

## Earning Review

### PIOC: 2QFY23 EPS clocked in at Rs5.17, up 77% YoY

#### Event

- Pioneer Cement Limited (PIOC PA) profitability clocked in at Rs1.2bn (EPS Rs5.17, up 77/101% YoY/QoQ) in 2QFY23 as compared to profit of Rs663mn (EPS Rs2.92) in 2QFY22. This takes 1HFY23 profitability to Rs1.8bn (EPS Rs7.75, up 54% YoY) as compared to profit of Rs1.1bn (EPS Rs5.03) in 1HFY22.

#### Impact

- We attribute increase in company profitability to (1) better retention prices in domestic market due to multiple price hikes, (2) increased reliance on Afghan/domestic coal for fuel purpose and (3) lower effective tax rate.
- PIOC revenue increased by 20/24% YoY/QoQ in 2QFY23 due to increase in cement retention prices.
- Moreover, PIOC gross margins increased by 6.6/4.3ppt YoY/QoQ in 2QFY23 due to (1) better retention prices and (2) procurement of Afghan/domestic coal at competitive prices.
- Furthermore, PIOC finance cost increased by 44% YoY in 2QFY23 due to increase in interest rates, in our view.
- Among other major heads admin cost increased by 46/15% YoY/QoQ in 2QFY23.
- Company's other operating expense increased by 123/181% YoY/QoQ in 2QFY23 due to higher provision for WPPF/WWF, in our view.
- In addition, company effective tax rate clocked in at 31.0% in 2QFY23 as compared to 36.8% in 2QFY22.

#### Outlook

- Company profitability growth is expected to remain muted given (1) slowdown in demand due to economic slowdown, (2) uncertainty over pricing discipline as more expansions are about to come online, (3) decline in market share given lower capacity based market share and (4) higher finance cost due to increase in interest rates.
- However, aforementioned factors are already incorporated in current market price thus we have an Outperform stance on the scrip as company would benefit from increased reliance on Afghan/domestic coal for fuel purposes.

#### Analyst

Usman Arif  
+92 21 3561 2290-94

usman.arif@fs.com.pk  
Ext 339

Fig 01: PIOC 2QFY23 Earnings Preview (Rs mn)

	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Sales - net	10,325	8,614	20%	24%	18,646	14,811	26%
COGS	7,513	6,837	10%	17%	13,925	11,572	20%
<b>Gross profit</b>	<b>2,811</b>	<b>1,777</b>	<b>58%</b>	<b>47%</b>	<b>4,721</b>	<b>3,240</b>	<b>46%</b>
Distribution Expenses	33	32	0%	12%	62	60	2%
Admin Expenses	43	29	46%	15%	80	65	22%
Other operating expenses	185	83	123%	181%	250	172	46%
Other operating income	6	9	-30%	-44%	17	19	-9%
<b>EBIT</b>	<b>2,557</b>	<b>1,642</b>	<b>56%</b>	<b>43%</b>	<b>4,346</b>	<b>2,961</b>	<b>47%</b>
Financial Charges	853	593	44%	-7%	1,768	1,173	51%
<b>PBT</b>	<b>1,704</b>	<b>1,049</b>	<b>62%</b>	<b>95%</b>	<b>2,579</b>	<b>1,788</b>	<b>44%</b>
Taxation	529	386	37%	83%	817	645	27%
<b>PAT</b>	<b>1,175</b>	<b>663</b>	<b>77%</b>	<b>101%</b>	<b>1,761</b>	<b>1,143</b>	<b>54%</b>
EPS@227.15mn sh	5.17	2.92			7.75	5.03	
GP margins	27.2%	20.6%			25.3%	21.9%	
EBIT margins	24.8%	19.1%			23.3%	20.0%	
NP margins	11.4%	7.7%			9.4%	7.7%	
Effective tax rate	31.0%	36.8%			31.7%	36.1%	

Source: PSX, Company Accounts, Foundation Research, February 2023

### Important disclosures:

**Disclaimer:** This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

**Research Dissemination Policy:** Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

**Target price risk disclosures:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**Analyst certification:** The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

### Recommendations definitions

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