

**Pioneer Cement Limited**  
Result Preview

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

Pakistan Research

**PIOC: 4QFY22 EPS is likely to settle at PKR 1.40, down 53% YoY**

- PIOC is scheduled to announce its 4QFY22 financial result on 22<sup>nd</sup> September, 2022, where we expect the company to report an EPS of PKR 1.40 for 4QFY22 compared to an EPS of PKR 3.00 in 4QFY21, down 53% YoY. This will take FY22 EPS to PKR 8.57 vs PKR 8.69 in FY21, down 1% YoY. We do not expect any dividend alongside the results.
- Net sales are anticipated to increase by 59% YoY to PKR 9.8bn during 4QFY22 on account of improved retention prices (up 69% YoY). This is despite lower cement utilization of 64% in 4QFY22 vs 68% in 4QFY21.
- PIOC's gross margin is expected to clock in at 21% in 4QFY22 vs 23% in 4QFY21. Lower margins can be attributable to rising fuel & power cost as coal prices surged by 73% YoY.
- Finance cost of the company is anticipated to grow by 84% YoY to PKR 901mn during 4Q due to higher interest rates along with increase in short term borrowings.
- Despite 16% YoY increase in PBT, company's bottom-line is expected to decline by 53%YoY in 4Q. This is due to the introduction of new taxes in the FY23 budget. Effective tax rate of the company is expected to reach at 69% 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 35%.

**Key Data**

PSX Ticker	PIOC
Target Price (PKR)	90
Current Price (PKR)	67
Upside/(Downside) (%)	+35%
Dividend Yield (%)	+0%
Total Return (%)	+ 35%
12-month High (PKR)	106
12-month Low (PKR)	53
Outstanding Shares (mn)	227
Market Cap (PKR mn)	15,162
Year End	June

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	4QFY21	4QFY22F	YoY	FY21	FY22F	YoY
Net Sales	6,177	9,839	59%	21,818	32,379	48%
Cost of Sales	4,748	7,740	63%	17,700	25,389	43%
<b>Gross Profit</b>	<b>1,429</b>	<b>2,100</b>	<b>47%</b>	<b>4,118</b>	<b>6,989</b>	<b>70%</b>
Selling & Admin. Exp	51	81	59%	247	265	7%
Other Income	63	14	-77%	303	41	-86%
Other Charges	55	95	71.6%	153	345	126%
Finance cost	490	900	84%	1,818	2,837	56%
<b>Profit before tax</b>	<b>895</b>	<b>1,038</b>	<b>16%</b>	<b>2,203</b>	<b>3,583</b>	<b>63%</b>
Taxation	214	720	236%	229	1,637	616%
<b>Net Income</b>	<b>681</b>	<b>317</b>	<b>-53%</b>	<b>1,974</b>	<b>1,946</b>	<b>-1%</b>
EPS	3.00	1.40	-53%	8.69	8.57	-1%

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
EPS	3.5	(0.9)	8.7	8.6	6.2	6.7
EPS Growth	-52%	-127%	-	-2%	-28%	9%
DPS	2.00	-	-	-	-	-
PER	19.2	(72.3)	7.7	7.8	10.8	9.9
Dividend Yield	3.0%	-	-	-	-	-
EV/EBITDA	15.4	-	8.4	4.9	5.1	6.2
P/B	1.4	1.5	1.2	1.1	1.0	0.9
ROE	7.5%	-	15.8%	13.5%	8.8%	8.8%

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 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 35%. 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	FY22F	FY23F	FY24F
Net sales	9,734	6,287	21,818	32,379	38,238	34,237
Cost of sales	7,599	6,390	17,700	25,389	32,004	28,909
<b>Gross Profit</b>	<b>2,135</b>	<b>(103)</b>	<b>4,118</b>	<b>6,989</b>	<b>6,234</b>	<b>5,327</b>
SG & A	325	361	247	265	352	600
<b>Operating Profit</b>	<b>1,809</b>	<b>(464)</b>	<b>3,871</b>	<b>6,724</b>	<b>5,882</b>	<b>4,727</b>
Other income	73	108	303	41	266	248
Other charges	288	6	153	345	144	157
Finance cost	271	393	1,818	2,837	3,917	2,549
<b>Profit before tax</b>	<b>1,323</b>	<b>(755)</b>	<b>2,203</b>	<b>3,583</b>	<b>2,086</b>	<b>2,269</b>
Taxation	533	(546)	229	1,637	688	744
<b>Profit after tax</b>	<b>790</b>	<b>(210)</b>	<b>1,974</b>	<b>1,946</b>	<b>1,398</b>	<b>1,525</b>

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	<b>42,365</b>	<b>43,729</b>	<b>45,154</b>
Current assets	6,030	7,326	8,382	10,054	11,408	10,966
<b>Total Assets</b>	<b>42,277</b>	<b>49,035</b>	<b>51,481</b>	<b>52,419</b>	<b>55,137</b>	<b>56,120</b>
Non-Current liabilities	19,268	21,545	19,399	15,981	10,763	6,912
Current liabilities	9,688	14,361	16,983	19,861	26,329	29,565
<b>Total Liabilities</b>	<b>28,956</b>	<b>35,906</b>	<b>36,382</b>	<b>35,842</b>	<b>37,092</b>	<b>36,478</b>
Equity	13,321	13,128	15,099	16,578	18,045	19,643
<b>Total Equity &amp; liabilities</b>	<b>42,277</b>	<b>49,035</b>	<b>51,481</b>	<b>52,419</b>	<b>55,137</b>	<b>56,120</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	790	(210)	1,974	1,946	1,398	1,525
Non-cash Charges	509	425	981	1,060	1,077	1,125
<b>Operating Cash flows</b>	<b>3,486</b>	<b>967</b>	<b>2,303</b>	<b>3,284</b>	<b>5,012</b>	<b>1,402</b>
<b>FCFF</b>	<b>(10,048)</b>	<b>(4,801)</b>	<b>1,563</b>	<b>4,503</b>	<b>5,201</b>	<b>571</b>
Net borrowings	10,747	5,062	278	(1,735)	(1,187)	(150)
<b>FCFE</b>	<b>537</b>	<b>152</b>	<b>212</b>	<b>1,227</b>	<b>1,389</b>	<b>(1,293)</b>
Net change in cash	(282)	155	(28)	751	1,449	(1,230)
<b>Closing cash</b>	<b>211</b>	<b>366</b>	<b>338</b>	<b>1,088</b>	<b>2,537</b>	<b>1,306</b>

Source: Company Accounts, Akseer Research

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