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Today's Daily

Pakistan Cement: Jan'18 dispatches showing robust growth

According to latest data released by APCMA, total dispatches during Jan'18 registered robust growth of 31.8%YoY/+9.5%MoM recording second highest monthly dispatches of 4.08mn tons (previous at 4.22mn tons in Oct'17). The growth in dispatches was led by strong domestic sales (offtake of 3.74mn tons in Jan'18) where domestic demand growth stood at +37.3%YoY/+9.8%MoM. Growth in domestic dispatches in Jan'18 was likely led by higher PSDP spending (PkR122bn in Jan'18, up 43%YoY) and strong demand from private sector. However, exports continued to slide by 7.8%YoY to reach 0.347mn tons in Jan'18. On a cumulative basis, total dispatches growth reached 14.9%YoY in 7MFY18 led by local demand growth of 20.2%YoY. With the commencement of election year, we anticipate total dispatches growth to remain healthy going forward. We derive our thesis from: 1) strong PSDP and provincial spending in 2HFY18 ahead of national polls (55% unutilized federal PSDP at the end of Jan'18) and 2) impressive growth in private sector credit related to construction activity (+31.6%YoY in Dec'17). While risk of pricing indiscipline prevails with upcoming expansions, we believe current price levels offer attractive entry points especially when growth dynamics remain intact. While maintaining our preference for the sector (particularly North players), our top picks include well diversified, energy efficient companies like LUCK (TP: PkR898/sh), MLCF (TP: PkR108/sh), PIOC (TP: PkR109/sh) and DGKC (TP: PkR194/sh) in our Cement Universe.

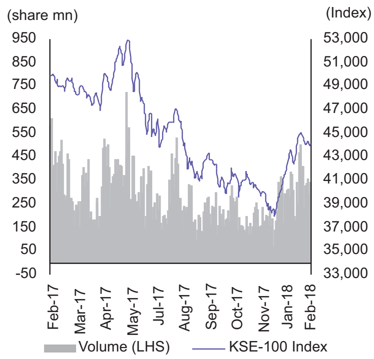
KSE100 - Index	
Current	43,353.04
Previous	43,690.36
Chg.	-0.77%
Mkt Cap. (PkRbn/US$bn)	
Current	9,006 / 81.48
Previous	9,080 / 82.14
Chg.	-0.81%
Daily Turnover (mn)	
Current	206.99
Previous	203.69
Chg.	1.6%
Value Traded (PkRmn/US$mn)	
Current	7,777 / 70.35
Previous	7,565 / 68.44
Chg.	2.8%

News and Views

- The SBP is introducing Mudarabah based Islamic Long Term Financing Facility for plant and machinery through Islamic banking institutions. This facility if in place to promote export-oriented industries in the country since January 2008 under the 'Long Term Financing Facility (LTFF) for plant and machinery' through commercial banks and development finance institutions.

- NAB on Wednesday sought a ban on travel abroad of ousted PM Nawaz Sharif, his daughter Maryam Nawaz and son-in-law retired Captain Mohammad Safdar, which the Interior Ministry has stated requires a court sign-off.

- Three Chinese experts groups are arriving Pakistan in March for preparation and monitoring of CPEC Industrial Zones, review of energy projects and explore potential opportunities for investments in oil and gas sector.



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Domestic dispatches growth remains robust: According to latest statistics, local dispatches were recorded at 3.74mn tons in Jan'18 (second highest ever). Dispatches growth during Jan'18 continued its robust upward trend, growing by +37.3%YoY/+9.8%MoM compared with +0.8%YoY/-14.6%MoM in Jan'17. This was likely led by higher PSDP spending (PkR122bn in Jan'18, up 43%YoY) and strong demand from private sector. On a cumulative basis, domestic dispatches growth reached 20.2%YoY in 7MFY18, higher than 9.5%YoY growth recorded in 7MFY17. In this regard, players in the northern region were able to grow more rapidly (+21.2%YoY in 7MFY18) as compared to the southern region (+15.3%YoY in 7MFY18).

Export slump continues: Concerning for major cement exporters (7MFY18 export mix - CHCC: 16.7%, LUCK: 13.0%, DGKC: 11.3% and FCCL: 10.5%), exports were down 7.8%YoY to just 0.347mn tons in Jan'18 continuing the declining trend. On an overall basis, exports during 7MFY18 fell by another 16.2%YoY compared with 3.4%YoY decline in 7MFY17. Going forward, we expect exports to remain under pressure due to worsening relation with the neighboring countries (Afghanistan & India).

Capacity Utilization

	7MFY18	7MFY17	YoY
LUCK	77.0%	72.0%	5.0%
DGKC	119.5%	104.2%	15.3%
MLCF	99.2%	95.8%	3.4%
FCCL	95.5%	84.2%	11.3%
CHCC	102.4%	112.8%	-10.4%
PIOC	73.5%	62.4%	11.2%
KOHC	85.5%	80.5%	5.0%
ACPL	74.7%	69.0%	5.7%
FECTC	97.7%	98.7%	-1.0%
North	96.1%	81.7%	14.4%
South	72.5%	69.5%	3.0%
Industry	90.7%	78.9%	11.8%
Reported co.	90.0%	79.1%	10.8%

