

Pioneer Cement: Drastic improvement; no more a laggard Buy@ Rs.17.7 | PE 4.5x – 5.0x

Pioneer Cement (PIOC) is growing dramatically based on outlook of increased cement prices; PIOC also gained benefit where the price of 50kg bag is currently Rs.430-435 as compared showing an annual increase of 12% - 15% from last year. Moreover, improved liquidity and gearing condition also allowed PIOC to reduce its financial charges.

At present, PIOC yield FY13E P/E of 4.5x – 5.0x (based on our EPS outlook of Rs 3.4/sh whereas industry P/E is 6.4x based on our scstrade universe). We also expect dividend of Re.1/sh i.e. outflow of cash of Rs227mn; cash flow position improved along with there is decrease in gearing.

Khushab is glowing with massive yield from PIOC

Pioneer Cement, one of the improved player in the cement sector with market share of around 4%-5% as per 1QFY13 results, reported dramatic growth of 1683% in earnings realizing PAT of 242mn(eps:Rs.1.07/sh) in 1QFY13 whereas PAT of 13.9mn(eps:Rs.0.06/sh) in the corresponding period last year. This massive growth was bolstered by 20% sales growth from Rs.1.34bn in 1QFY12 to Rs.1.61bn in 1QFY13.

During the period under review, PIOC produced 200,778tons clinker compared to 247,162 tons in the preceding period last year. Whereas, the cement production showed miniscule growth of 1% from 279,920tons in 1QFY13 as compared to 276,029tons in 1QFY12 yet it is pricing which has changed fortunes. The situated plant at Chenki, District Khushab has an installed capacity of 1,933,571tons of clinker and 2,030,250tons of cement as on 1HFY12.

PIOC closing	Rs17.61/sh
High	Rs17.80
Low	Rs17.50
Chg	+0.31
52 week hi	Rs19.74/sh
52 week lo	Rs3.20/sh
Beta	1.35
Total # of sh.	227mn
Free float	79mn

PIOC(Rs.'000)	1QFY13	1QFY12	Chg.
Sales-net	1,618,754	1,348,006	20%
COS	1,210,374	1,106,326	9%
Gross Profit	408,380	241,680	69%
Dist. Cost	18,027	10,526	71%
Admin Exp	14,395	13,162	9%
EBIT	375,958	217,992	72%
Finance Cost	55,804	94,167	-41%
Exchange Loss	39,564	84,230	-53%
Other Exp.	19,626	2,043	861%
Other Income	3,853	1,190	224%
PBT	264,817	38,742	584%
Tax	22,502	24,803	-9%
PAT	242,315	13,939	1638%
EPS	1.07	0.06	1683%

This collection of disclosed above facts has allowed figuring out capacity utilization rate. As far as clinker production is concerned, PIOC had utilized 60% of its installed capacity, as worked out in annualized terms.

Key Highlights	1QFY13	1QFY12
GP Margin	25%	18%
Net Margin	15%	1%
Gearing Ratio	12%	12%
Interest Cover (Times)	6.5	2.3
Clinker Production(Tons)	200,778	247,162
Cement Production(Tons)	279,920	276,029

No point to be anxious about going concern

The stable gearing ratio of 12% over 1QFY12-13 has allowed PIOC to reduce its financial charges from Rs.94mn in 1QFY12 to Rs.56mn in 1QFY13 translated into interest cover of 6.5x times in the period under review as compared to 2.3x in the same period preceding year. PIOC also generated Rs.311mn from its operating activities as compared to miniscule Rs.18mn realizing a massive 1652% growth over this period. These all measure has comfortably allowed us to forecast a valid going concern assumption as PIOC is concerned to rely on equity financing which could be illustrated by the repayment of Rs.66mn in long term loans in 1QFY13.

