



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ Pakistan Cements: 4QFY18E Result Previews

Commencing today, the AKD Cement Universe begins release of 4QFY18E results; first up being LUCK (Jul 31'18). As a group, we expect the AKD Cement Universe to post combined NPAT of PkR8.90bn in 4QFY18E as compared to PkR7.64bn in 4QFY17 - earnings increase of 16%YoY. This growth however is specious, being a function of lower effective tax rate of 10% vs. 30% in 4QFY17 (booking of tax credits on DGKC & CHCC new plants), as on a pre-tax basis profits are expected to go down by 10%YoY. In full year FY18E, our AKD Cement Universe pre-tax earnings are expected to decline by 20%YoY owing to significant 8.2pptsYoY fall in Gross margins to 30.4% (avg. coal prices up 20%YoY coupled with 4%YoY decline in local cement prices – FED adjusted), despite 14%YoY increase in total cement dispatches to 45.89mn tons during FY18. While short term outlook for sector seems positive in response to recent currency recovery, staggered build-up in selected names is recommended, where we have already incorporated much of these adverse development with regards to currency depreciation (currency parity stands at avg. PkR131.75/US\$ for FY19F) and higher coal prices.

KSE100 - Index

Current 43,556.63
Previous 42,786.45
Chg. 1.80%

Mkt Cap. (PkRbn/US\$m)

Current 8,861 / 70.86
Previous 8,691 / 69.50
Chg. 1.96%

Daily Turnover (mn)

Current 377.93
Previous 385.49
Chg. -2.0%

Value Traded (PkRmn/US\$m)

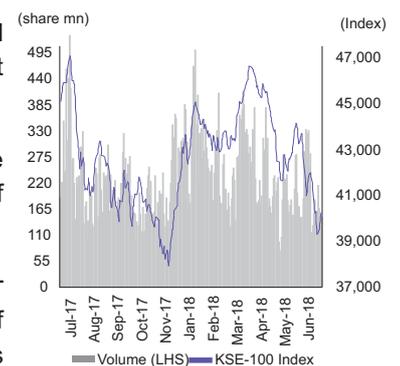
Current 14,993 / 119.90
Previous 14,013 / 112.07
Chg. 7.0%

AKD Daily

Tuesday, Jul 31, 2018

News and Views

- U.S. Secretary of State Mike Pompeo has warned that any potential International Monetary Fund bailout for Pakistan's new government should not provide funds to pay off Chinese lenders.
- The FBR has imposed restriction on non-filers that they cannot purchase new motor vehicle manufactured locally or imported, irrespective of engine capacity from Jul 01'18.
- The Federal Board of Revenue (FBR) has announced that no further extension will be made in the tax amnesty scheme for whitening of domestic and foreign assets. As per provisional figures, the gov't has fetched PkR115bn so far from the scheme.



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4QFY18E/FY18E pre-tax earnings to remain under pressure: We expect the AKD Cement Universe to post combined NPAT of PkR9.91/40.31bn in 4QFY18E/FY18E as compared to PkR10.94/50.36bn in 4QFY17/FY17 - earnings decline of 10%/20%YoY. Lower earnings are expected from significant 4.0ppts/8.2pptsYoY fall in gross margins to 30.3%/30.4% in 4QFY18/FY18E (avg. coal prices up 20%/15%YoY coupled with 1%/4%YoY decline in local cement prices during 4QFY18/FY18 – FED adjusted). This was despite 10.3%/6.6%YoY growth in topline to PkR40.42/161.76bn (11.2%/13.8%YoY increase in total

AKD Cement Universe: Cumulative earnings snapshot

(PkrBn)	4QFY18E	YoY	QoQ	FY18F	YoY
Sales	40.42	10%	-3%	161.76	7%
Gross profit	12.25	-3%	6%	49.16	-16%
NPBT	9.91	-10%	5%	40.31	-20%
NPAT	8.90	16%	21%	32.59	-10%

Source: Co Report & AKD Research

4QFY18E: AKD Cement Universe Earnings Snapshot

Symbol	4QFY18E	YoY	QoQ	FY18E	YoY	DPS-4QFY18	AKD Comments - 4QFY18E
LUCK	8.58	-15%	-15%	38.89	-8%	12.00	Expected 6.6pptsYoY fall in GMs owing to higher input cost, invalidating 12.7%YoY growth in cement dispatches.
DGKC	7.39	113%	162%	18.74	3%	8.00	~PkR4.5/sh. tax credit benefit on new plant lifting bottomline, despite 6.8pptsYoY fall in GMs.
MLCF	1.26	3%	-15%	6.06	-25%	1.50	Cost advantage from 40MW coal power plant restricting GMs decline to 33%, keeping bottomline positive.
FCCL	0.53	14%	-15%	2.07	9%	0.50	Anticipated 5.5pptsYoY recovery in GMs on account of commencement of clinker production from Line-II.
CHCC	3.70	68%	47%	13.86	25%	3.50	Lower effective tax rate of 8% (vs. 23%) alongwith 2pptsYoY in GMs will keep bottomline interesting.
PIOC	1.76	-23%	-3%	6.82	-47%	2.50	Significant fall in GMs to 26.5%YoY owing to cost side pressure will continue to keep earnings dull.
GWLC	0.88	-39%	43%	3.38	-41%	1.50	Negative impact of rising input cost expected to keep GMs under significant (down -8.3pptsYoY).

Source: Company Report & AKD Research



cement dispatches to 11.14/45.89mn tons during 4QFY18/FY18). On a quarterly basis, our AKD Cement Universe after-tax earnings expected to rise by 16%YoY during 4QFY18E owing to lower effective tax rate of 10% in 4QFY18 vs. 30% in 4QFY17 (being a function of 69%YoY decline in tax expense due to expected recording of tax credits on DGKC & CHCC new plants).

Investment Perspective: Re-emergence of investor confidence with smooth elections process (origination of clear mandate) along with surprising PKR appreciation against US\$, has led to strong rally in Cement sector, where our AKD Cement Universe has shown robust recovery since Jul'17 (+21%). While short term outlook for sector seems positive in response to recent currency recovery, staggered build-up in selected names is recommended, where we have already incorporated much of these adverse developments with regards currency depreciation (currency parity stands at avg. PKR131.75/US\$ for FY19F) and higher coal prices.



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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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