

**PIONEER CEMENT LIMITED (PIOC)**

 Jan 16<sup>th</sup>, 2017

**HOLD**

Price Target : PKR 158/sh

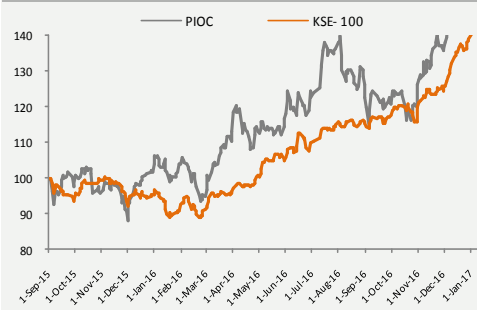
**COMPANY DATA**

52-week Price Range (PKR)	144.52—81.87
No. of Shares Outstanding (mn)	227.15
Market Cap (PKRmn)	32,595.8
Market Cap (USDmn)	311.01
EV/ Ebitda (x)	7.31
Free Float (%)	55 %
Year End	Jun
KATS Code	PIOC

Source: KSE

Key Ratios (x/%)	FY17E	FY18E	FY19E	FY20E
P/E (x)	10.27	8.67	8.47	8.62
P/B (x)	3.03	2.63	2.32	2.08
EBITDA Margin %	40%	44%	45%	45%

Source: Company Accounts, Nael Research

**RELATIVE TO KSE – 100**


Source: KSE

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- We revise our estimates on PIOC with 'HOLD' rating:** Our Jun-17 DCF based price target of PKR 157.9/sh implies 10% upside potential from current price levels of PKR 143/sh.
- Strong industry footprints:** The demand shutter of cement is finally up, as moving forward the industry is breaking all the thresholds. The total industry capacity stands at 45mn tons per annum and operating at a utilization level of ~ 90%. In 2016 the industry dispatches settled at 38.87mn tons i.e. highest in this lustrum ...
- Up-gradation of the grinding mill:** Pioneer Cement Limited has always lacked in increasing its capacity utilization (%) to the industry levels, reckoning to the non—sufficient capacity of its clinker grinding mill...
- Operational efficiencies to charge in via 12 MW WHRP:** ... We have incorporated the working of WHR in our model from the said quarter and it is expected to trigger an impact of ~ PKR 1.78/sh, annualized savings of the power cost in FY17E.
- Moving along with peers—New expansion of ~ 2.1MN tons:** Going forward competing with the industry, Pioneer cement has already announced its expansion plan of 2.1mn MT/annum..
- Investment Risk:** Key risks to our investments thesis are 1) Price volatility 2) Surge in commodity prices 3) Decline in local demand 4) Price war 5) Hike in discount rate.

**Strong industry footprints:** The demand shutter of cement is finally up, as moving forward the industry is breaking all the thresholds. The total industry capacity stands at 45mn tons per annum and operating at a utilization level of ~ 90%, whereas multi future expansions are lined up too. In 2016 the industry dispatches settled at 38.87mn tons i.e. highest in this lustrum, up by 9.8%YoY in comparison to 2015. The new expansions coming online are expected to create further room to cater the surging demand of the industry and will add immense value to the industry's turnover growth.

**Up-gradation of clinker grinding mill capacity:** Pioneer Cement Limited has always lacked in increasing its capacity utilization (%) to the industry levels, reckoning to the non—sufficient capacity of its clinker grinding mill line of 1.93mn MT. After mandatory business process re-engineering and de-bottlenecking PIOC is finally under the process of increasing its grinding mill capacity to sufficient levels. The company has declared that this additional expansion of grinding mill will cost around ~ PKR 800mn and would resolve capacity utilization constraints.

**Operational efficiencies to charge in via 12MW WHRP:** The much waited 12MW WHR Power plant of PIOC finally started operations on Dec 15, 2016, which was communicated by the company's management through a notice of material information at PSX. We have incorporated the working of WHR in our model from the said quarter and it is expected to trigger an impact of ~ PKR 1.78/sh, annualized savings of the power cost in FY17E. The commencement of 12MW—WHRP will finally get off the company from the sole reliance on the national grid, although incorporating the hike in coal prices has affected the GP margins pulling them down to 40% in FY17E.

**Moving along with peers—New Expansion of ~ 2.1mn Tpa:** Going forward competing with the industry, Pioneer cement has already announced its expansion plan of 2.1mn MT/annum. The expansion once online will double the existing capacity of production. As sufficient details were not stated by the company we have not incurred the impact of this new line in our model. Reportedly, the expansion is expected to come online in FY20E.

### **Investment Case**

We revise our investment case on PIOC with '**HOLD**' recommendation using DCF method/ FCFE (Free Cash Flow to Equity) methodology to derive the intrinsic value of PIOC at PKR 157.9/sh. The following assumptions have been incorporated to arrive at our price target. Our revised investment case accounts for the recent change in 10yr PIB rates to 7.78% & price hike by PKR 15/bag by the northern players of cement.

- Terminal growth rate of 4%
- Risk free rate of 7.78% (10yr PIB)
- Market Risk Premium of 6%
- Adjusted Beta of 1.2 (using 5yrs)

Based on the above assumptions, PIOC's Jun-17 PT is reckoned at PKR 157.9/share, offering 10% upside potential from its closing price. The stock offers a Dividend Yield% of 4.9%.

### **Financial Highlights**

<b>PKR MN</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Sales	9,367	12,425	13,065	13,107
COGS	5,361	7,503	7,362	7,442
GP	4,005	4,922	5,704	5,665
EBIT	3,864	4,545	5,375	5,485
PBT	3,847	4,516	5,346	5,474
NP	2,519	3,161	3,742	3,832
<b>EPS</b>	<b>11.09</b>	<b>13.92</b>	<b>16.47</b>	<b>16.87</b>

*Source: Company Accounts, Nael Research*

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<b>Stock Recommendation</b>	<b>Return</b>
BUY	> 15%
HOLD	> -15% to < 15%
SELL	< -15%