



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan

REK-216  
www.jamapunji.pk

### Today's Daily

#### ■ GWLC: Raging bull

We initiate coverage on Gharibwal Cement (GWLC) with a TP of PkR104/share, implying a BUY stance. Our recommendation is underpinned on: 1) operational savings from upcoming 20MW WHR (EPS Impact: PkR1.57/share in FY18F), 2) recently installed downhill conveyor belt (EPS impact: PkR0.25/share in FY18F) and 3) upcoming 250tph cement grinding mill (not incorporated due to pending details). GWLC's dispatches predominantly comprise of sales in local market, offering higher retention price than exports and potential to realize greater dispatches growth in the backdrop of robust domestic demand growth. Being optimistic on demand outlook, GWLC has also announced a Brownfield expansion of 8,000tpd clinker capacity (2.52mn tpa cement capacity). While we have not incorporated GWLC's expansion in our estimates due to awaited financial close, we expect an incremental avg. FY20-23F jump in earnings/TP of PkR8.31/PkR49 per share. While pricing mismatch with the peers is indicative of its re-rating potential, margin improvement from its recent projects is expected to further drive valuations. GWLC trades at a relatively cheaper FY17F/FY18F PE of 9.6x/7.3x vs. AKD Cement Universe's FY17F/FY18F PE of 14.0x/11.6x, where our Dec'17 TP of PkR104/share offers 67% upside. Buy!

*Detailed report to be released shortly*

#### KSE100 - Index

Current 48,534.23  
Previous 48,520.75  
Chg. 0.03%

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

Current 9,620 / 91.75  
Previous 9,617 / 91.73  
Chg. 0.02%

#### Daily Turnover (mn)

Current 228.60  
Previous 250.99  
Chg. -8.9%

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

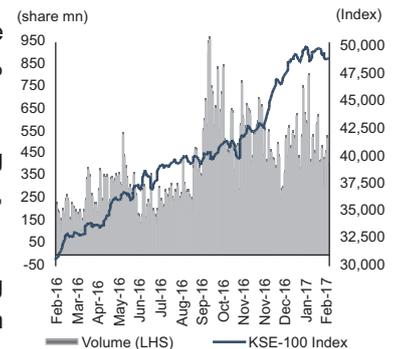
Current 10,758 / 102.60  
Previous 11,595 / 110.59  
Chg. -7.2%

**AKD Daily**

Wednesday, Mar 01, 2017

### News and Views

- The GoP increased prices for petroleum products to be effective to be effective Mar 01-15'17. Category wise, price was increased by: 1) 2.4% in petrol to PkR73.0/ltr and 2) 1.9% in HSD to PkR82.0/ltr
- As per data SBP, foreign companies repatriated US\$1.09bn during 7MFY17 as against US\$1.06bn in the corresponding period last year, reflecting increase of over 3%YoY
- As per media reports, the Chinese-led consortium that acquired controlling stake of the PSX wants 20% of total sale proceeds to be hedged in an escrow account to fulfill the claims arising out of a broker's default. The consortium won the bid for 40% stakes in PSX at a transaction value of US\$85mn.



**Sharon Ahmad**  
sharon.ahmad@akdsecurities.net  
111-253-111 Ext:602

**Important disclosures**, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

Find AKD research on Bloomberg (AKDS<GO>), firstcall.com and Reuters Knowledge UAN: 111-253-111

Copyright©2017 AKD Securities Limited. All rights reserved. The information provided on this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKD Securities or its affiliates to any registration requirement within such jurisdiction or country. Neither the information, nor any opinion contained in this document constitutes a solicitation or offer by AKD Securities or its affiliates to buy or sell any securities or provide any investment advice or service. AKD Securities does not warrant the accuracy of the information provided herein.



