

Pioneer Cement Limited

Key Takeaways

PSX: PIOC

Bloomberg: PIOC: PA

Reuters: PION.KA

Pakistan Research**Corporate briefing key takeaways**

- PIOC conducted its corporate briefing today, wherein the management discussed its 1QFY23 performance and outlook of the cement sector. Earlier the company reported a net profit of PKR 1.0bn for FY22 and 0.6bn for 1QFY23.
- The management shared their view on the possibility of price war post capacity expansions, wherein the management doesn't see a significant reduction in cement prices and believes that the prices are likely to remain same, however there might be slight pressure on the prices in short term.
- The management shared that company is currently operating mainly upon Afghan and local coal. The Afghan coal mix currently stands at 50% whereas local coal comprises of 45% of the total coal mix. The Mozambique coal is currently not being used due to its high cost and lower heating value. The company currently has one month coal inventory.
- The management informed that the Afghan coal was currently available at a cost of PKR 54,000/ton on delivered basis, whereas, Darra Adam Khel coal is currently priced at PKR 32,000/ton. The management also informed that the current weighted average price of coal stands at PKR 45,000/ton.
- With regards to power mix, management shared that the company is operating 30% through grid while the rest is being fuelled by WHR and coal. Furthermore, the management disclosed that the energy provided by national grid is currently available at PKR 32.5/kwh. PIOC is also planning to setup a solar power plant to minimize the cost of power & energy. Electricity requirement of the company currently stands at less than 90kwh to produce 1 ton of cement.
- The management informed that it is currently in a process of debt restructuring where the company is trying to swap its high interest-based loans with lower interest based loans. Furthermore, the management has restructured upto PKR 2bn worth of loan.
- The company does not have any major loan payments in 1HFY23; however, it plans to retire around PKR 2bn loan by the end of 1HFY23.
- Commenting on the cement demand outlook, the management foresees it to decline in the ongoing fiscal year however they did not mention any specific numbers.
- The company has a plan to further enhance its cement capacity post some improvement in the economic situation of the country.
- The company has successfully experimented the usage of petcoke, which will reduce fuel cost going forward.

Key Data

PSX Ticker	PIOC
Target Price (PKR)	85
Current Price (PKR)	70
Upside/(Downside) (%)	+21%
Dividend Yield (%)	+0%
Total Return (%)	+ 21%
12-month High (PKR)	53
12-month Low (PKR)	93
Outstanding Shares (mn)	227
Market Cap (PKR mn)	16,037
Year End	June

Source: Company Accounts, Akseer Research

Altamash Hemanialtamash.hemani@alphacapital.com.pk

Valuation Basis

Our PT for Pioneer Cement Industry (PIOC) has been computed using Free cash flow to Firm (FCFF) 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 June-23 PT of 85/share. Our price target provides an upside of 21%. 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) lower than anticipated decline 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. Pioneer Cement Limited was incorporated in 1986 and is headquartered in Lahore, Pakistan.

Financial Highlights - PIOC

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	6,287	21,818	31,879	38,238	35,146	35,650
Cost of sales	6,390	17,700	24,676	32,438	29,365	24,593
Gross Profit	(103)	4,118	7,203	5,799	5,781	11,057
SG & A	361	247	254	352	600	730
Operating Profit	(464)	3,871	6,949	5,447	5,181	10,327
Other income	108	303	40	204	249	246
Other charges	6	153	389	204	116	386
Finance cost	393	1,818	2,656	3,944	2,947	2,338
Profit before tax	(755)	2,203	3,945	1,504	2,366	7,849
Taxation	(546)	229	2,894	496	776	2,561
Profit after tax	(210)	1,974	1,050	1,008	1,591	5,288

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	41,558	42,945	63,243	67,367	69,396	71,515
Other LT assets	150	153	170	163	168	173
Non-Current Assets	41,708	43,098	63,413	67,530	69,564	71,688
Current assets	7,326	8,382	8,575	11,164	13,378	12,378
Total Assets	49,035	51,481	71,988	78,695	82,942	84,066
Non-Current liabilities	21,545	19,399	25,144	19,478	15,645	12,110
Current liabilities	14,361	16,983	17,073	28,500	34,989	34,361
Total Liabilities	35,906	36,382	42,217	47,977	50,634	46,470
Equity	13,128	15,099	29,771	30,717	32,308	37,596
Total Equity & liabilities	49,035	51,481	71,988	78,695	82,942	84,066

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(210)	1,974	1,050	1,008	1,591	5,288
Non-cash Charges	425	981	1,060	1,538	1,607	1,679
Operating Cash flows	967	2,303	11,957	2,850	1,626	5,386
FCFF	(4,801)	1,563	(8,693)	(169)	(28)	3,163
Net borrowings	5,062	278	(4,476)	3,968	2,968	(2,596)
FCFE	152	212	(13,877)	1,157	959	(1,008)
Net change in cash	155	(28)	251	579	959	(1,008)
Closing cash	366	338	589	1,168	2,127	1,118

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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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8,
off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.pk