

Attock Cement...Cementing Progress

We reinitiate our coverage on ACPL. Our thrust of coverage in ACPL is mainly due to 'boom' in the construction industry and ACPL's expansion to cater to the increasing demand.

Wherein now we believe...

- The introduction of line-III will add 1.2mn tpa to the production, increasing ACPL's capacity by 2/3rd. The increased capacity will enable ACPL to increase its market share in the southern zone.
- The introduction of 15MW Waste Heat Recovery (WHR) along with line-III will ensure continuous and cheap supply of energy required for production.

Premise...

We expect ACPL future earnings to increase to Rs28.17/sh in FY17 (as against Rs25.24/sh reported in FY16) given our understanding of increase in bag price of cement. This is also inclusive of our thrust of a long term debt (we have assumed Rs3bn initially against the capital expenditure). ACPL may take benefit of lower financial charge against expansion. Hence we see an increase in FY17 EPS. ACPL is already taking advantage of lower energy cost owing to WHR on line II.

Runners-up for Southern zone...

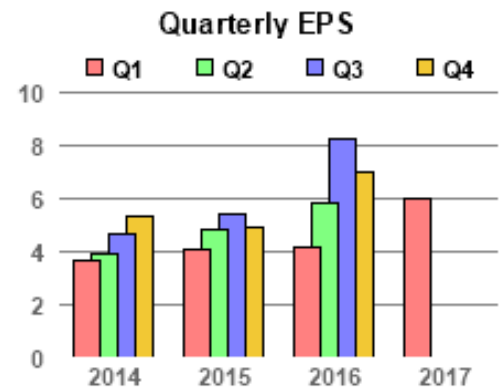
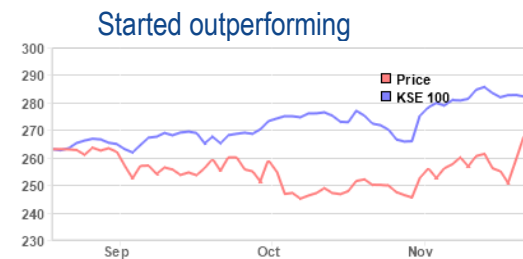
ACPL has the second largest capacity based market share following Lucky Cement (LUCK) in southern zone. ACPL is currently running two lines with total capacity of 1.795mn tpa. ACPL has a successful history of more than 100% capacity utilization.

Unleashing Growth...

ACPL has now started work on installation of the new 3rd production line. This will add two-third of current capacity resulting in total 3.0mn tpa. The commercial line is expected to start commercial operations from the start of 2018.

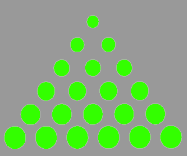
ACPL will be leader in this expansion, as DGKC and LUCK follows commercial operations from expansion later that year. The maiden expansion gives advantage to cater to catch local demand along with export market.

ACPL @ 267.50
 52 Week Low 155
 52 Week High 277
 Total no. of shares 114.52mn
 Market Capitalization 29.66bn
 Beta 0.95
 Annual FY16 EPS Rs 25.24
 P/E 10.3x (historical)
 Book Value per share Rs 91.22
 P/B 2.84x (historical)



Pakistan's GDP





Steep Demand...

CPEC, government expenditures and construction boom in the country has made the demand for cement larger than ever. The local demand will carry on considering the expenditures from provincial government are not interrupted.

Similarly, we expect ACPL will be adding more countries for their exports avenue. The contribution of exports in sales remained at 27% during FY16. This contribution has shown an increase in 1QFY17 to 32%.

Footings in IRAQ...

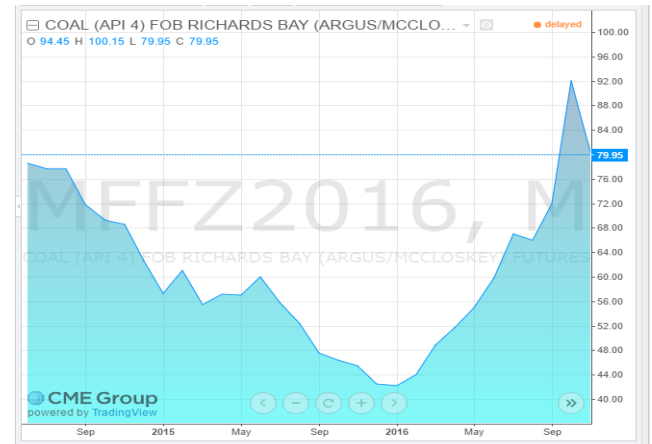
The management of company believes the project in Iraq will progress by the end of 2016, as per latest report. Although, this project has previously been delayed because of legal issues.

Vitality... (Richard Bay coal price sourced through CME Group)

The company dependence on national grid will reduce with the initiation of Line-III as the company is installing 15MW WHR power plant. The company already has 12MW WHR installed at line-II.

Risks...

- Delay in expansion could result in losing the of first-mover advantage
- The expansion will be dependent on debt, any increase in interest rate may slightly affect earnings
- Any delay in government spending
- International rise of anti-dumping laws can affect exports
- Sudden surge in coal price will result in decrease in margins



Valuation...

Given our thrust of FY17 EPS of Rs28.17/sh deciphering PE of 9.5x, which is lower vis-a-vis other players.

ACPL has a payout ratio of 50%. ACPL could pay cash of Rs14/sh (FY16: Rs 12.5/sh).

Coal	63.39	65.00	69.90	74.80
GP	5,923mn	5,892mn	5,797mn	5,702mn
EPS	28.44	28.17	27.34	26.51

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See projected P&L on next page

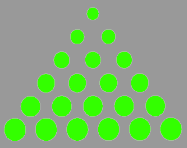
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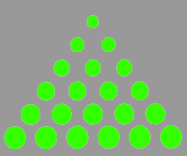
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ACPL - Profit & Loss Statement		
	FY17E	FY16
Net Sales	14,670,262	13,918,340
COGS	8,778,082	8,331,840
Gross Profit	5,892,180	5,586,500
<i>% of net sales</i>	40.16%	40.14%
Other income	440,108	341,095
Operating expenses	1,760,431	1,670,580
Operating Profit	4,571,857	4,257,015
<i>% of net sales</i>	31.16%	30.59%
Finance Cost	31,964	21,309
PBT	4,539,893	4,235,706
<i>% of net sales</i>	30.95%	30.43%
Tax	1,314,000	1,345,683
PAT	3,225,893	2,890,023
<i>% of net sales</i>	21.99%	20.76%
EPS	28.17	25.24

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