AKD Daily

Tuesday, Mar 14, 2017

Today's Daily

PIOC: Expansion & Diversification; a more judicious approach

We revisit our investment case for PIOC, revising Dec'17 TP to PkR156/share incorporating recent cement price increase and expected continuation of clinker sales till 4QFY17. While recent rally in coal price is expected to shrink GM and dampen earnings, recently installed 12MW WHR is expected to partially make up for the above. In this regard, we expect an after-tax operational savings of PkR1.11/PkR1.82 in 2HFY17F/FY18F. Besides, the company revealed its plans of: (1) revising up its cement expansion capacity from 2.21mn tpa to 2.52mn tpa, (2) installing separate line of 12MW WHR for the expansion and (3) setting up 24MW coal CPP. The total capex associated with the projects is expected to stand at PkR25bn. Though we have not incorporated the aforementioned projects due to awaited details, we expect the expansion to result in an incremental FY20-23F average earnings/TP of PkR7.18/PkR48 per share. Moreover, the new line of WHR and coal CPP are together expected to result in incremental FY20F earnings/TP of PkR2.41/PkR15 per share. Despite exclusion of the value accretive projects in our estimates, PIOC trades at relatively cheap FY17F/FY18F PE of 10.9x/10.2x vs. AKD Cement Universe's FY17F/FY18F PE of 14.0x/11.5x where our TP of PkR156 offers 13% upside. Accumulate!

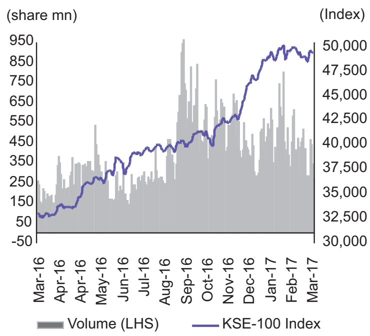
KSE100 - Index	
Current	48,655.72
Previous	49,191.75
Chg.	-1.09%
Mkt Cap. (PkRbn/US$bn)	
Current	9,594 / 91.50
Previous	9,697 / 92.49
Chg.	-1.07%
Daily Turnover (mn)	
Current	133.04
Previous	182.74
Chg.	-27.2%
Value Traded (PkRmn/US$mn)	
Current	7,219 / 68.86
Previous	9,763 / 93.11
Chg.	-26.1%

News and Views

- LUCK has inaugurated its fifth Waste Heat Recovery (WHR) Plant in Pezu, KPK. Under this project, two cement production lines with a daily output of 2,400 tons have been used which will offer an installed capacity of 10MW power generation.

- The SBP has asked all banks to improve their capacity for control of money laundering, especially by training their staff here and abroad in this respect. Financial institutions asked to implement in-house system to detect differences between values declared in documents and prevailing market prices.

- The Habib Metropolitan Modaraba Management Company has been issued formal authorisation by the SECP to float another modaraba of PkR300mn under the name of 'Habib Metro Modaraba'. A wholly owned subsidiary company of Habib Metropolitan Bank Limited (HMBL), is currently managing First Habib Modaraba which is listed on the stock exchange.



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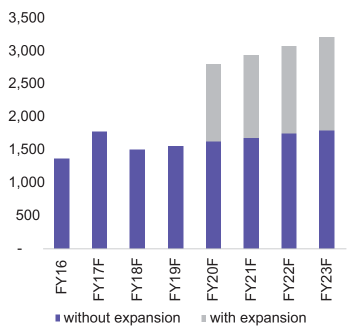
Valuation Snap shot

	FY15A	FY16A	FY17F	FY18F	FY19F
EPS (PkR)	11.0	11.1	12.7	13.6	13.6
EPS Growth	41%	1%	14%	7%	7%
Dividend yield	5%	5%	4%	5%	5%
PER (x)	12.6	12.4	10.9	10.2	10.2
EV/EBIDTA (x)	8.9	7.4	6.8	6.0	6.0
ROE	33%	27%	25%	24%	24%
ROA	21%	19%	18%	17%	17%

