

# PAKISTAN CEMENT

# MARKET VISTA

REP-019

## Weak demand weighs on cement prices

- As per APCMA, total dispatches during Aug'18 declined by 2.9%MoM/8.3%YoY to 3.45mn tons, primarily led by a 4.6%MoM/13.7%YoY fall in domestic dispatches to 2.89mn tons (highest yearly decline since Jun'17).
- Significant jump of 7.1%MoM/35.8%YoY to 0.557mn tons in exports mitigated the decline, courtesy 2.84x growth in Southern region exports.
- On a cumulative basis, dispatches in 2MFY19 posted negative growth of 2.0%YoY against a 20.8%YoY robust growth witnessed in 2MFY18, led by 5.3%YoY drop in domestic demand.
- While the end of monsoon season and eid holidays and an up-tick in private sector investment should push domestic demand higher, recent news flows suggesting fiscal tightening by way of reduced PSDP allocation could dampen public sector offtake.
- In light of current weak demand against higher supply (industry capacity has crossed 52mn tons, which may trigger another pricing indiscipline), we recommend cautious stance on the sector in the medium term, where soft cement prices in the prevailing high cost environment can further deteriorate under pressure primary margins, in our view.

**Domestic Dispatches growth turned negative:** As per the latest APCMA data, domestic cement dispatches recorded an unexpected decline of 4.6%MoM/13.7%YoY to 2.89mn tons in Aug'18. Local dispatches declined for the first time since Jun'17 owing to slow down in development projects during interim gov't tenure (74%YoY decline in PSDP spending) and less working days during the month (eid holidays). On a cumulative basis, domestic dispatches declined by 5.3% YoY in 2MFY19 as compared to a 27.9%YoY robust growth recorded in 2MFY18. Region-wise, players in the South posted an impressive double digit growth of 10.9%YoY (+121mn tons) in 2MFY19, compensating for significant decline of 8.8%YoY in North regions dispatches (-453mn tons). Companies outperforming the industry during 2MFY19 included ACPL (+26.8%YoY) and DGKC (+2.4%YoY), while LUCK (-10.3%YoY), PIOC (-9.3%YoY) and MLCF (-9.0%YoY) witnessed close to double digit falls in cement offtake during 2MFY19.

**Exports remained on higher side:** Continuing the trend of last couple of months, industry exports remained on the higher side in Aug'18 as well, with exports reaching 0.557mn tons (up 35.8%YoY/7.1%MoM). Moreover, on the back of strong recovery, exports posted an encouraging growth of 21.5%YoY in 2MFY19 as compared to a 13.4%YoY decline in 2MFY18. This was mainly driven by robust growth in exports from Southern region to other (sea) markets (+2.5xYoY in 2MFY19). Post commencement of new lines in the region (LUCK & ACPL), manufacturers are actively exploring new markets to clear excess supply at relatively better margins owing to currency depreciations.

**Weak demand translating into soft cement prices:** Lower than expected demand in the North has materialized into weak local cement prices since the start of Aug'18, where prices declined by an average of Pkr15/bag to Pkr550-570/bag. Prices in the South have, however, remained stable at Pkr610-590/bag. To note, recent pressure on cement prices has nullified the cooling effect of Int'l coal prices (down 10% from its CY18 high of US\$109/ton seen in Jul'18).

**Investment Perspective:** As negatives continue to surround the industry (weak demand along with under pressure cement prices), cement sector has corrected 7.2% since Aug'09. In the light of current weak sector fundamentals (industry capacity has crossed 52mn tons, which may trigger another pricing indiscipline), we recommend a cautious stance on the sector in the medium term, where soft cement prices in the prevailing high cost environment can further lead to margin deterioration. Keeping in view recent overall market performance, we maintain our Market-weight stance for the sector, where staggered build-up in diversified & energy efficient companies (i.e. LUCK (TP: Pkr666/sh and DGKC (TP: Pkr118/sh.) is recommended.

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### Capacity Utilization

	2MFY19	2MFY18	YoY
LUCK	80.9%	77.7%	3.2%
DGKC	109.1%	113.6%	-4.6%
MLCF	85.4%	97.2%	-11.8%
FCCL	86.6%	88.8%	-2.3%
CHCC	86.6%	223.2%	-136.5%
PIOC	64.1%	70.6%	-6.5%
KOHC	74.4%	82.8%	-8.4%
ACPL	130.5%	74.4%	56.1%
FECTC	79.9%	89.8%	-9.9%
<b>North</b>	<b>75.4%</b>	<b>84.8%</b>	<b>-9.4%</b>
<b>South</b>	<b>98.9%</b>	<b>72.0%</b>	<b>26.8%</b>
<b>Industry</b>	<b>80.4%</b>	<b>82.0%</b>	<b>-1.6%</b>
Reported co.	89.3%	87.7%	1.6%

### Local Market Share

	2MFY19	2MFY18
LUCK	15.9%	16.7%
DGKC	12.1%	11.1%
FCCL	7.5%	7.3%
CHCC	5.0%	4.9%
MLCF	7.4%	7.7%
PIOC	3.5%	3.6%
KOHC	5.3%	5.5%
ACPL	5.9%	4.4%
FECTC	1.7%	1.8%
<b>North</b>	<b>79.3%</b>	<b>82.3%</b>
<b>South</b>	<b>20.7%</b>	<b>17.7%</b>

