Day Break

Friday, March 29, 2024

IGI Securities
SERVING YOU SINCE 1994

Sector Profitability

Cements

Cement sector profitability increased by +9.2%y/y during 2QFY24

- On an unconsolidated basis, the listed cement industry of Pakistan reported record earnings of PKR 22.1bn in 2QFY24 up by +9.2%y/y mainly owing to better gross margins and substantial impact of the other income.
- Gross margins of the sector were up by +2.1% y/y and were recorded at 27.4% for the 2QFY24 as compared to 25.3% during the SPLY. The major reason for the rise in YoY gross margins is lower coal prices. The gross margins were down by -0.8% q/q owing to higher electricity and coal prices.
- Looking ahead; we expect demand to stay dull during the 3QFY24 mainly due to Ramadan and Eid. However, the gross margins are likely to stay healthy during the quarter owing to lower coal prices. In addition to this we expect that interest rate cuts being anticipated around the 4QFY24 would put the highly leveraged cement companies at advantage and that would result in better earnings in the last quarter of FY24.

Earnings reported an increase of +9.2%y/y to PKR 22.1bn

The listed companies in the cement sector of Pakistan reported earnings of PKR 22.1bn up by +9.2%y/y (+5.5% q/q). This was mainly due to higher gross margins and substantial impact of the other income on profitability. Net sales of the listed companies were recorded at PKR 178.5bn an increase of 9.5%y/y, despite lower local dispatches. The higher sales were complemented by the rise in average cement price which witnessed an increase of 16% y/y. On a half yearly basis the listed cement sector's profit after tax stood at PKR 43bn up by +24.1%y/y.

Exhibit: Financials of Pakistan's listed cement sector

PKRmn	2QFY24	q/q	2QFY23	y/y	1HFY24	y/y
Net Sales	178,547	4.9%	163,125	9.5%	348,760	20.4%
Cost of Sales	129,641	5.2%	121,790	6.4%	252,853	16.8%
Gross Profit	**48,906**	**4.1%**	**41,335**	**18.3%**	**95,907**	**31.1%**
Admin	3,382	8.4%	2,748	23.1%	6,504	17.8%
S/m/d	7,438	19.9%	3,662	103.1%	13,641	92.7%
Other Expense	2,740	7.3%	2,526	8.5%	5,293	13.9%
Other Income	7,789	-12.9%	3,626	114.8%	16,735	118.1%
Operating Profit	**43,135**	**-2.1%**	**36,025**	**19.7%**	**87,204**	**37.1%**
Finance Cost	9,756	-9.8%	6,966	40.1%	20,576	51.6%
Profit Before Taxation	**33,378**	**0.4%**	**29,059**	**14.9%**	**66,628**	**33.2%**
Taxation	11,259	-8.3%	8,797	28.0%	23,538	53.8%
Profit after Tax	**22,119**	**5.5%**	**20,262**	**9.2%**	**43,090**	**24.1%**

Source: Company Accounts, IGI Research

Analyst
Laraib Nisar
laraib.nisar@igi.com.pk
Tel: +92 21 111 234 234 Ext: 974

Higher cement prices led to rise in overall net sales

Despite the total cement dispatches being down by -4% y/y, net sales of the listed companies were recorded at PKR 178.5bn, up by +9.5% y/y. The higher sales were complemented by the rise in average cement price which witnessed an increase of 16% y/y.

