

Pioneer Cement Limited
Company Update

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

Pakistan Research

Energy efficient projects to unlock valuations

- We revisit our investment case on Pioneer Cement Limited (PIOC) incorporating 1HFY21 results and the company's measures taken to improve energy efficiency of plants. PIOC has successfully started power generation from the recently installed captive capacities.
- We revise upward our price target (PT) by 16% to PKR 215/share, providing a potential upside of 81%. We maintain our BUY recommendation on the scrip.
- Expansionary monetary policy, construction package, Naya Pakistan Housing projects and commencement of construction work on dams led to high demand during the 1H and we remain upbeat on the cement sector for medium term.
- FY21 and FY22 earnings are expected to clock in at PKR 9.36/share and PKR 19.21/share respectively owing to 1) high offtake 2) surge in cement prices and 3) improved energy efficiencies.

Efficient energy mix to expand margins

With the commencement of power generation from 12MW WHR plant in the 1QFY21 and from 24MW Coal power plant during the ongoing quarter, we expect company's FY21 gross margins to settle at 20% vs negative margins of 1.6% in FY20. Earlier, the company relied mostly on the grid which is the expensive power generation source. However, with the inclusion of its fuel-efficient plants, its reliance on grid would fall to ~32% in FY22 from 80% currently. According to our calculation, annualized impact of WHR and coal plant is PKR 8.5/share.

Dispatches to grow by 95% YoY in FY21

Production new line with capacity of 3.0mn tons started production during FY21 which enabled the company to capture higher local market share. Capacity based market share increased to ~9.4% compared to 4.6% earlier. As per 6MFY21 cement numbers, company's market share is hovering around 7.8% while we have assumed 8% market share in our estimates, going forward. PIOC's full year FY21 local dispatches are likely to grow by 95% YoY to 3.4mn tons.

FY21 earnings to surge to PKR 9.36

We expect PIOC to report an EPS of PKR 9.36 in FY21 compared to a net loss in FY20, driven by improvement in gross margins on the back of 1) higher retention prices (up 26% YoY) and 2) commencement of power generation from 12MW WHR plant and 24MW coal-based power plant which would reduce the cost of production. While finance cost will remain on higher side owing to capitalization of finance cost on debt raised for the new cement line.

Key Financial Ratios

| | FY18A | FY19A | FY20A | FY21E | FY22F | FY23F |
|----------------|-------|-------|--------|-------|-------|-------|
| EPS | 7.24 | 3.48 | (0.92) | 9.36 | 19.21 | 23.60 |
| EPS Growth | -44% | -52% | NA | NA | 105% | 23% |
| DPS | 4.07 | - | - | - | 5.75 | 7.00 |
| PER | 16.4 | 34.1 | NA | 12.7 | 6.2 | 5.0 |
| Dividend Yield | 3.4% | 0.0% | 0.0% | 0.0% | 4.8% | 5.9% |
| EV/EBITDA | 11.8 | 20.5 | NA | 10.4 | 5.6 | 4.3 |
| P/B | 2.6 | 2.6 | 2.6 | 2.1 | 1.7 | 1.4 |
| ROE | 15.6% | 7.5% | -2.0% | 17.0% | 28.0% | 27.7% |

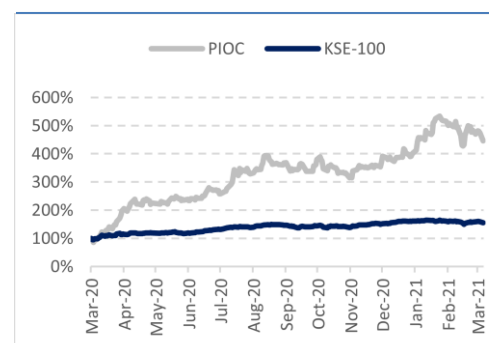
Source: Company Financials, Akseer Research

Key Data

| | |
|-------------------------|--------|
| PSX Ticker | PIOC |
| Target Price (PKR) | 215 |
| Current Price (PKR) | 119 |
| Upside/(Downside) (%) | + 81% |
| Dividend Yield (%) | - |
| Total Return (%) | + 81% |
| 12-month High (PKR) | 146 |
| 12-month Low (PKR) | 24 |
| Outstanding Shares (mn) | 227.15 |
| Market Cap (PKR mn) | 27,712 |
| Year End | June |

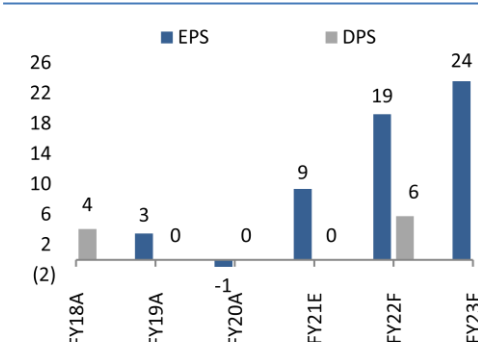
Source: Company Accounts, Akseer Research

Relative Performance (1-Year)



Source: Akseer Research

EPS & DPS Outlook (PKR)



Source: 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 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%. Our after tax cost of Debt is 7.81%, leading to a WACC of 11.3%

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 215/share. Our price target provides an upside of 81%. Our investment case on PIOC is based on (1) high cement demand (2) Improvement in cement prices, (2) energy efficiency to contain the cost.

