



## Today's Daily

### ■ Pak Cement: 6MFY17 Dispatches - Seasonal slowdown in demand

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#### KSE100 - Index

Current 47,424.63  
Previous 46,920.47  
Chg. 1.07%

#### Mkt Cap. (PKRbn/US\$bn)

Current 9,517 / 90.77  
Previous 9,411 / 89.75  
Chg. 1.13%

#### Daily Turnover (mn)

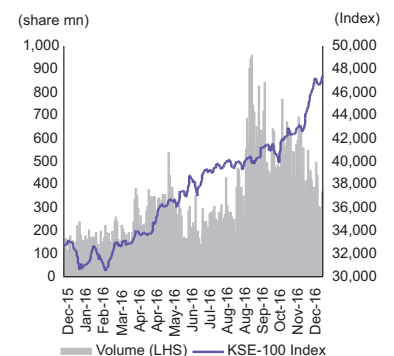
Current 273.09  
Previous 198.61  
Chg. 37.5%

#### Value Traded (PKRmn/US\$m)

Current 16,473 / 157.11  
Previous 11,036 / 105.25  
Chg. 49.3%

## News and Views

- The federal government on Wednesday rejected all the bids in the auction for PIBs as were submitted with higher margin compared to previous auction.
- The ECC of the cabinet in its meeting approved, 1) export of 225K tons of sugar without any export rebate, 2) allocation of additional 50MMCFD available gas from Habib Rahi Limestone (HRL) reservoir to Thermal Power Station Guddu & allocation of additional upto 26MMCFD available gas from HRL to EFERT old plant, 3) extension of the period of WTH of 0.4% for non-filers of income tax returns from Jan'17 to Mar'17.
- A full bench of the LHC on Wednesday nullified the auction of DTH licence carried out by Pemra after striking down the rules and regulations which barred broadcasters from applying/participating in the bidding process.



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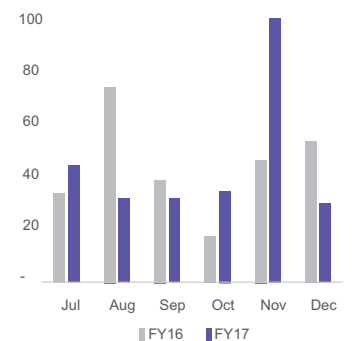


### Pak Cement: 6MFY17 Dispatches - Seasonal slowdown in demand

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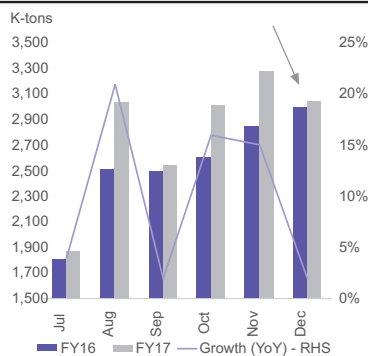
**Dispatches Review:** According to provisional statistics, cement demand fell by 0.8%YoY/8.9%MoM to 3.414mn tons in Dec'16. We believe slower demand is attributable to both weak domestic demand and declining exports. In this regard, weaker domestic demand growth was likely attributable to seasonal slowdown in construction activity and decline in PSDP expenditures by 44%YoY/70%MoM in Dec'16. While construction related private sector credit growth was up 26.4%YoY to all-time high of PkR151bn in Nov'16, it did not reflect in domestic demand in Dec'16 likely due to sharp decline in PSDP expenditure. Besides, slump in exports by 17.7%YoY/21.6%MoM due to the seasonality factor also resulted in decline in total dispatches growth. In this backdrop, we believe that risks to normalizing exports still exist. While the industry's dispatches remained dismal, CHCC dispatches were up by 27.3%YoY/5.6%MoM to 119k tons in Dec'16 (utilization level of 130% in Dec'16 on 1.10mn tpa capacity)

PSDP monthly expenditures (Pkr bn)



