

ACPL

1QFY23 Result Review: BUY Stance Maintained

Equity Research | Cement | Wednesday, 26 October, 2022

ACPL has announced its 1QFY23 result where it posted a profit after tax of Rs116mn (EPS: Rs0.84) as compared to a profit after tax of Rs271mn (EPS: Rs1.97) in the same period last year down by 57.3% YoY owing to a fall in domestic dispatches and exports in addition to an increase in the international price of coal.

The company has posted a revenue of Rs4.36bn against Rs4.43bn in SPLY, recording a decline of 1.4% YoY. The gross margin plunged to 16.9% as compared to 19% during SPLY.

Furthermore, SG&A expenses have increased by 6.6% YoY to Rs500mn as compared to Rs469mn during SPLY. Moreover, finance costs went up by 254.9% YoY to 136mn owing to an increase in interest rates. In addition, a surge in other income by 89.9% supported the bottom line. Lastly, effective taxation increased to 32.2% as compared to 23% during SPLY.

ACPL is currently trading at FY23 PE of 23.23x. Further, the scrip is also trading at a FY23E P/B of 0.62x which offers a discount of 6% relative to its historical 3-year average of 0.66x. We have a **BUY** stance on the scrip with a DCF based Jun-23 TP of Rs100 which provides an upside potential of 27%. Further, it provides a dividend yield of 1.5%, which makes the cumulative return of 29%.

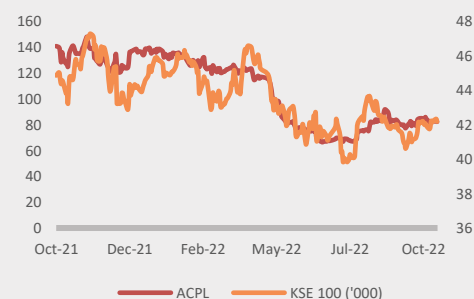
| Rupees' millions | 1QFY23 | 1QFY22 | YoY | FY22 | FY21 | YoY |
|------------------------------|------------|------------|----------------|--------------|--------------|----------------|
| Net Sales | 4,364 | 4,427 | 1.4% ▼ | 20,479 | 21,245 | 3.6% ▼ |
| Cost of Sales | -3,629 | -3,588 | 1.1% ▲ | -16,777 | -16,602 | 1.1% ▲ |
| Gross Profit | 735 | 839 | 12.3% ▼ | 3,702 | 4,643 | 20.3% ▼ |
| SG&A Expenses | -500 | -469 | 6.6% ▲ | -1,935 | -2,771 | 30.2% ▼ |
| Other Expenses | -11 | -23 | 52.2% ▼ | -124 | -114 | 9.0% ▲ |
| Operating Profit | 225 | 347 | 35.2% ▼ | 1,642 | 1,757 | 6.5% ▼ |
| Other Income | 82 | 43 | 89.8% ▲ | 921 | 135 | 582.9% ▲ |
| Finance Cost | -136 | -38 | 254.9% ▲ | -258 | -357 | 27.8% ▼ |
| Profit Before Taxation | 171 | 352 | 51.5% ▼ | 2,312 | 1,540 | 50.1% ▲ |
| Taxation | -55 | -81 | 32.1% ▼ | -1,190 | -433 | 175.2% ▲ |
| Profit After Taxation | 116 | 271 | 57.3% ▼ | 1,122 | 1,107 | 1.3% ▲ |
| Earnings Per Share | 0.84 | 1.97 | 57.3% ▼ | 8.16 | 8.06 | 1.3% ▲ |
| Dividend | 0.00 | 0.00 | | 3.50 | 4.00 | - |
| Bonus | - | - | | - | - | |
| Gross Margin | 16.9% | 19.0% | 2.1% ▼ | 18.1% | 21.9% | 3.8% ▼ |
| SG&A Expenses to Sales | -11.4% | -10.6% | 0.9% ▲ | -9.5% | -13.0% | 3.6% ▼ |
| Other Income to Sales | 1.9% | 1.0% | 0.9% ▲ | 4.5% | 0.6% | 3.9% ▲ |
| Ex. Gain / (Loss) to Sales | -11.4% | -10.6% | 0.9% ▲ | -9.5% | -13.0% | 3.6% ▼ |
| Effective Taxation | -32.2% | -23.0% | 9.2% ▲ | -51.5% | -28.1% | 23.4% ▲ |
| Net Margin | 2.7% | 6.1% | 3.5% ▼ | 5.5% | 5.2% | 0.3% ▲ |

Source: ACPL Research, Company Financials

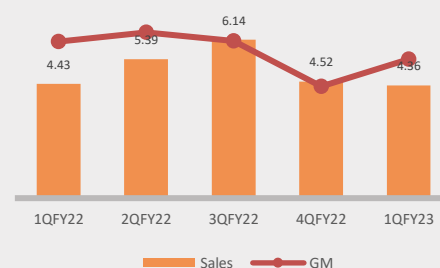
Key Statistics

| Symbol | ACPL |
|----------------------|--------|
| TP - Jun 23 | 100 |
| LDGP | 78.7 |
| Upside (%) | 27 |
| Free Float ('mn) | 27 |
| Market Cap. (Rs.'mn) | 10,815 |

