

## ACPL: 4QFY22 consolidated EPS is expected to clock in at PKR 0.9, down 56% YoY

- ACPL is scheduled to announce its 4QFY22 results on 16<sup>th</sup> August 2022. The company is expected to post consolidated EPS of PKR 0.9 in 4QFY22 as compared to an EPS of PKR 2.5 in 4QFY21, down 56% YoY due to the imposition of new taxes in the FY23 budget. This will take FY22 consolidated EPS to PKR 9.8, down 28% YoY. The company is also expected to announce a final cash dividend of PKR 1.50/share taking cumulative payout to PKR 3.5/share for FY22.
- We expect the company to post EPS of PKR 0.03 (down 97% YoY) on unconsolidated basis while its overseas business is likely to contribute EPS of PKR 0.88 (down 13% YoY) in 4QFY22.
- ACPL's topline is expected to augment by 23% YoY to PKR 8.0bn in 4QFY22. We attribute increase in sales to significant increase in retention price by 79% YoY to PKR 11,800/ton. This is despite slowdown in dispatches by 30% YoY. For FY22, topline is likely to grow by 2% YoY to PKR 29.2bn.
- Gross margins for the 4QFY22 are likely to settle at 18% compared to 11% in 4QFY21. Despite rising cost of sales (+14% YoY), fuelled by surge in coal and energy prices, the improvement in gross margins is due to the ability of the company to pass on the coal prices.
- Other income is anticipated to grow by 137% YoY to PKR 217mn in 4QFY22 on the back of higher exchange gains.
- Finance cost is likely to decrease by 41% YoY in 4QFY22 due to lower short borrowings despite higher interest rates. For FY22, finance cost is likely to decline by 62% YoY, supporting the bottomline growth.
- ACPL's effective tax expense is expected to reach 78% in 4QFY22 vs 2% in 4QFY21 owing to imposition of super tax on FY22 profits.
- We have a 'BUY' recommendation on ACPL with a Dec-22 price target (PT) of PKR100/share, providing a potential upside of 32% along with a dividend yield of 5%.

### Key Data

|                         |        |
|-------------------------|--------|
| PSX Ticker              | ACPL   |
| Target Price (PKR)      | 100    |
| Current Price (PKR)     | 76     |
| Upside/(Downside) (%)   | +32%   |
| Dividend Yield (%)      | +5%    |
| Total Return (%)        | +36%   |
| 12-month High (PKR)     | 63     |
| 12-month Low (PKR)      | 174    |
| Outstanding Shares (mn) | 137.43 |
| Market Cap (PKR mn)     | 10,428 |
| Year End                | June   |

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

|                               | 4QFY21A    | 4QFY22F      | YoY         | FY21A        | FY22F        | YoY         |
|-------------------------------|------------|--------------|-------------|--------------|--------------|-------------|
| Net Sales                     | 6,464      | 7,965        | 23%         | 28,602       | 29,153       | 2%          |
| Cost of Sales                 | 5,751      | 6,553        | 14%         | 22,169       | 23,902       | 8%          |
| <b>Gross Profit</b>           | <b>713</b> | <b>1,412</b> | <b>98%</b>  | <b>6,432</b> | <b>5,251</b> | <b>-18%</b> |
| Selling & Admin. Exp          | 231        | 548          | 137%        | 2,927        | 2,465        | -16%        |
| Other Income                  | 74         | 217          | 194%        | 137          | 555          | 306%        |
| Other Charges                 | 28         | 49           | 75%         | 114          | 158          | 39%         |
| Finance cost                  | 138        | 81           | -41%        | 723          | 272          | -62%        |
| Profit from Associate         | 3          | 3            | 6%          | 6            | 6            | 0%          |
| <b>Profit before tax</b>      | <b>392</b> | <b>954</b>   | <b>143%</b> | <b>2,811</b> | <b>2,917</b> | <b>4%</b>   |
| Taxation                      | 11         | 748          | 6978%       | 433          | 1,456        | 236%        |
| <b>Net Income</b>             | <b>382</b> | <b>207</b>   | <b>-46%</b> | <b>2,379</b> | <b>1,461</b> | <b>-39%</b> |
| NCI                           | 93         | 81           | -13%        | 508          | 111          | -78%        |
| <b>Attributable to parent</b> | <b>289</b> | <b>126</b>   | <b>-56%</b> | <b>1,870</b> | <b>1,351</b> | <b>-28%</b> |
| EPS                           | 2.1        | 0.9          | -56%        | 13.6         | 9.8          | -28%        |
| DPS                           | 4.00       | 1.50         |             | 4.00         | 3.50         |             |

### Key Financial Ratios – Consolidated

|                | FY19A | FY20A | FY21A | FY22F | FY23F | FY24F |
|----------------|-------|-------|-------|-------|-------|-------|
| EPS            | 15.09 | 14.43 | 13.61 | 9.83  | 11.31 | 9.38  |
| EPS Growth     | -53%  | -4%   | -6%   | -28%  | 15%   | -17%  |
| DPS            | 4.00  | 3.50  | 4.00  | 3.50  | 1.25  | 1.00  |
| PER            | 5.0   | 5.3   | 5.6   | 7.7   | 6.7   | 8.1   |
| Dividend Yield | 5.3%  | 4.6%  | 5.3%  | 4.6%  | 1.6%  | 1.3%  |
| EV/EBITDA      | 4.6   | 2.9   | 2.5   | 3.5   | 3.4   | 2.7   |
| P/B            | 0.6   | 0.5   | 0.5   | 0.4   | 0.3   | 0.3   |
| ROE            | 11.1% | 12.2% | 10.6% | 5.2%  | 6.1%  | 4.4%  |