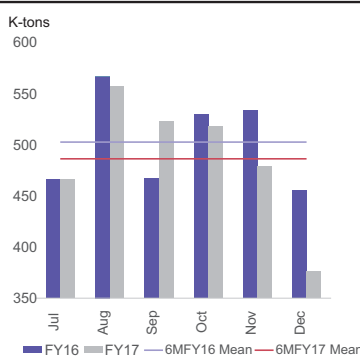
Source: MPD&R & AKD Research

Seasonal slowdown in domestic demand

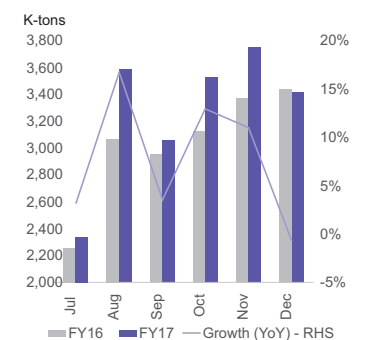


Source: APCMA & AKD Research

Risks to normalizing exports still exist



Weaker domestic demand & decline in exports due to winters

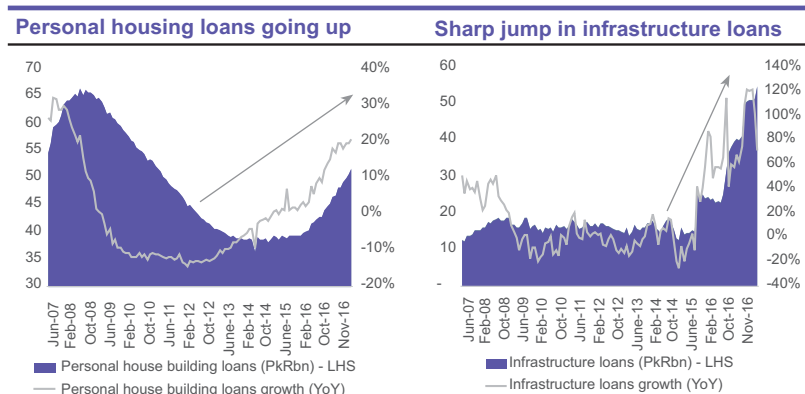


Source: APCMA & AKD Research

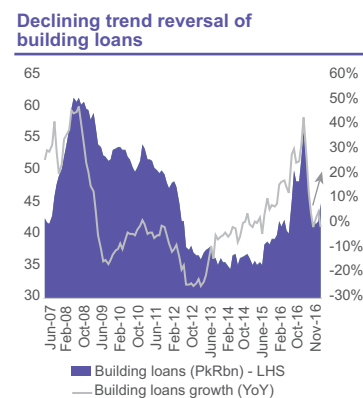


indicating operational commencement of its 1.32mn tpa Brownfield expansion during the month. On a cumulative basis, industry's dispatches growth stood at 7.9%YoY in 6MFY17 vs. 9.9% in 5MFY17 due to recent month's decline in dispatches.

**Demand Outlook:** While winters may result in seasonal decline in construction activity in upcoming months, we expect overall dispatches growth for FY17 to remain healthy at 7%YoY. In this regard, greater utilization of PSDP (unutilized FY17 federal PSDP: 65% at the end of Dec'16) towards the fiscal year should help sustain the momentum of domestic demand growth. Also, increasing trend of personal housing loans (+20.8%YoY in Nov'16), rapid private infrastructure development (+72.9%YoY in Nov'16) and recent reversal in declining trend of building loans further supports our thesis.



Source: SBP & AKD Research



Source: SBP & AKD Research

**Risks:** Backed by robust domestic demand growth (+10.1%YoY in 6MFY17), the industry utilization is up 6.3ppt to 86.3% during 6MFY17. Industry utilization is expected to be even higher for 2HFY17 due to seasonal increase in construction activity during summers together with higher release of unutilized PSDP, resulting in higher demand. Constrained capacities of major players (most operating close to 90% utilization) may potentially create supply pressures until new capacities totaling 22.0mn tpa come online between 2017-20. A delay in expansions can miss out the high growth period led by government's enhanced focus on executing infrastructure development and rise in private housing development.

