

Attock Cement Pakistan Limited

Key Takeaways

PSX: ACPL

Bloomberg: ACPL: PA

Reuters: ATOC. KA

Pakistan Research**Corporate briefing key takeaways**

- ACPL conducted its corporate briefing today, wherein the management discussed its 1QFY23 performance and outlook of the cement sector. Earlier the company reported a net profit of PKR 1.1bn for FY22 and 0.3bn for 1QFY23.
- The management shared their view on the possibility of price war post capacity expansions, wherein the management doesn't see a significant reduction in cement prices due to already depleted margins.
- The CFO communicated that currently line 1 of ACPL is closed down due to fuel and power inefficiency. The company is currently operating on line 2 & 3 while cement utilization of the company currently stands at 63%.
- The management shared that the company is currently operating mainly upon international coal. The imported coal mix currently stands at 70% whereas 30% requirement is fulfilled through alternative fuel sources which mainly includes local coal. The Mozambique coal currently costs around USD 160/ton, and the company has about 5 months coal inventory.
- The management further elaborated that the local coal currently costs around PKR 30,000/ton whereas alternative fuel stands at 15,000/ton. According to the CFO, the local coal has a few drawbacks such as high sulphur content as well as the supply blockages. The company is currently sourcing local coal from Balochistan and Thar.
- With regards to power mix, management shared that the company is operating 30%-40% through grid while the rest is being fuelled by internal sources. Furthermore, the management disclosed that the energy provided by k-electric is currently available at PKR 25.5/kwh (excluding FCA), electricity through the coal boiler costs around PKR 28/kwh. ACPL is also planning to setup a solar power plant to minimize the cost of power & energy.
- The management informed that its new capacity of 4150 TPD, which will likely be online in 2HFY23, is to be financed through 63% debt and 37% from internal sources. The new plant equipment is currently available hence there shouldn't be any issue in commissioning the plant.
- The company has secured the loan facility of PKR 10bn on subsidized rates which is currently at 5%.
- Commenting on the cement export, the management told that there is ample demand on export front, however, the prices has dropped significantly. The current price of clinker exports stands at USD 34/ton and it is only viable if the export prices reach USD 40/ton. The company sales mix stand at 80% local and 20% exports, whereas in the past the sales mix was 50:50.
- Regarding the Iraq market, the CFO commented that the profits have depleted from USD 15/ton to USD 4/ton. This is largely because of the new policies introduced by the government which are unfavourable for the cement grinding companies along with the increased cost of acquiring clinker.

Key Data

PSX Ticker	ACPL
Target Price (PKR)	120
Current Price (PKR)	69.5
Upside/(Downside) (%)	+73%
Dividend Yield (%)	2 %
Total Return (%)	+ 75%
12-month High (PKR)	143
12-month Low (PKR)	63
Outstanding Shares (mn)	137.43
Market Cap (PKR mn)	9,345
Year End	June

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Attock Cement Pakistan Limited (ACPL) has been computed using Free cash flow to equity (FCFE) 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 PT of 120/share. Our price target provides a potential upside of 73% along with a dividend yield of 2%. Our investment case on ACPL is based on (1) increase in local market share owing to capacity expansion during FY23 (2) higher contribution from its overseas business.

Risks

Key risks to our investment thesis include (1) lower than estimated earnings from Iraq grinding mill (2) higher than anticipated increase in input cost (Coal, FO, Gas), (3) lower than anticipated growth in cement demand (4) higher than estimated decline in cement prices (5) increase in interest rates.

Company Description

ACPL manufactures and sells cement in Pakistan. The company offers ordinary Portland cement, sulphate resistant cement, and block cement under the Falcon brand name. It also exports its products. The company was incorporated in 1981 and is headquartered in Karachi, Pakistan. Attock Cement Pakistan Limited is a subsidiary of Pharaon Investment Group Limited Holding S.A.L.

Financial Highlights - ACPL

Income Statement (PKR mn) – Consolidated						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	23,948	28,602	28,087	36,716	51,623	55,117
Cost of sales	18,108	22,169	23,606	31,632	45,826	44,799
Gross Profit	5,841	6,432	4,482	5,085	5,798	10,318
SG & A	2,383	2,927	2,070	1,854	1,940	2,028
Operating Profit	3,458	3,506	2,411	3,231	3,858	8,290
Other income	147	137	518	231	218	227
Other charges	92	114	124	75	129	444
Finance cost	526	723	267	1,238	1,079	875
Share of profit of Associate	6	6	7	7	7	7
Profit before tax	2,992	2,811	2,545	2,156	2,874	7,205
Taxation	425	433	1,190	317	548	1,872
Profit after tax	2,567	2,379	1,355	1,838	2,326	5,332

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Consolidated						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	21,848	23,717	32,340	40,123	41,262	42,451
Other LT assets	174	209	212	169	165	162
Non-Current Assets	22,022	23,925	32,553	40,291	41,427	42,612
Current assets	10,060	14,468	14,663	26,666	32,516	36,249
Total Assets	32,082	38,393	47,216	66,958	73,943	78,862
Non-Current liabilities	1,723	4,298	10,373	15,248	15,171	13,835
Current liabilities	9,337	11,555	11,895	16,664	19,876	19,754
Total Liabilities	11,060	15,854	22,268	31,912	35,046	33,589
Equity	21,021	22,540	24,947	35,046	38,897	45,273
Total Equity & liabilities	32,082	38,395	47,216	66,958	73,943	78,862

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	2,567	2,379	1,355	1,838	2,326	5,332
Non-cash Charges	1,306	3,324	(725)	1,485	3,397	1,739
Operating Cash flows	3,873	5,703	630	3,323	5,723	7,072
FCFF	3,455	3,124	(8,959)	(5,632)	2,704	3,608
Net borrowings	(1,667)	1,641	5,080	7,934	(892)	(1,256)
FCFE	1,261	4,041	(4,146)	1,064	733	1,477
Net change in cash	1,053	1,267	(1,178)	8,472	2,258	2,520
Closing cash	1,501	2,768	1,589	10,061	12,319	14,839

Source: Company Accounts, Akseer Research

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Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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