Pioneer Cement Limited

Delay in expansion to raise concerns

10-Jan-18

Recommendation	BUY
Target Price	U/R
Current Price	PKR 70

Stock Details

Bloomberg	PIOC PA
Reuters	PION.KA
KATS	PIOC
Shares Outstanding (mn)	227
Free Float (%)	55%
12M ADTO (mn)	0.34
12M ADTV (PKR mn/ USD mn)	39/0.36
52-Weeks High/Low (PKR)	160/49
Market Cap (PKR bn/USD mn	16/143
KSE-100 Index Weightage (%)	0.42

Source: PSX, BIPLS Research

Stock Performance

	1M	3M	12M
Absolute %	20.4	(12.1)	(51.7)
Relative to KSE %	10.8	(16.3)	(39.0)

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- **Our channel checks suggest that the upcoming expansion of PIOC has been put on hold since the company did not possess approval from EPA.**
- **The decision made by EPA would cause a delay in and reduce the capacity based share of the company to 4.6% in FY20 from 5.2% in FY17. In this regard, we foresee the company to record 19%YoY local volumetric growth in FY18.**
- **On the flip side, the company is actively working on it grinding mill which is expected to come online soon and would resolve grinding constraints.**
- **We believe that North has a regional advantage over South on account of lower risk of an all out price war.**
- **Keeping in view prevailing uncertainty pertaining to new line, we are putting the stock under review until the management clears the ambiguity. However, without incorporating the upcoming projects our DCF based TP stands at PKR86/sh.**

Delay in expansion is probable: Recall that PIOC was enhancing its annual production capacity from 2.0mn MT to 4.5mn MT along with installing cost efficiency measures (12MW WHR PP and 24MW coal based PP) at an estimated cost of PKR23bn. However, as per the recent news flow, some of the expansions in North are being delayed due to environmental concerns raised by Environmental Protection Agency (EPA). Our channel checks suggest that the upcoming expansion of PIOC has been put on hold since the company did not possess prior approval from EPA. The decision made by EPA would cause a delay in expansion and the company would not be able to meet its initial commencement target of Jun'19. This would reduce the capacity based share of the company to 4.6% in FY20 from 5.2% in FY17, resulting in relatively lower volumetric growth.

Grinding mill to remove bottlenecks soon: On the flip side, the company is actively working on it grinding mill which is expected to resolve grinding constraints. Historically, company's utilization level have remained below the industry's utilization (5yr average: company's 61% vs. industry's 80%). The new mill having an annual capacity of 0.9mn MT is expected to come online soon which would enable the company to achieve optimal utilization level. In this regard, we foresee the company to record 19%YoY local volumetric growth in FY18.

Delay in expansions puts North at a better position: We believe that North has a regional advantage over South on account of lower risk of an all out price war since 1) additional capacities are across multiple years (FY19-22) and 2) some of the expansions (comprising MLCF and PIOC) have been held in abeyance by EPA. Therefore, our inclination remains towards North based players.

Investment perspective: Keeping in view prevailing uncertainty pertaining to the new line, we are placing the stock under review until management clears the ambiguity. However, without incorporating the upcoming projects our DCF based TP stands at PKR86/sh and with incorporating these projects, our TP becomes PKR112/sh.

Disclaimer

Stock Rating

Investors should carefully read the definitions of all rating used within every research reports. In addition, research reports carry an analyst's independent view and investors should ensure careful reading of the entire research reports and not infer its contents from the rating ascribed by the analyst. Ratings should not be used or relied upon as investment advice. An investor's decision to buy, hold or sell a stock should depend on said individual's circumstances and other considerations. BIPL Securities Limited uses a three tier rating system: i) Buy, ii) Hold and iii) Sell with our rating being based on total stock returns. A table presenting BIPLS' rating definitions is given below:

The rating system

Rating Definition	
Buy	Total stock return ≥ 15%
Hold	0% ≤ Total stock return < 15%
Sell	Total stock return < 0%

* Total stock return = capital gains + dividend yield

Valuation Methodology

To arrive at our period end target prices, BIPL Securities uses different valuation methodologies including

• Discounted cash flow (DCF, DDM)

• Relative Valuation (P/E, P/B, P/S etc.)

• Equity & Asset return based methodologies (EVA, Residual Income etc.)