Standard Capital Securities (Pvt) Ltd
A venture of Naushad Haroon Chamdia, incorporated in 1997

18 June 2013

PIOC Rs.('000)	9MFY12	9MFY13	Chg.
Gross turnover	5,695,597	6,737,371	18%
Excise duty	359,911	303,549	-16%
Sales tax	717,364	820,144	14%
Commission	45,044	44,291	-2%
	1,122,319	1,167,984	4%
Net turnover	4,573,278	5,569,387	22%
COGS	3,563,674	3,795,725	7%
Gross profit	1,009,604	1,773,662	76%
Dist. Cost	59,842	71,306	19%
Admin Exp	45,967	42,800	-7%
Oth. Op. Inc	(7,665)	(70,422)	819%
Oth. Op. Exp.	39,863	134,776	238%
	138,007	178,460	29%
Operating profit	871,597	1,595,202	83%
Finance cost	270,556	126,293	-53%
Exchange (gain) / loss	63,179	(141,552)	-324%
	333,735	-15,259	-105%
PBT	537,862	1,610,461	199%
Tax	255,591	545,626	113%
PAT	282,271	1,064,835	277%
EPS	1.24	4.69	277%

Source: Company Results

	9MFY13	9MFY12	Chg.
	Quantity in tons		
Production			
Clinker	829,312	794,881	4%
Cement	915,136	847,672	8%
Cement Dispatches			
Domestic	758,873	719,823	5%
Exports	157,590	132,376	19%
Total	916,463	852,199	8%

Highlights

52 week Hi	32.00
52 week Low	8.80
Close	31.06
Market Cap	7.055bn
Free Float	79.5mn
Beta	1.42

Based on June 17, 2013 closing

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Pioneer Cement| Yet more to gain advantage…. Buy maintained

Cement sector had been in limelight since the market became efficient and estimations revolving about good dispatches. However, the post budget review is necessary to review the attractiveness of this particular sector. Note that we had also been highlighting Pioneer cement which has shown drastic improvements. We expect FY13 EPS to be in the range of Rs.5.40 - 5.50.

9MFY13 Results Review…

During 9MFY13, PIOC sales surged by 18% backed by production of 829,312 tons clinker which is 4% higher than the corresponding period last year. Cement production rose by 8% from 847,672 tons to 915,136 tons.

The top line figures seem flamboyant due to reduction in excise duty by 16% over 9MFY12-13 which might have resulted due to decline in imported items whereas gross profit margin went upward from 18% to 26% over the period under review. However, non-core income also soared by huge 819% contributed by exchange gain of 141.6mn due to continued devaluation of Japanese yen. Moreover, discharge of financial obligations, reduction in discount rates by SBP and non-utilisation of short term finances resulted in decline in financial charges by 53% which provides good omen.

PIOC is focusing on investing in improving the plant. PIOC invested 500mn in the period under review in order to reduce cost of production. The management is also considering certain investment plans to remove production bottlenecks. This includes acquiring a new cement mill and solutions for power breakdowns as disclosed in director's report.

Post Budget Review..

Some highlights of Federal Budget 2013-14 on development expenditures are…

1. Development expenditure and emphasis on energy sector like construction of dams
2. Rs 63bn allocated for roads
3. M9 project between Hyderabad to Karachi
4. Gawadar to Kashghar motorway network
5. Housing schemes and Ashiana scheme at the country level
   - 1000 colonies of 500houses
   - 3 marla housing scheme
6. Tax over builders on yards basis
7. KCR revival with the help of Japan

All of the above triggers allowed us to believe increased cement consumption and PIOC would also be one of the beneficiaries.

Valuation | Magnum among peers….

PIOC currently yielding at a P.E. of 4.7x as opposed to industry average of 6.7x which makes it still attractive. We expect FY13 EPS around Rs.5.40-5.50, therefore we maintain our BUY stance.