PAKISTAN November 22, 2022

Foundation Alert

PIOC: Analyst Briefing Takeaways

Event

- Pioneer Cement Company Limited (PIOC PA) held its analyst briefing today to discuss its financial/operational performance for FY22 and future outlook of the company. Following are the key takeaways of the briefing.

Impact

- Pioneer Cement Limited (PIOC PA) profitability clocked in at Rs1.0bn (EPS Rs4.62), down by 47% YoY in FY22 as compared to profit of Rs2.0bn (EPS Rs8.69) in FY21. In 1QFY23, company reported profitability of Rs586mn (EPS Rs2.58) up 22% YoY as compared to profit of Rs480mn in 1QFY22.
- Management attributes FY22 decline in profitability to (1) lower dispatches due to slowdown, (2) higher finance cost and (3) imposition of super tax.
- PIOC management also discussed 46/34% YoY increase in company revenue in FY22/1QFY23 and disclosed that the increase was mainly due to higher retention prices up 44/63% YoY as dispatches ↑/↓ 0.6/18.7ppt YoY in FY22/1QFY23.
- Furthermore, capacity utilization was 65.5/48.9% in FY22/1QFY23, flat/↑11.0% YoY in FY22/1QFY23.
- Regarding coal mix, management informed that consumption of local/imported/Afghan coal is 35/15/50% in FY22. Currently, PIOC avg. coal inventory cost is at Rs45k/ton, wherein Afghan/local is costing around 54/32k/ton. Company has 30 days of coal inventory and expecting to get improved margins due to recently declining coal prices.
- PIOC management also discussed current power mix of the company which stands at 30/27/53% on national grid/WHR/captive generation. Furthermore, company management also disclosed FY22 effective energy rates for national grid/WHR/captive generation at Rs32.5/2/30/kwh.
- Company has 330 dealers across country (120/140/70 in North/Center/South).
- Management is not expecting any price wars in near future.
- Management is expecting cement offtakes to decline by ~15% in FY23. Moreover, with the addition of new 11mn tons cement capacities in coming months of FY23, the gap between demand and supply is expected to widen further. However, the demand is likely to rise as part of rehabilitation in flood-hit areas in order to rebuild houses and infrastructure, as per management.

Outlook

- We have an "Outperform" stance on the scrip, as company would benefit from (1) resumption of construction activity, (2) reversal of interest rate cycle and (3) declining coal prices. However, near term profitability of the company is expected to remain under pressure given sectors inability to completely pass on the impact of rise in fuel/power and other overhead costs.

Table 01: PIOC 1QFY23 Earnings Preview (Rs mn)

Rs (mn)	1QFY23	1QFY22	YoY	FY22	FY21	YoY
Sales - net	8,322	6,197	34%	31,879	21,818	46%
COGS	6,412	4,735	35%	24,676	17,700	39%
Gross profit	**1,910**	**1,463**	**31%**	**7,203**	**4,118**	**75%**
Distribution Expenses	29	28	4%	119	119	1%
Admin Expenses	37	36	3%	134	128	5%
Other operating expenses	66	89	-26%	389	153	155%
Other operating income	11	10	10%	40	303	-87%
EBIT	**1,789**	**1,319**	**36%**	**6,601**	**4,021**	**64%**
Financial Charges	915	580	58%	2,656	1,818	46%
PBT	**874**	**739**	**18%**	3,945	2,203	79%
Taxation	288	259	12%	2,894	229	1166%
PAT	**586**	**480**	**22%**	**1,050**	**1,974**	**-47%**
EPS@227.15mn sh	2.58	2.12		4.62	8.69	
GP margins	22.90%	23.60%		22.60%	18.90%	
EBIT margins	21.50%	21.30%		20.70%	18.40%	
NP margins	7.00%	7.80%		3.30%	9.00%	

Source: PSX, Company Accounts, Foundation Research, November 2022

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If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.