



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
www.jamapunji.pk

### Today's Daily

#### ■ Pakistan Cement: Feb'18 dispatches pursuing double digit growth

Continuing with its double digit growth trend seen in the past seven months, total dispatches during Feb'18 registered a healthy growth of 10%YoY to reach 3.78mn tons. The growth in dispatches was led by strong domestic sales of 3.48mn tons, where domestic demand growth stood at +9.4%YoY. Exports on the other hand, turned positive for the first time in FY18, to clock in at 0.301mn tons in Feb'18 (up 18.4%YoY). On a cumulative basis, total dispatches growth reached 14.3%YoY in 8MFY18 led by local demand growth of 18.7%YoY. With the elections drawing close, we anticipate total dispatches growth to remain strong for the remainder of the year. We derive our thesis from: 1) strong PSDP and provincial spending in 2HFY18 ahead of national polls (45% unutilized federal PSDP at the end of Feb'18) and 2) impressive growth in private sector credit related to construction activity (+31.9%YoY in Jan'18). While risk of pricing indiscipline prevails with each expansions (particularly for South players), we believe recent cement price recovery (+Pkr30/bag in North), offer attractive entry points especially when growth dynamics remain intact. While maintaining our preference for the sector (particularly North players), our top picks include well diversified, energy efficient companies like LUCK (TP: Pkr898/sh), MLCF (TP: Pkr108/sh), PIOC (TP: Pkr109/sh) and DGKC (TP: Pkr198/sh) in our Cement Universe.

#### KSE100 - Index

Current 43,618.07  
Previous 43,410.93  
Chg. 0.48%

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

Current 9,066 / 82.00  
Previous 9,022 / 81.59  
Chg. 0.50%

#### Daily Turnover (mn)

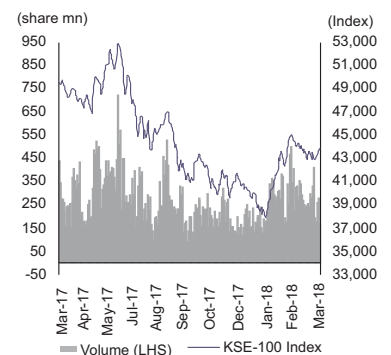
Current 152.32  
Previous 109.73  
Chg. 38.8%

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

Current 6,762 / 61.15  
Previous 4,471 / 40.44  
Chg. 51.2%

#### News and Views

- US Secretary Defense Jim Mattis said he had seen some changes in Pakistan's behaviour since Trump blasted the country last year for harbouring the Taliban. "There are operations by the Pakistan military that are helping right now, ongoing as we speak," he said.
- Advisor on finance Miftah Ismail said the govt. would try to limit the budget deficit to 4.5% in FY19. He vowed to reduce the withholding taxes in the new budget and increase the minimum income tax threshold currently at Pkr400,000/annum. He further declared that the govt would not launch new development projects nor announce a flattened PSDP, with focus on highways and water reservoirs. Ismail said all export incentive schemes announced in the previous budgets would be rolled back adding that exchange rate determination would be left to market forces. Also, the govt. would roll back most of the regulatory duties.
- South Korean automaker SsangYong Motor Company planned to roll out its premier sports utility vehicles (SUVs) in Pakistan early next year. SsangYong's senior management recently visited Pakistan to deliberate and finalise plans with the officials of Daehan Dewan Motor Company.



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## Pakistan Cement: Feb'18 dispatches pursuing double digit growth

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**Domestic dispatches continue double growth:** According to latest statistics, local dispatches were recorded at 3.48mn tons in Feb'18. Dispatches growth during Jan'18 continued its double digit trend, growing by 10%YoY compared with 6.7%YoY in Feb'17. On a cumulative basis, domestic dispatches growth reached 18.7%YoY in 8MFY18, significantly higher than 9.1%YoY growth recorded in 8MFY17. In this regard, players in the northern region were able to grow more rapidly (+19.9%YoY in 8MFY18) as compared to the southern region (+13.3%YoY in 8MFY18). Companies outperforming the industry during 8MFY18 included CHCC (+94.1%YoY) and MLCF (+18.9%YoY) while ACPL (+17.2%YoY), LUCK (+16.7%YoY), DGKC (+15.6%YoY) and PIOC (+10.7%YoY) also posted impressive double digit growth.

