



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
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### Today's Daily

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

As per latest numbers released by APCMA, total dispatches during May'17 grew by 3.7%MoM/2.4%YoY, primarily led by double digit growth in domestic dispatches to 3.39mn tons in May'17 (+10.9%YoY/+2.4%MoM). However, exports continued to falter, going down 44.6%YoY to just 0.309mn tons in May'17, diluting the impact of robust domestic demand growth in overall dispatches. Continuation of double digit growth in domestic dispatches was likely led by a persistent increase in PSDP spending to reach PkR83bn/PkR52bn in May'17/Apr'17 (up 83%/26%YoY). On a cumulative basis, total dispatches growth reached 5.8%YoY in 11MFY17, though lower than 10.5%YoY in 11MFY16 primarily due to relatively slower domestic demand growth of 10.8%YoY in 11MFY17 vs.17.8%YoY in 11MFY16. While looking at some slowdown in dispatches due to Ramadan, we anticipate total dispatches growth to resume its upward trajectory post Jun'17, increasing by 6.1%YoY/8%YoY in FY17F/FY18F. We derive our thesis from: 1) increasing construction activity on higher PSDP spending in 2HCY17 & onwards (15% unutilized federal PSDP as at May'17 & 32% higher total PSDP allocation (PkR2.1tn) in budget FY18) in the backdrop of election year and 2) impressive growth in private sector credit related to construction activity (+25.6%YoY in Apr'17). Citinig positive fundamentals, we maintain our Overweight stance on the cement sector, where our top picks include LUCK (TP: PkR1,180/sh, upside: 37%), MLCF (TP: PkR152/sh, upside: 34%) and FCCL (TP: PkR56/sh, upside: 23%).

#### KSE100 - Index

Current 49,526.92  
Previous 49,958.33  
Chg. -0.86%

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

Current 9,859 / 94.02  
Previous 9,934 / 94.73  
Chg. -0.75%

#### Daily Turnover (mn)

Current 208.57  
Previous 268.79  
Chg. -22.4%

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

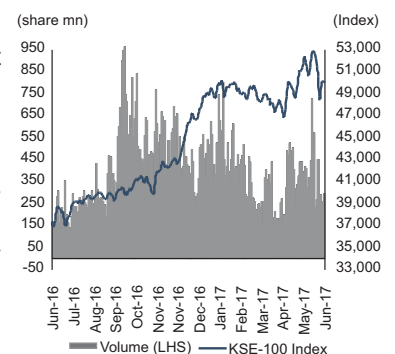
Current 8,196 / 78.16  
Previous 11,795 / 112.49  
Chg. -30.5%

AKD Daily

Monday, Jun 12, 2017

### News and Views

- The joint investigation team (JIT) - constituted by the Supreme Court (SC) to probe businesses and financial dealings of the Sharif family- has summoned Prime Minister Nawaz Sharif to appear before it on Jun 15'17.
- As per recent data published by PAMA, the total passenger car sales have increased by 2.45%YoY to 155,960 units in the 10MFY17, while tractors sales continuing to follow an upward trajectory grew by 70%YoY to 44,883 units.
- As per recent data released by SBP, the inflow of workers' remittances during May'17 soared 3.77%YoY (+21.36%MoM) to US\$1.867bn. While on cumulative basis, 11MFY17 remittances remained lower 2.13%YoY to stand at US\$17.463bn



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**Domestic Dispatches -Slowing down but still going strong:** As per APCMA, local cement demand set the second highest monthly record of 3.40mn tons in May'17 against previous highest ever level of 3.75mn tons in Mar'17. Dispatches during May'17 registered growth of +10.9%YoY/2.4%MoM compared with +9.5%YoY/-11.2%MoM in Apr'17. This was likely led by a sharp increase in PSDP spending to reach PkR83bn/PkR52bn in May'17/Apr'17 vs. PkR45bn/PkR42bn in May'16/Apr'16. On a cumulative basis, domestic dispatches growth reached 10.8%YoY in 11MFY17 lower than 17.8%YoY in 11MFY16 due to the high base effect.

**Export slump continues:** Concerning for cement exporters particularly those with a higher export mix (LUCK, DGKC, MLCF and CHCC), exports continued declining in May'17, down 44.6%YoY to 0.309mn tons against 50.7%YoY decline in Apr'17. On an overall basis, exports during 11MFY17 fell by 21.3%YoY compared with 17.4%YoY decline in 11MFY16. Going forward, we expect exports to remain under pressure 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.

### Capacity Utilization

(Utilization)	11MFY17	11MFY16	YoY (ppt)
LUCK	89.4%	89.1%	0.2%
DGKC	108.7%	102.3%	6.4%
MLCF	97.1%	95.1%	2.0%
FCCL	86.4%	83.2%	3.2%
CHCC	60.8%	94.3%	-33.4%
PIOC	68.7%	66.1%	2.5%
KOHC	83.3%	83.8%	-0.5%
ACPL	115.6%	109.2%	6.4%
FECTC	97.2%	89.4%	7.8%
<b>North</b>	<b>85.8%</b>	<b>80.3%</b>	<b>5.5%</b>
<b>South</b>	<b>94.2%</b>	<b>92.5%</b>	<b>1.7%</b>
<b>Industry</b>	<b>87.4%</b>	<b>82.6%</b>	<b>4.8%</b>

Source: APCMA & AKD Research

### Export Mix

	11MFY17	11MFY16
LUCK	16.2%	24.1%
DGKC	13.0%	15.8%
FCCL	4.3%	11.7%
CHCC	13.0%	20.9%
MLCF	13.2%	19.0%
PIOC	2.4%	3.8%
KOHC	5.5%	10.1%
ACPL	23.6%	28.2%
FECTC	14.9%	20.5%
North	9.7%	12.6%
South	18.8%	26.3%
Total	11.5%	15.4%

