

Flash Note

Thursday, 14 April 2016

Cements

ACPL: EPS PKR 8.22, backed by higher local sales and lower energy cost

- Profitability posted a phenomenal growth of +52%YoY to PKR 941mn (EPS: PKR 8.22) in 3QFY16, taking 9MFY16 earnings to PKR 2.09bn (EPS PKR 18.28), depicting a growth of +28%YoY.
- Revenue went up by +15%YoY to PKR 3.9bn in 3QFY16, on the back of +31%/-18%YoY increase/decrease in local sales/exports.
- Gross Margin improved massively by 962bpsYoY to 44% in 3QFY16 as compared to 35% in same period last year, as local sales contribution towards total sales, is anticipated to have increased to 73% in 3QFY16 as compared to 63% in same period last year, in tandem with low energy and fuel cost.
- Distribution cost has also declined by 10.48%YoY to PKR 261mn in 3QFY16, owing to weakening exports.
- Effective tax rate has decreased to 27% in 3QFY16 as compared to 32% in same period last year.

Recommendation

ACPL has concluded an agreement with a Chinese company in Dec-15 to enhance the cement production capacity in South region by 4000mt/day at project cost of USD 120mn. This would increase ACPL's total production capacity to 3.1mn tons. A Joint Venture Agreement with an Iraqi company has also being signed to establish 0.9mnton cement grinding unit in Basra, at cost of USD 40mn, with ACPL's 60% share in the project. To reduce the dependency on national grid, a coal fired power plant is also being considered. The scrip is currently trading at FY16 P/E of 9.2x and offers +18% upside from last close. With our Dec-16 TP of PKR 266/share, we maintain our **'BUY'** call on the scrip.

Exhibit: Financial Highlights

PKR mn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Revenue	3,918	3,421	15%	10,315	9,790	5%
Gross Profit	1,730	1,181	46%	3,971	3,178	25%
Selling and Admin	424	325	30%	1,012	684	48%
Other Income	90	129	-30%	240	222	8%
Tax	354	292	21%	782	644	22%
Net profit	941	619	52%	2,094	1,642	28%
EPS	8.22	5.41		18.28	14.34	
DPS	-	-		-	4.50	
Key Ratios						
Gross Margin	44%	35%		39%	32%	
Net Margin	24%	18%		20%	17%	
Effective Tax Rate	27%	32%		27%	28%	

Source: IGI Research, Company Financials

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Analyst Certification

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Recommendation	Rating System
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 country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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