

PAKISTAN CEMENT

Demand remains upbeat, calling for expansions?

- Local cement dispatches extended their outstanding run with an increase of 16/19% YoY/MoM to 4.9mn tons for Oct'20 where South fared better amongst the two regions, witnessing an increase of 18/23%YoY/MoM while North posted an increase of 16/18% YoY/MoM.
- Exports slowed down with a sequential decline of 22% as local players shift their sales mix towards local market to take advantage of higher retention prices at offer with impressive demand growth in the backdrop. For 4MFY21, local dispatches stand at 10.8mn tons, up 19%YoY.
- Given high utilization (101% for North) and support being provided by government in terms of expediting regulatory procedures and a concessionary financing facility (TERF), we believe announcements of capacity expansion can arrive earlier than expected.
- We continue to like MLCF (TP: PkR47.4/sh) and LUCK (TP: PkR761.3/sh) from the AKD cement universe with the former being one of the lowest cost producers implying lower sensitivity to retail price variations, while latter's cost efficiencies coupled with diversified investments make it a safe play.

Local cement dispatches increase by 16%YoY for Oct'20: Local cement sales extended the phenomenal run into Oct'20 as well with growth of 16%YoY while sequential increase stood at 19% MoM; slowing down against 47% MoM growth in Sep'20 as seasonality starts to kick in. For a second time in a row, local dispatches from South posted a higher growth rate among the two regions of 18/23% YoY/MoM where we believe North-based players limiting supply to South has a part to play particularly after North's utilization stood at 101% for Oct'20. North's growth rate also remained in double digits (16/18%YoY) as construction activity in the region remained upbeat mainly originating from private sector. Moving forward, seasonality has already started to kick in where our channel checks suggest local demand slowed down towards the end of the month and as we move further into winter, the slowdown might become more pronounced. Exports, on the other hand, have slowed down considerably, declining by 22% on sequential basis which we believe is a natural consequence of strong local demand as local players shift their sales mix towards local market to take advantage of higher retention prices at offer. Overall, dispatches for 4MFY21 stand at 13.3mn tons, up 20%YoY led by 23%YoY increase in exports while local demand increased by 19%YoY.

Announcements of capacity expansion can arrive earlier than expected: North's utilization stands at 82% for 4MFY21 and with prospects of further demand increase remaining bright, local players considering expansions cannot be ruled out, in our view. Based on our demand assumption of 12/8%YoY growth in North's local dispatches for FY21/22, utilization is expected to touch ~84% by FY22 — similar to the utilization levels witnessed in FY15-16; time when expansion announcements for last expansion cycle started coming in while if the current demand growth continues, the same level can be reached earlier than our expectation. Additional impetus in this regard is being provided by Punjab government expediting process for provision of NOCs for construction of new cement plants in province. Moreover, SBP has also announced a concessionary financing facility for BMR and capacity enhancements with deadline to qualify for the scheme set for Jun'21. We believe local players can make expansion announcements earlier than expected to take benefit of this facility where players who did not expand in the last expansion cycle can be first movers while the ones with a stable balance sheet (i.e. low leverage) will follow.

Outlook: With high utilization in the backdrop, room for sequential growth in total dispatches remains limited however if local demand continues in the same manner, substitution of exports with local cement demand cannot be ruled out. Consequently, we expect prices to continue increasing on the back of strong demand. To note, we have incorporated a price of PkR555/bag for North in our estimates for FY21. We continue to like MLCF (TP: PkR47.4/sh) and LUCK (TP: PkR761.3/sh) from AKD cement universe with the former being one of the lowest cost producer and least sensitive to price changes while latter's cost efficiencies coupled with diversified investments make it a safe play.

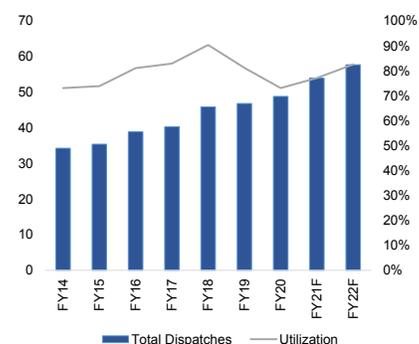
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Cement Dispatches (mn tons)

(mn tons)	4MFY21	YoY	Oct'20	YoY	MoM
Local					
North	9.4	20.3%	4.2	15.5%	18.2%
South	1.4	8.9%	0.7	17.7%	23.0%
Total Local	10.8	18.7%	4.9	15.8%	18.9%
Total Exports	2.5	23.2%	0.9	11.5%	-22.2%
Total Dispatches	13.3	19.5%	5.7	15.2%	10.0%

Source: APCMA & AKD Research

Cement Dispatches (mn tons) vs. Utilization (RHS)



Source: APCMA & AKD Research



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