

Day Break

Monday, 20 January 2020

COMPANY UPDATE

Attock Cement Pakistan Limited

Cement

Recommendation BUY

Target Price: Dec/20 160.4

Last Closing: 15-Jan-20 103.1

Upside: 55.6

Valuation Methodology: Discounted Cash Flow (DCF)

Time Horizon: 12M

Market Data

Bloomberg Tkr. ACPL PA

Shares (mn) 137.4

Free Float Shares (mn) 27.5

Free Float Shares (%) 20.0%

Market Cap (PKRbn | USDmn) 14.2 | 91.5

Exchange KSEALL

Price Info. 90D 06M 12M

Abs. Return 31.0 49.1 (10.2)

Lo 73.0 66.0 66.0

Hi 106.0 106.0 117.6

Key Company Financials

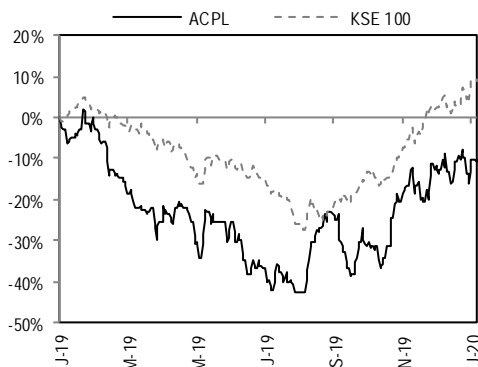
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	20.8	20.6	21.4	22.3
Net Income	2.1	1.5	2.0	2.6
EPS (PKR)	15.1	11.2	14.9	19.1
DPS (PKR)	4.0	4.0	7.5	14.5
Total Assets	27.3	25.1	24.3	24.6
Total Equity	16.1	17.1	18.6	20.2

Key Financial Ratios

ROE (%)	32.8	13.4	9.3	11.5
P/E (x)	6.8	9.2	6.9	5.4
P/B (x)	1.0	0.9	0.8	0.8
DY (%)	3.9	3.9	7.3	14.1

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Cements

ACPL: Heightened selling & distribution costs and increased finance costs to drop down 2QFY20 earnings to PKR 2.55/share

- ✓ Attock Cement Pakistan Limited's (ACPL) board meeting is scheduled tomorrow on 21st Jan-20 to announce financial result for 2QFY20E, wherein we expect the company to post earnings of PKR 351mn (EPS PKR 2.55), down by 11%YoY
- ✓ Despite significant expected overall dispatches growth of ~22%, led primarily by exports offtakes (up +2.1x), marginally improved retentions and lower cost structure, the Company is not expected to improve its net earnings as compared to the comparative period.
- ✓ The decline in earnings is majorly due to heightened selling and distribution expenses ancillary to export sales and greater finance costs as compared to previous year.

Enhanced distribution costs and finance charges to drop down 2QFY20 earnings by 11%YoY to PKR 2.55/share...

Attock Cement Pakistan Limited's (ACPL) board meeting is scheduled tomorrow on 21st Jan-20 to announce financial result for 2QFY20E, wherein we expect the company to post earnings of PKR 351mn (EPS PKR 2.55), down by 11%YoY, compared to PKR 394mn (EPS PKR 2.87) in the same period last year. Cumulatively, this will bring 1HFY20 earnings to PKR 5.16/share, down by 13%YoY as against PKR 5.94/share reported in 1HFY19. We expect the Company to declare nil dividends along with the result.

...despite healthy growth in volumes

Despite significant expected overall dispatches growth of ~22%, led primarily by exports offtakes (up +2.1x), marginally improved retentions and lower cost structure, the Company is not expected to improve its net earnings as compared to the comparative period. The decline in earnings is majorly due to heightened selling and distribution expenses ancillary to export sales and greater finance costs as compared to previous year.

Key highlights

- ✓ During 1QFY20E net sales of the Company are expected to increase by +16%YoY. Though local dispatches are expected to decline by ~24%YoY, substantial rise in export dispatches (+2.1x) are expected to keep overall volumes high.
- ✓ Gross margins of the Company are expected to improve to 23% as against 21% reported in the similar period of the preceding year. The improvement in margins is owed to enhanced local and export retention prices and lower cost structure amid a declining coal price environment.
- ✓ Substantial injury to earnings is expected to occur on account of enhanced selling and distribution expenses, up by 95%YoY, driven primarily by freight charges incurred on export sales, which have seen a two fold increase.
- ✓ Finance charge of the Company is expected to rise as against the comparative quarter, largely on account of increase in short term borrowing requirements

of the Company and rise in benchmark interest rates during 2QFY20 as against the comparative period.

Exhibit: Attock Cement Pakistan Limited (ACPL) Financial highlights													
Period end (Dec) - PKRbn	1h'20	2q'20	1q'20	2019	4q'19	3q'19	1h'19	2q'19	1q'19	2018	4q'18	3q'18	1h'18
Net Sales	10,714	5,746	4,968	20,781	4,630	5,517	10,634	4,954	5,680	16,884	5,027	4,494	7,363
Cost of sales	8,092	4,424	3,668	15,978	3,437	4,155	8,386	3,903	4,483	11,698	3,535	3,198	4,965
Gross Profit	2,622	1,322	1,300	4,803	1,193	1,362	2,248	1,051	1,197	5,187	1,492	1,297	2,398
Sales Growth %	1%	16%	-13%	23%	-8%	23%	44%	27%	64%	15%	44%	12%	90%
Gross Margin %	24%	23%	26%	23%	26%	25%	21%	21%	21%	31%	30%	29%	33%
Admin, Selling & Distribution	1,292	672	619	1,920	440	478	1,002	402	600	1,704	856	327	521
Other Op. Income	45	25	20	318	155	29	135	73	61	61	17	16	28
EBIT	1,310	645	665	3,052	860	871	1,320	687	634	3,381	622	945	1,813
EBIT Margin %	12%	11%	13%	15%	19%	16%	12%	14%	11%	20%	12%	21%	25%
Financial Charges	379	221	159	648	163	185	301	178	123	251	99	74	78
Profit Before Taxation	931	424	506	2,403	697	686	1,020	509	511	3,129	523	871	1,735
Taxation	222	73	149	330	0	127	203	115	88	(1,270)	(2,050)	198	582
Effective Tax Rate	24%	17%	29%	14%	0%	18%	20%	23%	17%	-41%	-392%	23%	34%
Profit After Tax	708	351	358	2,073	697	559	817	394	423	4,400	2,573	674	1,153
Net Margin (%)	7%	6%	7%	10%	15%	10%	8%	8%	7%	26%	51%	15%	16%
PAT Growth YoY	-13%	-11%	-15%	-53%	-73%	-17%	-29%	-28%	-30%	45%	223%	-22%	68%
EPS	5.16	2.55	2.60	15.09	5.07	4.07	5.94	2.87	3.08	32.02	18.72	4.90	8.39
DPS	-	-	-	4.00	4.00	-	-	-	-	8.00	8.00	-	-

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Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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