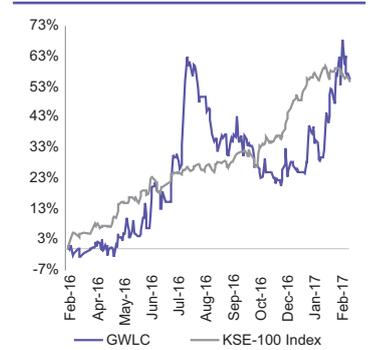
## GWLC: Raging bull

We initiate coverage on Gharibwal Cement (GWLC) with a TP of PkR104/share, implying a BUY stance. Our recommendation is underpinned on: 1) operational savings from upcoming 20MW WHR (EPS Impact: PkR1.57/share in FY18F), 2) recently installed downhill conveyor belt (EPS impact: PkR0.25/share in FY18F) and 3) upcoming 250tph cement grinding mill (not incorporated due to pending details). GWLC's dispatches predominantly comprise of sales in local market, offering higher retention price than exports and potential to realize greater dispatches growth in the backdrop of robust domestic demand growth. Being optimistic on demand outlook, GWLC has also announced a Brownfield expansion of 8,000tpd clinker capacity (2.52mn tpa cement capacity). While we have not incorporated GWLC's expansion in our estimates due to awaited financial close, we expect an incremental avg. FY20-23F jump in earnings/TP of PkR8.31/PkR49 per share. While pricing mismatch with the peers is indicative of its re-rating potential, margin improvement from its recent projects is expected to further drive valuations. GWLC trades at a relatively cheaper FY17F/FY18F PE of 9.6x/7.3x vs. AKD Cement Universe's FY17F/FY18F PE of 14.0x/11.6x, where our Dec'17 TP of PkR104/share offers 67% upside. Buy!

**Ahead of the curve:** GWLC has been one of the few cement manufacturers that have both gas and FO based captive power plants. GWLC's 38MW captive power generation capacity fulfills roughly 80% of its energy requirement while the rest is met through the national grid. In a bid to further reduce its production costs, GWLC decided to set up 20MW WHR that is expected to start operations from Mar'17. The WHR is expected to result in operational cost savings of PkR1.57/share from FY18F. Moreover, GWLC has recently started its 3.15km downhill conveyor belt that transports limestone at a rate of 1,200tons/hour from the quarry to the cement plant. This is the first of its kind project in Pakistan that generates electricity and is self-sufficient in energy consumption. This is expected to result in cost savings of PkR0.25/share from FY18F and potentially address bottlenecks in the supply chain of raw material transport that was previously reliant on trucks.

**Leveraging on domestic demand:** GWLC's plant location in Chakwal District provides it easy access to North-Eastern Punjab where its cement brand "Paidar Cement" has strong presence in the industrial belt of Sialkot, Gujranwala and Gujrat. Keeping the strong domestic demand outlook in mind, GWLC has announced a brownfield expansion of 8,000tpd clinker capacity (2.52mn tpa cement capacity), signing an agreement with CITIC China where the financing options are under consideration. We expect the project to come online by 2QCY19, raising GWLC's capacity based market

GWLC vs KSE100 Index



Source: KSE & AKD Research



share by an estimated 2.0ppt to 6.50% by FY20F, resulting in 5-year earnings CAGR of 23% (not incorporated in our estimates due to awaited financial close).

**Investment Perspective:** Despite a strong price performance (+31% during FYTD) on the back of 110%YoY growth in FY16 earnings, GWLC remains one of the cheapest stock in the cement sector trading at FY17F/FY18F PE of 9.6x/7.3x vs. AKD Cement Universe's PE of 14.0x/11.6x (a discount of 32x%/37x%). While pricing mismatch with the peers is indicative of its re-rating potential, margin improvement from its recent projects is expected to unlock valuations. Our DCF based Dec'17 TP stands at PkR104/share, offering 67% upside. The stock also offers an attractive FY17F/FY18F dividend yield of 6.0%/8.0% vs. AKD cement Universe's 2.2%/3.3%. As such, GWLC's total shareholder return stands at 73%. Room for further upside remains on GWLC's brownfield expansion project that is estimated to add PkR49/share to our TP.



## Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

### Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

#### *Rating Definitions*

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



### **Analyst Certification of Independence**

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

### **Disclosure of Interest Area**

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

### **Regional Disclosures (Outside Pakistan)**

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.

### **For the United States**

#### **Compliance Notice.**

This research report prepared by AKD Securities Limited is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker & Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker & Co, LLC in the US shall be borne by Decker & Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if AKD Securities Limited or Decker & Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker & Co, LLC and AKD Securities Limited are permitted to provide research material concerning investment to you under relevant applicable legislations and regulations.