

**Pioneer Cement Limited**  
Result Review

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

Pakistan Research

**PIOC: 3QFY23 EPS reported at PKR 4.18, up 96% YoY**

- PIOC announced its 3QFY23 financial result today, wherein the company posted an EPS of PKR 4.18, up 96% YoY, compared to an EPS of PKR 2.14 in 3QFY22. This takes cumulative earnings in 9MFY23 to PKR 11.94/share, up 66% YoY.
- Topline of the company surged by 18% YoY to PKR 9.2bn in 3Q. This is largely due to 42% YoY increase in cement retention prices.
- PIOC's gross margin improved by 6ppts YoY and clocked in at 27% in 3Q. This improvement is mainly on the back of higher quantum of local coal in power mix as well as steep increase in retention price.
- Finance cost increased by 13% YoY to PKR 867mn during 3Q, this is largely due to upward revision in monetary policy.
- On a sequential basis, earnings of the company declined by 19% QoQ on account of 13% decline in dispatches.
- We have a 'BUY' recommendation on PIOC with our Dec-23 price target (PT) of PKR 85/share, providing an upside of 16%.

**Key Data**

PSX Ticker	PIOC
Target Price (PKR)	85
Current Price (PKR)	73
Upside/(Downside) (%)	+ 16%
Dividend Yield (%)	-
Total Return (%)	+ 16%
12-month High (PKR)	77
12-month Low (PKR)	44
Outstanding Shares (mn)	227.1
Market Cap (PKR mn)	16,600
Year End	June

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	3QFY22	3QFY23	YoY	9MFY22	9MFY23	YoY
Net Sales	7,728	9,150	18%	22,539	27,796	23%
Cost of Sales	6,078	6,689	10%	17,650	20,614	17%
<b>Gross Profit</b>	<b>1,650</b>	<b>2,461</b>	<b>49%</b>	<b>4,890</b>	<b>7,182</b>	<b>47%</b>
Selling & Admin. Exp	58	71	21%	184	212	15%
Other Income	9	21	145%	27	37	36%
Other Charges	78	126	60%	250	375	50%
Finance cost	764	867	13%	1,937	2,635	36%
<b>Profit before tax</b>	<b>757</b>	<b>1,418</b>	<b>87%</b>	<b>2,545</b>	<b>3,996</b>	<b>57%</b>
Taxation	272	468	72%	917	1,285	40%
<b>Net Income</b>	<b>485</b>	<b>950</b>	<b>96%</b>	<b>1,629</b>	<b>2,711</b>	<b>66%</b>
EPS	2.14	4.18	-	7.17	11.94	-

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	(0.9)	8.7	4.6	17.0	7.7	16.3
EPS Growth	-127%	-1042%	-47%	268%	-55%	111%
DPS	-	-	-	-	-	-
PER	-	5.7	10.6	2.9	6.4	3.0
Dividend Yield	-	-	-	-	-	-
EV/EBITDA	-	7.6	4.0	2.7	3.8	2.3
P/B	1.1	0.9	0.8	0.6	0.6	0.5
ROE	-	16%	8%	22%	9%	16%

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 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

### Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-23 PT of 85/share. Our price target provides an upside of 16%. 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) higher than anticipated increase 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	6,287	21,818	31,879	37,563	30,280	30,362
Cost of sales	6,390	17,700	24,676	28,225	25,009	22,788
<b>Gross Profit</b>	<b>(103)</b>	<b>4,118</b>	<b>7,203</b>	<b>9,339</b>	<b>5,271</b>	<b>7,574</b>
SG & A	361	247	254	315	387	464
<b>Operating Profit</b>	<b>(464)</b>	<b>3,871</b>	<b>6,949</b>	<b>9,024</b>	<b>4,883</b>	<b>7,110</b>
Other income	108	303	40	221	217	236
Other charges	6	153	389	284	128	271
Finance cost	393	1,818	2,656	3,194	2,362	1,561
<b>Profit before tax</b>	<b>(755)</b>	<b>2,203</b>	<b>3,945</b>	<b>5,767</b>	<b>2,609</b>	<b>5,513</b>
Taxation	(546)	229	2,894	1,903	861	1,818
<b>Profit after tax</b>	<b>(210)</b>	<b>1,974</b>	<b>1,050</b>	<b>3,864</b>	<b>1,749</b>	<b>3,695</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	41,558	42,945	63,243	59,675	58,727	57,772
Other LT assets	150	153	170	163	168	173
<b>Non-Current Assets</b>	<b>41,708</b>	<b>43,098</b>	<b>63,413</b>	<b>59,838</b>	<b>58,895</b>	<b>57,945</b>
Current assets	7,326	8,382	8,575	11,990	10,507	11,148
<b>Total Assets</b>	<b>49,035</b>	<b>51,481</b>	<b>71,988</b>	<b>71,828</b>	<b>69,402</b>	<b>69,093</b>
Non-Current liabilities	21,545	19,399	25,144	23,477	19,408	15,847
Current liabilities	14,361	16,983	17,073	14,777	14,672	14,230
<b>Total Liabilities</b>	<b>35,906</b>	<b>36,382</b>	<b>42,217</b>	<b>38,255</b>	<b>34,080</b>	<b>30,077</b>
Equity	13,128	15,099	29,771	33,573	35,322	39,016
<b>Total Equity &amp; liabilities</b>	<b>49,035</b>	<b>51,481</b>	<b>71,988</b>	<b>71,828</b>	<b>69,402</b>	<b>69,093</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	(210)	1,974	1,050	3,864	1,749	3,695
Non-cash Charges	425	981	1,060	1,169	1,571	1,583
<b>Operating Cash flows</b>	<b>967</b>	<b>2,303</b>	<b>11,957</b>	<b>2,778</b>	<b>3,511</b>	<b>4,680</b>
<b>FCFF</b>	<b>(4,801)</b>	<b>1,563</b>	<b>(8,693)</b>	<b>7,317</b>	<b>4,471</b>	<b>5,098</b>
Net borrowings	5,062	278	(4,476)	(3,249)	(3,206)	(3,263)
<b>FCFE</b>	<b>152</b>	<b>212</b>	<b>(13,877)</b>	<b>1,928</b>	<b>(319)</b>	<b>788</b>
Net change in cash	155	(28)	251	1,351	(319)	788
<b>Closing cash</b>	<b>366</b>	<b>338</b>	<b>589</b>	<b>1,939</b>	<b>1,621</b>	<b>2,409</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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