

Day Break

Friday, 11 January 2019

Sector Update

Exhibit: Earning Estimates

EPS (PKR)	2QFY19E	YoY%	1HFY19E	YoY%
LUCK	6.84	-37%	14.55	-28%
MLCF	0.57	-63%	1.15	-66%
KOHC	3.62	-2%	6.25	-24%
ACPL	2.98	-25%	6.05	-28%
CHCC	1.29	-69%	3.73	-51%
DGKC	1.66	-19%	2.61	-69%
FCCL	0.64	7%	1.22	33%
PIOC	1.34	-5%	2.47	-24%

Cement

Quarterly earnings to show muted growth; as volumes slowdown

- For 2QFY19, sector earnings of our coverage companies is estimated to post a +2%q/q growth or 37%/y decline for 1HFY19.
- Based on provisional numbers, volumetric sales depict a modest +4%/y during 1HFY19, primarily owing to healthy exports growth of +48%/y, while local sales remained damped posting a decline of 1.5%/y
- Provided a modest domestic demand outlook is expected in the near term and given fresh capacities are to gradually come online. In the meanwhile, recent rounds of PKR depreciation have made exports rather more attractive. Laying our focus on South players, especially LUCK and ACPL who maintain a strong international presence, we expect cement exports to rise by ~30% during FY19 (+48% in 1HFY19). Nevertheless, we believe long term sector dynamics remain strong. Our selective picks in cement sector includes LUCK and PIOC.

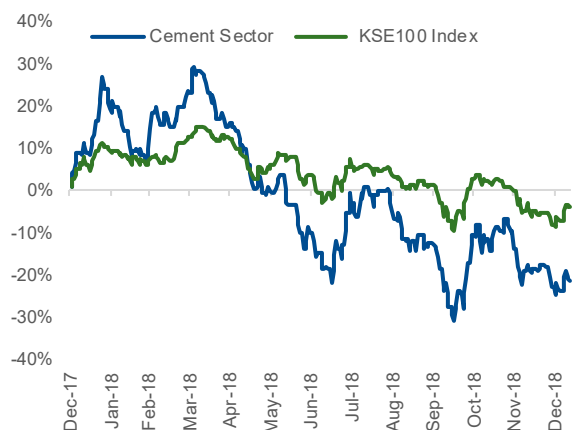
Cements: Quarterly earnings to show muted growth

For 2QFY19, sector earnings of our coverage companies is estimated to post a +2%q/q growth or 37%/y decline for 1HFY19. Sector gross profit margins are expected to remain flat, thanks to a 4%q/q rise in domestic cement prices and better exports volumes. On a quarterly basis, DGKC, FCCL and KOHC are estimated to show above sector growth, while LUCK and CHCC earnings are expected to decline on quarterly basis.

Exhibit: Cements Sector earnings preview

EPS (PKR)	2Q19E	1Q19A	Q/Q	2Q18A	Y/Y	1H19E	1H18A	Y/Y
LUCK	6.84	7.71	-11%	10.92	-37%	14.55	20.25	-28%
MLCF	0.57	0.58	-1%	1.56	-63%	1.15	3.32	-66%
KOHC	3.62	2.63	38%	3.69	-2%	6.25	8.19	-24%
ACPL	2.98	3.08	-3%	3.99	-25%	6.05	8.39	-28%
CHCC	1.29	2.44	-47%	4.21	-69%	3.73	7.64	-51%
DGKC	1.66	0.95	74%	2.05	-19%	2.61	8.52	-69%
FCCL	0.64	0.58	10%	0.60	7%	1.22	0.92	33%
PIOC	1.34	1.14	18%	1.41	-5%	2.47	3.25	-24%

Exhibit: Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Winter season pulled market sales volumes

Based on provisional numbers, volumetric sales depict a modest +4%/y during 1HFY19, primarily owing to healthy exports growth of +48%/y, while local sales remained damped posting a decline of 1.5%/y. Company-wise ACPL, DGKC and KOHC remained top volumetric leader during the period.

Movement on domestic price hikes

During the 2Q, prices in both south and north regions increased by an average of PKR 22/bag (+5%q/q) to PKR 600 and 603/bag, respectively passing on the impact of weak PKR and rising international coal prices along PKR 5/bag increase in FED. As a result, retention prices are estimated to show a ~4% average q/q growth.

Exhibit: Company-wise sales assumption

mnTon	2Q19E	1Q19A	Q/Q	2Q18A	Y/Y	1H19E	1H18A	Y/Y
LUCK	1.93	1.89	2%	1.95	-1%	3.83	3.76	2%
MLCF	0.76	0.75	1%	0.97	-21%	1.52	1.80	-16%
KOHC	0.54	0.55	-2%	0.58	-6%	1.09	1.11	-2%
ACPL	0.92	0.95	-4%	0.55	66%	1.87	1.07	74%
CHCC	0.56	0.54	3%	0.65	-15%	1.10	1.34	-18%
DGKC	1.28	1.26	1%	1.31	-3%	2.54	2.45	4%
FCCL	0.78	0.75	3%	0.90	-14%	1.53	1.63	-6%
PIOC	0.34	0.33	5%	0.41	-16%	0.67	0.79	-16%

