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PAKISTAN CEMENT

MARKET VISTA

Profitability to increase by 38%QoQ for 3QFY21

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- **AKD Cement universe is expected to post PAT of PkR18.3bn for 9MFY21 against LAT of PkR2.6bn reported in 9MFY20. The complete change in fortunes of the sector is courtesy improvement in prices and robust demand growth.**
- **For 3QFY21, PAT is expected to stand at PkR8.6bn against LAT of PkR1.8bn for 3QFY20 while on QoQ basis, it is expected to increase by 38.3%QoQ as dual impact of increase local cement prices and robust demand growth plays its part.**
- **DGKC is expected to outperform peers in terms of sequential growth mainly due to bumper dividend from MCB as the bank announced a dividend of PkR15/sh after the moratorium on payout was lifted by SBP in 4QCY20 while LUCK's other income is also expected to increase by 3.3xQoQ courtesy dividend from ICI.**
- **We continue to like MLCF (TP: PkR80.1/sh) and LUCK (TP: PkR1289.2/sh) 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.**

EPS Estimates

	3QFY21	YoY	QoQ	9MFY21	YoY
LUCK*	10.37	236%	45%	24.42	169%
DGKC	5.08	NM	93%	6.90	NM
MLCF**	1.11	NM	14%	2.59	NM
CHCC	4.74	NM	12%	10.05	NM
FCCL	0.68	NM	4%	1.84	NM

*Unconsolidated
**Actual

Source: AKD Research

Uptrend in profitability continues: AKD Cement universe is expected to post PAT of PkR18.3bn for 9MFY21 against LAT of PkR2.6bn reported in 9MFY20. The complete change in fortunes of the sector is courtesy improvement in prices and robust demand growth. After expansion cycle completed during 3QFY20 with PIOC's expansion being the last to come online, decline in prices finally came to a halt. Coupled with strong rebound in local cement demand post lifting of COVID -19 related restriction and introduction of construction sector package by the government, prices in North have improved significantly and averaged at PkR594/bag for 3QFY21 (vs. PkR504/bag for 3QFY20). Consequently, topline of our universe is expected to stand at PkR146.2bn for 9MFY21, while for 3QFY21, topline is expected at PkR54.2bn, up 52/11% YoY/QoQ. Gross margins are expected to improve to 26.4% for 3QFY21 against 25.5/3.8% in 2QFY21/3QFY20. 14% YoY increase is expected in operating expenses largely due to impressive volume growth during the quarter. Impact of low interest rates, after they were decreased from 13.25% to 7% in order to provide relief to local industry will also be evident in the shape of finance cost declining by 28%YoY for 3QFY21. Overall, PAT for 3QFY21 is expected to settle at PkR8.6bn against LAT of PkR1.8bn for 3QFY20 while increasing by 38% on QoQ basis.

Profitability to increase by 38% QoQ for 3QFY21

(PkRmn)	3QFY21E	YoY	QoQ	9MFY21	YoY
Sales	54,137	51.6%	11.2%	146,127	29.3%
Cost of Sales	39,831	15.9%	9.8%	110,770	5.3%
Gross Profit	14,306	959%	15.4%	35,357	350%
Finance Cost	1,919	-28.2%	24.9%	5,296	-35.2%
PAT	8,662	NM	38.3%	18,335	NM
Ratios					
Gross Margins	26.43%	22.6ppts	1.0ppts	24.20%	17.3ppts
Interest Cover	6.9	-	-	5.4	-

Source: Company Reports & AKD Research

Across the board improvement in margins continues: DGKC is expected to outperform peers in terms of sequential growth mainly due to bumper dividend from MCB as the bank announced a dividend of PkR15/sh after the moratorium on payout was lifted by SBP in 4QCY20. A similar story is expected for LUCK's result as well where other income is slated to increase by 3.3xQoQ courtesy PkR20/sh payout announced by ICI with the results for 2QFY21. Overall, across the board improvement in gross margins is expected where LUCK is expected to register the highest gross margins from AKD Cement universe of 30% while DGKC is expected to stand at the other end with gross margins 22% as clinker exports continue to remain a drag on margins.

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