



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
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### Today's Daily

#### ■ Pakistan Cement: Jun'17 Dispatches Review

As per latest numbers released by APCMA, total dispatches during Jun'17 plunged by 27.8%MoM/20.1%YoY, primarily led by significant decline in domestic dispatches to 2.33mn tons (-21.2%YoY/-31.3%MoM). Local dispatches growth came into the red for the first time after Jul'14 (lowest level since Jul'16) owing to i) seasonal slowdown due to Ramadan, ii) extended Eid holidays and iii) price rationalization following budgetary measures (up 10%YoY). Exports continue to falter, going down 11.1%YoY to just 0.344mn tons in Jun'17. On a cumulative basis, total dispatches growth reached 3.6%YoY in FY17, significantly lower than the 9.8%YoY growth witnessed in FY16 primarily on slower domestic demand growth (7.9%YoY in FY17 vs.17.0%YoY in FY16). Going forward, we anticipate continuation of double digit growth in domestic dispatches, based on: 1) increasing construction activity on higher PSDP spending in 2HCY17 particularly in the backdrop of election year and 2) impressive growth in private sector credit related to construction activity (+35.5%YoY in May'17). With the cement sector correcting -18%CYTD, we feel current price levels offer attractive entry points especially when fundamentals remain strong (AKD Universe 5yr earnings CAGR of 16%). Maintaining an Overweight stance on the sector, our top picks include LUCK (TP: PkR1,180/sh, upside: 61%), MLCF (TP: PkR169/sh, upside: 50%) and FCCL (TP: PkR56/sh, upside: 39%).

#### KSE100 - Index

Current 43,792.19  
Previous 44,120.58  
Chg. -0.74%

#### Mkt Cap. (PkRbn/US\$b)

Current 9,035 / 85.79  
Previous 9,056 / 85.99  
Chg. -0.23%

#### Daily Turnover (mn)

Current 215.17  
Previous 185.17  
Chg. 16.2%

#### Value Traded (PkRmn/US\$m)

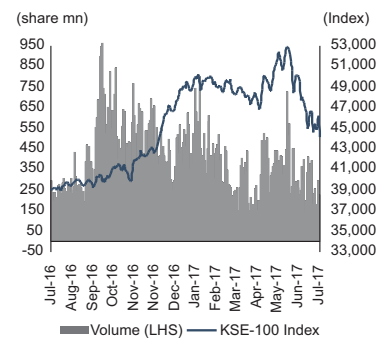
Current 12,604 / 119.67  
Previous 9,898 / 93.98  
Chg. 27.3%

AKD Daily

Monday, Jul 17, 2017

#### News and Views

- The Supreme Court will resume hearing of Panama Papers case today (Monday). Earlier, Joint Investigation Team (JIT) submitted its final report regarding probe of the Sharif family's money trail before the Supreme Court on Jul 10'17.
- As per recent data released by SBP, private sector borrowing jumped 126%YoY to PkR633bn in FY17. In the 9MFY17, 42% of total private sector credit off-take was fixed investment, while rest of private sector credit went into financing working capital.
- As per the latest data published by SBP, banking sector deposits are up 19%YoY to PkR11.9tn (a 6-year high) in Jun'17, while advances also grew 21%YoY to PkR6.1tn (highest since Jun 2006). Investments on the other hand grew by 8%YoY to Rs8.1tn as investment to deposit ratio (IDR) declined to 68% in Jun'17 vs. 71% in May'17.