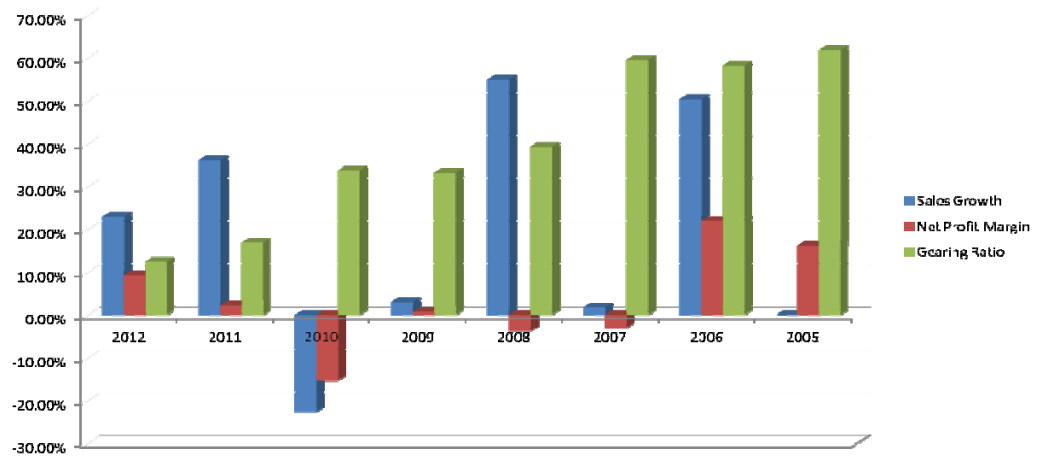
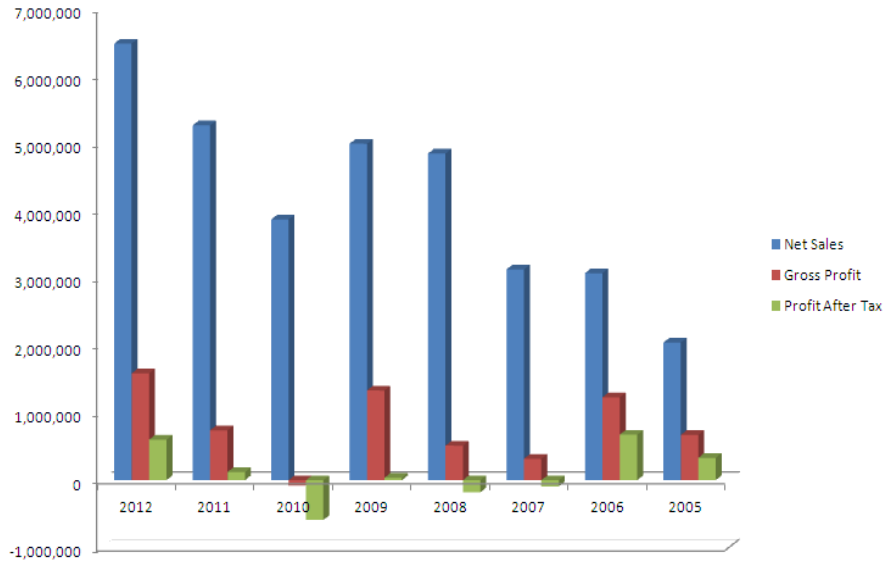
PIOC(Rs.'000)	2012	2011	2010	2009	2008	2007	2006	2005
Net Sales	6,487,127	5,272,888	3,872,834	5,000,235	4,853,764	3,131,487	3,075,922	2,045,127
Cost of Sales	4,900,167	4,531,162	3,953,814	3,667,343	4,340,151	2,813,309	1,845,284	1,372,012
Gross Profit	1,586,960	741,726	-80,980	1,332,892	513,613	318,178	1,230,638	673,115
Other Income	20,259	20,197	20,285	28,047	-30,630	11,687	71,163	27,193
Operating Profit	1,408,390	542,894	-	597,724	-191,441	169,720	1,130,020	514,664
Finance Cost	328,024	357,916	392,658	451,465	413,203	365,848	196,949	120,745
Profit Before Tax	924,340	71,824	-859,319	174,306	-574,014	-184,441	933,071	393,919
Taxation	322,823	48,826	268,394	138,192	394,043	90,947	257,089	61,830
Profit After Tax	601,517	120,650	-590,925	36,114	-179,971	-93,494	675,982	332,089
Dividend	-	-	-	-	-	-	10.00%	-
Bonus	-	-	-	-	-	-	4.51%	5.00%
Right	-	-	-	-	-	17.50%	-	-
Gross Profit Margin	24.5%	14.1%	-2.1%	26.7%	10.6%	10.2%	40.0%	32.9%
EBIT Margin	21.7%	10.3%	-	12.0%	-3.9%	5.4%	36.7%	25.2%
EBITDA Margin	27.4%	17.5%	-	19.6%	5.0%	17.4%	36.7%	25.2%
EBITDA Growth	92.5%	-	-	301.1%	-55.3%	-51.7%	119.6%	-
Enterprise Value/EBITDA	1.1	2.5	-	5.4	38.6	16.6	10.1	13
Sales Growth	23.0%	36.2%	-22.6%	3.0%	55.0%	1.8%	50.4%	-
Net Profit Margin	9.3%	2.3%	-15.3%	0.7%	-3.7%	-3.0%	22.0%	16.2%
Gearing Ratio	12.5%	16.9%	33.7%	33.2%	39.3%	59.6%	58.2%	61.9%

Cash flow positive

Cash flow remains in green showing awesome figures of Rs 311mn which is a good sign as of 1QFY13. This led us to believe that PIOC can also pass on dividend of Re 1/sh.

Valuation

PIOC yield EV-EBITDA & PE of 1.1x & 4.5x with improved earnings and cashflow outlook.



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