Exhibit: Cement sector net sales and Cement prices

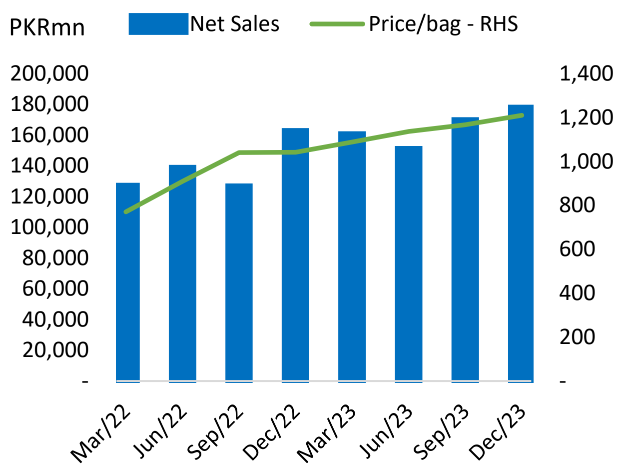
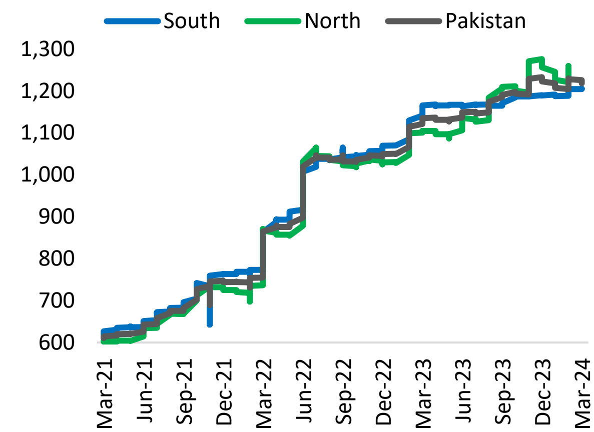


Exhibit: Cement Prices (PKR / bag)

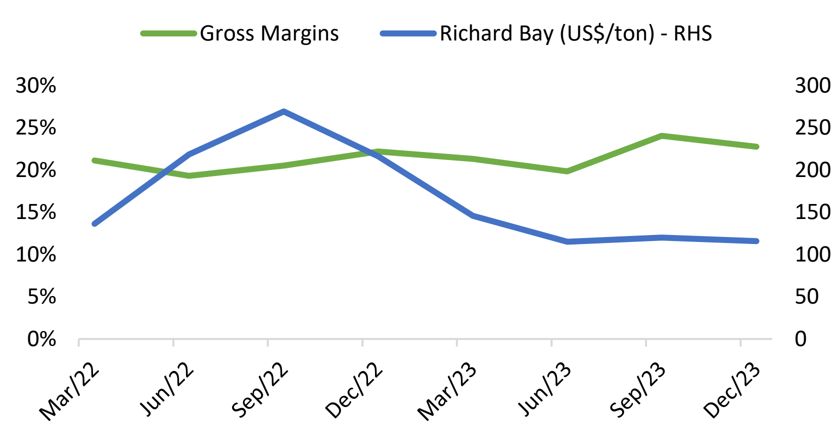


Source: Company Accounts, PBS, IGI Research

Gross margins recorded at 27.4% up by 2.1% y/y

Gross margins of the sector were up by 2.1% y/y and were recorded at 27.4% for the 2QFY24 as compared to 25.3% during the SPLY. The major reason for the rise in YoY gross margins is lower coal prices. The gross margins were down by -0.6% q/q owing to higher electricity and coal prices.