**Export showed some strength:** For the time in FY18, industry exports turned positive in Feb'18 to clock in at 0.301mn tons, an uptick of 18.4%YoY. However, on an overall basis, exports are down 13.8%YoY in 8MFY18 compared with 8.5%YoY decline in 8MFY17 which remains concerning for major cement exporters (8MFY18 export mix - ACPL: 20.7%, CHCC: 15.3%, LUCK: 13.2% and DGKC: 10.8%). Going forward, we expect exports to remain under pressure due to worsening relation with the neighboring countries (Afghanistan & India). Besides, rising fuel prices/other input costs and import/anti-dumping duties also makes it more challenging for local manufactures to grow on the export front.

**Investment Perspective:** Backed by expansion led volumetric growth, continued focus of GoP on infrastructure (PSDP spending of Pkr550bn in 8MFY18, up 14.9%YoY) and impressive growth in private sector credit related to construction activity (+31.9%YoY in Jan'18), we believe the

### Capacity Utilization

	8MFY18	8MFY17	YoY
LUCK	79.6%	71.9%	7.7%
DGKC	117.4%	104.9%	12.6%
MLCF	105.6%	95.9%	9.7%
FCCL	95.1%	85.5%	9.6%
CHCC	101.8%	118.0%	-16.2%
PIOC	73.2%	64.1%	9.1%
KOHC	85.5%	80.5%	4.9%
ACPL	74.5%	68.6%	5.9%
FECTC	98.4%	98.2%	0.3%
<b>North</b>	<b>96.1%</b>	<b>82.2%</b>	<b>13.8%</b>
<b>South</b>	<b>73.1%</b>	<b>70.0%</b>	<b>3.1%</b>
<b>Industry</b>	<b>90.8%</b>	<b>79.4%</b>	<b>11.4%</b>
Reported Co.	91.0%	79.6%	11.4%

Source: APCMA & AKD Research

### Local Market Share

	8MFY18	8MFY17
LUCK	15.9%	16.2%
DGKC	10.9%	11.2%
FCCL	7.3%	8.1%
CHCC	5.2%	3.1%
MLCF	8.0%	8.0%
PIOC	3.5%	3.8%
KOHC	5.1%	5.6%
ACPL	4.4%	4.4%
FECTC	1.8%	1.9%
<b>North</b>	<b>82.6%</b>	<b>81.8%</b>
<b>South</b>	<b>17.4%</b>	<b>18.2%</b>

Source: APCMA & AKD Research

### Export Mix

	8MFY18	8MFY17
LUCK	13.2%	17.7%
DGKC	10.8%	13.6%
FCCL	9.7%	5.7%
CHCC	15.3%	17.2%
MLCF	8.3%	15.1%
PIOC	4.2%	1.1%
KOHC	4.7%	7.1%
ACPL	20.7%	26.5%
FECTC	10.1%	18.3%
<b>North</b>	<b>9.0%</b>	<b>11.3%</b>
<b>South</b>	<b>15.1%</b>	<b>21.8%</b>
<b>Total</b>	<b>10.1%</b>	<b>13.4%</b>

Source: APCMA & AKD Research



demand dynamics of the cement sector remain sound. The recent correction in cement sector (down 33% since May'17 high) on the risk of pricing indiscipline (upcoming expansions) and margin deterioration (high coal prices) has opened up valuations, in our opinion, where the AKD Cement Universe is available at current P/E of 9.2x vs. 12.9x in May'17. Though risks in the form of pricing war (especially in South region) and higher coal prices (surged +27% since May'17) exist, we believe recent cement price recovery (+PkR30/bag in North), offer attractive entry points especially when growth dynamics remain intact. While maintaining our preference for the sector (particularly North players), our top picks include well diversified, energy efficient companies like LUCK (TP: PkR898/sh), MLCF (TP: PkR108/sh), PIOC (TP: PkR109/sh) and DGKC (TP: PkR198/sh) in our Cement Universe.

