

Flash Note

Wednesday, 21 February 2018

Cement

PIOC: 2QFY18 earnings slashed by 60%YoY to PKR 1.41/share due to reduced margins.

- Pioneer Cement Limited (PIOC) announced its financial results for 2QFY18 with earnings clocking in at PKR 320mn (EPS: PKR 1.41) down by 60%YoY (down by 23%QoQ) as compared to PKR 799mn (EPS: PKR 3.52) in the same period last year. This brings 1HFY18 earnings to PKR 737mn (EPS: PKR 3.25) as against 1HFY17 earnings of PKR 1,502mn (EPS: PKR 6.61), marking a downturn of 51%YoY.
- Net sales of the Company have declined by 8%YoY to arrive at a level of PKR 2.47bn likely on account of lower dispatches made and trimmed cement sales prices in the northern region.
- Gross profit margins of the Company were significantly eroded to 27% as against 39% in the corresponding quarter of preceding year due to lower retention prices accredited to a) falling cement prices in the region; b) rising coal prices globally; and c) imposition of enhanced FED through Finance Act 2017-18.
- Injury on earnings was also likely provided in the shape of mark to market losses incurred on short term investments (comprising of mutual funds) leading to a negligible non-operating income of PKR 6mn as against PKR 71mn in 2QFY17.
- Effective tax rate of the Company stood at 35% as compared to otherwise applicable corporate tax rate of 30% likely due to deferred tax implications.
- Net profit margins for 2QFY18 stood at 13%YoY as against 30% in the similar period of the preceding year.

Exhibit:

PIOC Result Highlights

Period end (JUN) - PKRmn	2QFY18	2QFY17	YoY	1HFY18	1HFY17	YoY
Net Sales	2,474	2,688	-8%	4,895	5,192	-6%
Gross Profit	660	1,041	-37%	1,477	2,114	-30%
Sell. / Dist. & Admin	62	31	102%	113	66	70%
Non-Operating Income	6	71	-92%	(100)	106	-195%
EBIT	519	1,013	-49%	1,135	2,010	-44%
Financial Charges	30	1	1955%	50	3	1818%
Pre-tax Profits	489	1,012	-52%	1,085	2,008	-46%
Taxation	169	213	-21%	348	506	-31%
Post-tax Profits	320	799	-60%	737	1,502	-51%
EPS	1.41	3.52	-60%	3.25	6.61	-51%
DPS	-	2.15				
Key Ratios						
Gross Margin (%)	26.7	38.7		30.2	40.7	
Net Margin (%)	12.9	29.7		15.1	28.9	
Effective Tax Rate (%)	34.5	21.0		32.0	25.2	

Source: Company Accounts, IGI Research

No. of Shares : 227mn

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Time Horizon: Dec – 2018

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

(Reserve Based DCF Valuation)

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