

Day Break

Thursday, 17 March 2016

Company Update

Pioneer Cement Limited

Cement

Recommendation	BUY
Target Price	133.0
Last Closing	93.1
Upside	43%

Market Data

Bloomberg Tkr.	PIOC PA
Shares (mn)	227.1
Market Cap (PKRbn USDmn)	21.2 202.2
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	5.1	3.3	10.1
Low	81.9	79.5	72.8
High	93.1	93.1	95.0

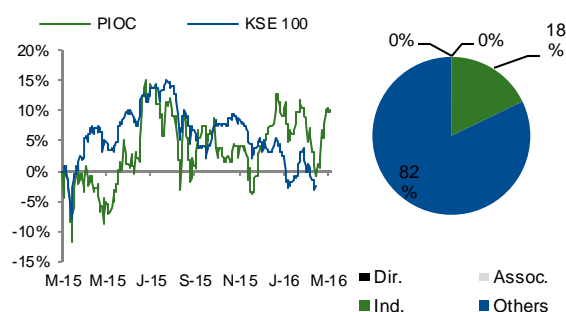
Key Company Financials

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	8.4	9.2	10.0	11.2
Net Income	2.5	2.2	2.8	3.2
EPS (PKR)	11.0	9.5	12.4	14.1
DPS (PKR)	6.3	7.0	7.8	8.5
Total Assets	12.1	12.4	13.2	14.4
Total Equity	8.3	8.9	10.0	11.2

Key Financial Ratios

ROE (%)	30%	24%	28%	29%
P/E (x)	8.5	9.8	7.5	6.6
P/B (x)	2.5	2.4	2.1	1.9
DY (%)	6.7	7.5	8.3	9.1

Relative Price Performance & Shareholding



About the Company

The Company was incorporated in Pakistan on February 09, 1986 as a public limited company. The principal activity of the Company is manufacture and sale of cement.

Source: Bloomberg, KSE 100 & IGI Research

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Cement

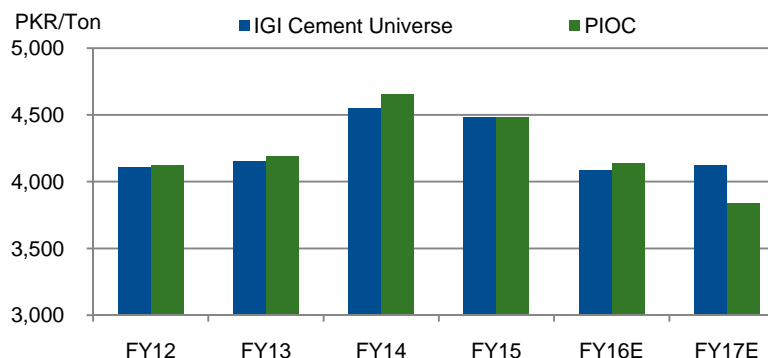
PIOC: On the track to become Cost Efficient in FY17

- Pioneer Cement Limited (PIOC) has signed a contract with a Chinese company for 12MW Waste Heat Recovery (WHR), expected to start operations in Jul-16, which will provide savings to the tune of PKR 1.5-1.7/share in FY17.
- Underutilization of plant offers company an edge over its peers, as it would be able to cater the increasing volumes without any large capex for additional capacity. This is also evident as utilization has reached 61% in 8MFY16, as compared to 54% in same period last year.
- Market cap for the scrip has gone up by +9% in FY16TD as compared to -4% return earned by KSE-100. Our Dec-16 target price for the company, works out to be PKR 133/share, offering upside of +43% from its last close. Company also offers a lucrative dividend yield of 8.3% in FY16E. Thus we recommend a strong 'Buy' call on PIOC.

Cost Efficiency- 12 MW WHR

Pioneer Cement Limited (PIOC) has signed a contract with a Chinese company for 12MW Waste Heat Recovery (WHR), expected to start operations in Jul-16. With the commencement of WHR in FY17, company's dependence on national grid for power is likely to come down to 65% from current 100%. As per our calculations, this will also provide savings to the tune of PKR 1.5-1.7/share in FY17. Consequently, manufacturing cost/ton in FY17 is anticipated to shrink by 7%YoY to PKR 3,835/ton (PKR 192/bag).