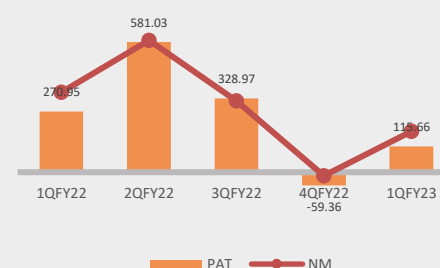
ACPL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

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Financial Projections

| Rupees' millions | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net sales | 18,501 | 21,245 | 20,479 | 17,382 | 19,657 | 22,595 | 25,944 |
| Cost of sale | 14,252 | 16,602 | 16,777 | 14,454 | 15,892 | 18,024 | 20,537 |
| Gross profit | 4,249 | 4,643 | 3,702 | 2,929 | 3,765 | 4,571 | 5,407 |
| Selling and promotion expenses | 1,831 | 2,203 | 1,295 | 1,195 | 1,351 | 1,553 | 1,783 |
| Administration expenses | 507 | 568 | 641 | 796 | 900 | 1,034 | 1,187 |
| Other operating expenses | 92 | 114 | 124 | 44 | 200 | 229 | 263 |
| Operating Profit | 1,819 | 1,757 | 1,642 | 895 | 1,315 | 1,754 | 2,173 |
| Other operating income | 234 | 135 | 921 | 326 | 368 | 423 | 486 |
| Finance cost | 526 | 357 | 258 | 536 | 591 | 457 | 466 |
| Profit before taxation | 1,532 | 1,540 | 2,312 | 684 | 1,092 | 1,720 | 2,193 |
| Taxation | 425 | 433 | 1,190 | 220 | 360 | 568 | 724 |
| Profit after taxation | 1,107 | 1,107 | 1,122 | 464 | 732 | 1,153 | 1,470 |
| EPS | 8.06 | 8.06 | 8.16 | 3.37 | 5.33 | 8.39 | 10.69 |

Source: ACPL Research, Company Financials

Horizontal Analysis

| | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|--------------------------------|---------------|--------------|---------------|---------------|--------------|--------------|--------------|
| Net sales | -11.0% | 14.8% | -3.6% | -15.1% | 13.1% | 14.9% | 14.8% |
| Cost of sale | -10.8% | 16.5% | 1.1% | -13.8% | 9.9% | 13.4% | 13.9% |
| Gross profit | -11.5% | 9.3% | -20.3% | -20.9% | 28.6% | 21.4% | 18.3% |
| Selling and promotion expenses | 29.4% | 20.3% | -41.2% | -7.7% | 13.1% | 14.9% | 14.8% |
| Administration expenses | 0.4% | 12.1% | 12.8% | 24.1% | 13.1% | 14.9% | 14.8% |
| Other operating expenses | -38.4% | 23.7% | 9.0% | -64.8% | 355.7% | 14.9% | 14.8% |
| Operating Profit | -33.5% | -3.4% | -6.5% | -45.5% | 46.9% | 33.5% | 23.9% |
| Other operating income | -20.5% | -42.3% | 582.9% | -64.6% | 13.1% | 14.9% | 14.8% |
| Finance cost | -18.9% | -32.0% | -27.8% | 107.9% | 10.1% | -22.6% | 1.9% |
| Profit before taxation | -36.2% | 0.5% | 50.1% | -70.4% | 59.7% | 57.5% | 27.5% |
| Taxation | 28.8% | 1.8% | 175.2% | -81.5% | 63.5% | 57.5% | 27.5% |
| Profit after taxation | -46.6% | 0.0% | 1.3% | -58.7% | 57.9% | 57.5% | 27.5% |
| EPS | -46.6% | 0.0% | 1.3% | -58.7% | 57.9% | 57.5% | 27.5% |

Source: ACPL Research, Company Financials

Key Ratios

| Profitability Ratios | | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|----------------------|-----|-------|-------|-------|-------|-------|-------|-------|
| GP Margin | % | 22.97 | 21.85 | 18.08 | 16.85 | 19.15 | 20.23 | 20.84 |
| NP Margin | % | 5.99 | 5.21 | 5.48 | 2.67 | 3.72 | 5.10 | 5.66 |
| OP Margin | % | 9.83 | 8.27 | 8.02 | 5.15 | 6.69 | 7.76 | 8.38 |
| ROE | % | 6.69 | 6.44 | 7.24 | 2.65 | 4.07 | 6.13 | 7.42 |
| ROCE | % | 5.11 | 4.62 | 4.10 | 2.20 | 2.44 | 3.79 | 4.78 |
| ROA | % | 4.04 | 3.39 | 2.86 | 1.83 | 2.93 | 4.70 | 6.08 |
| Cost per ton | 'mn | 4.86 | 4.86 | 7.27 | 10.13 | 10.28 | 10.71 | 11.21 |
| EBITDA per ton | 'mn | 0.03 | 0.81 | 0.40 | 0.63 | 0.95 | 1.20 | 1.37 |

