

Attock Cement Pakistan Limited
Result Review

PSX: ACPL Bloomberg: ACPL: PA Reuters: ATOC. KA

Pakistan Research

ACPL: 2QFY22 unconsolidated EPS settles at PKR 4.23, up 37% YoY, DPS PKR 2.0

- ACPL announced its financial result today, wherein the company posted unconsolidated EPS of PKR 4.23 during 2QFY22, up 37% YoY. The result came in higher than our expectations primarily on the back of dividend income received from its subsidiary in Iraq (expected EPS impact PKR 2.6). This takes 1HFY22 EPS to PKR 6.20, up 56% YoY. Along with the result, the company also announced interim cash dividend of PKR 2.0/share.
- Had there been no dividend income, normalized earnings of the company would have settled at PKR 2.3/share, in line with our estimates.
- Earnings growth during 2Q remained restricted due to higher effective tax rate at 39% as compared to 33% in SPLY and 23% in the previous quarter. We believe higher taxation could be due to the adjustment of deferred tax.
- Ex-dividend income, the company recorded 16% growth in profit on a sequential basis aided by higher cement dispatches (14% QoQ) along with improved retention prices (12% QoQ) and through prudent management of coal inventory.
- We believe, the company held coal inventory at an average cost of USD 125-130/ton during 2Q. Moreover, the company has also switched towards higher use of local and Afghan coal to shield the margins. Resultantly, gross margins of the company grew by 1pps QoQ at 20% during 2Q.
- Selling and Admin expenses reduced to PKR 577mn in 2Q (-34% YoY) due to lower exports.
- We have a 'BUY' recommendation on ACPL with a Dec-22 price target (PT) of PKR 175/share, providing an upside of 29% along with a dividend yield of 2.9%.

Key Data

PSX Ticker	ACPL
Target Price (PKR)	175
Current Price (PKR)	136
Upside/(Downside) (%)	+ 29%
Dividend Yield (%)	2.9%
Total Return (%)	+ 32%
12-month High (PKR)	194
12-month Low (PKR)	118
Outstanding Shares (mn)	137.43
Market Cap (PKR mn)	18,689
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	5,769	5,391	-7%	10,993	9,818	-11%
Cost of Sales	4,099	4,309	5%	8,352	7,896	-5%
Gross Profit	1,670	1,083	-35%	2,641	1,083	-59%
Selling & Admin. Exp	905	595	-34%	1,631	1,064	-35%
Other Income	32	577	NM	48	620	NM
Other Charges	37	45	22%	52	68	31%
Finance cost	131	68	-48%	177	106	-40%
Profit from Associate	3	3	-6%	3	3	-6%
Profit before tax	631	954	51%	832	1,306	57%
Taxation	206	373	81%	287	454	58%
Net Income	425	581	37%	545	852	56%
EPS	3.09	4.23	37%	3.96	6.20	56%

Source: Company Accounts, Akseer Research

Key Financial Ratios - Consolidated

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	15.09	8.06	8.06	10.29	22.42	31.72
EPS Growth	-61%	-47%	0%	28%	118%	41%
DPS	4.00	3.50	4.00	5.25	11.25	15.75
PER	9.0	16.9	16.9	13.2	6.1	4.3
Dividend Yield	2.9%	2.6%	2.9%	3.9%	8.3%	11.6%
EV/EBITDA	6.9	8.5	8.6	8.3	4.1	3.2
P/B	1.2	1.1	1.1	1.0	1.0	0.9
ROE	12.9%	6.7%	6.4%	7.9%	15.9%	20.2%

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 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 PT of PKR 175/share. Our price target provides an upside of 29%, along with a dividend yield of 2.9%. Our investment case on ACPL is based on (1) higher cement dispatches owing to nearing election period and 2) improved retention prices.

Risks

Key risks to our investment thesis include 1) higher than anticipated increase in input cost (Coal, FO, Gas), 2) lower than anticipated growth in cement demand 3) higher than estimated decline in cement prices.

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	FY22E	FY23F	FY24F
Net sales	20,781	18,501	21,245	28,925	34,573	39,661
Cost of sales	15,978	14,252	16,602	23,735	25,307	28,111
Gross Profit	4,803	4,249	4,643	5,190	9,267	11,550
SG & A	1,920	2,338	2,771	2,986	3,536	4,009
Operating Profit	2,883	1,911	1,871	2,204	5,731	7,540
Other income	294	234	135	658	187	165
Other charges	150	92	114	147	306	429
Finance cost	648	526	357	778	1,587	1,634
Share of profit of Associate	25	6	6	6	6	6
Profit before tax	2,403	1,532	1,540	1,942	4,031	5,649
Taxation	330	425	433	528	950	1,290
Profit after tax	2,073	1,107	1,107	1,414	3,081	4,359

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	17,686	17,256	19,477	23,981	31,595	31,406
Other LT assets	1,984	1,997	2,031	1,990	1,985	1,981
Non-Current Assets	19,253	21,508	25,971	33,580	33,387	32,599
Current assets	7,647	8,170	11,148	17,869	17,934	17,231
Total Assets	27,317	27,422	32,657	43,840	51,514	50,618
Non-Current liabilities	2,814	1,723	4,298	12,525	11,383	9,928
Current liabilities	8,403	9,146	11,159	13,423	20,703	19,068
Total Liabilities	11,216	10,870	15,457	25,948	32,086	28,996
Equity	16,099	16,553	17,201	17,893	19,428	21,623
Total Equity & liabilities	27,316	27,422	32,657	43,841	51,514	50,619

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,073	1,107	1,107	1,414	3,081	4,359
Non-cash Charges	(1,534)	2,089	2,475	2,441	1,635	1,784
Operating Cash flows	539	3,196	3,582	3,855	4,716	6,143
FCFF	581	3,185	798	(914)	(3,663)	6,217
Net borrowings	802	(1,667)	1,640	8,594	5,125	(4,195)
FCFE	823	1,138	2,181	7,113	250	762
Net change in cash	(23)	484	(194)	6,392	(1,296)	(1,403)
Closing cash	302	787	592	6,983	5,687	4,284

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

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