

Pioneer Cement Limited
Result Review

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

Pakistan Research

PIOC: 3QFY22 EPS settles at PKR 2.14, down 29% YoY

- PIOC announced its financial result today, wherein the company posted profit after tax of PKR 485mn (EPS PKR 2.14) during 3QFY22, down 29% YoY and 27% QoQ. This takes 9MFY22 earnings to PKR 1.6bn (EPS PKR 7.17), up 26% YoY. The result came lower than our expectation on the back of lower than expected dispatches coupled with higher effective rates.
- Topline of the company surged 23% YoY to PKR 7.7bn in 3Q mainly due to 41% YoY rise in retention prices. This is despite decline in dispatches by 12.7% YoY.
- The company's gross margin declined to 21.3% in 3Q compared to 24.7% in SPLY. Decline in gross margins is induced by higher cost of sales due to higher energy prices. However, to mitigate the adverse impact, company shifted its reliance on local and Afghan coal along with maximum reliance on captive power generation plant during the period under review.
- Finance cost of the company increased to PKR 764mn (up 56% YoY) during 3Q due to higher interest rates coupled with higher short term borrowing.
- Effective tax rate remained higher at 35.9% in 3Q, restricting the bottomline growth.
- On a sequential basis, earnings of the company decreased by 27% QoQ. This is due to volumetric decline in cement dispatches (down 17%) and higher financial cost (up 29%). However, gross margin improved by 0.7ppts QoQ owing to higher retention prices (up 9% QoQ).
- We have a 'BUY' recommendation on PIOC with our Dec-22 price target (PT) of PKR 150/share, providing an upside of 122%.

Key Data

PSX Ticker	PIOC
Target Price (PKR)	150
Current Price (PKR)	67
Upside/(Downside) (%)	+ 122%
Dividend Yield (%)	-
Total Return (%)	+ 122%
12-month High (PKR)	139
12-month Low (PKR)	62
Outstanding Shares (mn)	227.1
Market Cap (PKR mn)	15,273
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
Net Sales	6,270	7,728	23%	15,641	22,539	44%
Cost of Sales	4,720	6,078	29%	12,952	17,650	36%
Gross Profit	1,550	1,650	6%	2,689	4,890	82%
Selling & Admin. Exp	68	58	-14%	196	184	-6%
Other Income	41	9	-79%	239	27	-89%
Other Charges	72	78	8.9%	98	250	156%
Finance cost	489	764	56%	1,328	1,937	46%
Profit before tax	962	757	-21%	1,308	2,545	95%
Taxation	275	272	-1%	14	917	6286%
Net Income	687	485	-29%	1,293	1,629	26%
EPS	3.02	2.14	-29%	5.69	7.17	26%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	3.48	(0.92)	8.7	9.02	20.7	20.4
EPS Growth	-52%	NM	NM	4%	129%	-1%
DPS	2.00	-	-	-	-	6.00
PER	19.3	NM	7.7	7.5	3.3	3.3
Dividend Yield	3.0%	0.0%	0.0%	0.0%	0.0%	8.9%
EV/EBITDA	15.4	NM	8.4	5.4	3.4	3.4
P/B	1.5	1.5	1.2	1.1	0.8	0.7
ROE	7.5%	NM	15.8%	14.1%	24.4%	20.6%

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 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 150/share. Our price target provides an upside of 122%. Our investment case on PIOC is based on (1) nearing election period (2) higher contribution from coal power plant 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.

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	FY22E	FY23F	FY24F
Net sales	9,734	6,287	21,818	28,125	31,421	31,435
Cost of sales	7,599	6,390	17,700	21,683	21,182	21,566
Gross Profit	2,135	(103)	4,118	6,441	10,239	9,869
SG & A	325	361	247	309	369	471
Operating Profit	1,809	(464)	3,871	6,132	9,870	9,398
Other income	73	108	303	110	137	166
Other charges	288	6	153	200	457	450
Finance cost	271	393	1,818	3,159	2,943	2,602
Profit before tax	1,323	(755)	2,203	2,884	6,607	6,512
Taxation	533	(546)	229	835	1,912	1,880
Profit after tax	790	(210)	1,974	2,049	4,695	4,632

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	36,107	41,558	42,945	42,207	43,301	43,886
Other LT assets	141	150	153	158	163	168
Non-Current Assets	36,247	41,708	43,098	42,365	43,464	44,054
Current assets	6,030	7,326	8,382	9,077	12,233	13,539
Total Assets	42,277	49,035	51,481	51,442	55,696	57,592
Non-Current liabilities	19,268	21,545	19,399	15,981	10,763	6,912
Current liabilities	9,688	14,361	16,983	18,781	23,502	25,950
Total Liabilities	28,956	35,906	36,382	34,761	34,265	32,862
Equity	13,321	13,128	15,099	16,681	21,432	24,731
Total Equity & liabilities	42,277	49,035	51,481	51,442	55,697	57,593

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	790	(210)	1,974	2,049	4,695	4,632
Non-cash Charges	509	425	981	1,030	1,071	1,104
Operating Cash flows	3,486	967	2,303	2,861	3,730	4,081
FCFF	(10,048)	(4,801)	1,563	4,813	3,657	4,243
Net borrowings	10,747	5,062	278	(2,661)	192	(902)
FCFE	537	152	212	(93)	1,758	1,491
Net change in cash	(282)	155	(28)	(570)	1,804	148
Closing cash	211	366	338	(232)	1,571	1,719

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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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

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

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