

Day Break

Wednesday, 26 February 2020

COMPANY UPDATE

Pioneer Cement Limited

Cement

Recommendation	BUY
Target Price: Dec/20	72.4
Last Closing: 26-Feb-20	27.3
Upside:	165.7
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 10M

Market Data

Bloomberg Tkr.	PIOC PA		
Shares (mn)	227.1		
Free Float Shares (mn)	124.9		
Free Float Shares (%)	55.0%		
Market Cap (PKRbn USDmn)	6.2	40.1	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	(10.2)	55.0	(39.1)
Lo	26.0	17.5	17.4
Hi	35.3	35.3	45.4

Key Company Financials

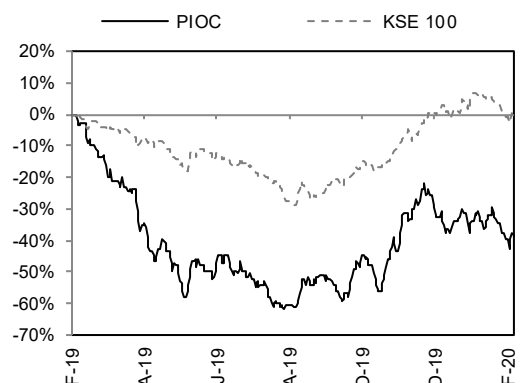
Period End: Jun

PKRbn	2019e	2020f	2021f	2022f
Total Revenue	9.7	10.9	16.5	19.3
Net Income	0.8	(1.5)	(1.0)	0.5
EPS (PKR)	3.5	(6.5)	(4.6)	2.3
DPS (PKR)	-	-	-	0.5
Total Assets	42.3	41.7	40.5	39.8
Total Equity	13.3	11.8	10.8	11.2

Key Financial Ratios

ROE (%)	12.7	5.9	(11.7)	(9.2)
P/E (x)	7.8	4.2	6.0	11.9
P/B (x)	0.5	0.5	0.5	0.6
DY (%)	-	-	-	1.8

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Cements

PIOC: Lower retentions to continue losses in 2QFY20, LPS: PKR (1.22)

- ✓ PIOC's board meeting is scheduled on 27th Feb-20 to announce financial result for 2QFY20, wherein we expect the company to present a loss of PKR 277mn (LPS: PKR 1.22)
- ✓ We expect net sales of the Company during 2QFY20 to recede by 26%YoY, led predominantly by substantial decline in retention price amid intense competition in the local market.
- ✓ Reduction in retention prices are expected to take Gross margins in the negative zone, despite an anticipated control in cost structure of PIOC.
- ✓ Increased requirements of short term borrowing amid a peaked interest rate scenario is expected to surge financing costs.

Losses to continue; 2QFY20E LPS to clock in at PKR (1.22)/share

Pioneer Cement Limited's (PIOC) board meeting is scheduled on 27th Feb-20 to announce financial result for 2QFY20, wherein we expect the company to present a net loss of PKR 277mn (LPS: PKR 1.22), down by almost -2xYoY, compared to a net profit of PKR 269mn (EPS: PKR 1.18) in the same period last year. This will accumulate 1HFY20E net loss to PKR 463mn (LPS: PKR 2.04), down by -1.9xYoY, as against a net profit of PKR 527mn (EPS: PKR 2.32) reported in the similar period of the preceding year.

During 2QFY20, we expect net sales of the Company to recede by almost 26%YoY led predominantly by substantial decline in retention price amid intense competition in the local market. This substantial decline in retention prices is expected to take gross margins towards negative trajectory of around 7% as against 23% attained in the comparative quarter, despite a controlled cost structure maintained by the Company. Non-operating income is expected to boost on account of outperformance of equity mutual fund investments of the Company during the quarter whereas increased requirements of short term borrowing amid a peaked interest rate scenario is expected to surge financing costs.

Exhibit: PIOC Result Highlights

Period end (JUN) - PKRmn	2QFY20	2QFY19	YoY	1HFY20	1HFY19	YoY
Net Sales	2,087	2,825	-26%	3,958	5,057	-22%
Gross Profit	(150)	654	-0.2x	(116)	1,178	-0.1x
Sell. / Dist. & Admin	79	73	8%	153	143	7%
Non-Operating Income	60	9	6.6x	72	18	3.9x
EBIT	(174)	490	-0.4x	(238)	906	-0.3x
Financial Charges	216	108	2.0x	309	169	83%
Pre-tax Profits	(390)	382	-1.0x	(547)	737	-0.7x
Taxation	(113)	113	-1.0x	(84)	210	-0.4x
Post-tax Profits	(277)	269	-1.0x	(463)	527	-0.9x
EPS	(1.22)	1.18		(2.04)	2.32	
Key Ratios						
Gross Margin (%)	(7.2)	23.1		(2.9)	23.3	
Net Margin (%)	(13.3)	9.5		(11.7)	10.4	
Effective Tax Rate (%)	28.9	29.5		15.4	28.5	

Source: Company Accounts, IGI Research

No. of Shares : 227mn

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2020

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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