### Export Mix

	2MFY19	2MFY18
LUCK	25.4%	13.5%
DGKC	6.8%	12.7%
FCCL	10.2%	10.4%
CHCC	16.0%	24.9%
MLCF	8.8%	11.9%
PIOC	4.4%	4.4%
KOHC	4.6%	6.2%
ACPL	46.5%	26.0%
FECTC	8.4%	9.2%
<b>North</b>	<b>8.8%</b>	<b>11.1%</b>
<b>South</b>	<b>33.6%</b>	<b>17.9%</b>
<b>Total</b>	<b>15.4%</b>	<b>12.4%</b>

Source: APCMA &amp; AKD Research



AKD Securities Limited

## Industry Dispatches (K tons)

Local	Aug-18	Aug-17	YoY	Jul-18	MoM	2MFY19	2MFY18	YoY
LUCK	438	549	-20.2%	503	-12.9%	940	1,048	-10.3%
DGKC	378	375	0.8%	337	12.0%	715	698	2.4%
FCCL	225	243	-7.4%	220	2.6%	445	455	-2.3%
CHCC	148	165	-10.3%	146	0.9%	294	308	-4.5%
MLCF	216	245	-12.0%	222	-2.8%	438	481	-9.0%
PIOC	101	117	-14.0%	107	-5.8%	207	228	-9.3%
KOHC	154	187	-17.4%	162	-4.9%	317	347	-8.7%
ACPL	167	151	10.2%	182	-8.4%	349	275	26.8%
FECTC	51	64	-20.3%	49	5.5%	100	111	-10.3%
<b>North</b>	<b>2,326</b>	<b>2,731</b>	<b>-14.8%</b>	<b>2,375</b>	<b>-2.0%</b>	<b>4,701</b>	<b>5,154</b>	<b>-8.8%</b>
<b>South</b>	<b>569</b>	<b>625</b>	<b>-9.0%</b>	<b>660</b>	<b>-13.9%</b>	<b>1,229</b>	<b>1,109</b>	<b>10.9%</b>
<b>Total</b>	<b>2,895</b>	<b>3,356</b>	<b>-13.7%</b>	<b>3,035</b>	<b>-4.6%</b>	<b>5,930</b>	<b>6,263</b>	<b>-5.3%</b>
Exports	Aug-18	Aug-17	YoY	Jul-18	MoM	2MFY19	2MFY18	YoY
LUCK	141	70	100.0%	179	-21.6%	320	163	96.3%
DGKC	33	45	-27.3%	20	65.7%	52	101	-48.4%
FCCL	31	30	1.1	19	66.6%	50	53	-5.0%
CHCC	31	49	-35.6%	25	28.2%	56	102	-45.1%
MLCF	25	28	-9.2%	17	48.7%	42	65	-35.1%
PIOC	4	4	1.2	6	-25.3%	10	10	-7.7%
KOHC	8	12	-28.9%	7	14.9%	15	23	-32.7%
ACPL	125	44	181.3%	178	-30.1%	303	96	213.7%
FECTC	5	5	-8.8%	4	8.4%	9	11	-18.5%
<b>North</b>	<b>264</b>	<b>307</b>	<b>-13.9%</b>	<b>189</b>	<b>39.6%</b>	<b>453</b>	<b>644</b>	<b>-29.7%</b>
<b>South</b>	<b>292</b>	<b>103</b>	<b>2.84</b>	<b>331</b>	<b>-11.5%</b>	<b>623</b>	<b>241</b>	<b>158.4%</b>
<b>Total</b>	<b>557</b>	<b>410</b>	<b>35.8%</b>	<b>520</b>	<b>7.1%</b>	<b>1,076</b>	<b>885</b>	<b>21.54%</b>
Total	Aug-18	Aug-17	YoY	Jul-18	MoM	2MFY19	2MFY18	YoY
LUCK	578	619	-6.6%	682	-15.2%	1,260	1,211	4.1%
DGKC	410	420	-2.2%	357	15.0%	767	799	-4.0%
FCCL	257	273	-5.9%	239	7.7%	495	508	-2.5%
CHCC	179	214	-16.1%	171	4.8%	350	410	-14.6%
MLCF	241	273	-11.8%	239	0.9%	480	546	-12.1%
PIOC	105	121	-13.2%	112	-6.7%	217	239	-9.2%
KOHC	163	198	-18.0%	170	-4.1%	332	370	-10.1%
ACPL	291	195	49.0%	360	-19.1%	651	372	75.3%
FECTC	56	70	-19.4%	53	5.7%	109	123	-11.0%
<b>North</b>	<b>2,590</b>	<b>3,037</b>	<b>-14.7%</b>	<b>2,564</b>	<b>1.0%</b>	<b>5,154</b>	<b>5,799</b>	<b>-11.1%</b>
<b>South</b>	<b>861</b>	<b>729</b>	<b>18.2%</b>	<b>991</b>	<b>-13.1%</b>	<b>1,852</b>	<b>1,350</b>	<b>37.3%</b>
<b>Total</b>	<b>3,452</b>	<b>3,766</b>	<b>-8.3%</b>	<b>3,555</b>	<b>-2.9%</b>	<b>7,007</b>	<b>7,148</b>	<b>-2.0%</b>

Source: APCMA &amp; AKD Research

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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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