Exhibit: 2018 turns out to be weakest in terms volumetric sales

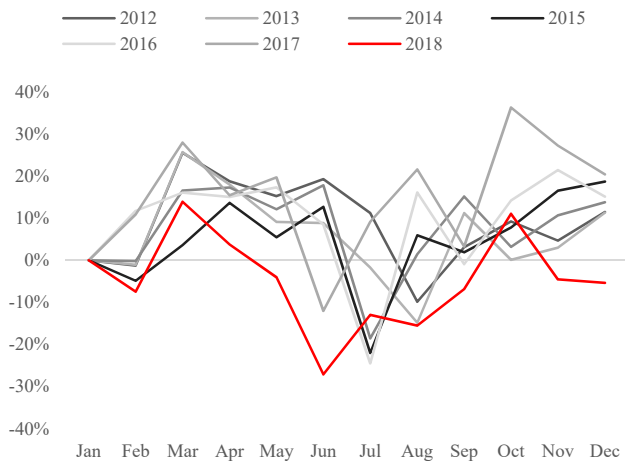


Exhibit: North region sales remain a drag on overall sector sale performance (based on ppt contribution)

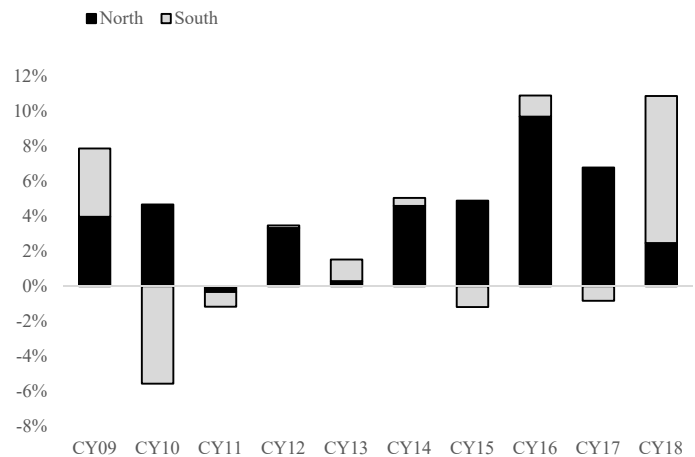
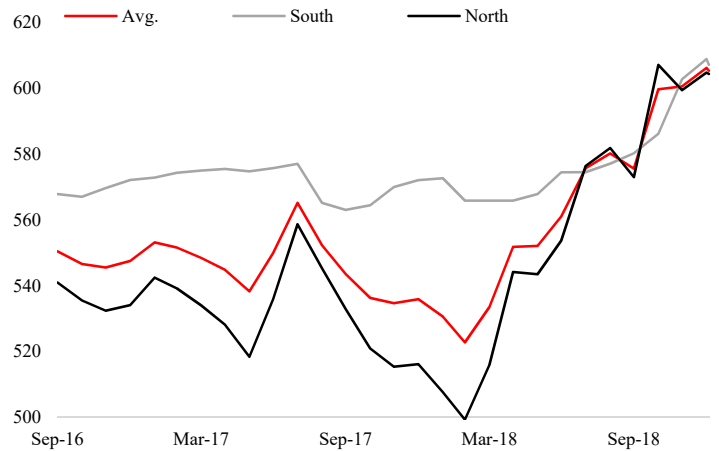
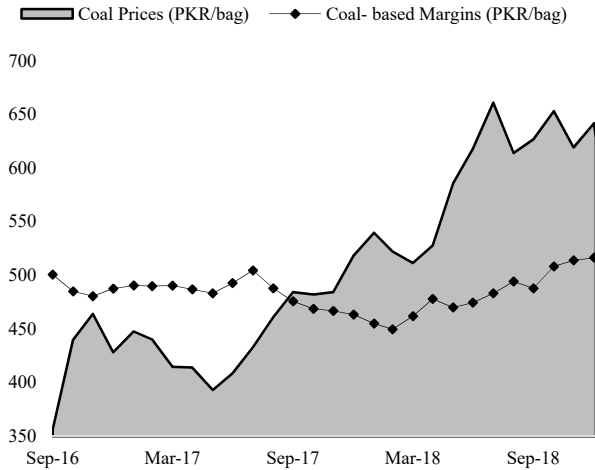


Exhibit: Key Assumptions

	2Q19E	1Q19A	Q/Q	2Q18A	Y/Y	1H19E	1H18A	Y/Y
Price (PKR/bag)	601	577	4%	543	11%	589	550	7%
Coal (USD/ton)	102	103	-1%	92	11%	102	89	15%
PKR / USD	134	124	8%	106	26%	129	106	22%
Sales	12.30	10.81	14%	11.89	3%	23.11	22.24	4%
Local	10.54	9.02	17%	10.77	-2%	19.56	19.84	-1%
Export	1.76	1.79	-2%	1.12	57%	3.55	2.41	48%
Profitability	5,824	5,695	2%	8,526	-32%	11,519	18,406	-37%
Gross Margin	24%	23%	1%	32%	-8%	24%	33%	-9%
Net Margin	12%	13%	0%	19%	-6%	12%	21%	-8%

Exhibit: Rising coal prices along with depreciating PKR to restrict gross margin expansion

Exhibit: Cement manufacturers increased bag prices on average by PKR ~22 during the 2Quarter to ward-off impact of FED, rising Coal prices and PKR depreciation



Recommendation

Provided a modest domestic demand outlook is expected in the near term and given fresh capacities are to gradually come online. In the meanwhile, recent rounds of PKR depreciation have made exports rather more attractive. Laying our focus on South players, especially LUCK and ACPL who maintain a strong international presence, we expect cement exports to rise by ~30% during FY19 (+48% in 1HFY19). Nevertheless, we believe long term sector dynamics remain strong. Our selective picks in cement sector includes LUCK and PIOC.

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Time Horizon: Dec – 2019

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