIOC reported 56% YoY growth on PBT level, however, its bottomline turned into negative due to higher tax charges. This is due to the introduction of new taxes in the FY23 budget. Effective tax rate of the company reached 141% in 4QFY22 vs 24% in 4QFY21.
- We have a 'BUY' recommendation on PIOC with our June-23 price target (PT) of PKR 90/share, providing an upside of 41%.

Key Data

PSX Ticker	PIOC
Target Price (PKR)	90
Current Price (PKR)	66
Upside/(Downside) (%)	+41%
Dividend Yield (%)	0%
Total Return (%)	+ 41%
12-month High (PKR)	53
12-month Low (PKR)	106
Outstanding Shares (mn)	227
Market Cap (PKR mn)	14,587
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Net Sales	6,177	9,340	51%	21,818	31,879	46%
Cost of Sales	4,748	7,026	48%	17,700	24,676	39%
Gross Profit	1,429	2,313	62%	4,118	7,203	75%
Selling & Admin. Exp	51	70	36%	247	254	3%
Other Income	63	13	-79%	303	40	-87%
Other Charges	55	139	151%	153	389	155%
Finance cost	490	719	47%	1,818	2,656	46%
Profit before tax	895	1,399	56%	2,203	3,945	79%
Taxation	214	1,978	823%	229	2,894	1166%
Net Income	681	(578)	NM	1,974	1,050	-47%
EPS	3.00	(2.55)	NM	8.69	4.62	-47%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
EPS	3.5	(0.9)	8.7	4.6	6.0	6.5
EPS Growth	-52%	-	-	-47%	29%	9%
DPS	2.00	-	-	-	-	-
PER	19.2	-	7.7	14.4	11.2	10.3
Dividend Yield	3.0%	-	-	-	-	-
EV/EBITDA	15.4	-	8.4	4.9	5.2	6.4
P/B	1.4	1.5	1.2	1.1	1.0	0.9
ROE	7.5%	-	15.8%	7.8%	9.1%	9.0%

Source: Company Accounts, Akseer Research

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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 90/share. Our price target provides an upside of 41%. 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)						
	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
Net sales	9,734	6,287	21,818	31,879	38,238	34,237
Cost of sales	7,599	6,390	17,700	24,676	32,004	28,909
Gross Profit	2,135	(103)	4,118	7,203	6,234	5,327
SG & A	325	361	247	254	352	600
Operating Profit	1,809	(464)	3,871	6,949	5,882	4,727
Other income	73	108	303	40	211	187
Other charges	288	6	153	389	142	153
Finance cost	271	393	1,818	2,656	3,904	2,549
Profit before tax	1,323	(755)	2,203	3,945	2,047	2,212
Taxation	533	(546)	229	2,894	675	725
Profit after tax	790	(210)	1,974	1,050	1,371	1,487

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
PPE	36,107	41,558	42,945	42,207	43,566	44,986
Other LT assets	141	150	153	158	163	168
Non-Current Assets	36,247	41,708	43,098	42,365	43,729	45,154
Current assets	6,030	7,326	8,382	9,457	10,482	10,005
Total Assets	42,277	49,035	51,481	51,822	54,211	55,160
Non-Current liabilities	19,268	21,545	19,399	15,981	10,763	6,912
Current liabilities	9,688	14,361	16,983	20,159	26,325	29,565
Total Liabilities	28,956	35,906	36,382	36,140	37,088	36,478
Equity	13,321	13,128	15,099	15,683	17,123	18,682
Total Equity & liabilities	42,277	49,035	51,481	51,822	54,211	55,160

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	790	(210)	1,974	1,050	1,371	1,487
Non-cash Charges	509	425	981	1,060	1,077	1,125
Operating Cash flows	3,486	967	2,303	2,905	4,466	1,368
FCFF	(10,048)	(4,801)	1,563	3,290	4,646	536
Net borrowings	10,747	5,062	278	(1,913)	(1,009)	(150)
FCFE	537	152	212	670	1,021	(1,327)
Net change in cash	(282)	155	(28)	193	1,080	(1,265)
Closing cash	211	366	338	530	1,611	346

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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