Source: APCMA & AKD Research

Local Market Share

	7MFY18	7MFY17
LUCK	13.0%	18.8%
DGKC	11.3%	14.3%
FCCL	10.5%	6.3%
CHCC	16.7%	18.0%
MLCF	9.2%	16.0%
PIOC	3.9%	0.9%
KOHC	4.9%	7.5%
ACPL	20.8%	27.8%
FECTC	10.9%	18.9%
North	9.5%	12.2%
South	14.9%	23.1%

Source: APCMA & AKD Research

Export Mix

	7MFY18	7MFY17
LUCK	13.0%	18.8%
DGKC	11.3%	14.3%
FCCL	10.5%	6.3%
CHCC	16.7%	18.0%
MLCF	9.2%	16.0%
PIOC	3.9%	0.9%
KOHC	4.9%	7.5%
ACPL	20.8%	27.8%
FECTC	10.9%	18.9%
North	9.5%	12.2%
South	14.9%	23.1%
Total	10.5%	14.4%

Source: APCMA & AKD Research

Besides, rising fuel prices/other input costs and import/anti-dumping duties also makes it more challenging for local manufactures to grow on the export front.

Industry Dispatches (K tons)

Local	Jan-18	Jan-17	YoY	Dec-17	MoM	7MFY18	7MFY17	YoY
LUCK	478	466	2.5%	529	-9.6%	3,655	3,190	14.6%
DGKC	409	293	39.4%	373	9.7%	2,610	2,198	18.8%
FCCL	303	234	29.5%	258	17.3%	1,712	1,579	8.4%
CHCC	196	91	114.3%	175	11.6%	1,207	595	102.9%
MLCF	198	214	-7.4%	263	-24.7%	1,772	1,583	11.9%
PIOC	129	110	16.9%	120	7.0%	836	732	14.3%
KOHC	178	137	30.2%	170	5.1%	1,210	1,107	9.3%
ACPL	173	139	24.6%	137	26.2%	1,034	870	18.8%
FECTC	69	40	75.6%	59	17.1%	416	383	8.7%
North	3,018	2,130	41.7%	2,817	7.1%	19,472	16,060	21.2%
South	719	591	21.5%	586	22.7%	4,101	3,556	15.3%
Total	3,737	2,722	37.3%	3,403	9.8%	23,573	19,616	20.2%
Exports	**Jan-18**	**Jan-17**	**YoY**	**Dec-17**	**MoM**	**7MFY18**	**7MFY17**	**YoY**
LUCK	86	75	15.0%	72	19.2%	547	737	-25.8%
DGKC	62	52	19.3%	55	12.4%	332	368	-9.9%
FCCL	13	10	1.3	19	-28.1%	200	106	88.5%
CHCC	9	21	-54.6%	14	-33.4%	242	131	85.0%
MLCF	22	39	-44.0%	15	44.4%	179	301	-40.5%
PIOC	7	2	4.5	6	1.17	34	7	404.4%
KOHC	5	14	-60.8%	6	-15.7%	62	90	-31.0%
ACPL	38	43	-12.1%	37	2.0%	271	336	-19.3%
FECTC	5	14	-62.4%	5	-3.8%	51	89	-42.7%
North	234	264	-11.2%	232	0.7%	2,033	2,222	-8.5%
South	113	112	0.2%	95	18.1%	720	1,066	-32.4%
Total	347	376	-7.8%	328	5.8%	2,753	3,287	-16.2%
Total	**Jan-18**	**Jan-17**	**YoY**	**Dec-17**	**MoM**	**7MFY18**	**7MFY17**	**YoY**
LUCK	564	541	4.2%	601	-6.2%	4,201	3,927	7.0%
DGKC	471	346	36.4%	428	10.0%	2,942	2,566	14.7%
FCCL	317	245	29.4%	277	14.2%	1,912	1,686	13.4%
CHCC	205	112	82.8%	190	8.2%	1,449	726	99.7%
MLCF	220	253	-13.0%	279	-20.9%	1,950	1,884	3.5%
PIOC	136	112	21.5%	126	7.5%	871	739	17.9%
KOHC	184	151	21.9%	176	4.3%	1,272	1,197	6.3%
ACPL	210	182	15.9%	174	21.0%	1,305	1,206	8.2%
FECTC	75	54	39.5%	65	15.3%	467	471	-1.0%
North	3,252	2,394	35.9%	3,050	6.6%	21,505	18,282	17.6%
South	831	704	18.1%	681	22.1%	4,821	4,622	4.3%
Total	4,084	3,098	31.8%	3,731	9.5%	26,326	22,904	14.9%

Source: APCMA & AKD Research

Investment Perspective: Backed by expansion led volumetric growth, continued focus of GoP on infrastructure (PSDP spending of 453bn in 7MFY18, up 24.4%YoY) and impressive growth in private sector credit related to construction activity (+31.6%YoY in Jan'18), we believe the demand dynamics of the cement sector remain sound. The recent correction in cement sector (down 37% since May'17 high) on the risk of pricing indiscipline (upcoming expansions) and margin deterioration (high coal prices) has opened up valuations, in our opinion, where the AKD Cement Universe is available at current P/E of 8.9x vs. 12.8x in May'17. Though risks in the form of pricing war (especially in South region) and higher coal prices (surged +27% since May'17) exist, we maintain our preference for the sector (particularly North players), where our top picks include well diversified, energy efficient companies like LUCK (TP: PkR898/sh), MLCF (TP: PkR108/sh), PIOC (TP: PkR109/sh) and DGKC (TP: PkR194/sh) in our Cement Universe.

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

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