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 100/share. Our price target provides a potential upside of 31.8% along with a dividend yield of 4.6%. 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 |              |              |              |              |              |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
|  | FY19A        | FY20A        | FY21A        | FY22F        | FY23F        | FY24F        |
| Net sales                                | 20,781       | 23,948       | 28,602       | 29,153       | 35,525       | 49,531       |
| Cost of sales                            | 15,978       | 18,108       | 22,169       | 23,902       | 28,555       | 42,253       |
| <b>Gross Profit</b>                      | <b>4,803</b> | <b>5,841</b> | <b>6,432</b> | <b>5,251</b> | <b>6,971</b> | <b>7,278</b> |
| SG & A                                   | 1,920        | 2,383        | 2,927        | 2,465        | 2,876        | 3,109        |
| <b>Operating Profit</b>                  | <b>2,883</b> | <b>3,458</b> | <b>3,506</b> | <b>2,786</b> | <b>4,095</b> | <b>4,169</b> |
| Other income                             | 294          | 147          | 137          | 555          | 137          | 182          |
| Other charges                            | 150          | 92           | 114          | 158          | 105          | 97           |
| Finance cost                             | 648          | 526          | 723          | 272          | 1,697        | 2,116        |
| <b>Profit before tax</b>                 | <b>2,403</b> | <b>2,992</b> | <b>2,811</b> | <b>2,917</b> | <b>2,435</b> | <b>2,143</b> |
| Taxation                                 | 330          | 425          | 433          | 1,456        | 463          | 510          |
| <b>Profit after tax</b>                  | <b>2,073</b> | <b>2,567</b> | <b>2,379</b> | <b>1,461</b> | <b>1,973</b> | <b>1,634</b> |
| NCI                                      | -            | 584          | 508          | 111          | 419          | 345          |
| <b>Attributable to parent</b>            | <b>2,073</b> | <b>1,983</b> | <b>1,870</b> | <b>1,351</b> | <b>1,554</b> | <b>1,289</b> |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) – Consolidated |               |               |               |               |               |               |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                       | FY19A         | FY20A         | FY21A         | FY22F         | FY23F         | FY24F         |
| PPE                                   | 22,269        | 21,848        | 23,717        | 31,562        | 42,461        | 43,721        |
| Other LT assets                       | 177           | 174           | 209           | 167           | 162           | 158           |
| Non-Current Assets                    | 22,446        | 22,022        | 23,925        | 31,729        | 42,623        | 43,879        |
| Current assets                        | 7,630         | 10,060        | 14,468        | 20,933        | 25,361        | 31,462        |
| <b>Total Assets</b>                   | <b>30,076</b> | <b>32,082</b> | <b>38,393</b> | <b>52,662</b> | <b>67,984</b> | <b>75,341</b> |
| Non-Current liabilities               | 2,814         | 1,723         | 4,298         | 13,807        | 14,486        | 13,279        |
| Current liabilities                   | 8,598         | 9,337         | 11,555        | 10,548        | 21,008        | 25,041        |
| <b>Total Liabilities</b>              | <b>11,412</b> | <b>11,060</b> | <b>15,853</b> | <b>24,355</b> | <b>35,493</b> | <b>38,320</b> |
| Equity                                | 18,663        | 21,021        | 22,540        | 28,307        | 32,491        | 37,021        |
| <b>Total Equity &amp; liabilities</b> | <b>30,074</b> | <b>32,082</b> | <b>38,393</b> | <b>52,662</b> | <b>67,984</b> | <b>75,341</b> |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) – Consolidated |              |              |              |                |                |               |
|--|--------------|--------------|--------------|----------------|----------------|---------------|
|  | FY19A        | FY20A        | FY21A        | FY22F          | FY23F          | FY24F         |
| Net Income                                 | 2,073        | 2,567        | 2,379        | 1,461          | 1,973          | 1,634         |
| Non-cash Charges                           | (975)        | 1,306        | 3,324        | 941            | 2,549          | 2,469         |
| <b>Operating Cash flows</b>                | <b>1,099</b> | <b>3,873</b> | <b>5,703</b> | <b>2,403</b>   | <b>4,522</b>   | <b>4,103</b>  |
| <b>FCFF</b>                                | <b>(892)</b> | <b>3,455</b> | <b>3,124</b> | <b>(6,706)</b> | <b>(6,991)</b> | <b>2,082</b>  |
| Net borrowings                             | 802          | (1,667)      | 1,640        | 7,705          | 7,968          | 715           |
| <b>FCFE</b>                                | <b>(739)</b> | <b>1,261</b> | <b>4,041</b> | <b>727</b>     | <b>(721)</b>   | <b>681</b>    |
| Net change in cash                         | (186)        | 1,053        | 1,266        | 5,033          | 1,490          | 3,577         |
| <b>Closing cash</b>                        | <b>448</b>   | <b>1,501</b> | <b>2,767</b> | <b>7,800</b>   | <b>9,290</b>   | <b>12,867</b> |

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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