Risks

Key risks to our investment thesis are: 1) higher than anticipated increase in input cost, 2) lower than anticipated growth in cement demand 3) decrease in cement prices from current levels.

Company Description

Pioneer Cement Limited produces and sells cement in Pakistan. The company offers ordinary Portland cement, a building material for use in various structural works that include concrete construction. It also provides sulphate resistant cement for use in structures in or near the sea; and underground structures where soils are rich in sulfate salts, primarily in water logged and saline areas. Pioneer Cement Limited was incorporated in 1986 and is headquartered in Lahore, Pakistan.

Financial Highlights - PIOC

| Income Statement (PKR mn) | | | | | | |
|---------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| | FY18A | FY19A | FY20A | FY21E | FY22F | FY23F |
| Net sales | 10,121 | 9,734 | 6,287 | 22,254 | 27,792 | 32,288 |
| Cost of sales | 7,311 | 7,599 | 6,390 | 17,853 | 19,414 | 21,756 |
| Gross Profit | 2,811 | 2,135 | (103) | 4,401 | 8,377 | 10,532 |
| SG & A | 264 | 325 | 361 | 270 | 356 | 425 |
| Operating Profit | 2,546 | 1,809 | (464) | 4,131 | 8,021 | 10,107 |
| Other income | 59 | 73 | 108 | 261 | 236 | 201 |
| Other charges | 298 | 288 | 6 | 154 | 347 | 478 |
| Finance cost | 95 | 271 | 393 | 1,875 | 2,456 | 2,280 |
| Profit before tax | 2,213 | 1,323 | (755) | 2,363 | 5,454 | 7,550 |
| Taxation | 569 | 533 | (546) | 236 | 1,091 | 2,190 |
| Profit after tax | 1,644 | 790 | (210) | 2,127 | 4,364 | 5,361 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | FY18A | FY19A | FY20A | FY21E | FY22F | FY23F |
| PPE | 22,920 | 36,107 | 41,558 | 41,533 | 41,485 | 41,437 |
| Other LT assets | 120 | 141 | 150 | 163 | 177 | 192 |
| Non-Current Assets | 23,040 | 36,247 | 41,708 | 41,696 | 41,662 | 41,629 |
| Current assets | 6,071 | 6,030 | 7,326 | 9,830 | 10,714 | 11,610 |
| Total Assets | 29,111 | 42,277 | 49,035 | 51,526 | 52,376 | 53,239 |
| Non-Current liabilities | 11,032 | 19,268 | 21,545 | 18,364 | 13,878 | 9,709 |
| Current liabilities | 4,451 | 9,688 | 14,361 | 18,324 | 21,020 | 22,283 |
| Total Liabilities | 15,482 | 28,956 | 35,906 | 36,688 | 34,898 | 31,993 |
| Equity | 13,629 | 13,321 | 13,128 | 14,838 | 17,478 | 21,246 |
| Total Equity & liabilities | 29,111 | 42,277 | 49,035 | 51,526 | 52,376 | 53,239 |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) | | | | | | |
|-----------------------------|----------------|-----------------|----------------|--------------|--------------|--------------|
| | FY18A | FY19A | FY20A | FY21E | FY22F | FY23F |
| Net Income | 1,644 | 790 | (210) | 2,127 | 4,364 | 5,361 |
| Non-cash Charges | 514 | 509 | 425 | 916 | 1,095 | 1,117 |
| Operating Cash flows | 1,629 | 3,486 | 967 | 1,319 | 4,105 | 5,709 |
| FCFF | (9,497) | (10,048) | (4,801) | 2,115 | 5,023 | 6,260 |
| Net borrowings | 8,399 | 10,747 | 5,062 | 270 | (1,511) | (2,834) |
| FCFE | (1,169) | 537 | 152 | 697 | 1,547 | 1,807 |
| Net change in cash | 184 | (282) | 155 | 132 | (266) | 117 |
| Closing cash | 493 | 211 | 366 | 498 | 233 | 349 |

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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| 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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