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PAKISTAN
CEMENTS

REP-019
MARKET
VISTA

Downtrend to persist in 2QFY19

- **AKD Cement universe is expected to post a 37%YoY decline in profitability for 1HFY19 as higher energy/fuel cost weigh on margins despite an increase in retail cement prices of 10%YoY. On QoQ basis, profitability is going to increase by 7% on the back of better margins (24.3% in 2QFY19 vs. 23% in 1QFY19)**
- **Finance cost is going to be a drag on the earnings of our universe for 1HFY19 as increasing debt to finance capacity additions will take the interest cover down to 6.3x for 1HFY19 vs. 25.1x in 1HFY18.**
- **DGKC, after posting a dismal 1QFY19 is expected to rebound as higher utilization at South is expected to result in better absorption of fixed costs. While on YoY basis, company's profitability is expected to decline by 36%.**
- **FCCL is expected to outperform peers on YoY basis for 1HFY19, courtesy a low base in 1HFY18 while CHCC will disappoint on QoQ basis on the back of a high base in 1QFY19.**

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AKD Universe estimate

EPS	1HFY19	1HFY18	YoY	2QFY19	YoY	QoQ
LUCK	15.6	20.2	-23%	7.9	-27%	3%
DGKC	2.3	8.5	-73%	1.3	-36%	38%
MLCF	1.4	3.3	-59%	0.8	-50%	35%
CHCC	4.3	7.6	-44%	1.8	-56%	-25%
PIOC	2.4	3.2	-25%	1.3	-9%	13%
FCCL	1.2	0.9	31%	0.6	4%	7%

Source: Company Accounts & AKD Research

The downcycle continues in 1HFY19: Profitability of our cement universe is expected to decline by 37%YoY for 1HFY19 despite an increase in average local prices of cement as elevated coal/energy prices and higher FED outweigh the benefits of higher retention prices. Topline of our cement universe is expected to clock in at PKR80bn,up 8% YoY, on the back of increased prices (PKR599/bag for 1HFY19 vs. PKR546/bag for 1HFY18). On the other hand, cost of sales is expected to increase by 21%, taking the gross margins to 24% for 1HFY19 vs. 32% for 1HFY18. Additional drag on the earnings for 1HFY19 is the finance cost which is expected to increase by 1.9x, taking the interest cover down to 6.3x for 1HFY19 from 25.1x in 1HFY18. On QoQ basis, PAT is expected to increase by 6.9% on the back an increase in prices (PKR611/bag for 2QFY19 vs. PKR586/bag for 1QFY19) being complemented by an increase in local dispatches of our universe of 8.1%QoQ. Similarly, we expect an increase in distribution costs as well with an increase in exports of 20.7%QoQ.

Profitability to decline by 37%YoY for 1HFY19 (PkRmn)

AKD Universe	1HFY19	1HFY18	YoY	2QFY19	YoY	QoQ
Sales	80,034	74,057	8.1%	43,873	14.2%	21.3%
Cost of Sales	61,021	50,246	21.4%	33,194	27.2%	19.3%
Gross Profit	19,012	23,811	-20.2%	10,679	-13.3%	28.1%
Net Profit	9,814	15,627	-37.2%	5,070	-30.1%	6.9%

Ratios	1HFY19	1HFY18		2QFY19		
Gross Margin	24%	32%	-	24%	-	-
Net Margin	12%	21%	-	12%	-	-
Interest Cover (x)	6.3	25.1	-	6.4	-	-

Source: AKD Research

DGKC to rebound in 2QFY19 though 1HFY19 remains disappointing: Company wise, DGKC is expected to post the biggest decline where the decline in gross margins (14% in 1HFY19 vs. 33% in 1HFY18) has been exacerbated by the addition of South plant having high energy costs due to its reliance on grid. FCCL, au contraire, is expected to buckle the trend on the back of a low base as the line-II wasn't operational for the full 1HFY18. Sequentially (on QoQ basis), CHCC is expected to stand out with a 25% decline in earnings against an across the board increase in earnings for our universe. The company recorded a tax reversal in 1QFY19 leading to an effective tax rate of -41% and a high base. However, DGKC is expected to be the outperformer as higher utilization at South is expected to better absorb the fixed costs, though, finance costs are still going to be a drag particularly with PKR14.9bn in short term borrowings as at 30-Sep-18.

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Neutral	**> 13% to < 19% expected total return**
Sell	**< 13% expected total return (Rf: 13%)**

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Accumulate	**> 5% to < 20% upside potential**
Neutral	**< 5% to > -5% potential**
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Sell	**< -20% downside potential**
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