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As per latest numbers released by APCMA, total dispatches during Jun'17 plunged by 27.8%MoM/20.1%YoY, primarily led by significant decline in domestic dispatches to 2.33mn tons (-21.2%YoY/-31.3%MoM). Local dispatches growth came into the red for the first time after Jul'14 (lowest level since Jul'16) owing to i) seasonal slowdown due to Ramadan, ii) extended Eid holidays and iii) price rationalization following budgetary measures (up 10%YoY). Exports continue to falter, going down 11.1%YoY to just 0.344mn tons in Jun'17. On a cumulative basis, total dispatches growth reached 3.6%YoY in FY17, significantly lower than the 9.8%YoY growth witnessed in FY16 primarily on slower domestic demand growth (7.9%YoY in FY17 vs.17.0%YoY in FY16). Going forward, we anticipate continuation of double digit growth in domestic dispatches, based on: 1) increasing construction activity on higher PSDP spending in 2HCY17 particularly in the backdrop of election year and 2) impressive growth in private sector credit related to construction activity (+35.5%YoY in May'17). With the cement sector correcting -18%CYTD, we feel current price levels offer attractive entry points especially when fundamentals remain strong (AKD Universe 5yr earnings CAGR of 16%). Maintaining an Overweight stance on the sector, our top picks include LUCK (TP: PkR1,180/sh, upside: 61%), MLCF (TP: PkR169/sh, upside: 50%) and FCCL (TP: PkR56/sh, upside: 39%).

**Domestic Dispatches growth turned negative:** As per recent APCMA data, domestic cement recorded a significant decline in Jun'17 to 2.33mn tons (down 21.2%YoY/31.3%MoM). Local dispatches growth came into negative zone for the first time after Jul'14 (lowest level since Jul'16) where, i) Ramadan season, ii) extended Eid holidays and iii) price rationalization following budgetary measures(up 10%YoY) by cement manufacturer have been the major culprits behind the decline, in our view. On a cumulative basis, total dispatches growth reached 7.9%YoY in FY17 vs. 17.0%YoY in FY16.

**Export slump continues but seems to be exhausting now:** While exports continued to decline in Jun'17, the pace has come down considerably (exports down 11.6%YoY against 44.6%YoY in May'17). Sequentially, the exports rose by 11.2%MoM to 0.344mn tons taking cumulative exports during FY17 to 4.66mn tons, down 20.6%YoY compared with 18.4%YoY decline in FY16. Given the continuous decline, exports contribution in total dispatches has gone down to 11% in FY17 against 15%/20% in FY16/FY15. Going forward, we expect exports to remain flattish due to rising fuel prices/other input costs and import/anti-dumping duties making it more difficult for cement exporters in Pakistan to compete against indigenous cement players.

**FY17 Review - Company wise performance:** FY17 turned out to be another good year for cement manufacturers mainly in the context of local cement demand where total dispatches growth reached 7.9%YoY during the year. Amongst our coverage cluster, CHCC and FCCL emerged as clear winners posting double digit growth of 53.7%YoY and 13.4%YoY

### Capacity Utilization

Utilization	FY17	FY16	YoY (ppt)
LUCK	88.4%	89.1%	-0.7%
DGKC	106.9%	104.4%	2.5%
MLCF	95.5%	95.7%	-0.3%
FCCL	84.4%	80.4%	4.0%
CHCC	60.4%	94.1%	-33.7%
PIOC	68.5%	66.6%	1.9%
KOHC	79.8%	81.0%	-1.1%
ACPL	115.0%	109.2%	5.8%
FECTC	93.9%	88.6%	5.4%
North	84.1%	80.6%	3.5%
South	93.4%	92.7%	0.7%
Industry	85.8%	82.8%	3.0%
Reported companies	88.8%	86.1%	2.7%

Source: APCMA & AKD Research

### Export Mix

	FY17	FY16
LUCK	16.1%	23.2%
DGKC	12.9%	15.8%
FCCL	4.3%	11.3%
CHCC	13.9%	20.9%
MLCF	13.1%	18.7%
PIOC	2.6%	3.5%
KOHC	5.6%	10.0%
ACPL	24.0%	27.4%
FECTC	14.6%	19.0%
North	9.7%	12.5%
South	18.9%	25.4%
Total	11.6%	15.1%

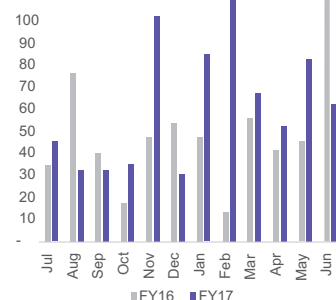
Source: APCMA & AKD Research



respectively in FY17 while PIOC (+3.5%YoY) and DGKC (+5.9%YoY) lagged behind.

