Cement

3QFY24: Earnings to decline by 21%q/q owing to lower demand and gross margins

- For the 3QFY24, we expect sector earnings (IGI coverage cement universe) to post an earnings decline of -21% q/q to PKR 13.6bn compared to PKR 17.1bn last quarter, and up by +6%y/y compared to PKR 12.8bn during the same period last year.
- Due to lower demand, declining gross margins, high finance cost, and axle load implementation, the sector profitability is expected to decline by -21% q/q. However, there were a couple of positive developments, including the declining inflation outlook and the formation of new government which lead to better cement demand towards the last month of 3QFY24.
- Cement dispatches declined by -10%y/y during 3QFY24 because of lower demand, implementation of axle load, political uncertainty, and seasonality effect.

Cement Sector earnings to decline by -21%q/q during 3QFY24

For the 3QFY24, we expect sector earnings (IGI coverage cement universe) to post an earnings decline of -21% q/q to PKR 13.6bn compared to PKR 17.1bn last quarter, and up by +6%y/y compared to PKR 12.8bn during the same period last year. During 3QFY24, cement exports increased by +11.4% y/y while local dispatches dropped by -13%y/y.

Exhibit: Cement sector EPS preview for 3QFY24
Period end = Mar 24

EPS (PKR)	3QFY24E	2QFY24A	q/q	3QFY23A	y/y	9MFY24	y/y
LUCK	19.0	23.1	-18%	13.7	39%	65.8	73%
PIOC	5.4	7.5	-27%	4.2	30%	17.0	42%
CHCC	7.0	8.0	-12%	6.5	8%	22.9	3%
KOHC	9.4	11.4	-18%	8.3	13%	32.1	17%
FCCL	0.7	1.1	-37%	0.8	-11%	2.8	0%
MLCF	1.2	1.7	-31%	1.7	-32%	4.1	-18%
DGKC	1.5	0.9	67%	2.7	-44%	3.9	-19%
Total (PKR bn)	13.6	17.1	-21%	12.8	6%	47.0	24%
DPS (PKR)	3QFY24E	2QFY24A		3QFY23A		9MFY24	
LUCK	0.0	0.0		18		18.0	
PIOC	0.0	5.0		0		5.0	
CHCC	0.0	0.0		3		3.0	
KOHC	0.0	0.0		0		0.0	
FCCL	0.0	0.0		0		0.0	
MLCF	0.0	0.0		0		0.0	
DGKC	0.0	0.0		0		0.0	

Source: Company Financials, PSX, IGI Research

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Due to lower demand, declining gross margins, high finance cost, and axle load implementation, the sector profitability is expected to decline by 21% q/q. However, there were a couple of positive developments, including the declining inflation outlook and the formation of new government which led to better cement demand towards the last month of 3QFY24.

LUCK: Earnings to increase by +39%y/y to PKR 19.0/share during 3QFY24

We expect LUCK to report quarterly earnings of PKR 5.6bn (EPS: PKR 19.0/share), down by -18% q/q during 3QFY24 compared to PKR 6.8bn (EPS: PKR 23.1/share) in 2QFY24 due to lower demand. On year-on-year basis, the earnings are expected to increase by +39%y/y. We attribute the decline in earnings on a quarterly basis during 3QFY24 to a) lower local demand, and b) lower gross margins. Incline in earnings on y/y basis is likely due to the better other income and lower imported coal prices. This brings total earnings for 9MFY24 to PKR 19.3bn (EPS PKR 65.8), up by +73%y/y. Moreover, we don't expect LUCK to pay any dividends.

PIOC: Earnings to increase by +30%y/y to PKR 5.4/share during 3QFY24

We expect Pioneer Cement Limited (PIOC) to register quarterly earnings of PKR 1.24bn (EPS: PKR 5.45/share), up by +30%y/y (down by -27%q/q) compared to PKR 0.95bn (EPS: PKR 4.2/share) in the same period last year. Earnings are expected to decline on a quarter-on-quarter basis owing to lower demand and decline in gross margins. On y/y basis the increase in earnings is expected due of the higher retention prices and reducing debt levels. This brings total profitability for 9MFY24 to PKR 3.9bn (EPS PKR 17.0), up by +42%y/y. We do not expect the Company to announce any cash dividend along with the result.

CHCC: Earnings to increase by +8%y/y to PKR 7/share during 3QFY24

Cherat Cement Company Limited (CHCC) is projected to register quarterly earnings of PKR 1.37bn (EPS: PKR 7.0/share), up by 8% y/y (down by -12%q/q) during 3QFY24 compared to PKR 1.55bn (EPS: PKR 8/share) in the same period last year. This brings total profitability for 9MFY24 to PKR 4.4bn (EPS PKR 22.9/share), up by +3% y/y. Furthermore, we do not expect CHCC to announce any cash dividends.

KOHC: Earnings to increase by +13%y/y to PKR 9.4/share during 3QFY24

Kohat Cement Company Limited (KOHC) is likely to register quarterly earnings of PKR 1.8bn (EPS: PKR 9.4/share), up by +13% y/y (down by -18%q/q) during 3QFY24 compared to PKR 1.6bn (EPS: PKR 8.3/share) in the same period last year. We expect gross margins to come at 26%. This brings total earnings for 9MFY24 to PKR 6.3bn (EPS PKR 32.1/share), up by +17% y/y. In addition, the Company is not expected to pay any dividends.

FCCL: Earnings to decline by 11%y/y to PKR 0.7/share during 3QFY24

We expect Fauji Cement Company Limited (FCCL) to register quarterly earnings of PKR 1.7bn (EPS: PKR 0.7/share), down by -11% y/y (down by -37%q/q) during 3QFY24 compared to PKR 1.9bn (EPS: PKR 0.8/share) during the same period last year. The decline in earnings is likely attributable to underutilization due to lower demand and the higher depreciation expense to be booked due to the newly operational plant in DG Khan. Selling and Distribution expense are to stay at a higher side due to the implementation of axle load. This brings total profitability for 9MFY24 to PKR 6.96bn (EPS PKR 2.8), down by -0.2% y/y. In addition, FCCL is not expected to pay a dividend.

MLCF: Earnings to decline by 32%y/y to PKR 1.2/share during 3QFY24

On unconsolidated basis, we expect Maple Leaf Cement Factory Limited (MLCF) to report quarterly earnings of PKR 1.3bn (EPS: PKR 1.18/share), down by -32%y/y (-31%q/q) during 3QFY24 compared to PKR 1.8bn (EPS: PKR 1.7/share) during the same period last year. We expect gross margins to fall to 30% during the quarter owing to higher inflation and lower capacity utilization. This brings total earnings for 9MFY24 to PKR 4.4bn (EPS PKR 4.1/share), down by -18%y/y. Moreover, the Company is not expected to pay a dividend.

DGKC: Earnings to increase by +67%q/q to PKR 1.5/share during 3QFY24

We expect DG Khan Cement Company Limited (DGKC) to register quarterly earnings of PKR 0.66bn (EPS: PKR 1.5/share) during 3QFY24, compared to PKR 1.18bn (EPS: PKR 2.7/share) in the same period last year. We expect gross margins to improve by 4% during the quarter, the increase in gross margins is primarily attributable to the non-occurrence of a one-time maintenance charge in the prior quarter, and besides this, lower power and fuel cost are likely to push the gross margins upwards.

However, earnings growth is likely to be limit by higher finance cost. This brings total earnings for 9MFY24 to PKR 1.13bn (EPS PKR 2.6), down by -47%y/y. In addition, DGKC is not expected to pay any dividend.

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