



AKD Securities Limited

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Pakistan Stock Exchange

Equity Research / Pakistan

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Today's Daily

■ Pak Cements: Cement sector exercises pricing power yet again

According to our channel checks, cement prices in the North Region have likely been increased in the range of PkR10-20/bag whereas the cement prices in the South Region remain unchanged and are not expected to be raised anytime soon. We believe that the hike in cement prices (not incorporated in base estimates yet) should allow cement manufacturers to maintain margins where we expect AKD Cement Universe's GM to improve by 54 bps/100 bps to 38.76%/43.77% in FY17F/FY18F compared to our base case estimates. As such, we expect AKD Cement Universe's FY17F earnings / FY18F earnings / TP to go up by 2.33%/3.99%/4.78% from our base case estimates. In this backdrop, we reiterate our Overweight stance on the sector. Our top picks include MLCF (TP: PkR154/share), FCCL (TP: PkR55/share), DGKC (TP: PkR262/share), and LUCK (TP: PkR964/share).

KSE100 - Index

Current 48,827.55
Previous 48,240.28
Chg. 1.22%

Mkt Cap. (PKRbn/US\$bn)

Current 9,795 / 93.64
Previous 9,717 / 92.90
Chg. 0.80%

Daily Turnover (mn)

Current 501.26
Previous 376.69
Chg. 33.1%

Value Traded (PKRmn/US\$mn)

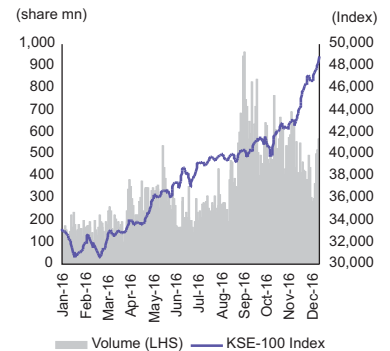
Current 27,178 / 259.83
Previous 18,760 / 179.35
Chg. 44.9%

AKD Daily

Wednesday, Jan 04, 2017

News and Views

- SBP Governor said, the central bank will extend all kinds of support to the stakeholders of the textile industry.
- PAAPAM in a letter sent on Monday to the commerce minister, expressed concerns on the government's proposal to include the auto sector in the free trade agreement (FTA) between Pakistan and Thailand.
- Nepra on Tuesday approved an increase of PkR0.25/unit in the tariff of K-Electric (KE) on account of monthly fuel cost adjustment.
- As per news report, China Pipeline Petroleum Bureau (CPPB) is all set to initiate in the ongoing month of January 2017 the construction work on the mega project of US\$1.325bn 700km LNG pipeline to be laid down from Gwadar to Nawabshah.



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According to our channel checks, cement prices in the North Region have likely been increased in the range of PkR10-20/bag whereas the cement prices in the South Region remain unchanged and are not expected to be raised anytime soon. We believe that the hike in cement prices (not incorporated in base estimates yet) should allow cement manufacturers to maintain margins where we expect AKD Cement Universe's GM to improve by 54 bps/100 bps to 38.76%/43.77% in FY17F/FY18F compared to our base case estimates. As such, we expect AKD Cement Universe's FY17F earnings / FY18F earnings / TP to go up by 2.33%/3.99%/4.78% from our base case estimates. In this backdrop, we reiterate our Overweight stance on the sector. Our top picks include MLCF (TP: PkR154/share), FCCL (TP: PkR55/share), DGKC (TP: PkR262/share), and LUCK (TP: PkR964/share).

Northern cement manufacturers raise cement prices by PkR10-20/bag:

Our channel checks suggest cement prices in the North Region have likely been increased in the range of PkR10-20/bag whereas cement prices in the South Region remain unchanged due to the existing average price premium of PkR27/bag or 5% over average cement price in the North Region (pre-hike average cement price: PkR540/bag). However, the latest increase in cement prices was expected as industry sources had previously hinted passing on the increase in coal price by the end of 2016.

Passed on price to lift GM close to FY16 levels: We believe that recent hike in cement prices (not incorporated in base estimates yet) should allow cement manufacturers to maintain their margins where we expect AKD Cement Universe's GM to improve by 54 bps/100 bps to 38.76%/43.77% in FY17F/FY18F compared to our base case estimates. However, we believe resulting GM in FY17F/FY18F would still be lower than that of FY16 (44.71%) on account of FCCL's operational issues (outsourcing clinker)/ relatively higher coal prices at US\$75/ton in FY18F vs. US\$53/ton in FY16. As such, we expect AKD Cement Universe's FY17F earnings / FY18F earnings / TP to go up by 2.33%/3.99%/4.78% from our base case estimates.

Investment Perspective: We believe increase in cement prices reinforce manufacturers' commitment to pricing discipline lowering long term risks of price war when new capacities stream online during 2017-20. In this backdrop, we reiterate our Overweight stance on the sector, downplaying risk of pricing indiscipline. Our top picks include MLCF (TP: PkR154/share), FCCL (TP: PkR55/share), DGKC (TP: PkR262/share), and LUCK (TP: PkR964/share).



Sensitivity: Impact of increase in cement prices on GM, earnings and TP

FY17F		LUCK	DGKC	MLCF	FCCL	CHCC	PIOC	AKD Cement Universe
GM	(%)	43.71%	39.44%	42.90%	19.99%	34.28%	38.95%	38.22%
GM*	(%)	44.25%	40.03%	43.38%	20.39%	35.03%	39.57%	38.76%
ΔGM	bps	55	58	48	40	75	62	54
FY18F		LUCK	DGKC	MLCF	FCCL	CHCC	PIOC	AKD Cement Universe
GM	(%)	44.44%	40.53%	46.28%	43.70%	35.60%	41.15%	42.77%
GM*	(%)	45.43%	41.58%	47.10%	44.70%	36.73%	42.27%	43.77%
ΔGM	bps	99	105	82	100	113	112	100
FY17F		LUCK	DGKC	MLCF	FCCL	CHCC	PIOC	AKD Cement Universe
EPS	(PkR)	52.11	19.20	10.96	1.75	12.05	11.59	
EPS*	(PkR)	53.07	19.66	11.23	1.81	12.53	11.90	
ΔEPS	(PkR)	0.96	0.46	0.27	0.06	0.48	0.31	
ΔEPS	(%)	1.84%	2.42%	2.42%	3.41%	4.01%	2.68%	2.33%
FY18F		LUCK	DGKC	MLCF	FCCL	CHCC	PIOC	AKD Cement Universe
EPS	(PkR)	60.90	21.95	12.46	4.60	16.85	12.59	
EPS*	(PkR)	62.83	22.91	12.99	4.79	17.87	13.22	
ΔEPS	(PkR)	1.93	0.95	0.53	0.20	1.02	0.63	
ΔEPS	(%)	3.17%	4.33%	4.27%	4.30%	6.04%	4.99%	3.99%
Dec'17		LUCK	DGKC	MLCF	FCCL	CHCC	PIOC	AKD Cement Universe
TP	(PkR/share)	964	262	154	55	181	138	
TP*	(PkR/share)	997	280	161	58	195	147	
ΔTP	(PkR/share)	33	18	7	3	14	9	
ΔTP	(%)	3.42%	6.87%	4.55%	5.45%	7.73%	6.52%	4.78%

* New estimates with PkR15/bag increase in average local cement prices

Source: AKD Research



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