

PAKISTAN CEMENT

MARKET VISTA

Dispatches remain upbeat for Dec'20

- Local cement dispatches extended their outstanding run with an increase of 18/12% YoY/MoM to 4.2mn tons for Dec'20 where South fared better amongst the two regions, witnessing an increase of 20%YoY while North posted an increase of 18%YoY.
- Exports slowed down with a sequential decline of 17% largely due to logistical issues while seasonality has also played a part. For 1HFY21, local dispatches stand at 20.2mn tons, up 16%YoY.
- Local players have reacted to the increasing cost pressure and prices in North have been increased by PKR10/bag according to PBS data. However, to fully pass on the impact of increase in coal prices, manufacturers will need to increase prices by at least PKR30/bag (according to our estimates)
- We continue to like MLCF (TP: PKR57.6/sh) and LUCK (TP: PKR86.5/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.

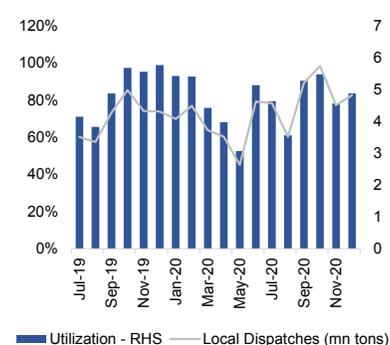
Local cement dispatches increase by 18%YoY for Dec'20: Local cement sales extended the phenomenal run into Dec'20 as well with growth of 18%YoY while sequential increase stood at 12% MoM; picking up from a 23%MoM decline for Nov'20 as seasonality weighed heavily. Local dispatches from South posted higher growth rate among the two regions of 20%YoY where we believe North-based players limiting supply to South has a part to play particularly after North's utilization increased to 83% for Dec'20. North's growth rate also remained in double digits (18/12% YoY/MoM) as construction activity in the region remained upbeat mainly originating from private sector. Moving forward, barring seasonality in Jan'21 as winter intensifies in North while rain is also expected to hit some areas, local demand is expected to remain strong as private sector continues to support while additional stimulus is expected to arrive from projects being initiated by government under Naya Pakistan Housing Scheme. Exports, on the other hand, have slowed down, declining by 17% on sequential basis where number of factors are at play including logistical issues and seasonality while local players also shift their sales mix towards local market to take advantage of higher retention prices at offer. Overall, dispatches for 1HFY21 stand at 28.4mn tons, up 15%YoY led by 16%YoY increase in local dispatches while exports increased by 9%YoY.

Announcements of capacity expansion can arrive earlier than expected: Local players have reacted to the increasing cost pressure and prices in North increased by PKR10/bag according to PBS data. However, to fully pass on the impact of increase in coal prices, manufacturers will need to increase prices by at least PKR30/bag (according to our estimates) though given strict regulatory oversight, the increase can be staggered resulting in pressure on margins for 3QFY21. Additional risks to the sector profitability are expected to arise from power costs where recent gas outages have major bearing on LUCK only. Moving forward, with the resumption of IMF program in sight, rates of electricity are also to be revised upwards which will be a major blow for players dependent on grid currently. However, given the jubilant local demand, we believe players will be able to pass on the increase in costs resulting in stable margins.

Outlook: Cement demand in near future is expected to remain muted on the back of ongoing winter induced slowdown however medium term outlook remains bright on the back of various incentives being provided to construction industry. Consequently, a number of players have already made their intentions clear about expansion where major expansion announcement can be made from players based in North in medium term. We continue to like MLCF (TP: PKR57.6/sh) and LUCK (TP: PKR86.5/sh) from AKD cement universe with the former being one of the lowest cost producer and least sensitive to price changes while latter's cost efficiencies coupled with diversified in-vestments make it a safe play.

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Local dispatches vs utilization



Source: Company Reports & AKD Research

Cement Dispatches (mn tons)

	1HFY21	YoY	Dec'20	YoY	MoM
Local					
North	20.2	16.3%	3.5	18.0%	11.9%
South	3.4	13.7%	0.7	19.5%	11.4%
Total Local	23.6	15.9%	4.2	18.3%	11.8%
Total Exports					
Total Exports	4.8	8.7%	0.6	-17.8%	-17.4%
Total dispatches	28.4	14.6%	4.8	11.8%	6.8%

Source: APCMA & AKD Research



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