

PAKISTAN CEMENT

Feb'19: Local dispatches decline by 19%YoY

- Local dispatches for Feb'19 posted a decline of 19.0%YoY due to overall economic slowdown and a consequent decline in infrastructure spending took a toll on offtake while continued snow/rainfall resulted in a sequential decline of 8.1%.
- The decline was more pronounced in North (local dispatches down by 25.2% YoY) while private sector demand led to 9.9%YoY higher dispatches in South. For 8MFY17, total cement dispatches stand at 30.1mn tons –flat on YoY basis.
- Exports have remained buoyant as the local players in South are capitalizing on the shortfall of clinker capacity in Sri Lanka and Bangladesh while the provisional data indicates increasing share of export in the sales mix of our universe.
- CHCC and DGKC stand out on the provisional numbers with both the companies increasing their market share in Feb'19 on the back of significant capacity expansion by CHCC and higher sales in South by DGKC, in our opinion.
- Construction activity is expected to recover as we move towards summer however long term outlook doesn't look bright with the fiscal consolidation to continue. We expect local demand to grow at 3.7%/5.0% for FY20/21.

Seasonality weighs heavy on local dispatches: Local cement dispatches for Feb'19 witnessed a massive decline of 19%YoY on the back of decline in government's infrastructure spending (PKR348bn PSDP released, down by 28%YoY for 8MFY19) while the decline is more pronounced in North where the slowdown in private sector activity has exacerbated the effect (local dispatches down by 25.2%YoY for Feb'19). With influx of Iranian cement in Pakistan already hurting Pakistan's export to the country (exports to Afghanistan down by 21.8%YoY for 7MFY19), the recently imposed 200% duty on Pakistan's exports to India further increases the woes of the region. To recall, due to heightened tensions between India and Pakistan, India has imposed 200% duty on all the imports originating from Pakistan; cement exports to India formed 17.5% of Pakistan's total cement exports during 7MFY19 (cement exports to India increased continuously on sequential basis from Oct'18 to Jan'19). On the other hand, local demand in South has been resilient, increasing by 16%YoY for 8MFY19 as private sector provides support to construction activity while clinker exports also aid in keeping utilization high (89% for 8MFY19) thus keeping pressure off the local prices.

Increasing share of exports in sales mix: CHCC stands out in the provisional numbers as company's local sales increased by 20%MoM taking market share to 7.7% in Feb'19 vs. 5.7/6.8% in Jan'19/Feb'18 after company's expansion of 2.3mn tons came online in Jan'19. DGKC is the other notable company which posted an increase in local dispatches compared to average local sales of 7MFY19 which we believe is due to higher share of sales from south after the region witnessed an increase in local dispatches of 9.9%YoY for Feb'19. Another prominent trend is local players looking towards exports in the wake of excess capacity as all the players from our universe except FCCL and PIOC posted YoY increase in exports, taking exports' share in the sales mix of our universe to 18% in Feb'19 vs. 9% in Feb'18.

Outlook: Post conclusion of the ongoing winter season and the current wave of snow/rainfall, cement dispatches are expected to recover as construction activity picks up. Though in the medium to long term, overall economic conditions will continue to weigh on the local demand, resulting in muted growth where we expect the local demand to grow by 3.7/5.0% in FY20/21. With regards to prices, as per our channel checks, local players have reduced prices in Peshawar by Pkr15-20/bag during last two weeks as pressure on prices increase amid excess capacity. Moving forward, a similar situation can be witnessed in Punjab with MLCF's expansion of 2.2mn tons (slated to commission in 4QFY19) being the possible trigger.

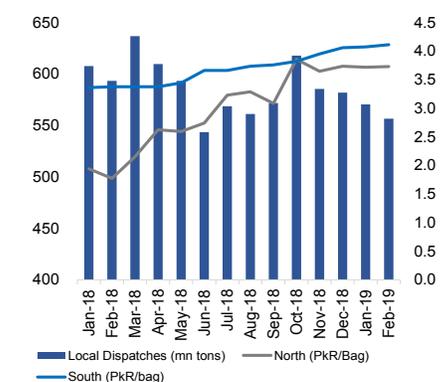
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Cement Dispatches (mn tons)

| | 8MFY19 | YoY | Feb'19 | YoY | MoM |
|---------|--------|--------|--------|--------|--------|
| North | | | | | |
| Local | 20 | -10.6% | 2.1 | -25.2% | -8.8% |
| Exports | 1.9 | -16.1% | 0.2 | -8.6% | -23.4% |
| South | | | | | |
| Local | 5.5 | 16.0% | 0.7 | 9.9% | -5.9% |
| Exports | 2.8 | 232.0% | 0.3 | 185.5% | -5.9% |
| Overall | | | | | |
| Local | 25.4 | -6.0% | 2.8 | -19.0% | -8.1% |
| Exports | 4.6 | 52.2% | 0.5 | 68.9% | -12.4% |
| Total | 30.1 | -0.1% | 3.3 | -12.0% | -8.8% |

Source: APCMA & AKD Research

Local cement prices (LHS) and dispatches (RHS)



Source: PBS, APCMA & AKD Research



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New Rating Definitions

| | |
|---------|--|
| Buy | > 19% expected total return (Rf: 13% + Rp: 6%) |
| Neutral | > 13% to < 19% expected total return |
| Sell | < 13% expected total return (Rf: 13%) |

Old Rating Definitions (Discontinued)

| | |
|------------|---|
| Buy | > 20% upside potential |
| Accumulate | > 5% to < 20% upside potential |
| Neutral | < 5% to > -5% potential |
| Reduce | < -5% to > -20% downside potential |
| Sell | < -20% downside potential |
| Not Rated | No investment opinion or recommendation |

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- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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