**Industry Dispatches (K tons)**

Local	Feb-18	Feb-17	YoY	Jan-18	MoM	8MFY18	8MFY17	YoY
LUCK	536	498	7.6%	592	-9.5%	4,305	3,688	16.7%
DGKC	337	351	-3.8%	408	-17.4%	2,947	2,548	15.6%
FCCL	254	265	-4.1%	301	-15.4%	1,964	1,845	6.5%
CHCC	186	123	51.0%	196	-5.3%	1,394	718	94.1%
MLCF	292	247	18.4%	311	-6.0%	2,176	1,830	18.9%
PIOC	117	126	-7.3%	125	-6.4%	950	858	10.7%
KOHC	176	165	6.7%	177	-0.3%	1,384	1,272	8.8%
ACPL	148	136	8.6%	170	-13.1%	1,180	1,007	17.2%
FECTC	67	55	20.5%	70	-4.5%	483	438	10.3%
<b>North</b>	<b>2,871</b>	<b>2,580</b>	<b>11.3%</b>	<b>3,018</b>	<b>-4.9%</b>	<b>22,343</b>	<b>18,641</b>	<b>19.9%</b>
<b>South</b>	<b>609</b>	<b>601</b>	<b>1.3%</b>	<b>719</b>	<b>-15.3%</b>	<b>4,709</b>	<b>4,157</b>	<b>13.3%</b>
<b>Total</b>	<b>3,480</b>	<b>3,181</b>	<b>9.4%</b>	<b>3,737</b>	<b>-6.9%</b>	<b>27,052</b>	<b>22,798</b>	<b>18.7%</b>
Exports	Feb-18	Feb-17	YoY	Jan-18	MoM	8MFY18	8MFY17	YoY
LUCK	103	54	89.5%	92	12.1%	655	791	-17.2%
DGKC	29	35	-16.3%	59	-51.3%	358	403	-11.0%
FCCL	10	6	1.8	15	-31.6%	212	112	89.1%
CHCC	10	18	-43.4%	9	16.1%	252	149	68.8%
MLCF	18	25	-27.9%	22	-18.4%	197	326	-39.6%
PIOC	8	3	2.5	7	1.17	41	10	319.9%
KOHC	7	7	0.3%	5	36.5%	69	97	-28.7%
ACPL	36	28	31.6%	38	-5.0%	308	363	-15.3%
FECTC	5	9	-49.6%	4	7.7%	54	98	-44.4%
<b>North</b>	<b>181</b>	<b>163</b>	<b>10.5%</b>	<b>234</b>	<b>-22.9%</b>	<b>2,213</b>	<b>2,385</b>	<b>-7.2%</b>
<b>South</b>	<b>120</b>	<b>91</b>	<b>32.7%</b>	<b>113</b>	<b>6.8%</b>	<b>841</b>	<b>1,156</b>	<b>-27.3%</b>
<b>Total</b>	<b>301</b>	<b>254</b>	<b>18.4%</b>	<b>347</b>	<b>-13.3%</b>	<b>3,054</b>	<b>3,541</b>	<b>-13.8%</b>
Total	Feb-18	Feb-17	YoY	Jan-18	MoM	8MFY18	8MFY17	YoY
LUCK	639	552	15.6%	684	-6.6%	4,960	4,479	10.7%
DGKC	366	385	-4.9%	468	-21.7%	3,305	2,951	12.0%
FCCL	265	271	-2.4%	316	-16.2%	2,176	1,957	11.2%
CHCC	197	142	38.7%	205	-4.3%	1,646	867	89.7%
MLCF	310	271	14.2%	333	-6.8%	2,373	2,155	10.1%
PIOC	125	129	-3.6%	132	-5.3%	991	868	14.2%
KOHC	183	172	6.4%	182	0.7%	1,453	1,369	6.1%
ACPL	184	164	12.4%	209	-11.6%	1,488	1,370	8.6%
FECTC	71	64	10.6%	74	-3.8%	537	536	0.3%
<b>North</b>	<b>3,052</b>	<b>2,744</b>	<b>11.2%</b>	<b>3,252</b>	<b>-6.2%</b>	<b>24,557</b>	<b>21,026</b>	<b>16.8%</b>
<b>South</b>	<b>729</b>	<b>692</b>	<b>5.4%</b>	<b>831</b>	<b>-12.3%</b>	<b>5,550</b>	<b>5,313</b>	<b>4.4%</b>
<b>Total</b>	<b>3,781</b>	<b>3,435</b>	<b>10.0%</b>	<b>4,084</b>	<b>-7.4%</b>	<b>30,106</b>	<b>26,339</b>	<b>14.3%</b>

Source: APCMA & AKD Research



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Accumulate	> 5% to < 20% upside potential
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