**Investment Perspective:** Backed by expansion led volumetric growth, continued focus of GoP on infrastructure (37%YoY higher PSDP allocation to Pkr2.1tn in FY18B), expected decline in energy costs from anticipated correction in coal prices and addition of energy diversification projects, we believe Cement sector remains fundamentally sound. With the cement sector correcting -18%CYTD, we feel current price levels offer attractive entry points especially when fundamentals remain strong (AKD Universe 5yr earnings CAGR of 16%). Maintaining an Overweight stance on the sector, our top picks include LUCK (TP: Pkr1,180/sh, upside: 61%), MLCF (TP: Pkr169/sh, upside: 50%) and FCCL (TP: Pkr56/sh, upside: 39%).

PSDP Monthly Expenditures (PkrBn)



Source: PC & AKD Research

**Industry Dispatches (K tons)**

LLocal	Jun-17	Jun-16	YoY	May-17	MoM	FY17	FY16	YoY
LUCK	427	492	-13.2%	519	-17.6%	5,745	5,301	8.4%
DGKC	269	381	-29.2%	382	-29.5%	3,931	3,711	5.9%
FCCL	171	135	26.6%	238	-28.5%	2,774	2,447	13.4%
CHCC	84	67	25.0%	153	-45.1%	1,260	820	53.7%
MLCF	191	243	-21.6%	258	-26.2%	2,795	2,625	6.5%
PIOC	106	120	-11.8%	126	-15.7%	1,354	1,305	3.8%
KOHC	82	97	-15.9%	181	-54.9%	1,923	1,859	3.4%
ACPL	114	132	-13.9%	147	-22.4%	1,568	1,422	10.2%
North	1,855	2,386	-22.3%	2,811	-34.0%	29,099	27,054	7.6%
South	479	577	-17.0%	588	-18.5%	6,504	5,947	9.4%
Total	2,334	2,964	-21.2%	3,399	-31.3%	35,604	33,000	7.9%

Exports	Jun-17	Jun-16	YoY	May-17	MoM	FY17	FY16	YoY
LUCK	72	81	-10.8%	73	-1.2%	1,103	1,605	-31.2%
DGKC	36	68	-46.7%	51	-28.8%	581	695	-16.4%
FCCL	7	7	-0.9%	3	182.3%	124	313	-60.4%
CHCC	28	17	61.5%	17	67.1%	204	217	-6.0%
MLCF	26	44	-40.9%	26	0.7%	423	602	-29.7%
PIOC	6	1	542.9%	9	-26.2%	37	47	-22.7%
KOHC	7	9	-19.7%	4	64.4%	113	206	-45.0%
ACPL	48	31	51.6%	24	95.9%	496	538	-7.7%
North	215	284	-24.3%	219	-1.8%	3,142	3,852	-18.4%
South	129	103	25.1%	90	42.9%	1,521	2,021	-24.7%
Total	344	387	-11.1%	309	11.2%	4,663	5,872	-20.6%

Total	Jun-17	Jun-16	YoY	May-17	MoM	FY17	FY16	YoY
LUCK	500	573	-12.8%	592	-15.6%	6,849	6,906	-0.8%
DGKC	305	448	-31.9%	433	-29.4%	4,512	4,406	2.4%
FCCL	178	142	25.2%	241	-26.2%	2,898	2,761	5.0%
CHCC	112	85	32.5%	170	-34.0%	1,464	1,037	41.2%
MLCF	217	287	-24.6%	284	-23.8%	3,218	3,227	-0.3%
PIOC	112	121	-7.3%	134	-16.4%	1,390	1,352	2.8%
KOHC	89	106	-16.2%	185	-52.2%	2,036	2,064	-1.4%
ACPL	162	164	-1.3%	171	-5.6%	2,064	1,960	5.3%
North	2,070	2,670	-22.5%	3,030	-31.7%	32,242	30,905	4.3%
South	608	681	-10.7%	678	-10.3%	8,025	7,967	0.7%
Total	2,678	3,351	-20.1%	3,708	-27.8%	40,267	38,873	3.6%

Source: APCMA & AKD Research



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



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