



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108
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Today's Daily

■ Pakistan Cements: 2QFY18F/1HFY18F Result Previews

Commencing next week, the AKD Cement Universe is scheduled to declare its 2QFY18F/1HFY18F results; first up being LUCK (Jan 26'18). In this regard, we expect the AKD Cement Universe to post combined NPAT of PkR8.25/16.93bn in 2QFY18F/1HFY18F as compared to PkR10.65/19.18bn in 2QFY17/1HFY17 - earnings decline of 23%/12%YoY. Lower earnings are expected to arise from significant 8.5ppts/9.5pptsYoY fall in Gross margins to 32.6%/32.1% in 2QFY18F/1HFY17 (avg. coal prices up 35%/37%YoY during 1QFY18/Apr-Sept'17 coupled with 2.5%/1.6%YoY decline in local cement prices in 1QFY18/Apr-Sept'17), despite 3%/8%YoY growth in topline to PkR42.49/80.83bn (13.3%/15.4%YoY increase in total cement dispatches to 6.60/12.29mn tons during 1QFY18/1HFY18). The AKD cement universe has lost 29%FYTD, underperforming the market by 23% in the process. While risk of pricing indiscipline prevails with upcoming expansions, we believe current price levels offer attractive entry points especially when growth dynamics remain intact even after the sector rallying by 11% in Jan'18 (AKD Cement Universe available at current P/E of 9.5x vs. 12.8x in May'17). While maintaining our preference for the Northern players, our top picks include well diversified, energy efficient companies like LUCK (TP: PkR898/sh), MLCF (TP: PkR108/sh), PIOC (TP: PkR109/sh) and CHCC (TP: PkR140/sh).

KSE100 - Index

Current 43,580.88
Previous 43,358.97
Chg. 0.51%

Mkt Cap. (PkRbn/US\$b)

Current 8,988 / 81.31
Previous 8,954 / 81.00
Chg. 0.38%

Daily Turnover (mn)

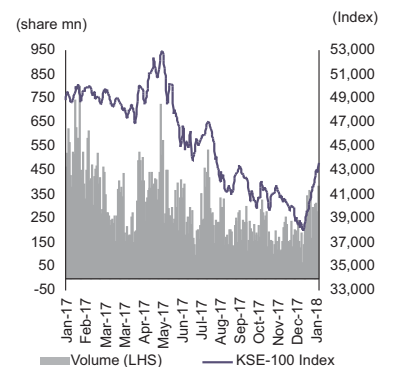
Current 268.46
Previous 151.34
Chg. 77.4%

Value Traded (PkRmn/US\$m)

Current 13,670 / 123.67
Previous 6,646 / 60.12
Chg. 105.7%

News and Views

- Liquid foreign exchange reserves of the country declined by US\$249mn (-1.2%WoW) during the week standing at US\$19.771bn, owing to external debt servicing.
- The Indonesian government has unilaterally agreed to provide Pakistani products with deeper market access under the preferential trade agreement (PTA), in order to enhance trade between the two countries.
- In a bid to introduce competitive regime, NEPRA plans to omit the requirement of obtaining prior consent from power purchaser Central Power Purchasing Agency, a distribution company of bulk power consumer for electricity procurement prior to upfront tariff announcement under NEPRA Upfront Tariff (Approval and Procedure) Regulation 2011.
- As per recent statistics released by PCGA, the country's cotton production has increased by 7.58%YoY to reach at 11.33mn bales (+0.79mn bales). Province wise, both Punjab and Sindh produced 4.79/12.59%YoY higher cotton, harvesting 7.09/4.25mn bales



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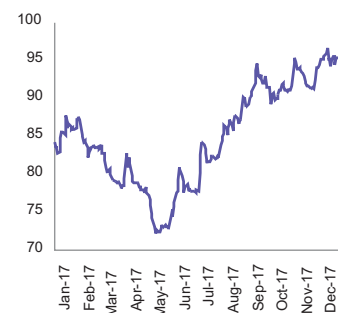
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Coal Prices (US\$/MT)



Source: Bloomberg & AKD Research

2QFY18F/1HFY18F earnings to remain under pressure: We expect the AKD Cement Universe to post combined NPAT of PkR8.25/16.93bn in 2QFY18F/1HFY18F as compared to PkR10.65/19.18bn in 2QFY17/1HFY17 - earnings decline of 23%/12%YoY. Lower earnings are expected to arise from significant 8.5ppts/9.5pptsYoY fall in gross margins to 32.6%/32.1%

2QFY18F/1HFY18F: AKD Cement Universe Earnings Snapshot

	EPS (PkR/sh)							AKD Comments
	2QFY18F	2QFY17	YoY	QoQ	1HFY18F	1HFY17	YoY	
LUCK	8.40	11.75	-29%	-10%	17.73	21.76	-19%	Expected 13.9pptsYoY decline in GMs continues to hurt bottomline (down 29%YoY in 2QFY18F)
DGKC	4.35	5.93	-27%	-33%	10.83	10.28	5%	Anticipated 10pptsYoY fall in GMs will continue to keep bottomline under pressure (down 27%YoY in 2QFY18F)
MLCF	1.74	2.48	-30%	-1%	3.51	4.54	-23%	GMs expected to decline by 9.5pptsYoY to keep 2QFY18F earnings under pressure (down 30%YoY in 2QFY18F)
FCCL	0.78	0.50	55%	142%	1.10	0.94	17%	With the restoration of Line-II we expect FCCL gross margins to normalize to PkR32.5% in 2QFY18F. Consequently, we expect FCCL earnings to revive by 55%YoY in the period.
CHCC	3.21	3.51	-9%	-6%	6.64	5.80	14%	Significant 16.5pptsYoY reduction in margins is expected to drag earnings in 2QFY18F (down 9%YoY), despite robust growth in topline (up 80%YoY)
PIOC	2.63	3.52	-25%	39%	4.39	6.61	-34%	Anticipated absence of low margin clinker in the period will restrict GMs decline to 3.3pptsYoY only. While slower growth in offtake is expected to drag earnings by 25%YoY in 2QFY18F
GWLC	0.94	1.67	-44%	25%	1.70	2.78	-39%	Expected 10.1pptsYoY decline in GMs continues to hurt bottomline (down 44%YoY in 2QFY18F).

Source: Co. Report & AKD Research



in 2QFY18/1HFY18 (avg. coal prices up 35%/37%YoY during 1QFY18/Apr-Sept'17 coupled with 2.5%/1.6%YoY decline in local cement prices in 1QFY18/Apr-Sept'17). This was despite 3%/8%YoY growth in topline to PkR42.49/80.83bn (13.3%/15.4%YoY increase in total cement dispatches to 6.60/12.29mn tons during 1QFY18/1HFY18).

Investment Perspective: Backed by expansion led volumetric growth, continued focus of GoP on infrastructure, expected strong PSDP and provincial spending in 2HFY18 ahead of national polls (68% unutilized federal PSDP at the end of Dec'17), we believe the demand dynamics of the cement sector remain sound. Though risks in the form of pricing war (especially in South region) and rising coal prices (surged +32% since May'17) exist, but recent correction in our AKD cement universe (down 29%FYTD) offers attractive entry points especially when growth story remains intact (AKD Cement Universe available at current P/E of 9.5x vs. 12.8x in May'17). 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 CHCC (TP: PkR140/sh) in our Cement Universe.



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