

PIOC: FY21 Analyst briefing key takeaways

- PIOC held its analyst briefing today to discuss its financial performance of last year. The company witnessed turnaround in its earnings during FY21 and 1QFY22 and reported EPS of PKR 8.69 and PKR 2.12 respectively owing to higher dispatches on the back of commencement of new cement plant along with higher cement prices.
- The company mentioned that current retention prices are hovering around PKR 450/bag and the company is currently selling 12,000 tons/day cement locally. However, prevailing retention prices are not able to meet the rising cost of inputs primarily due to rising cost of coal and PKR depreciation.
- During 1QFY22, PIOC held coal inventory at higher end of USD 140/ton because of inability to build adequate stocks owing to liquidity crunch. The company is currently holding coal inventory of around USD 155-160/ton.
- However, the management also highlighted that it has started to source higher share of local coal (20%) in order to mitigate the impact of rising international coal prices. Price of local coal ranged between PKR 14,000-27,000/ton.
- Moreover, Afghan coal is also being sourced, which currently costs around PKR 30,000/ton, but the share is minimal owing to supply related discrepancies and uncertainty surrounding Afghanistan.
- Regarding its power mix, the management highlighted that the share of WHR, CFPP, and Grid is almost the same at 32-33% each and the company plans on increasing the share of CFPP gradually. The company is also planning on adding solar power in the near term.
- While addressing concerns regarding higher grid costs, the company disclosed that generation costs through its CFPP is currently equivalent to grid cost of around PKR 20/KWH. However, the company plans on reducing the generation cost from CFPP to around 70-75% of grid cost in the near term.
- In terms of local cement demand outlook, the company foresees single digit growth of 8-10% during the current fiscal year and expects it to improve in subsequent year due to election period and higher development spending.
- The company also stated that all production lines are currently effective and it would help them achieve cement sales of around 3.5mn tons in FY22 (capacity utilization 67%).
- Moreover, the management also highlighted that recent hike in policy rate would lower the earnings by around PKR 1.00/share due to higher debt levels. In addition to this, the company plans on retiring around PKR 4.5bn of its long-term debt in current year.
- We have a 'BUY' recommendation on PIOC with a Jun-22 price target (PT) of PKR 150/share providing a potential upside of 85% along with a dividend yield of 4%.

Key Data

PSX Ticker	PIOC
Target Price (PKR)	150
Current Price (PKR)	80.9
Upside/(Downside) (%)	+ 85%
Dividend Yield (%)	4%
Total Return (%)	+ 89%
12-month High (PKR)	146
12-month Low (PKR)	66
Outstanding Shares (mn)	227.15
Market Cap (PKR mn)	18,389
Year End	June

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 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Jun-22 PT of 150/share. Our price target provides an upside of 85% along with a dividend yield of 4%. Our revised investment case on PIOC is based on (1) nearing election period (2) higher PSDP releases 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 (4) prolonged pandemic situation (5) 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	9,734	6,287	21,818	34,150	36,221	35,835
Cost of sales	7,599	6,390	17,700	27,956	28,736	28,003
Gross Profit	2,135	(103)	4,118	6,194	7,484	7,832
SG & A	325	361	247	374	459	570
Operating Profit	1,809	(464)	3,871	5,820	7,025	7,263
Other income	73	108	303	52	55	57
Other charges	288	6	153	210	298	332
Finance cost	271	393	1,818	2,622	2,469	2,189
Profit before tax	1,323	(755)	2,203	3,040	4,313	4,799
Taxation	533	(546)	229	608	863	960
Profit after tax	790	(210)	1,974	2,432	3,450	3,839

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	36,107	41,558	42,945	42,207	41,708	41,204
Other LT assets	141	150	153	158	163	168
Non-Current Assets	36,247	41,708	43,098	42,365	41,871	41,372
Current assets	6,030	7,326	8,382	9,912	10,588	10,870
Total Assets	42,277	49,035	51,481	52,277	52,459	52,242
Non-Current liabilities	19,268	21,545	19,399	15,999	10,800	6,967
Current liabilities	9,688	14,361	16,983	19,952	22,931	23,869
Total Liabilities	28,956	35,906	36,382	35,951	33,730	30,836
Equity	13,321	13,128	15,099	16,326	18,728	21,406
Total Equity & liabilities	42,277	49,035	51,481	52,277	52,459	52,242

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	790	(210)	1,974	2,432	3,450	3,839
Non-cash Charges	509	425	1,056	1,030	1,041	1,051
Operating Cash flows	3,486	967	2,377	2,709	4,259	4,522
FCFF	(10,048)	(4,801)	1,563	4,514	5,693	5,727
Net borrowings	10,747	5,062	278	(1,093)	(2,333)	(2,656)
FCFE	537	152	212	1,324	1,385	1,320
Net change in cash	(282)	155	(28)	21	229	40
Closing cash	211	366	338	358	587	627

Source: Company Accounts, Akseer Research

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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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