

# PAKISTAN CEMENT

# MARKET VISTA

## Right place at the right time

- A confluence of catalysts, some inherent (strong pricing power, successive capacity expansions), some external (construction package, drastic easing) have powered the strongest outperformance for AKD Cement Universe in the last eight years (63 ppts), delivering robust returns during an otherwise turbulent period
- On operational metrics, local cement demand posted slightly muted growth of 4.1%YoY for 11MCY20 majorly due to the lockdown period (Mar'20-Apr'20: local cement demand decreased by 24.1%YoY) being a drag.
- As for pricing, after conclusion of capacity expansion cycle in 1HCY20 where 8.1mn tons of capacity came online in last phase, pricing finally normalized and increased by PkR64/bag from a low of PkR496/bag to PkR560/bag in North, exhibiting relative pricing discipline as new capacity reduced barriers to do so.
- Moving forward, even though risks in the shape of increase in electricity/gas tariffs and interest rates coupled with snags from any CCP inquiry remain on the horizon, improving demand and price outlook will continue to drive the sector where we continue to like MLCF (TP: PkR57.4/sh, 32% upside) and LUCK (TP: PkR868.5/sh, 26% upside).

**Highest outperformance of last 8 years:** AKD cement universe outperformed KSE-100 by 63ppts during CY20, highest in last 8 years at least where the last time, AKD Cement Universe outperformed KSE-100 by 118ppts in CY12. However, from the CY20 KSE-100 index low of 27,229ppts, AKD Cement Universe has outperformed KSE-100 by 74ppts. The aforesaid outperformance came on the back of confluence of number of factors which includes stellar growth in demand particularly towards second half with local cement demand increasing 15.4%YoY for 5MFY21 after government provided various incentives to construction sector under the construction package to spur economic activity while pent-up demand also played a part after lifting of COVID-19 related restrictions. Overall, local cement demand posted a muted growth of 4.1%YoY for 11MCY20 majorly due to the lockdown period (Mar'20-Apr'20: local cement demand decreased by 24.1%YoY) being a drag.

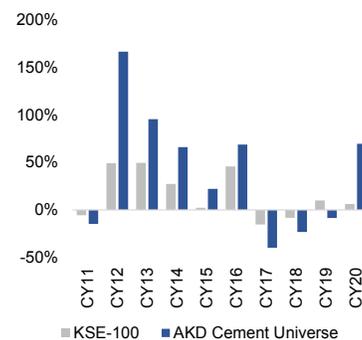
**Conducive pricing scenario:** Pricing scenario during the year improved dramatically as the expansion cycle which saw addition of ~20mn tons of new capacity came to a conclusion with PIOC being the last player to commission. Hence, prices in North found some ground as well and increased by PkR64/bag from a CY20 low of PkR496/bag to PkR560/bag currently. South continued to sail smoothly despite facing more strict lockdown compared to North and prices remained steady as the region continued to rely on clinker exports to maintain high utilization. Additional support to the sector was provided by drastic cut in interest rates of 625bps during 1HCY20 after pandemic severely dented the economic activities. Particularly leveraged players like PIOC, CHCC were the major beneficiaries of the decline in interest rates and consequently outperformed our AKD Cement universe.

**CY21 outlook:** We expect strong demand growth to sustain, with the bulk of demand originating from private sector as government's efforts to kick start economic improvement by providing various incentives to construction sector bears fruit. Consequently, we expect local cement demand to post 11/8%YoY growth for FY21/22. A similar trend is expected in pricing where we expect the prices in North to average at PkR555/585/bag for FY21/22 while for South, prices are expected to stand at PkR651/695/bag. However, some risks stand on the horizon for the sector as SBP looks set to increase interest rates during CY21 which will negatively impact heavily leverage players like PIOC and CHCC while CCP initiating inquiry (though currently in nascent stages) can prove to be a major dent on pricing power of the industry.

**LUCK and MLCF — top picks:** We highlight LUCK (TP: PkR868.5/sh, 32% upside) and MLCF (TP: PkR57.4/sh, 26% upside) as our preferred plays from the sector where MLCF's low cost base and manageable debt levels shield the company against headwinds while company's highest local retention courtesy low discounts and premium brand image lends additional uplift to margins. On the other hand, LUCK, apart from high cash flow generation and low cost base for cement operations, provides additional sweetener of diversified investments including exposure to power and booming automobile sector.

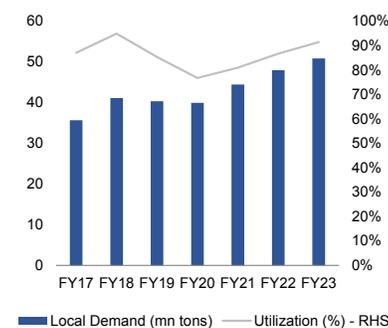
Shahrukh Saleem  
shahrukh.saleem@akdsecurities.net  
111-253-111 Ext:637

### Cement sector performance



Source: Company Reports & AKD Research

### Local dispatches vs utilization



Source: Company Reports & AKD Research



AKD Securities Limited

## Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

## Stock Ratings

Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances and other considerations. AKDS uses a three tier rating system: i) Buy, ii) Neutral and iii) Sell with total returns (capital upside + dividend yield) benchmarked against the expected one year forward floating (variable) risk free rate (10Yr PIB) plus risk premium.

## Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

## Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

## Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

## Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.

For the United States

## Compliance Notice.

This research report prepared by AKD Securities Limited is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker & Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker & Co, LLC in the US shall be borne by Decker & Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if AKD Securities Limited or Decker & Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker & Co, LLC and AKD Securities Limited are permitted to provide research material concerning investment to you under relevant applicable legislations and regulations.

### New Rating Definitions

Buy	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



AKD Securities Limited

602, Continental Trade Centre,  
Clifton Block 8, Karachi, Pakistan.  
research@akdsecurities.net