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PAKISTAN
CEMENT

REP-019
MARKET
VISTA

Sequential increase—a short term respite

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- **Mar'19 turned out to be a ray of hope for the local industry with local dispatches increasing by 37%MoM though the YoY trend was in line with the overall trend, declining by 9% YoY. For 9MFY19, local dispatches printed a decline of 6%YoY.**
- **We do not see the market sustaining the recent price increase and expect the pressure on prices in Northern region to continue as demand remains slow while capacity build up continues with 2.2mn tons of new capacity slated to come online in immediate term.**
- **Coal prices have rebounded after making a low of USD66.7/ton supported by positive news flow regarding ongoing US-China trade talks and China easing up the port restrictions. However, the decline is not of significant benefit to local manufacturers as PkR depreciation has eroded the gains.**
- **We have an underweight stance on cement sector with FCCL being the top sell as margins of the industry are expected to tread the downward path while overall macroeconomic conditions aren't supportive either.**

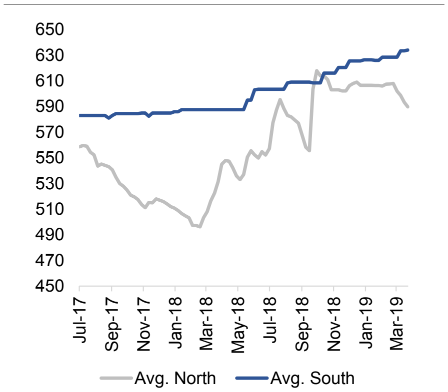
Cement Dispatches (mn tons)

	9MFY19	YoY	Mar'19	YoY	MoM
North					
Local	23.1	-11.0%	3.1	-13.3%	43.0%
Exports	2.0	-18.3%	0.1	-40.1%	-20.6%
South					
Local	6.2	15.2%	0.8	9.8%	17.6%
Exports	3.1	209.9%	0.4	102.3%	2.0%
Overall					
Local	29.3	-6.4%	3.9	-9.4%	37.0%
Exports	5.1	48.8%	0.5	22.8%	-5.3%
Total	34.4	-1.0%	4.3	-6.7%	30.5%

Source: APCMA & AKD Research

Strong sequential growth for Mar'19: After four consecutive months of sequential decline, local dispatches rebounded in the month of Mar'19, increasing by 37%MoM as construction picked up post conclusion of winter. The increase was higher in North (43%MoM) as the region usually faces stiffer winter leading to low base in winter season. Though the YoY slump continued with Mar'19 local dispatches printing a decline of 9%YoY as a slowdown in construction on the back of ongoing fiscal consolidation continued to take a toll. However, private sector continues to support construction in South (up 10%YoY for Mar'19) and will continue doing so, in our view, especially after court ruled in favor of a big ticket housing scheme. For 9MFY19, local dispatches present a dismal picture, declining by 6%YoY where North takes the lead with a 11%YoY decline while South buckled the trend (up 15%YoY). Moving forward, we expect dispatches to remain robust as construction activity is expected to remain upbeat in view of Ramzan commencing from May followed by Monsoon season. However, slowdown in sequential growth can be witnessed as agricultural activity in Punjab is expected to pick up.

Local cement prices (PkR/bag)



Source: PBS & AKD Research

Prices to continue the downward trajectory: Local prices have started to face the brunt of over-capacity with the competition most heated in KPK and Northern Punjab where the prices have declined by 3.7%-5.7% as reported by PBS while our channels checks suggest local prices in Peshawar hovering around PkR540-560/bag. The competition is only going to intensify, going forward as more capacities start to come online (MLCF's 2.2mn tons of expansion expected in 4QFY19). Moreover, detailed accounts of various listed players suggest that in addition to the decline in prices, discounts being provided by local players have also increased – intensifying the misery. Though local prices in North were increased by PkR10-15/bag last week, we do not see market sustaining the gains as weak demand will not provide any support. On the other hand, South continues to be the highlight where prices have stood their ground so far, supported by local players capitalizing on clinker export to maintain utilization.

Coal – a rebound in the offing: Coal prices have declined by 27% since Dec'18 as US-China trade war dampened the sentiment regarding global growth while port restrictions by China and increasing local coal production further intensified the pressure. However, the positive news flow emerging from the on-going trade talks between the US & China and China also easing up the port restrictions as Chinese industries start to ramp up production post conclusion of winters has led to a rebound with coal prices currently standing at USD69.5/ton, up 4% from a low of USD66.7/ton. On the other hand, continuous PkR depreciation will not let local manufacturers enjoy the full benefit as even though coal prices averaged at USD85/ton for 3QFY19, down 9.8% YoY, in rupee terms, they increased by 12.5%YoY and averaged at PkR11,815/ton. Current price level persisting can be beneficial for local players from 1QFY20. To highlight, PIOC stands as the most sensitive to coal prices while LUCK stands on the other end of the spectrum.

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