Day Break

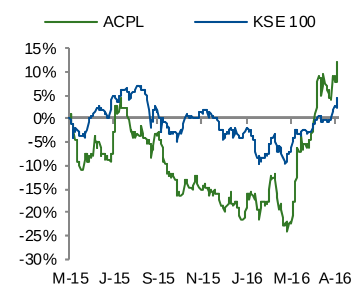
Thursday, 05 May 2016

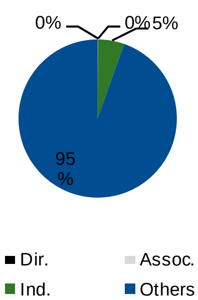
Company Update

Attock Cem.Pak.Ltd			
Cement			
Recommendation			**BUY**
Target Price			384.6
Last Closing			237.3
Upside			62%
Market Data			
Bloomberg Tkr.			ACPL PA
Shares (mn)			114.5
Market Cap (PKRbn | USDmn)		27.2	259.7
Exchange			KSE 100
Price Info.	**90D**	**180D**	**365D**
Abs. Return	28.7	30.2	12.0
Low	157.7	157.7	157.7
High	232.4	232.4	232.4

Key Company Financials				
PKRbn	**FY15A**	**FY16E**	**FY17F**	**FY18F**
Total Revenue	13.1	13.8	13.6	17.1
Net Income	2.2	2.9	3.0	3.6
EPS (PKR)	19.3	25.5	26.3	31.0
DPS (PKR)	15.0	12.0	13.0	19.0
Total Assets	12.2	13.7	22.2	24.5
Total Equity	8.9	10.5	12.0	13.4
Key Financial Ratios				
ROE (%)	25%	28%	25%	27%
P/E (x)	12.3	9.3	9.0	7.6
P/B (x)	3.0	2.6	2.3	2.0
DY (%)	6.3	5.1	5.5	8.0

Relative Price Performance & Shareholding





About the Company

The company was incorporated in Pakistan on October 14, 1981 as a public limited company. Its main business activity is manufacturing and sale of cement. The Company is a subsidiary of Pharaon Investment Group Limited Holding S.A.L., Lebanon.

Source: Bloomberg, KSE 100 & IGI Research

Analyst

Rashmina Lalani
rashmina.lalani@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 826

Attock Cement Pakistan Limited

Expansion Plans to Generate Value; Buy Rating Maintained

- ACPL announced 1.2mn tons cement line expansion in Aug-15, with an estimated cost of USD 130mn (USD 103/ton) expected to come online by Jan-18. Company has signed an agreement with a Chinese company for supply of 4,000tpd cement manufacturing plant.
- To finance the project, company is likely to opt for debt to equity ratio of 51:49, where we forecast company to invest USD 64mn from export proceeds in FY16-FY18 and borrow long term debt of USD 66mn (PKR 7bn).
- With our Dec-16, revised target price of PKR 385/share, scrip provides sizeable upside of +62% from its last close. ACPL is currently trading at FY16E P/E 9.3x and offers dividend yield of 5.1%. We recommend a strong 'BUY' call on the scrip.

Investment Case

We have upgraded our price target for Attock Cement Pakistan Limited (ACPL) to PKR 385/share (previous PKR 266/share) post inclusion of 1.2mn ton cement line expansion expected to come online by Jan-18. From its last closing of PKR 385/share, the scrip is trading at a sizable discount of 62% to our Dec-16 target price.

Profitability to grow at 5-yr CAGR of +23%

We project ACPL profitability to show +23% CAGR in the next 5yrs. Our earnings are based on the following assumptions; a) 1.2mn ton cement line expansion to come online by Jan-18,taking total capacity to 3.06mn tons, b) new plant likely to run at 60% capacity utilization initiallyand expected to gradually increase to 100% in FY20, c) higher retention prices, as sales mix skew towards local dispatches, and d) estimated +12%YoY growth in local dispatches versus 28%YoY decline in exports in the next 5-yrs, e) long term borrowing of PKR 7bn for new plant.