Exhibit: Cement Gross Margins and International Coal Prices

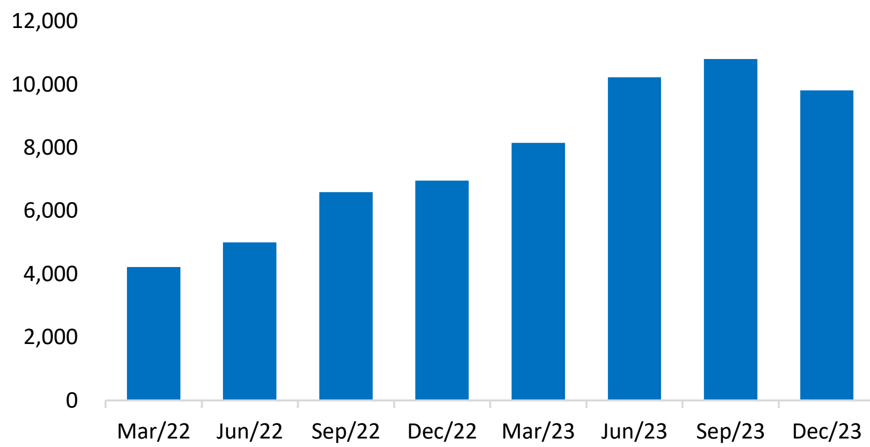


Source: Company Accounts, IGI Research

Finance cost up by +41% y/y

Finance cost stood at a historic high during FY23 and 1HFY24 which impacted the profitability of the listed cement sector companies negatively, this is mainly attributable to high interest rates and borrowing of the cement sector companies.

Exhibit: Cement Sector Finance cost (PKR in Mn)

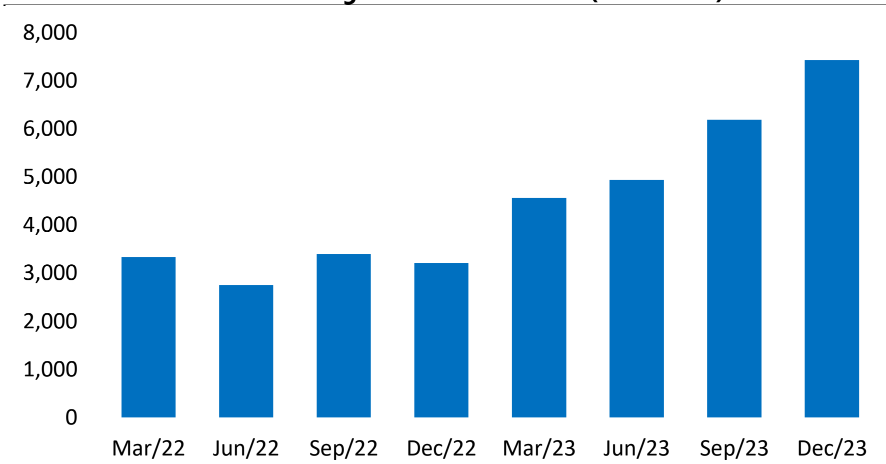


Source: Company Accounts, IGI Research

Selling & Distribution cost stood at all time high

Selling & Distribution cost during the 2QFY24 stood at PKR 7.4bn up by +2.02x y/y, this is mainly attributable to the inflationary pressures and the implementation of the axle load regime, the rise in this cost has negatively impacted the profits of the companies.

Exhibit: Cement Sector Selling & Distribution Cost (PKR in Mn)



Source: Company Accounts, IGI Research

Company-wise Profitability

LUCK turned out to be the largest player in the market in 2QFY24. The second most profitable cement company was BWCL followed by FCCL, KOHC, CHCC, MLCF, and PIOC respectively.

LUCK reported profit after tax of PKR 6.7bn up by +2.07x y/y. LUCK contributed approximately 30.66% in the total listed cement sector profitability of the country. LUCK had a gross margin of 36% during the quarter which was better than the competitors and this was mainly because of efficient management of coal inventory and lower power prices due to in house production. Moreover, LUCK reported other income of PKR 3.04bn up by 3.6x y/y, the other income included PKR 1.4bn dividend received from Lucky Motor Corporation.

BWCL reported profit after tax of PKR 3.7bn, down by -22% y/y. BWCL stood as the second most profitable cement manufacturer in the country and it contributed approximately 16.76% in the total listed cement sector profitability of the country.

