

# Day Break

Wednesday, 28 September 2016

## Company Update

### Attock Cem.Pak.Ltd

Cement

<b>Recommendation</b>	<b>BUY</b>
Target Price	368.0
Last Closing	260.0
Upside	42%

#### Market Data

Bloomberg Tkr.	ACPL PA
Shares (mn)	114.5
Market Cap (PKRbn   USDmn)	29.8   284.2
Exchange	KSE 100

#### Price Info.

	90D	180D	365D
Abs. Return	10.4	27.5	49.8
Low	238.7	210.0	157.7
High	275.9	275.9	275.9

#### Key Company Financials

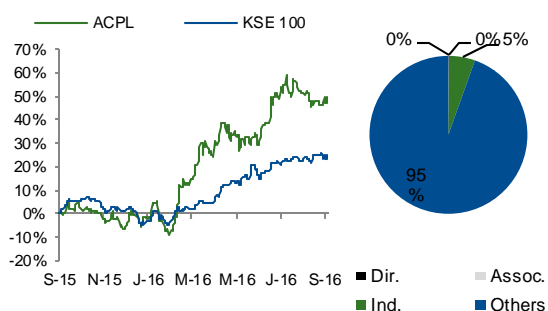
Period End: Jun

PKRbn	FY15A	FY16A	FY17F	FY18F
Total Revenue	13.1	13.9	14.0	18.6
Net Income	2.2	2.9	3.1	4.2
EPS (PKR)	19.3	25.2	27.2	36.5
DPS (PKR)	15.0	12.5	13.0	18.0
Total Assets	12.2	14.4	21.0	23.3
Total Equity	8.9	10.4	12.1	14.2

#### Key Financial Ratios

	FY15A	FY16A	FY17F	FY18F
ROE (%)	25%	28%	26%	29%
P/E (x)	13.5	10.3	9.6	7.1
P/B (x)	3.3	2.9	2.5	2.1
DY (%)	5.8	4.8	5.0	6.9

#### Relative Price Performance & Shareholding



#### About the Company

The company was incorporated in Pakistan on October 14, 1981 as a public limited company. Its main business activity is manufacturing and sale of cement. The Company is a subsidiary of Pharaon Investment Group Limited Holding S.A.L., Lebanon.

Source: Bloomberg, KSE 100 & IGI Research

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## Attock Cement Pakistan Limited

### Higher Local Despatches Sailed the Boat in FY16

- ACPL announced its plan to enhance production capacity by 1.2mn tons for a total project cost of USD 130mn, increasing company's total capacity to 3.06mn tons. As mentioned in financial statement for FY16, ACPL has already opened letter of credit for Plant and equipment along with Waste Heat Recovery (WHR) with Hefei Cement Research & Design Institute (HCRDI)-China
- We have rolled forward our target price for ACPL to Jun-17 at PKR 368/share from PKR 385/share for Dec-16. Our price is based on diluting market share post expansions by other cement players from FY18 and more than expected increase in coal prices
- ACPL is currently trading at FY17E PE and dividend yield of 9.6x and 5% respectively. With +42% capital upside, we maintain our strong 'BUY' call on the scrip

#### Profitability Propelled by +31%YoY in FY16 to PKR 25.24/share

Attock Cement Pakistan Limited (ACPL) recorded profitability of PKR 2.9bn (EPS PKR 25.24) in FY16, growing by +31%YoY, primarily on the back of a) +6%YoY rise in revenue as net retention has gone up by +3%YoY to PKR 7,063/ton due to increased share of local sales and +3.4%YoY surge in total cement sales, b) +654bps hike in gross margin to 40%, c) lower coal price of USD 63/ton in FY16 as compared to USD 82/ton in FY15, d) curtailed power cost due to lower oil prices, further supported by special relief of PKR 3/kwh to industrial undertakings. Company also announced cash dividend of PKR 12.5/share in FY16 as compared to PKR 15/share in FY15.

#### Exhibit: Financial Highlights

PKR mn	4QFY16	YoY	FY16	FY15	YoY
Revenue	3,604	9%	13,918	13,086	6%
Gross Profit	1,615	33%	5,587	4,396	27%
Tax	564	52%	1,346	1,015	33%
Net profit	796	41%	2,890	2,206	31%
EPS	6.95		25.24	19.26	
DPS	12.50		12.50	15.00	
<b>Key Ratios</b>					
Gross Margin			40%	34%	
Net Margin			21%	17%	
Effective Tax Rate			41%	32%	

Source: IGI Research, Company Financials

## Exports-Changing Dynamics

Historically, exports have contributed significantly towards the total sales mix of ACPL. However in recent times exports have witnessed set back due to international new capacities becoming operational in Middle East Asia with lack of significant demand and imposition of anti-dumping duties by South Africa and Iraq. Company's sales mix has started skewing more towards local despatches in recent times.

### Exhibit: Local Sales to Export Ratio

	FY12	FY13	FY14	FY15	FY16
Local Sales	72%	74%	64%	60%	73%
Export	28%	26%	36%	40%	27%

Source: IGI Research & Company Financials

For ACPL, export revenue from Middle East Asia has declined considerably by 4Yr-CAGR of -31%, whereas sales from African region have gone down by 49%YoY in FY16. As per management, company has added Yemen as new exports destination and expects to retain its share in the market, while revenue by Sri Lankan market increased by 73x in FY16.

### Exhibit: Exports Break-up Value Wise

PKR mn	FY12	FY13	FY14	FY15	FY16
Middle East Asia	1,961	1,391	1,662	1,747	451
Africa	538	833	1,695	1,655	836
Sri Lanka	-	-	-	23	1,698
Others	148	342	421	851	248
<b>Total</b>	<b>2,647</b>	<b>2,566</b>	<b>3,778</b>	<b>4,277</b>	<b>3,233</b>

Source: IGI Research & Company Financials

## First mover Advantage in South

Company announced its plan to enhance production capacity by 1.2mn tons for a total project cost of USD 130mn, increasing company's total capacity to 3.06mn tons. As mentioned in financial statement for FY16, ACPL has already opened letter of credit for Plant and equipment along with Waste Heat Recovery (WHR) with Hefei Cement Research & Design Institute (HCRDI)-China, whereas work on civil, mechanical and electric infrastructure is being carried out currently. As of Jun-16, company stands at PKR 1.15bn capital work in progress in lieu of new plant. ACPL plans to finance part project by debt for which company has entered into syndicate bank agreement for PKR 7bn at Kibor plus 0.25% (utilized as of Jun-16).

## Recommendation

We have rolled forward our target price for ACPL to Jun-17 at PKR 368/share from PKR 385/share for Dec-16. Our price is based on diluting market share post expansions by other cement players from FY18 and more than expected increase in coal prices. ACPL is currently trading at FY17E PE and dividend yield of 9.6x and 5%, respectively. With +42% capital upside, we maintain our strong 'BUY' call on the scrip.

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**Time Horizon:** Jun - 2017

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DCF (Discounted Cash Flow)

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