Expansion

1.2mn ton expansion- Line III

ACPL's capacityutilization is currently hovering around ~105%, where recentgrowth in earnings is largely on the back of shift in sales mix and decline in costs due to lower coal and power prices. To bring in organic growth into picture, company announced 1.2mn tons cement line expansion in Aug-15, with an estimated cost of USD 130mn (USD 103/ton). Company has signed an agreement with a Chinese company for supply of 4,000tpd cement manufacturing plant. As per management, plant is expected to come online by Jan-18 as civil work has already started on plant site.

First mover advantage in south

Based onour local and export sales assumption, capacity utilization in South is expected to reach 97% in FY18 as compared to 90% in FY16. With higher utilization anticipated, we foresee the need of expansion in Southern region. ACPL's timely expansion in FY18 would provide it competitive advantage over other players (Lucky Cement, DG Khan Cement, Thatta Cement and Dewan Cement) given continuously growing local demand.

Exhibit: Increase in capacity to 3.06mn tons in FY18 and expected capacity utilization

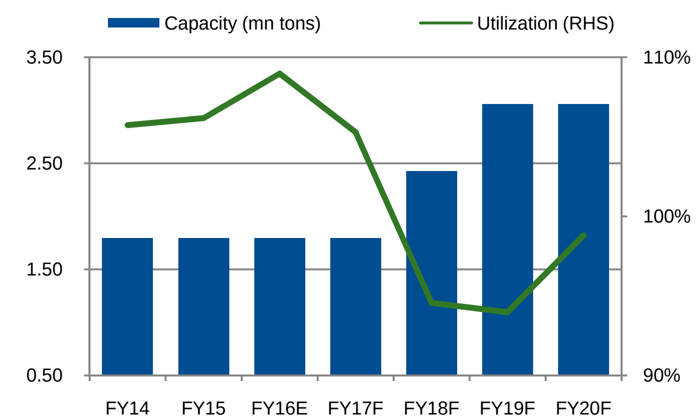
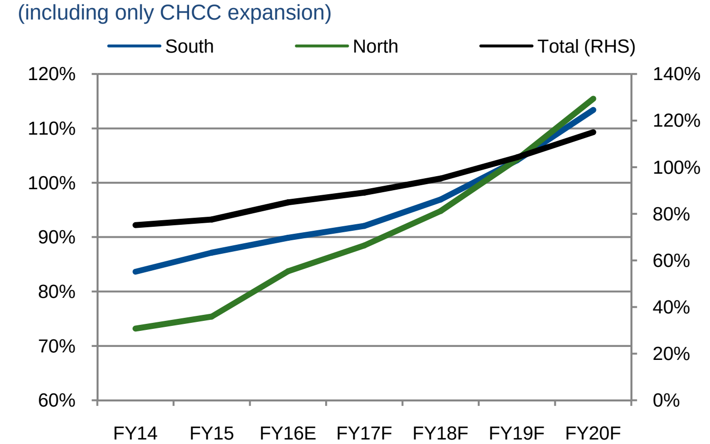


Exhibit: Industry's Capacity Utilization at 12% local dispatches growth (including only CHCC expansion)



Source: IGI Research, Company's Financials

Other projects at halt for now

Company has establish a JV with an Iraqi company to build 0.9mn tons cement grinding plant in Iraq with an estimated amount of USD 24mn and equity stake of 60%. However, with recent expansionary plans in the local market, we expect company to put international plans under the table for now. Our discussion with management also suggests that 40MW coal power plant would likely be shelved off due to lingering water availability issues and significant decline in power cost on grid owing to fall in international oil prices.

Leveraging

Payout to continue due to long term debt and healthy cash flows

To finance the expansion project, company is likely to opt for debt to equity ratio of 51:49, where we forecast company to invest USD 64mn from export proceeds in FY16-FY18 and borrow long term debt of USD 66mn (PKR 7bn).

