

Day Break

Tuesday, 05 December 2017

Sector Update

Exhibit: Coverage companies dispatches

000' tons	Nov-17	YoY%	5MFY18	YoY%
LUCK	630	-4%	3,135	3%
DGKC	430	4%	2,040	14%
MLCF	335	14%	1,488	8%
FCCL	308	5%	1,342	15%
CHCC	226	98%	1,146	134%
KOHC	197	-4%	934	7%
ACPL	186	-2%	902	7%
PIOC	135	27%	662	7%
Industry	3,929	5%	18,499	14%

Exhibit: Industry focusing towards local sales

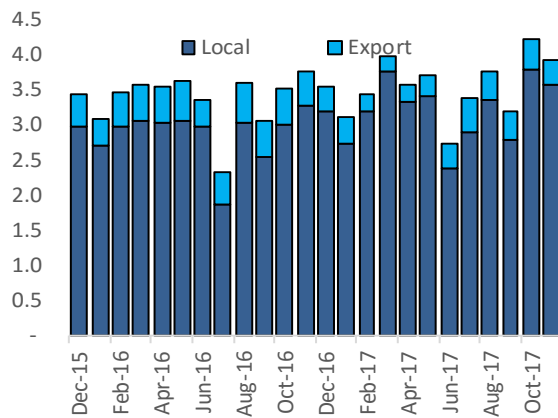
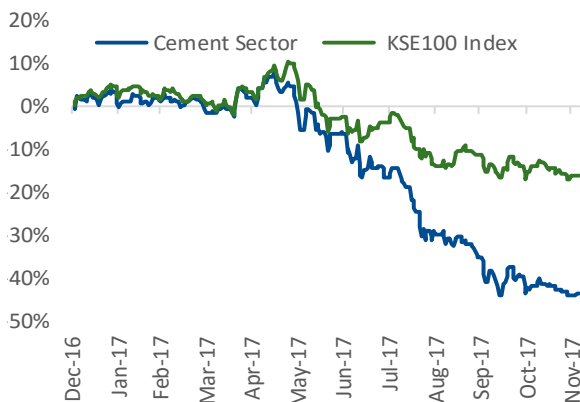


Exhibit: Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Cement

Nov-17; Cement dispatches stabilize to +5%YoY growth amidst poor weather conditions in the north region

- As per the provisional numbers, cement dispatches for the month of Nov-17 registered a +5%YoY growth to clock in at 3.93mn tons as against 3.75mn tons in the similar month last year.
- Local cement offtakes posted +9%YoY rise, whereas exports fell by a massive 26%YoY.
- Cement prices in north region were axed yet again by 1%MoM. This was the fourth consecutive monthly price cut witnessed in the north region. However prices in South also increased by +1%YoY.
- Dispatches to project similar growth in Dec-17 owing to smog in the northern region and arrival of winter in the country.

Provisional dispatches figures normalize at +5%YoY growth; fell by 7%MoM

As per the provisional numbers, cement dispatches for the month of Nov-17 registered a +5%YoY growth to clock in at 3.93mn tons as against 3.75mn tons in the similar month last year. Cumulatively, this brought 5MFY18 dispatches to 18.50mn tons in contrast to 16.25mn tons in 5MFY17, marking a rise of +14%YoY. However, on a sequential basis, the numbers fell by around 7%MoM, largely due to high base effect in the month of Oct-17.

Exhibit:

Cement Dispatches

(mn) tons	Nov-17	Oct-17	M/M	Nov-16	Y/Y	5MFY18	5MFY17	Y/Y
Local	3.58	3.78	-5%	3.27	9%	16.42	13.71	20%
Exports	0.35	0.44	-21%	0.48	-26%	2.08	2.54	-18%
Grand Total	3.93	4.22	-7%	3.75	5%	18.50	16.25	14%

Source: IGI Research

Domestic growth sailing the boat

Generating better returns, the industry continued to focus its efforts towards local sales as against export sales which appear to have fallen from grace. Growing by +9%YoY, domestic dispatches accumulated to 3.58mn tons in contrast to 3.27mn tons in the same month last year. However, a sharp decline of 26%YoY in exports managed to restrict the overall sales growth to +5%YoY.

Company wise: CHCC and PIOC lead the volumetric growth chart

Cherat Cement Company Limited (CHCC) yet again spearheaded the volumetric chart with a massive +98%YoY growth attributed to enhanced capacity whereas Pioneer Cement Limited (PIOC) claimed the second spot with a +27%YoY rise. Alternatively, Lucky Cement Limited (LUCK) despite holding the second largest market share witnessed a 4%YoY downfall.