| Liquidity Ratios | | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|-----------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Current | x | 0.89 | 1.00 | 0.92 | 0.69 | 0.71 | 0.44 | 0.28 |
| Acid-test | x | 0.18 | 0.40 | 0.20 | 0.01 | -0.13 | -0.22 | -0.28 |
| Cash to current liab. | x | 0.09 | 0.05 | 0.08 | -0.15 | -0.39 | -0.49 | -0.56 |

| Activity Ratios | | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|---------------------|-----|-------|-------|-------|-------|-------|-------|-------|
| Average Inventory | 'mn | 3,431 | 3,554 | 4,523 | 4,435 | 3,466 | 3,466 | 3,466 |
| Inventory Turnover | x | 4 | 5 | 4 | 3 | 5 | 5 | 6 |
| Inventory Days | | 157 | 147 | 190 | 194 | 143 | 108 | 79 |
| Receivables Days | | 10 | 28 | 17 | 22 | 27 | 32 | 37 |
| Payables Days | | 107 | 146 | 144 | 144 | 144 | 144 | 144 |
| Operating Cycle | | 60 | 28 | 63 | 72 | 26 | -4 | -28 |
| Utilization | % | 58 | 66 | 59 | 21 | 23 | 25 | 28 |
| Export Revenue | % | 30 | 26 | 12 | 8 | 9 | 9 | 10 |
| Local Revenue | % | 70 | 74 | 88 | 92 | 91 | 91 | 90 |
| Export Market Share | % | 9 | 8 | 5 | 2 | 2 | 2 | 2 |
| Local Market Share | % | 22 | 20 | 19 | 12 | 12 | 12 | 12 |
| Total Market Share | % | 15 | 14 | 14 | 9 | 9 | 8 | 8 |

| Investment Ratios | | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|-------------------|------|--------|--------|--------|--------|--------|--------|--------|
| EPS | Rs. | 8.06 | 8.06 | 8.16 | 3.37 | 5.33 | 8.39 | 10.69 |
| DPS | Rs. | 3.50 | 4.00 | 3.50 | 1.50 | 2.50 | 3.50 | 4.50 |
| Div. Yield | % | 4.45 | 5.08 | 4.45 | 1.91 | 3.18 | 4.45 | 5.72 |
| Dividend Cover | x | 2.30 | 2.01 | 2.33 | 2.25 | 2.13 | 2.40 | 2.38 |
| BVPS | Rs. | 120.45 | 125.16 | 112.73 | 127.15 | 130.98 | 136.87 | 144.06 |
| Payout | % | 43.43 | 49.64 | 42.89 | 44.46 | 46.94 | 41.73 | 42.08 |
| Retention | % | 56.57 | 50.36 | 57.11 | 55.54 | 53.06 | 58.27 | 57.92 |
| No. of Shares | '000 | 137 | 137 | 137 | 137 | 137 | 137 | 137 |
| P/E | | 9.77 | 9.77 | 9.64 | 23.33 | 14.78 | 9.38 | 7.36 |
| Sales per share | | 134.62 | 154.59 | 149.02 | 126.48 | 143.03 | 164.41 | 188.79 |
| P/BV | | 0.65 | 0.63 | 0.70 | 0.62 | 0.60 | 0.58 | 0.55 |
| Price to Sales | | 0.58 | 0.51 | 0.53 | 0.62 | 0.55 | 0.48 | 0.42 |

| Gearing Ratios | | FY20A | FY21A | FY22A | FY23E | FY24E | FY25E | FY26E |
|---------------------|---|-------|-------|-------|-------|-------|-------|-------|
| Debt to Equity | x | 0.31 | 0.40 | 0.77 | 0.21 | 0.67 | 0.62 | 0.56 |
| L.T. Debt to Equity | x | 0.02 | 0.14 | 0.47 | 0.02 | 0.61 | 0.50 | 0.40 |
| Interest Cover | x | 3.46 | 4.91 | 6.37 | 1.67 | 2.23 | 3.84 | 4.66 |

Source: ACPL Research, Company Financials

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DEFINITION OF TERMS

| | | | | | |
|-------------|---------------------------|-------------|-----------------------------|-------------|------------------------|
| TP | Target Price | CAGR | Compound Annual Growth Rate | FCF | Free Cash Flows |
| FCFE | Free Cash Flows to Equity | FCFF | Free Cash Flows to Firm | DCF | Discounted Cash Flows |
| PE | Price to Earnings Ratio | PB | Price to Book Ratio | BVPS | Book Value Per Share |
| EPS | Earnings Per Share | DPS | Dividend Per Share | ROE | Return of Equity |
| ROA | Return on Assets | SOTP | Sum of the Parts | LDCP | Last Day Closing Price |

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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| Stock Rating | Expected Total Return |
|--------------|----------------------------|
| BUY | Greater than 15% |
| HOLD | Between -5% to 15% |
| SELL | Less than and equal to -5% |

| Sector Rating | Sector Outlook |
|---------------|----------------|
| Overweight | Positive |
| Market Weight | Neutral |
| Underweight | Negative |

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