The loan will be provided for 5 years with 2 years grace period at a cost of 3 months Kibor plus 0.2%, where we have assumed borrowing to take place in FY17. This leveraging would lead to significant financing cost, as company is debt free currently. However, despite this we expect company to keep up with its regular payouts as we expect company to generate operating cash flow of PKR 11.6bn (PKR 101/share) in FY16-FY18, which is over and above working capital requirements as well as equity portion required for the expansion. Company also holds short term investment portfolio to the tune of PKR 4.1bn (PKR 35.97/share).

Exhibit: Long term Debt leading to sharp spike in finance cost from FY18

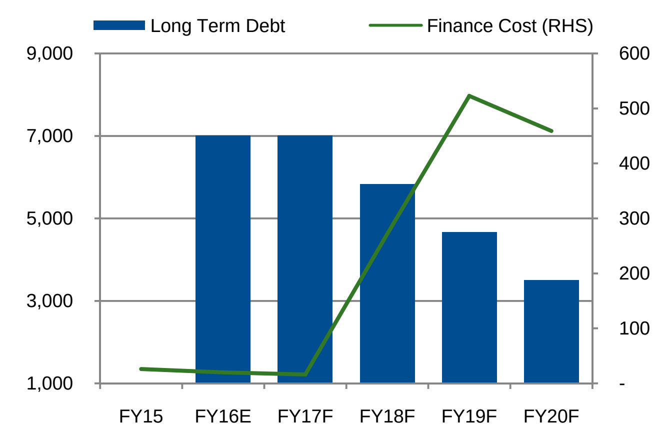
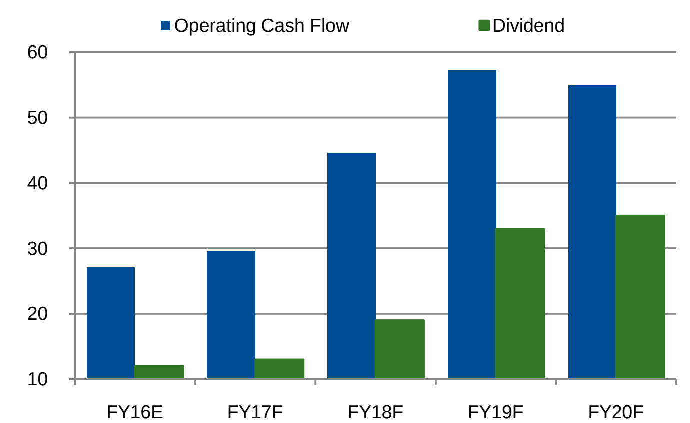


Exhibit: Operating cash flow generation and dividend payout (PKR/share) leaving ample room for project financing



Source: IGI Research, Company's Financials

Profitability

Better Retention amid higher Local Sales

Company's local sales to export ratio is expected to reach 96:4 in FY20 from 60:40 achieved in FY15. This is primarily on the back of declining exports due to increased competition in Afghanistan, dumping duties by South Africa and international capacity expansion. Whereas lower interest rates have given impetus to private infrastructure spending locally as well as development projects under the ambit of CPEC, have led to healthy local dispatches. Going forward, higher local sales contribution towards total sales mix will likely lead to higher retention, as domestic sales are priced at 50% premium on export price of USD 50/ton .

Profitability improved by impressive +52% in 3QFY16

Profitability posted a phenomenal growth of +52%YoY to PKR 941mn (EPS: PKR 8.22) in 3QFY16, taking 9MFY16 earnings to PKR 2.09bn (EPS PKR 18.28), depicting a growth of +28%YoY. Revenue went up by +15%YoY to PKR 3.9bn in 3QFY16, on the back of +32%/-18%YoY increase/decrease in local sales/exports. Gross Margin improved massively by 962bpsYoY to 44% in 3QFY16 as compared to 35% in same period last year, as increased local sales resulted in higher retention, in tandem with low energy and fuel cost. Distribution cost has also declined by 10.48%YoY to PKR 261mn in 3QFY16, owing to weakening exports.

