

Sector Update

Cements

Elevated input costs pull 4QFY21 earnings down by 18%q/q; PIOC and FCCL to lead earnings growth

- We preview annual financial result for IGI cement coverage companies for FY21 wherein, we expect profitability to increase massively due to low base effect. Albeit on sequential basis, we expect 4QFY21 profitability to decrease by 18%q/q marred by the heightened cost structure in the wake of rising coal prices, lower dispatches due to Ramadan and extended Eid holidays and absence of dividend income (LUCK, MLCF & DGKC).
- On dispatches front, the recently completed financial year turned out to be the most promising one in the country's history with local offtakes recorded at 48.1mn tons up by 20.4%y/y. However, due to seasonality effect and extended Eid holidays dispatches declined by mere 3%q/q to 13.96mn tons as compared to 14.4mn tons in the preceding quarter.
- Cement sales are expected to continue the remarkable trend of growth in the local front with CPEC activities and household sector being the primary contributors. A sort of pricing discipline is also anticipated to be maintained by the industry plating in an effort to sustain margins amid rising input cost and a dynamics business environment. However, rising coal prices, fluctuating FX and upward trending inflation will counter the positive impacts

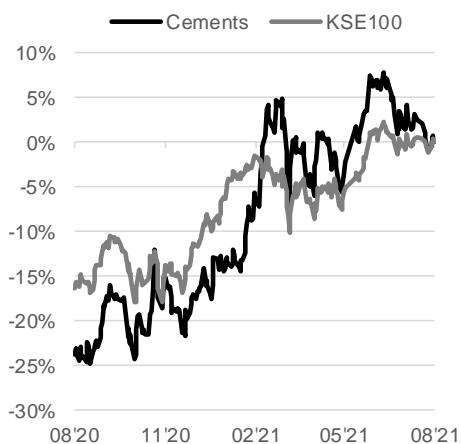
4QFY21 earnings down by 18%q/q

We preview annual financial result for IGI cement coverage companies for FY21 wherein, we expect profitability to increase on yearly basis. Albeit on sequential basis, we expect 4QFY21 profitability to decrease by 18%q/q marred by the heightened cost structure in the wake of rising coal prices, lower dispatches due to Ramadan and extended Eid holidays and absence of dividend income (LUCK, MLCF & DGKC). While, cement prices not rising in tandem. On an individual basis, LUCK, DGKC & MLCF will decline more steeply as compared to other giants. On the other hand PIOC and FCCL will outshine the industry by posting an earnings growth of 10%q/q and 19%q/q courtesy higher dispatches and energy cost saving from 24MW coal fired power plant in case of PIOC.

A wholesome year with respect to dispatches: On dispatches front, the recently completed financial year turned out to be the most promising one in the country's history with local offtakes recorded at 48.1mn tons up by 20.4%y/y. However, due to seasonality effect and extended Eid holidays dispatches declined by mere 3%q/q to 13.96mn tons as compared to 14.4mn tons in the preceding quarter.

Improved retention: During 4QFY21 average cement sales price for northern region rose by 2%q/q to PKR 600/bag. Whereas, that of southern region remained rather stable up by 1.5%q/q to PKR 650/bag. In addition to sales price improvement, further increase in retention price is expected to occur through reduced FED and discounts offered to dealers during the quarter.

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Gross margins to increase on yearly basis, however, decline sequentially: Our coverage companies average gross margins are expected to clock in at 24% as compared to 27% in the preceding quarter. The sequential decline is mainly due to surge in variable cost (with average retail price only rising by 2%q/q), alongside average cost of producing cement rising by 10-15%q/q. This was largely driven by sequential increase in coal price globally and PKR depreciation in addition to growing inflationary pressures.

Company wise: PIOC & FCCL to lead the chart: Company wise, PIOC and FCCL stands the tallest with respect to % growth making a rise of 10%/19%q/q, courtesy higher dispatches for FCCL and energy saving in case of PIOC. Other than this all players are expected to display negative earnings growth.

Exhibit: 4QFY21 Result Preview					
	4QFY21	3QFY21	Q/Q	4QFY20	Q/Q
PIOC	3.31	3.02	10%	1.13	2.93x
CHCC	5.35	5.63	-5.0%	-3.63	n.m
MLCF*	0.90	1.11	-19%	-0.76	n.m
DGKC	2.16	4.67	-54%	-3.63	n.m
KOHC	4.66	5.27	-12%	-0.80	n.m
FCCL	0.87	0.73	19%	-0.27	n.m
LUCK*	19.23	24.31	-21%	4.58	4.20x
ACPL	2.74	3.01	-8.9%	-0.06	n.m

Source: Company accounts, IGI Research

Outlook:

Cement sales are expected to continue the remarkable trend of growth in the local front with CPEC activities and household sector being the primary contributors. A sort of pricing discipline is also anticipated to be maintained by the industry plating in an effort to sustain margins amid rising input cost and a dynamic business environment. However, rising coal prices, fluctuating FX and upward trending inflation will counter the positive impacts. Our investment case carries an upside risk as and when coal starts coming off from recent high and cement producers are able to sustain prices. We have an overweight stance on the sector with LUCK, DGKC, PIOC and MLCF as our top picks.

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Time Horizon: Dec – 2021

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(Discounted Cash Flow)

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