

Flash Note

Thursday, 28 April 2016

Cements

PIOC: PKR 3.33/share earnings in 3QFY16

- Pioneer Cement Limited's (PIOC) profitability improved by 33%YoY to PKR 757mn (EPS: PKR 3.33) in 3QFY16, taking 9MFY16 earnings to PKR 1.7bn (EPS PKR 7.68), depicting a drop of 6%YoY
- Revenue increased by +17%YoY to PKR 2.4bn in 3QFY16 likely on the back of +23%YoY growth in total dispatches (+23%YoY local dispatches and +46%YoY export).
- Gross Margin improved by 397bpsYoY to 43% in 3QFY16 as compared to 39% in same period last year. As a result, gross profit grew by +29%YoY to PKR 1.0bn. This is on the back of a) volumetric growth in dispatches, b) lower coal prices sand,c) decline in power cost.
- Effective tax rate has dropped to 25% in 3QFY16 compared to 29% in same period last year. For 9MFY16, effective tax rate has clocked in at 34%.

Recommendation

Company plans to install 12MW Waste Heat Recovery Plant (WHR) at initial project cost of PKR 1.5bn (~ USD 15mn). This would reduce PIOC's dependence on National Grid by ~40-45%, providing annualized savings of PKR 1.5-1.7/share. The scrip is currently trading at FY16 P/E of 9x and offers +33% upside from last close along with 7% dividend yield. With ourDec-16 TP of PKR 133/share, we maintain our 'BUY' call on the scrip.

Exhibit: Financial Highlights

PKR mn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Revenue	2,454	2,101	17%	6,832	6,030	13%
Gross Profit	1,052	817	29%	2,787	2,155	29%
Selling and Admin	35	30	17%	100	93	7%
Net Other Income	65	82	-21%	184	767	-76%
EBIT	1,082	870	24%	2,871	2,830	1%
Finance Cost	78	72	9%	213	209	2%
PBT	1,005	798	26%	2,658	2,621	1%
Tax	248	230	8%	913	761	20%
Net profit	757	568	33%	1,745	1,860	-6%
EPS	3.33	2.50		7.68	8.19	
DPS	-	-		2.50	2.25	
Key Ratios						
Gross Margin	43%	39%		41%	36%	
Net Margin	41%	38%		39%	43%	
Effective Tax Rate	25%	29%		34%	29%	

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)
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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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