Local cement dispatches extended their outstanding run with an increase of 17.6/46.5% YoY/MoM to 4.1mn tons for Sep’20 where South fared better amongst the two regions, witnessing an increase of 26.8/88.4%YoY/MoM while North posted an increase of 16.3/41.5% YoY/MoM.

Exports also remained buoyant with a YoY/MoM growth of 40.9/54.0% with major contribution from South-based players (exports from South formed 74.5% of the total exports). Overall, for 1QFY21, cement dispatches have increased by 19.5%YoY where local dispatches increased by 18.7%YoY and exports increased by 23.2%YoY.

Prices in North are also reacting to strong demand and have increased by Pkr10/bag in last two weeks in a sign of improved demand environment, with further price hikes difficult to rule out. Moreover, South’s export tilt is keeping prices stable in the region.

We continue to like MLCF (TP: Pkr41.9/sh, 17% upside) from the AKD cement universe with the former being one of the lowest cost producers implying lower sensitivity to retail price variations, while latter’s cost efficiencies coupled with diversified investments make it a safe play.

Local cement dispatches increase by 17.6%YoY for Sep’20: Local cement sales extended its phenomenal run into Sep’20 as well with growth of 17.6%YoY while sequential increase stood even higher at 46.5%MoM on the back of low base as seasonality kept dispatches low during Aug’20. After being the worst affected among two regions in Aug’20, South bounced back during Sep’20 with 26.8/88.4% YoY/MoM growth as heavy rain grabbed the region over the preceding month. North witnessed a similar fate with 16.3/41.5% YoY/MoM increase as construction activity in the region remained upbeat. Moving forward, barring a season slowdown in winter or restrictions related to second wave of COVID-19, local cement dispatches are expected to continue treading the same path, supported by government’s efforts to uplift construction sector, where urgency and scale are clear GoP priorities. Exports were the real star, standing at 1.1mn tons for Sep’20 (highest ever) where we believe clinker export from south played a major role. Overall, highest ever total dispatches of 5.2mn tons (up 22.0/48.1% YoY/MoM) were witnessed during the month. For 1QFY21, local cement sales stand at 13.3mn tons, up 19.5%YoY, led by exports posting a growth of 23.2%YoY while local dispatches increased by 18.7%YoY.

Demand softness being reflected in prices: Strong demand is being reflected on local dispatches as well where some brands have slightly increased their prices (by Pkr5-10/bag). The same is also evident in data reported by PBS where prices in Islamabad/Rawalpindi have increased by Pkr7/10/bag during last three weeks while biggest increase among major cities was witnessed in Peshawar of Pkr23/bag. We believe the strength in prices will continue as demand remains robust where only impediment in near term seems to be seasonal slowdown in winter. On the other hand, strong growth in exports from South has taken region’s utilization to ~104% in Sep’20 which is reflecting in prices as well where region’s local prices stand firm at Pkr672/600/bag for Karachi/Hyderabad despite local cement demand based utilization at 61% only.

Outlook: With South’s high utilization in the backdrop, room for sequential growth in total dispatches from the region remains limited however if local demand continues in the same manner, substitution of exports with local cement demand cannot be ruled out. In North we expect prices to continue increasing on the back of strong demand. To note, we have incorporated a price of Pkr555/bag in our estimates for FY21. We continue to like MLCF (TP: Pkr41.9/sh, 17% upside) and LUCK (TP: Pkr761.3/sh, 21% upside) from AKD cement universe with the former being one of the lowest cost producer and least sensitive to price changes while latter’s cost efficiencies coupled with diversified investments make it a safe play. With strong demand and prices, we believe the only risk on horizon right now, apart from increase in power and coal prices, is Punjab government reportedly expediting the process of providing NOCs for establishing new plants in the region where BWCL is reportedly planning to set up a plant having capacity of 6000tpd at Attock while FATIMA group is also slated to establish a cement. Even though both the companies will first assess the sector dynamics before committing, any progress in this regard will be a negative for the sector, increasing risk of price weakness.

Cement Dispatches (mn tons)

<table>
<thead>
<tr>
<th></th>
<th>1QFY21</th>
<th>YoY</th>
<th>Sep’20</th>
<th>YoY</th>
<th>MoM</th>
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<tbody>
<tr>
<td>North</td>
<td>9.4</td>
<td>20.3%</td>
<td>3.5</td>
<td>16.3%</td>
<td>41.5%</td>
</tr>
<tr>
<td>South</td>
<td>1.4</td>
<td>8.9%</td>
<td>0.6</td>
<td>26.8%</td>
<td>88.4%</td>
</tr>
<tr>
<td>Total Local</td>
<td>10.8</td>
<td>18.7%</td>
<td>4.1</td>
<td>17.6%</td>
<td>46.5%</td>
</tr>
<tr>
<td>Total Exports</td>
<td>2.5</td>
<td>23.2%</td>
<td>1.1</td>
<td>40.9%</td>
<td>54.0%</td>
</tr>
<tr>
<td>Total cement dispatches</td>
<td>13.3</td>
<td>19.5%</td>
<td>5.2</td>
<td>22.0%</td>
<td>48.1%</td>
</tr>
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Source: APCMA & AKD Research

Local dispatches continue to increase (mn tons)

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</thead>
<tbody>
<tr>
<td>Total Dispatches</td>
<td>0.6</td>
<td>1.1</td>
<td>2.5</td>
<td>4.0</td>
<td>5.6</td>
<td>6.1</td>
<td>5.2</td>
<td>5.2</td>
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<td>5.5</td>
<td>2.0</td>
<td>1.3</td>
<td>3.8</td>
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<tr>
<td>Local Dispatches</td>
<td>0.3</td>
<td>0.7</td>
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<td>1.9</td>
<td>2.7</td>
<td>2.4</td>
<td>2.3</td>
<td>2.3</td>
<td>2.6</td>
<td>2.7</td>
<td>0.6</td>
<td>0.4</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: APCMA & AKD Research
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