

## Cements

## PIOC: Higher Base Effect of Other Income Diluted Impact of Growth in Revenues

- Profitability contracted by 40%YoY to PKR 556mn (EPS: PKR 2.45) in 2QFY16, primarily due to one-off other income of PKR 558mn recorded in same period last year, on account of loan payback to ADB. Company also announced a hefty cash dividend of PKR 2.50/share.
- Earnings for 1HFY16 declined by 23%YoY to PKR 988mn (EPS PKR 4.35).
- Revenue increased by +15%YoY to PKR 2.4bn in 2QFY16 on the back of +15%YoY growth in total dispatches (+15%YoY local dispatches growth).
- Gross Margin improved by 460bpsYoY to 43% in 2QFY16 as compared to 38% in same period last year. As a result, gross profit grew by +29%YoY to PKR 1.0bn. This is on the back of a) volumetric growth in dispatches, b) lower coal prices and, c) decline in power cost.
- Effective tax rate has increased to 41% in 2QFY16 compared to 27% in same period last year, resulting in 13%YoY increase in tax expense to PKR 395mn.

### Recommendation

Company plans to install 12MW Waste Heat Recovery Plant (WHR) at initial project cost of PKR 1.5bn (~ USD 15mn). This would reduce PIOC's dependence on National Grid by ~40-45%, providing annualized savings of PKR 1.5-1.7/share. The scrip is currently trading at FY16 P/E of 8.8x and offers +62% upside from last close along with 7.6% dividend yield. With our Dec-16 TP of PKR 133/share, we maintain our **'BUY'** call on the scrip.

#### Exhibit: Financial Highlights

PKR mn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Revenue	2,375	2,062	15%	4,378	3,930	11%
Gross Profit	1,010	782	29%	1,735	1,338	30%
Selling and Admin	31	32	-2%	64	63	3%
Net Other Income	(23)	529	n.m.	(4)	544	n.m.
EBIT	956	1,279	-25%	1,666	1,820	-8%
Finance Cost	5	7	-32%	13	34	-62%
PBT	951	1,271	-25%	1,653	1,823	-9%
Tax	395	349	13%	665	532	25%
Net profit	556	923	-40%	988	1,291	-23%
EPS	2.45	4.06		4.35	5.69	
DPS	2.50	2.25		2.50	2.25	
<b>Key Ratios</b>						
Gross Margin	43%	38%		40%	34%	
Net Margin	40%	62%		38%	46%	
Effective Tax Rate	41%	27%		40%	29%	

Source: IGI Research, Company Financials

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### Analyst Certification

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### Valuation Methodology

The analyst<sup>^</sup> 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 exchange rate
- Changes in Circular Debt quantum

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