Exhibit: Higher local dispatches leading to higher retention per ton, whereas margins expected to remain stable

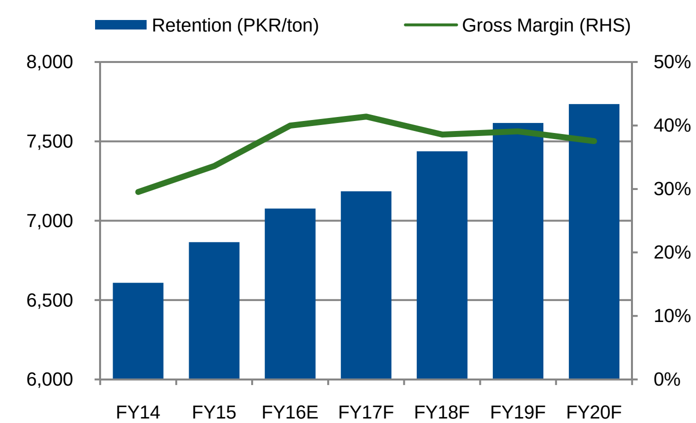
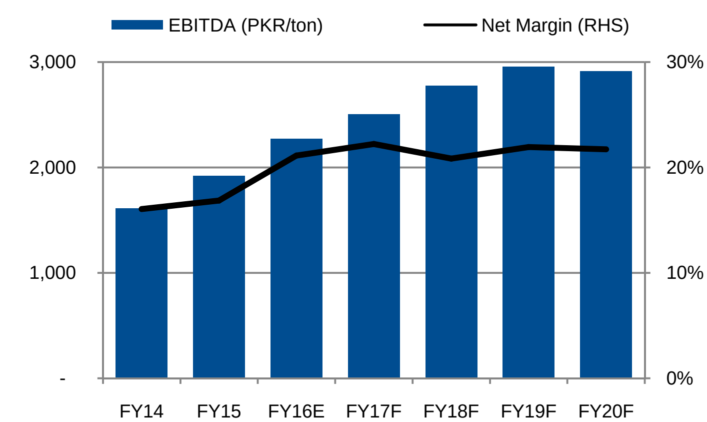


Exhibit: EBITDA per ton expected to go up to PKR 2,954/ton in FY20 from PKR1,922/ton in FY15



Source: IGI Research, Company's Financials

Valuation

We have upgraded our price target for Attock Cement Pakistan Limited (ACPL) to PKR 385/share (previous PKR 266/share), incorporating expansion in our model from FY18. Our risk free rate and market premium are set at 6.5%, whereas 3-yr beta for the company is currently 0.95, which bring cost of equity at 12.7%.

Valuation Parameters	
Risk Free Rate	6.5%
Beta	0.95
Market Premium	6.5%
Cost of Equity	12.7%
Sustainable growth	2.0%

PKRmn	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20
WACC	12.7%	9.0%	9.3%	10.2%	10.6%
EBIT	3,826	4,195	5,186	7,165	7,447
EBIT(1-t)	2,602	2,895	3,630	5,015	5,213
Depreciation	288	390	1,068	1,206	1,201
+ After Tax EBITDA	2,890	3,285	4,698	6,221	6,414
Chg. Current Assets	(31)	53	(516)	(658)	(237)
Chg. Current Liabilities	(77)	(75)	997	1,211	252
- Chg. Non-cash WC	(108)	(22)	480	553	16
- CAPEX	(323)	(9,340)	(5,017)	(894)	(1,138)
FCFF	**2,458**	**(6,077)**	**161**	**5,880**	**5,291**
Discounted FCFF	2,621	(5,812)	140	4,554	3,655

Sum of PV	5,158
Terminal Value	34,924
Sum of PV	**40,082**
Add: Cash	3,964
Less: Debt	-
Equity value	**44,046**
No. of Share (mn)	114.5
Target Price (Dec-16)	**384.6**

Recommendation

From its last closing of PKR 237/share the scrip is trading at a sizable discount of 62% to our Dec-16 target price of PKR 285/share. ACPL is currently trading at FY16E P/E9.3x and offers dividend yield of 5.1%.We recommend a strong '**BUY'**call on the scrip.

