

## Cement

### 4qFY23: Earnings to Drop by 48%q/q Owing to High Taxation Expense and Weak Demand

- For the 4qFY23, we expect sector earnings (IGI coverage cement universe) to post an earnings decline of -48%q/q to PKR 6.7bn compared to PKR 12.8bn last quarter, and up +8%y/y compared to PKR 6.2bn last year same period.
- Local demand for cement deteriorated owing to sluggish economic growth, mounting interest rates cycle, low utilization of PSDP funds, and climbing input costs.
- Furthermore, the companies will likely incorporate retrospective super tax charges during this quarter that will dent the profitability of the companies.

#### Cement Sector earnings to drop by 48%q/q during 4qFY23

For the 4qFY23, we expect sector earnings (IGI coverage cement universe) to post an earnings decline of -48%q/q to PKR 6.7bn compared to PKR 12.8bn last quarter, and up +8%y/y compared to PKR 6.2bn last year same period. The incline in earnings on y/y basis is due to relatively better gross margins supported by higher retention prices. During 4qFY23, cement exports increased by +2.5x y/y while local dispatches dropped by 18%y/y.

#### Exhibit: Cement sector EPS preview for 4qFY23

Period end = Jun

EPS (PKR)	4QFY23E	y/y	q/q	FY23E	y/y
LUCK	8.4	-34%	-34%	43.9	-10%
PIOC	2.6	n/m	-39%	14.5	213%
CHCC	3.0	-42%	-53%	25.2	10%
KOHC	3.8	93%	-53%	30.5	22%
FCCL	0.2	-70%	-72%	3.1	5%
MLCF	0.7	218%	-60%	6.5	52%
DGKC	1.9	n/m	-29%	6.8	0%
Cement Sector total (in PKRbn)	6.7	8%	-48%	45.5	12%
DPS (PKR)	4QFY23E	FY23E			
LUCK	0.0	0.0			
PIOC	0.0	0.0			
CHCC	0.0	1.5			
KOHC	0.0	0.0			
FCCL	0.0	0.0			
MLCF	0.0	0.0			
DGKC	1.0	1.0			

Source: Company Financials, PSX, IGI Research

#### Analyst

Abdullah Farhan  
[Abdullah.farhan@igi.com.pk](mailto:Abdullah.farhan@igi.com.pk)

Aariz Raza Khan  
[Aariz.raza@igi.com.pk](mailto:Aariz.raza@igi.com.pk)

Local demand for cement deteriorated owing to sluggish economic growth, mounting interest rates cycle, low utilization of PSDP funds, and climbing input costs. Furthermore, the companies will likely incorporate retrospective super tax charges during this quarter that will dent the profitability of the companies.

#### **PIOC: Earnings to drop by 39%q/q to PKR 2.6/share during 4qFY23**

We expect Pioneer Cement Limited (PIOC) to register quarterly earnings of PKR 0.58bn (EPS: PKR 2.6/share), compared to a loss of PKR 0.57bn (EPS: PKR -2.5/share) in the same period last year. Earnings are expected to decline on a quarter-on-quarter basis owing to lower dispatches and higher finance costs however, a slight improvement in gross margin is likely to limit profitability decline during 4qFY23. This brings total profitability for FY23 to PKR 3.3bn (EPS PKR 14.5), up by +3.1xy/y. We do not expect the Company to announce any cash dividend along with the result.

#### **LUCK: Earnings to fall by 34%q/q to PKR 8.4/share during 4qFY23**

Lucky Cement Limited's (LUCK) board meeting is scheduled on 07<sup>th</sup>-Aug-2023 to announce financial results for 4qFY23 where we expect the Company to register quarterly earnings of PKR 2.6bn (EPS: PKR 8.4/share), down by 34%/y during 4qFY23 compared to PKR 4bn (EPS: PKR 12.7/share) in the same period last year amid a rise in exports share. We attribute this decline in earnings on a quarterly basis during 4qFY23 to a) lower gross margins, and b) higher finance costs as borrowings increased coupled with high-interest rates. This brings total earnings for FY23 to PKR 13.4bn (EPS PKR 43.9), down by 10%/y. Moreover, LUCKY is not expected to pay any dividends.

