

PAKISTAN CEMENT

Local dispatches increase by 42%YoY for Mar'21

- Local cement dispatches extended their outstanding run with an increase of 42%YoY to 4.6mn tons for Mar'21 where South fared better among the two regions, witnessing an increase of 62%YoY while North posted an increase of 39%YoY.
- Exports also registered an impressive growth of 26/4% YoY/MoM where resolution of supply chain issues also contributed to the cause. Overall, dispatches for 9MFY21 stand at 42.9mn tons, up 16%YoY led by 18%YoY increase in local dispatches while exports increased by 4%YoY.
- Number of cost headwinds stand ahead of local cement manufacturers where in near term, as per news reports, government is expected to increase power tariff while increase in FED might also be on the cards. However, we expect local cement manufactures to exercise their strong pricing power to pass-on any increase in costs.
- We continue to like DGKC (TP: PkR209.7/sh, 81.7% upside), MLCF (TP: PkR80.1/ sh, 85.1% upside) and LUCK (TP: PkR1289.2/sh, 60.5% upside) from AKD cement universe with our universe currently trading at EV/EBITDA of 6.8x while EV/ton stands at USD67.

Local cement dispatches up by 16% for 9MFY21: Local cement sales extended their run of growth into Mar'21 as well with growth of 42%YoY while increasing by 15% on sequential basis. Even though continued support to construction sector has uplifted cement demand in the country, the aforesaid growth has been amplified by low base where on YoY basis, COVID-19 related restrictions in Mar'20 kept the base low while on MoM basis lower number of working days in Feb'21 contributed to a low base. Local dispatches from South posted higher growth rate among the two regions of 62%YoY where we believe North-based players limiting supply to South has a part to play particularly after North's utilization averaged at 82% for 9MFY21. Meanwhile, North's growth rate stood at 39/16% YoY/MoM. Moving forward, post conclusion of winter season, local demand is expected to remain strong as private sector continues to support while additional stimulus is expected to arrive from projects being initiated by government under Naya Pakistan Housing Scheme. Moreover, local dispatches in Mar'20-May'20 remained under pressure due to COVID-19 related restrictions hence till May'21, low base is expected to continue amplifying the growth rate. Exports also registered an impressive growth of 26/4% YoY/MoM where resolution of supply chain issues contributed to the cause. Overall, dispatches for 9MFY21 stand at 42.9mn tons, up 16%YoY led by 18%YoY increase in local dispatches while exports increased by 4%YoY.

Cost increase ahead; pricing power needs to be exercised: Even though prices have remained strong where local players in North increasing prices by PkR35/bag during winter is a testament of strong local demand, a number of cost headwinds stand ahead of local cement manufacturers. As per news reports, in order to curtail circular debt build up, government has committed to increase power tariff this year which is expected to increase costs for players reliant on grid. Though none of the players under our coverage are fully reliant on grid, except for LUCK, every player is partially reliant on grid. News reports also suggest that in order to improve revenues, government can increase federal excise duty which currently stands at PkR75/bag. However, if increased, we expect local manufacturers to pass-on the full impact particularly in the wake of strong demand. Lastly, commodity bull cycle has already led to coal prices touching their 2.5 year high and currently trade around USD97/ton. The impact of high coal prices is expected to be felt in next quarter and if prices are not increased, we expect margins to remain under pressure.

Outlook: With winter in the rearview, construction activity is expected to pick up while medium term outlook remains bright on the back of various incentives being provided to construction industry. Though political factors have put significant pressure on the cement sector and broader market lately, fundamentals of the sector remain strong and once political uncertainty subsides, we expect cement sector to again be among the frontrunners with players easily passing on the increase in cost coupled with demand remaining strong. We continue to like DGKC (TP: PkR209.7/sh, 81.7% upside), MLCF (TP: PkR80.1/ sh, 85.1% upside) and LUCK (TP: PkR1289.2/sh, 60.5% upside) from AKD cement universe with our universe currently trading at EV/EBITDA of 6.8x while EV/ton stands at USD67.

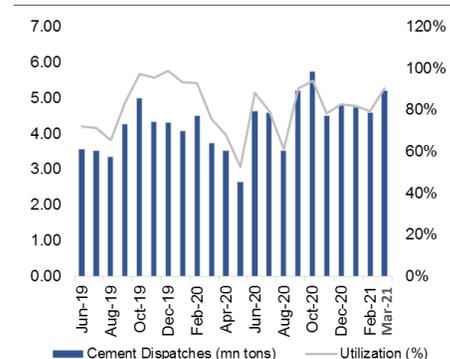
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Cement dispatches

(mn tons)	9MFY21	YoY	Mar'21	YoY	MoM
Local					
North	30.6	17.8%	3.8	38.5%	16.1%
South	5.5	21.0%	0.8	62.3%	10.3%
Total Local	36.2	18.3%	4.6	42.0%	15.1%
Total Exports	6.7	4.0%	0.6	25.6%	3.5%
Total cement dispatches	42.9	15.8%	5.2	39.7%	13.6%

Source: APCMA & AKD Research

Total cement dispatches vs. Utilization



Source: APCMA & AKD Research



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