Exhibit: PIOC projected capacity utilization is expected to go up following higher local demand



Source: IGI Research, Company Financials

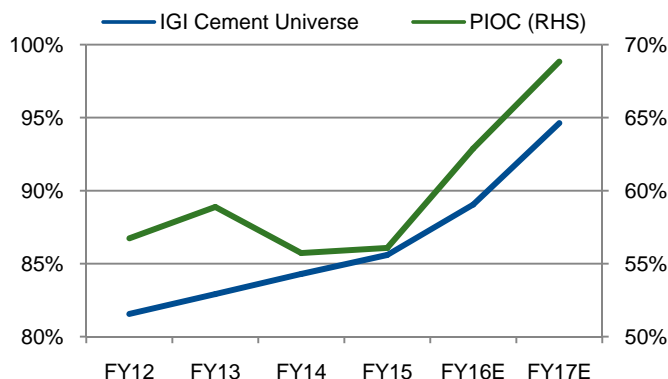
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Low Utilization-Key to Tap Rising Demand

Historically, PIOC has operated at low capacity utilization (~58% on average during FY11-15 as compared to 84% average for IGI Cement Universe), primarily due to pricing discipline among local manufactures. Underutilization of plant offers company an edge over its peers, as it would be able to cater the increasing volumes without any large capex for additional capacity. This is also evident as utilization has reached 61% in 8MFY16, as compared to 54% in same period last year, largely on the back of astonishing rise in cement demand, gushing in from private spending on infrastructure projects led by lower interest rates, kick start of CPEC projects and PSDP spending.

For FY16, we foresee local demand to push utilization to 63% as compared to 56% in FY15. Nevertheless, to tap the additional demand, we expect company to increase its grinding capacity in FY18, for which we have already incorporated capex of PKR 1bn in FY17.

Exhibit: PIOC projected capacity utilization is expected to go up following higher local demand



Source: IGI Research, Company Financials

2QFY16; EPS PKR 2.45, DPS PKR 2.50

PIOC posted profit of PKR 556mn (EPS PKR 2.45) in 2QFY16, down by 40%YoY, which is primarily owing to 92%YoY decline in other income, as company had booked one off gain amounting to PKR 558 mn (PKR 2.46/share) in same period last year. Company also announced interim cash dividend of PKR 2.50/share as compared to PKR 2.25/share in 2QFY15. Backed by lower fuel and power prices in tandem with stable cement price in local market, gross margin has expanded by +460bpsYoY in 2QFY16, to stand at 43%.

Profitability in 1HFY16 nosedived by 23%YoY to PKR 988mn (EPS PKR 4.35). Revenue increased by +11% YoY to PKR 4.4bn on the back of +12%YoY increase in dispatches to 633kton in 1HFY16. Gross margins enhanced by +557bpsYoY to 40% as fuel prices (Coal; USD 55/ton in 1HFY16 versus USD 62/ton in 1HFY15) and energy costs remained on the downhill.

Recommendation

Market cap for the scrip has gone up by +9% in FY16TD as compared to -4% return earned by KSE-100. Our Dec-16 target price for the company works out to be PKR 133/share, offering upside of +43% from its last close. Company also offers a lucrative dividend yield of 8.3% in FY16E. Thus we recommend a strong 'Buy' call on PIOC.

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Exhibit: Financial Highlights

PKR mn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Revenue	2,375	2,062	15%	4,378	3,930	11%
Gross Profit	1,010	782	29%	1,735	1,338	30%
Selling and Admin	31	32	-2%	64	63	3%
Other Income	48	628	-92%	119	685	-83%
EBIT	1,027	1,378	-25%	1,789	1,960	-9%
PBT	951	1,271	-25%	1,653	1,823	-9%
Tax	395	349	13%	665	532	25%
Net profit	556	923	-40%	988	1,291	-23%
EPS	2.45	4.06		4.35	5.69	
DPS	2.50	2.25		2.50	2.25	
Key Ratios						
Gross Margin	43%	38%		40%	34%	
Net Margin	40%	62%		38%	46%	
Effective Tax Rate	41%	27%		40%	29%	

Source: IGI Research, Company Financials

Analyst Certification

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

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF(Discounted Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in exchange rate
- Changes in Circular Debt quantum

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