#### **CHCC: Earnings to drop by 53%q/q to PKR 3/share during 4qFY23**

Cherat Cement Company Limited (CHCC) is projected to register quarterly earnings of PKR 0.59bn (EPS: PKR 3/share), down by 42%/y during 4qFY23 compared to PKR 1021bn (EPS: PKR 5.3/share) in the same period last year. This brings total profitability for FY23 to PKR 4.9bn (EPS PKR 25.2), up by +10%/y. Furthermore, we estimate CHCC to announce PKR 1.5/share cash dividend along with the result.

#### **KOHC: Earnings to drop by 53%q/q to PKR 3.8/share during 4qFY23**

Kohat Cement Company Limited (KOHC) is likely to register quarterly earnings of PKR 0.76bn (EPS: PKR 3.8/share), up by +93y/y during 4qFY23 compared to PKR 0.39bn (EPS: PKR 2/share) in the same period last year. We expect gross margins to come at 22%. This brings total earnings for

FY23 to PKR 6.1bn (EPS PKR 30.5), up by +22%/y. In addition, the Company is not expected to pay any dividends.

#### FCCL: Earnings to decline by 72%q/q to PKR 0.2/share during 4qFY23

We expect Fauji Cement Company Limited (FCCL) to register quarterly earnings of PKR 0.53bn (EPS: PKR 0.2/share), down by 70%/y during 4qFY23 compared to PKR 1.8bn (EPS: PKR 0.7/share) in the same period last year. This brings total profitability for FY23 to PKR 7.5bn (EPS PKR 3.1), up by +5%/y. In addition, FCCL is not expected to pay a dividend.

#### MLCF: Earnings to drop by 60%q/q to PKR 0.7/share during 4qFY23

We expect Maple Leaf Cement Factory Limited (MLCF) to register quarterly earnings of PKR 0.75bn (EPS: PKR 0.7/share), up by +3.2x y/y during 4qFY23 compared to PKR 0.24bn (EPS: PKR 0.2/share) in the same period last year. Gross margins are anticipated to rise to 29% during the quarter owing to efficient inventory management and a decline in coal prices. This brings total earnings for FY23 to PKR 6.9bn (EPS PKR 6.5), up by +52%/y. Moreover, the Company is not expected to pay a dividend.

#### DGKC: Earnings to drop by 29%q/q to PKR 1.9/share during 4qFY23

We expect DG Khan Cement Company Limited (DGKC) to register quarterly earnings of PKR 0.84bn (EPS: PKR 1.9/share) during 4qFY23, compared to a loss of PKR 0.65bn (EPS: PKR -1.5/share) in the same period last year. This brings total earnings for FY23 to PKR 3bn (EPS PKR 6.8), nearly flat compared to the same period last year. In addition, the DGKC is expected to pay a dividend of PKR 1/share.

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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## Contact Details

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrukh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Shakeel Ahmad	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	shakeel.ahmad1@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

### Research Team

Abdullah Farhan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Aariz Raza	Analyst	Tel: (+92-21) 111-234-234 Ext: 810	Aariz.raza@igi.com.pk

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Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
 Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
 UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
 Fax: (+92-21) 35309169, 35301780

#### Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,  
 Stock Exchange Road, Karachi.  
 Tel: (+92-21) 32429613-4, 32462651-2  
 Fax: (+92-21) 32429607

#### Lahore Office

Shop # G-009, Ground Floor,  
 Packages Mall  
 Tel: (+92-42) 38303560-69  
 Fax: (+92-42) 38303559

#### Faisalabad Office

Office No. 2, 5 & 8, Ground Floor, The  
 Regency International 949, The Mall  
 Faisalabad  
 Tel: (+92-41) 2540843-45

#### Multan Office

Mezzanine Floor, Abdali Tower,  
 Abdali Road  
 Tel: (92-61) 4512003, 4571183

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
 Block- B, Jinnah Avenue, Blue Area  
 Tel: (+92-51) 2604861-2, 2604864, 2273439  
 Fax: (+92-51) 2273861

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
 Model Town, Town Hall Road  
 Tel: (+92-68) 5871652-3  
 Fax: (+92-68) 5871651

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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