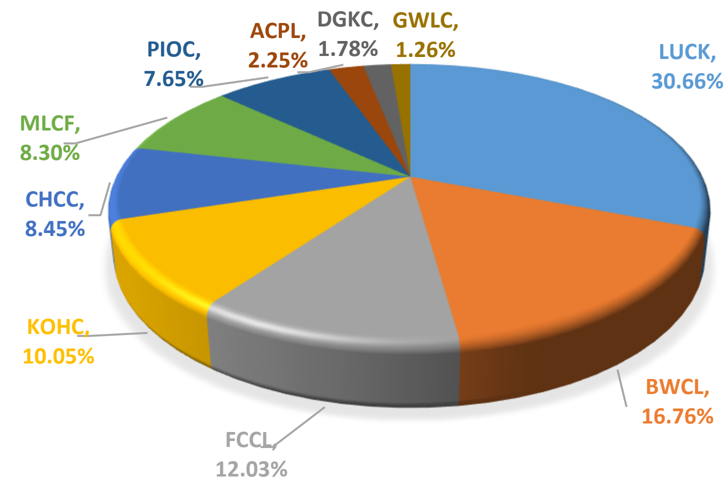
FCCL contributed around 12.03% in the total listed cement sector profitability of the country. The company reported net income of PKR 2.6bn down by -4% y/y owing to high finance cost.

Exhibit: Company-wise cement sector profitability (Unconsolidated)

PKRmn	2QFY24	q/q	2QFY23	y/y	1HFY24	y/y
Lucky Cement Limited	6,781	-2%	3,276	107%	13,710	92%
Bestway Cement	3,708	21%	4,761	-22%	6,783	-16%
Fauji Cement	2,660	2%	2,767	-4%	5,274	4%
Kohat Cement	2,224	0%	1,954	14%	4,453	19%
Cherat Cement	1,868	22%	1,556	20%	3,401	12%
Maple Leaf Cement	1,835	38%	2,346	-22%	3,166	-11%
Pioneer Cement	1,693	81%	1,175	44%	2,626	49%
Attock Cement	497	-68%	445	12%	2,040	264%
DG Khan Cement	394	-40%	543	-27%	1,054	13%
Gharibwal Cement	278	-32%	692	-60%	686	-39%
Thatta Cement	237	95%	48	397%	358	NM
Fecto Cement	89	0%	(61)	-246%	179	NM
Flying Cement	82	-8%	82	1%	171	23%
Power Cement	0	NM	692	NM	(470)	NM
Dewan Cement	(226)	95%	(49)	365%	(342)	-53%
Total	**22,119**	**5%**	**20,226**	**9%**	**43,090**	**24%**

Source: Company accounts, IGI Research

Exhibit: Company-wise profitability contribution



Source: Company Accounts, IGI Research

Outlook

We expect demand to stay dull during the 3QFY24 mainly due to Ramadan and Eid. However, the gross margins are likely to stay healthy during the quarter owing to lower coal prices. In addition to this we expect that interest rate cuts being anticipated around the 4QFY24 would put the highly leveraged cement companies at advantage and that would result in better earnings in the last quarter of FY24. DGKC would be one of the major beneficiaries of the interest rate cuts because approximately 85% of DGKC's debt is conventional in nature, whereas other major players including LUCK, FCCL, and CHCC enjoy subsidized loans under the TERF/LTFF schemes.

We maintain our outperform stance on cement sector.

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/ securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. The subject Company (ies) is a client of the IGI Finex Securities Limited and IGI Finex Securities offers brokerage services to Subject Company (ies) on a regular basis, in line with industry practice. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation Rating System
Buy if target price on aforementioned security (ies) is more than 10%, from its last closing price(s)
Hold if target price on aforementioned security (ies) is in between -10% and 10%, from its last closing price(s)
Sell if target price on aforementioned security (ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

Basic Definitions and Terminologies used: Target Price: A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, **Last Closing:** Latest closing price, **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **EPS:** Earnings per Share. **DPS:** Dividend per Share. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009

Contact Details

Equity Sales

Zaeem Haider Khan	Head of Equities	Tel: (+92-42) 35301405	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	Head of Research	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Sakina Makati	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 810	sakina.makati@igi.com.pk
Laraib Nisar	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 974	laraib.nisar@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited
Website: 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

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

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

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

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

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

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009