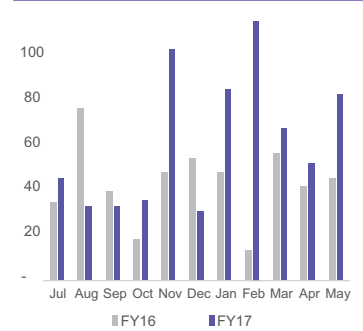
Source: APCMA & AKD Research



**Demand Outlook:** Going forward, we anticipate total dispatches growth to remain on the higher side in FY18 as domestic demand tends to rise near the summer season. This will further be backed by: 1) increasing construction activity on higher PSDP spending in 2HCY17 & onwards (15% unutilized federal PSDP as at May'17 & 32% higher total PSDP allocation-PkR2.1tn in budget FY18) in the backdrop of election year and 2) record level growth in private sector credit related to construction activity (+25.60%YoY in May'17). Additionally, increasing trend of personal housing loans (+23.6%YoY in May'17) is another positive trigger, catalyzing demand growth.

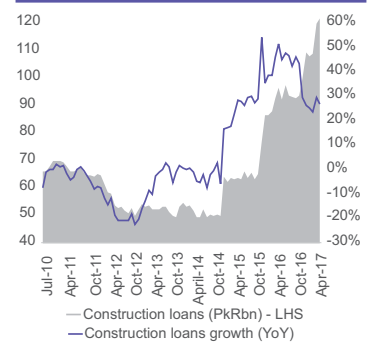
**Investment Perspective:** Backed by expansion led volumetric growth, continued focus of GoP on infrastructure (37%YoY higher PSDP allocation to PkR2.1tn in FY18B), expected decline in energy costs from anticipated correction in coal prices and addition of energy diversification projects, we believe Cement sector remains fundamentally sound. The sector is down 6% CYTD where the recent correction in stock prices presents a buying opportunity. Our top picks include LUCK (TP: PkR1,180/sh, upside: 37%), MLCF (TP: PkR152/sh, upside: 34%) and FCCL (TP: PkR56/sh, upside: 23%).

**PSDP Monthly Expenditures (PkRbn)**



Source: PC & AKD Research

**Private sector credit - Construction (PkRbn)**



Source: SBP & AKD Research



**Industry Dispatches (K tons)**

Local	May-17	May-16	YoY	Apr-17	MoM	11MFY17	11MFY16	YoY
LUCK	519	471	10.2%	512	1.4%	5,318	4,809	10.6%
DGKC	382	318	20.0%	358	6.8%	3,661	3,330	9.9%
FCCL	238	223	6.9%	259	-8.0%	2,604	2,313	12.6%
CHCC	153	78	96.3%	158	-3.1%	1,176	753	56.2%
MLCF	258	236	9.6%	246	4.9%	2,605	2,382	9.4%
PIOC	126	116	8.3%	124	1.2%	1,248	1,184	5.3%
KOHC	181	159	14.3%	189	-4.3%	1,841	1,762	4.5%
ACPL	147	133	10.3%	141	4.3%	1,454	1,290	12.7%
FECTC	65	55	18.0%	59	10.7%	622	534	16.4%
North	2,811	2,501	12.4%	2,734	2.8%	27,244	24,668	10.4%
South	588	564	4.2%	586	0.3%	6,025	5,369	12.2%
Total	3,399	3,065	10.9%	3,320	2.4%	33,270	30,037	10.8%
Exports	May-17	May-16	YoY	Apr-17	MoM	11MFY17	11MFY16	YoY
LUCK	73	154	-52.5%	50	45.9%	1,031	1,524	-32.3%
DGKC	51	70	-27.3%	53	-3.6%	545	627	-13.1%
FCCL	3	19	-86.6%	1	227.7%	117	306	-61.8%
CHCC	17	20	-14.7%	6	183.4%	176	200	-11.9%
MLCF	26	66	-60.9%	20	28.9%	397	558	-28.9%
PIOC	9	4	96.4%	8	9.0%	30	46	-34.7%
KOHC	4	20	-79.1%	4	-0.6%	106	197	-46.1%
ACPL	24	37	-34.9%	34	-28.6%	449	506	-11.4%
FECTC	5	10	-49.1%	5	3.3%	109	138	-21.2%
North	219	403	-45.7%	182	20.4%	2,927	3,568	-17.9%
South	90	155	-41.7%	74	21.2%	1,392	1,917	-27.4%
Total	309	558	-44.6%	256	20.6%	4,319	5,485	-21.3%
Total	May-17	May-16	YoY	Apr-17	MoM	11MFY17	11MFY16	YoY
LUCK	592	625	-5.3%	562	5.4%	6,349	6,333	0.3%
DGKC	433	388	11.5%	410	5.5%	4,207	3,958	6.3%
FCCL	241	242	-0.5%	260	-7.3%	2,721	2,618	3.9%
CHCC	170	98	73.8%	164	3.6%	1,352	953	42.0%
MLCF	284	302	-5.9%	266	6.7%	3,002	2,940	2.1%
PIOC	134	120	11.5%	132	1.7%	1,278	1,231	3.8%
KOHC	185	179	3.8%	194	-4.2%	1,947	1,959	-0.6%
ACPL	171	171	0.4%	175	-2.1%	1,902	1,797	5.9%
FECTC	70	65	7.9%	63	10.2%	730	672	8.7%
North	3,030	2,904	4.3%	2,916	3.9%	30,172	28,235	6.9%
South	678	719	-5.7%	660	2.7%	7,417	7,287	1.8%
Total	3,708	3,623	2.4%	3,576	3.7%	37,589	35,522	5.8%

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
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