

PIOC - FY21 EPS clocks in at PKR 8.69/share

- PIOC announced its FY21 results today where the company posted net earnings of PKR 8.69/share compared to a net loss of PKR 0.92/share in FY20. Contrary to our expectations the company did not announce any cash dividend along with the results.
- Topline of the company accelerated by 2.47x to PKR 21.8bn during FY21 due to commencement of production from new cement line. Along with this, higher local cement prices (up 19% YoY) also supported the revenue growth.
- The company managed to pass on the coal price hike impact which led to higher gross margins of 18.9% in FY21 compared to negative margins of 1.6% in the comparative year.
- Finance cost of the company surged by 3.6x to PKR1.8bn in FY21 owing to additional debt taken for installation of the new line.
- In 4QFY21 alone, the company posted an EPS of PKR 3.00 compared to an EPS of PKR 1.38 in 4QFY20. Gross margins for 4QFY21 clocked in at 23% on the back of surging local cement prices and higher dispatches.
- We have a 'BUY' recommendation on PIOC with a Dec-21 price target (PT) of PKR 172/share providing a potential upside of 89% along with a dividend yield of 4.9%.

Key Data

PSX Ticker	PIOC
Target Price (PKR)	172
Current Price (PKR)	91
Upside/(Downside) (%)	+ 89%
Dividend Yield (%)	4.9%
Total Return (%)	+ 94%
12-month High (PKR)	146.13
12-month Low (PKR)	82.50
Outstanding Shares (mn)	227.15
Market Cap (PKR mn)	21,328
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY20	4QFY21	YoY	FY20	FY21	YoY
Net Sales	314	6,177	18.7x	6,287	21,818	2.5x
Cost of Sales	359	4,748	12.2x	6,390	17,700	1.8x
Gross Profit	(45)	1,429	N/A	(103)	4,118	N/A
Selling & Admin. Exp	45	51	15%	361	247	-32%
Other Income	61	63	4%	108	303	181%
Other Charges	(81)	55	N/A	6	153	N/A
Finance cost	128	490	2.8X	393	1,818	3.63X
Profit before tax	(76)	895	N/A	(755)	2,203	N/A
Taxation	(390)	214	N/A	(546)	229	N/A
Net Income	314	681	N/A	(210)	1,974	N/A
EPS	1.38	3.00		(0.92)	8.69	
DPS	-	-		-	-	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F
EPS	7.24	3.48	(0.92)	8.69	14.82	23.63
EPS Growth	-44%	-52%	NM	-1042%	70%	59%
DPS	4.07	2.00	-	2.00	4.50	7.00
PER	13.1	27.3	NM	10.5	6.1	3.8
Dividend Yield	4.3%	2.1%	0.0%	2.2%	4.9%	7.7%
EV/EBITDA	10.1	18.2	NM	9.3	5.7	3.7
P/B	2.1	2.1	2.1	1.7	1.4	1.1
ROE	15.6%	7.5%	-2.0%	16.5%	23.6%	29.7%

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 equity (FCFF) method. We have used a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-21 PT of 172/share. Our price target provides an upside of 89% along with a dividend yield of 4.9%. Our investment case on PIOC is based on (1) normalcy in economic activity post lockdowns (2) boom in construction sector 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 (4) prolonged pandemic situation (5) 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)						
	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F
Net sales	10,121	9,734	6,287	21,818	34,096	35,971
Cost of sales	7,311	7,599	6,390	17,700	27,216	25,353
Gross Profit	2,811	2,135	(103)	4,118	6,880	10,618
SG & A	264	325	361	247	402	484
Operating Profit	2,546	1,809	(464)	3,871	6,477	10,135
Other income	59	73	108	303	243	214
Other charges	298	288	6	153	269	479
Finance cost	95	271	393	1,818	2,244	2,311
Profit before tax	2,213	1,323	(755)	2,203	4,208	7,560
Taxation	569	533	(546)	229	842	2,192
Profit after tax	1,644	790	(210)	1,974	3,366	5,367

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
PPE	22,920	36,107	41,558	41,839	42,172	42,515
Other LT assets	120	141	150	163	177	192
Non-Current Assets	23,040	36,247	41,708	42,002	42,349	42,707
Current assets	6,071	6,030	7,326	7,695	10,984	11,151
Total Assets	29,111	42,277	49,035	49,697	53,333	53,858
Non-Current liabilities	11,032	19,268	21,545	18,364	13,878	9,709
Current liabilities	4,451	9,688	14,361	17,084	23,266	24,167
Total Liabilities	15,482	28,956	35,906	35,449	37,144	33,876
Equity	13,629	13,321	13,128	14,248	16,189	19,982
Total Equity & liabilities	29,111	42,277	49,035	49,697	53,333	53,858

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	1,644	790	(210)	1,974	3,366	5,367
Non-cash Charges	514	509	425	1,056	1,251	1,288
Operating Cash flows	1,629	3,486	967	2,240	4,742	5,444
FCFF	(9,497)	(10,048)	(4,801)	2,532	4,954	5,453
Net borrowings	8,399	10,747	5,062	(142)	(1,125)	(2,096)
FCFE	(1,169)	537	152	761	2,034	1,716
Net change in cash	184	(282)	155	(286)	515	38
Closing cash	493	211	366	80	594	633

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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Hold	Between -5% and +15%
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