

# PAKISTAN CEMENT

# MARKET VISTA

REP-019

## Local cement sales increase by 4.2%YoY for 1QFY22

- Local cement dispatches for Sep'21 clocked in at 4.0mn tons, up 5.3%MoM however declining by a mere 1.7% on YoY basis. Both the regions witnessed a rather tepid month with North witnessing local sales of 3.5mn tons (-2/+10% YoY/MoM) while South witnessed local sales of 0.6mn tons (-15.8% MoM).
- Overall, for 1QFY22, local sales have increased by 4.2%YoY to 11.3mn tons where local sales in North have remained flat at 9.5mn tons while local sales in South have witnessed a significant jump of 30%YoY.
- With the coal prices trading at all-time highs, margins of local players are expected to remain under pressure particularly when government authorities have raised concerns over previous increase in cement prices. To note, local players need to increase prices by another Pkr50-60/bag in order to pass on the impact of increase in coal prices.
- We expect the sector to continue to remain under pressure however it is a good opportunity to accumulate in our opinion where once coal prices ease off, with the other fundamentals intact, the sector will be poised for significant returns.

**Local cement sales increase by 5.3%MoM for Sep'21:** Local cement dispatches for Sep'21 clocked in at 4.0mn tons, up 5.3%MoM however declining by a mere 1.7% on YoY basis. To note, local sales for Sep'21 were at the level of average monthly sales for FY21 as we believe ongoing monsoon across the country played its part while depreciating rupee and increasing prices of energy commodities must have instilled a slowdown in economic activity. Both the regions witnessed a rather tepid month with North witnessing an increase in sales on MoM basis of 9.9% however local demand declined by 2% on YoY basis while for South, local demand remained flat at 0.6mn tons on YoY basis while declining by 16% on MoM basis. However, it was exports where a significant slowdown has been witnessed with the volumes declining by 49%YoY as increase in freight rates and shortage of vessels has created supply chain bottlenecks while political uncertainty in Afghanistan has slowed down exports to Afghanistan. Overall, for 1QFY22, local sales have increased by 4.3%YoY to 11.3mn tons where local sales in North have remained flat at 9.5mn tons while local sales in South have witnessed a significant jump of 30%YoY. Total exports for 1QFY22 have decreased by 37.7%YoY to 1.55mn tons with North contributing most to the decline.

**Coal prices causing trouble:** Increase prices of energy commodities have grappled the whole world and are inflicting serious damage to margins of local producer particularly when government authorities have raised concerns over increase in cement prices. Richards Bay coal prices are currently trading at all-time high of USD219.6/ton while FYTD average now stands at USD139.3/ton while effective average of coal prices for FY21 stood at USD70.35/ton. To pass-on this increase in cost, local manufacturers need to increase prices by Pkr120-30/bag however so far, prices have only been increased by Pkr60-70/bag which will result in pressure on margins in 2QFY22. From AKD Cement universe, PIOC stands to be the most sensitive to change in coal prices where high leverage only adds to the company's problems. However, recent news items suggest Russia has hinted on increasing gas supply to Europe which, in case it happens, can result in a significant ease off in coal prices. On the other hand, LUCK is being marred by increase in furnace oil prices which have increased to ~Pkr110k/ton, increasing cost of generation on FO to Pkr20/kWh from Pkr12/kWh for FY21, according to our estimates and LUCK is reliant on furnace oil for 60-70% of its power demand for Pezu.

**Outlook:** Even though demand for 1QFY22 remained lower than our estimates, we expect demand to pick up as overall macro environment settles down and clarity emerges on commodity prices and exchange rate. The major concern however remains the ability of local players to pass-on despite ~75% utilization for 1QFY22. In case local players fail to pass-on the increase in cost, we do not rule out the possibility of highly leverage players reporting losses for 3QFY22. The same has kept the sector under pressure with market capitalization of AKD Cement universe has declined by 15% in last one month. We expect the sector to continue to remain under pressure however it is a good opportunity to accumulate in our opinion where once coal prices ease off, with the other fundamentals intact, the sector will be poised for significant returns.

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### Cement Dispatches

(mn tons)	1QFY22	YoY	Sep-21	YoY	MoM
<b>Local</b>					
North	9.5	0.4%	3.5	-2.0%	9.9%
South	1.8	29.8%	0.6	0.4%	-15.8%
<b>Total Local</b>	<b>11.3</b>	<b>4.2%</b>	<b>4.0</b>	<b>-1.7%</b>	<b>5.3%</b>
<b>Total Exports</b>	<b>1.5</b>	<b>-37.7%</b>	<b>0.6</b>	<b>-49.1%</b>	<b>9.6%</b>
<b>Total cement dispatches</b>	<b>12.8</b>	<b>-3.6%</b>	<b>4.6</b>	<b>-11.9%</b>	<b>5.9%</b>

Source: APCMA and AKD Research

### FY22 EBITDA sensitivity to change in coal and cement prices

	Δ in coal prices by USD\$/ton	Δ in cement prices by Pkr\$/bag
LUCK	5.1%	3.1%
DGKC	6.1%	3.7%
MLCF	4.7%	4.2%
FCCL	5.7%	3.9%
PIOC	8.4%	5.2%
CHCC	10.0%	6.5%

Source: APCMA and AKD Research



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## Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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<b>Neutral</b>	> 8.5% to < 14.5% expected total return
<b>Sell</b>	< 8.5% expected total return (Rf: 8.5%)



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