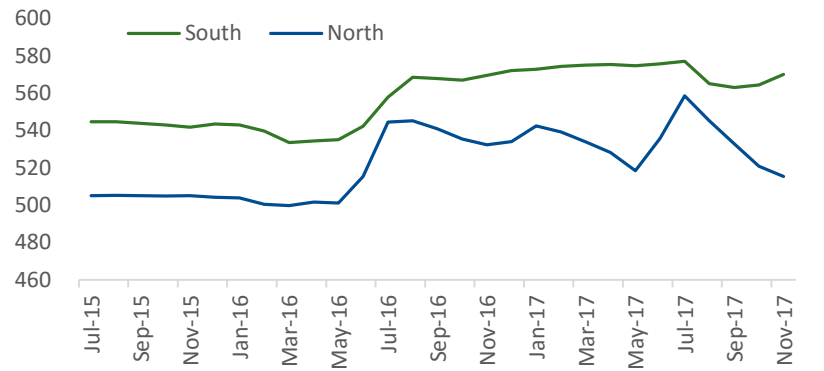
Cement prices; North falls yet again by 1%, South rises by +1%

As per the weekly data published by Pakistan Bureau of Statistics (PBS), cement prices in the north region dropped yet again by 1%MoM to clock in at an average price of PKR 515/bag as opposed to PKR 521/bag in Oct-17. To

recall, this is the fourth consecutive monthly price cut witnessed in the north region following heated competition by regional players in an effort to dominate dispatches growth. However, on a national level the average prices remained relatively stable owing to a +1% increase in cement prices/bag in the south region which rose to PKR 570/bag as against PKR 564/bag in Oct-17.

Exhibit:

North and South Price Statistics



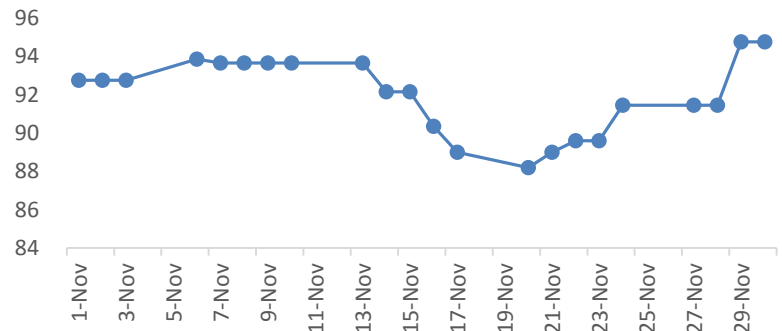
Source: PBS, IGI Research

Ban on pet coke in India rebounds international coal price

Following China’s National Development & Reform Commission’s decision to reduce number of coal mining days, the international price of coal (Benchmark: Richards Bay) fell to around US\$ 88.20/ton as against last month’s closing price of US\$ 92.75/ton. However, due to Supreme Court of India’s recent ban on pet coke, demand of coal as a primary fuel has reemerged, thus rebounding international coal price back to \$92.50 as at the month end.

Exhibit:

International coal price movement for the month of November



Source: Bloomberg, IGI Research

Cement exports to India may rise in the coming months

The ban on pet coke, imposed in order to protect the environment from the high content of harmful carbon emissions emanating from it, is expected to raise cement prices across India. This is because of coal being an expensive

fuel, besides possessing low heat content, as compared to pet coke. Given this scenario, cement from Pakistan becomes more competitive, especially in areas having close proximity to the national borders which also provides added advantage of reduced transportation costs.

Notable highlights in Nov-17

- Kohat Cement Company Limited (KOHK) established credit lines for its 2.34mn ton grey cement plant. Accordingly, we expect the plant to come online Dec-19.

Key developments to lookout for in Dec-17

- Lucky Cement Limited's (LUCK) installation of additional line having a capacity of 1.25mn tons is expected to come online by Dec-17.
- Attock Cement Pakistan Limited's (ACPL) installation of additional line having a capacity of 1.20mn tons is also expected to come online by the end of Dec-17.

Smog & poor weather in north to hamper offtakes in the coming months

Looking ahead, we expect similar sort of growth in dispatches to follow in Dec-17 owing to smog in the northern region and arrival of winter in the country. However, the overall demand is expected to regain confidence in 2HFY18 ascribed to a) increase in ground breaking of pipelined infrastructure projects in the wake of an election year; and b) higher demand post winter season.

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