Financials

Attock Cement Limited (ACPL)

Current Price (PKR):	237.3	Target Price (PKR):		384.6
Jun-end	FY15A	FY16E	FY17F	FY18F	FY19F
Income Statement Items (PKRmn)					
Net Sales	13,086	13,845	13,584	17,059	21,868
Gross Profit	4,396	5,533	5,620	6,576	8,542
S&A exp	987	945	700	574	388
Other Income	347	454	386	398	410
Other Expense	423	330	154	116	113
EBITDA	3,664	4,444	4,740	6,370	8,483
Finance Cost	26	20	16	272	523
PBT	3,221	4,136	4,334	5,030	6,755
Tax	1,015	1,210	1,316	1,477	1,960
PAT	2,206	2,926	3,017	3,554	4,795
Balance Sheet Items (PKRmn)					
PPE	6,000	6,035	14,985	18,934	18,622
NC Assets	6,103	6,138	15,088	19,037	18,725
Inventory	764	730	700	921	1,171
Receivables	124	132	129	162	208
Cash	859	5,370	4,927	2,836	4,717
Total Assets	12,235	13,708	22,162	24,536	26,763
LT Debt	-	-	7,000	7,000	7,000
NC Liab.	1,074	1,074	8,074	8,074	8,074
Payables	1,772	1,695	1,624	2,621	2,665
Total Liabilities	3,299	3,222	10,147	11,144	12,355
Share Capital	1,145	1,145	1,145	1,145	1,145
Total Equity	8,935	10,486	12,014	13,392	14,408
Cash Flow Items (PKRmn)					
Operating CF	-	3,105	3,385	5,103	6,554
Investing CF	-	2,782	(9,340)	(5,017)	(894)
Financing CF	-	(1,375)	5,511	(2,176)	(3,779)
Closing Cash	859	5,370	4,927	2,836	4,717

Upside	62%		Recommendation		BUY
Jun-end	FY15A	FY16E	FY17F	FY18F	FY19F
Valuation Ratios					
EPS (PKR)	19.3	25.5	26.3	31.0	41.9
DPS (PKR)	10.5	12.0	13.0	19.0	33.0
BVPS (PKR)	78.0	91.6	104.9	116.9	125.8
P/E (x)	12.3	9.3	9.0	7.6	5.7
D/Y (%)	4%	5%	5%	8%	14%
P/B (x)	3.0	2.6	2.3	2.0	1.9
Prof. Growth (%)	10%	33%	3%	18%	35%
ROE	25%	28%	25%	27%	33%
ROA	18%	21%	14%	14%	18%
Cash / Share	7.5	46.9	43.0	24.8	41.2
Financial Gearing					
Debt/Equity	20%	16%	72%	72%	67%
Interest Cov.	123.9	209.3	270.9	18.5	12.9
Margins					
Gross	34%	40%	41%	39%	39%
EBITDA	28%	32%	35%	37%	39%
Net Profit	17%	21%	22%	21%	22%
Macro- Assumption					
Coal	65.0	52.8	54.32	57.66	61.19
PKR / USD	102.8	104.8	106.92	109.06	111.24
Efficiency Ratio					
Current Ratio	2.8	3.5	3.4	1.8	1.9
Quick Ratio	2.4	3.2	3.1	1.5	1.6
Sales and Capacity Utilization					
Cap. Utilization	106%	109%	105%	95%	94%
Local (mnTon)	1.14	1.40	1.49	2.03	2.70
Export (mnTon)	0.76	0.55	0.40	0.27	0.17
Total Sales (mnTon)	1.91	1.96	1.89	2.29	2.87

Source: IGI Research, Company Financials

Analyst Certification

The analyst^ hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer

This document has been prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose.

Rating system

IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst^ has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

IGI Securities
SERVING YOU SINCE 1994

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.qureshi@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore Stock Exchange Limited | Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: w w w .igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2 , Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Tow n, Tow n Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651