**Investment Perspective:** In spite of seasonal slowdown, we believe that outlook for the sector has started to improve in the backdrop of improving fundamentals (PSDP expenditures growth: +3.2%YoY in 6MFY17; construction related private sector credit growth: +26.4%YoY; reversal in declining trend of building loans) and declining energy costs attributable to correction in coal price (down 16% to US\$84/ton from its calendar year

**Utilization**

Utilization	6MFY17	6MFY16	YoY (ppt)
LUCK	87.3%	84.9%	2.4%
DGKC	104.5%	95.5%	9.0%
MLCF	96.2%	88.6%	7.6%
FCCL	83.2%	80.3%	3.0%
CHCC	110.5%	91.7%	18.9%
PIOC	61.4%	62.3%	-0.9%
KOHC	82.2%	80.0%	2.1%
ACPL	114.2%	101.3%	12.9%
FECTC	101.3%	87.7%	13.5%
Industry	86.3%	79.9%	6.3%

Source: APCMA & AKD Research



high of US\$100/ton in Nov'16). With regards to the risk of pricing indiscipline associated with rampant expansions, we believe that expected 9% long term domestic demand growth and flatter exports will likely absorb the new capacities as our projections suggest industry utilization levels falling to 76.2% by FY20F (close to post-expansion cycle utilization levels of 79.5%/74.1% in FY07/FY09 with price wars). However, risks still persist with regards to the regional utilization levels of South that are expected to fall to 66.3% by FY20F.

#### Industry Dispatches (K tons)

Local	Dec-16	Dec-15	YoY	Nov-16	MoM	6MFY17	6MFY16	YoY
LUCK	497	480	3.5%	537	-7.4%	2,716	2,414	12.5%
DGKC	342	341	0.1%	373	-8.4%	1,888	1,706	10.7%
MLCF	245	236	3.6%	268	-8.5%	1,359	1,213	12.1%
FCCL	259	248	4.5%	272	-4.8%	1,335	1,197	11.5%
CHCC	106	74	43.9%	93	13.8%	501	386	29.6%
PIOC	110	114	-3.5%	104	5.0%	618	606	2.1%
KOHC	178	163	9.6%	192	-7.5%	972	922	5.4%
ACPL	132	126	4.0%	148	-11.0%	727	621	17.0%
FECTC	56	55	2.5%	66	-15.7%	341	283	20.3%
Industry	3,039	2,984	1.8%	3,270	-7.1%	16,748	15,210	10.1%
Exports	Dec-16	Dec-15	YoY	Nov-16	MoM	6MFY17	6MFY16	YoY
LUCK	79	120	-34.0%	135	-41.2%	667	875	-23.8%
DGKC	55	42	30.8%	49	12.3%	318	310	2.3%
MLCF	36	40	-10.9%	33	8.0%	263	281	-6.6%
FCCL	6	22	-74.6%	19	-71.1%	94	181	-47.7%
CHCC	14	20	-33.0%	20	-32.4%	109	119	-8.6%
PIOC	2	4	-51.7%	2	34.6%	5	27	-80.4%
KOHC	11	13	-11.2%	16	-27.7%	76	99	-22.9%
ACPL	52	69	-24.8%	49	5.9%	298	288	3.6%
FECTC	11	14	-19.0%	11	0.5%	74	76	-2.9%
Industry	375	456	-17.7%	479	-21.6%	2,917	3,018	-3.3%
Total	Dec-16	Dec-15	YoY	Nov-16	MoM	6MFY17	6MFY16	YoY
LUCK	576	601	-4.0%	672	-14.2%	3,382	3,289	2.8%
DGKC	396	383	3.5%	422	-6.0%	2,206	2,016	9.4%
MLCF	280	276	1.5%	301	-6.7%	1,622	1,494	8.6%
FCCL	265	270	-2.0%	292	-9.3%	1,429	1,378	3.7%
CHCC	119	94	27.3%	113	5.6%	609	505	20.6%
PIOC	112	118	-5.2%	106	5.5%	624	633	-1.4%
KOHC	189	175	8.1%	208	-9.0%	1,048	1,021	2.7%
ACPL	184	196	-6.2%	197	-6.8%	1,025	909	12.8%
FECTC	67	68	-1.8%	77	-13.4%	415	359	15.4%
Industry	3,414	3,440	-0.8%	3,749	-8.9%	19,665	18,228	7.9%

Source: APCMA & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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