Source: Co. Reports & AKD Research

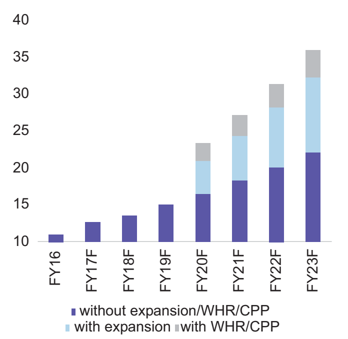
Earnings growth to continue despite higher coal price: PIOC posted impressive earnings of PkR6.61/share in 1HFY17, up 52%YoY backed by incremental clinker sales of 202k tons to FCCL in 1HFY17. We expect clinker sales to FCCL to continue till 4QFY17 due to delay in restoration of FCCL's Line 2 to 1QFY17 vs. previous 4QFY16. Additionally, this is likely to be complemented by 12MW WHR that came online in Dec'16. The WHR is expected to fulfill approximately 38% of its power requirement and result in after-tax operational savings of PkR1.11/PkR1.82 in 2HFY17F/FY18F. While recent coal price rally (average coal price up 30%QoQ to US$85/ton in 2QFY17) is expected to shrink GM and dampen earnings of the company, its impact is expected to remain limited due to: (1) partially passed on rising costs as average cement price in North Region was increased by PkR10/bag in Jan'17, (2) cost savings through recently installed WHR, (3) incremental earnings through clinker sales and (4) anticipated correction in coal price due to likely normalization of supply/demand imbalances where the coal price has fallen to US$79/ton from a high of US$91/ton is start of CY17.

Dispatches (K tons)



Source: Co. Reports & AKD Research

PIOC: EPS (PkR)



Source: Co Reports & AKD Research

Augmented list of projects to drive valuations: PIOC recently communicated its intention to enhance its expansion size and improve its energy mix. In this regard, PIOC has signed a contract with Chinese company Sinoma-Chengdu Design & Research Institute of Building Materials Industry for its Brownfield expansion of 8,000tpd clinker capacity (2.52mn tpa cement) and 12MW WHR. The company has also signed a separate contract for 24MW coal captive power plant (CPP). We estimate the combined list of projects to entail a capex of PkR25bn where expansion/WHR/CPP are expected to cost approximately PkR21bn/PkR1bn/PkR3bn. We believe that relatively debt free balance sheet, cash/STI of PkR4bn and strong cash flow generation of PkR5.1bn/PkR5.6bn in FY18F/FY19F would allow it to finance the project through Debt/Equity ratio of 70:30. Though we have not incorporated the said projects due to awaited details, we expect the expansion to result in incremental FY20-23F average earnings/TP of PkR7.18/PkR48 per share (assuming 50% utilization of new capacity in the first year of operations and Target Debt/Capital ratio of 20%). Moreover, the new line of WHR and coal CPP are together expected to result in incremental FY20F earnings/TP of PkR2.41/PkR15 per share.

Investment Perspective: The stock has returned 32% during FYTD on the back of strong earnings growth and re-rating on improved earnings outlook. We believe that PIOC is likely to benefit from: (1) expected robust domestic demand growth as it primarily caters to local segment (local dispatches proportion of 97% in FY16) & have relatively greater spare capacity (FY16 utilization: 66%), (2) cost savings through recently installed WHR and (3) earnings growth post operational expansion/WHR/CPP from FY20. Despite exclusion of the value accretive projects (expected to drive 5-years earnings CAGR to 20% from 11%) in our estimates, PIOC trades at relatively cheap FY17F/FY18F PE of 10.9x/10.2x vs. AKD Cement Universe's FY17F/FY18F PE of 14.0x/11.5x. Our revised Dec'17 TP of PkR156/share offers 13% upside, where the inclusion of the projects takes our TP to PkR219/share. Accumulate!

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