

Day Break

Monday, 11 April 2016

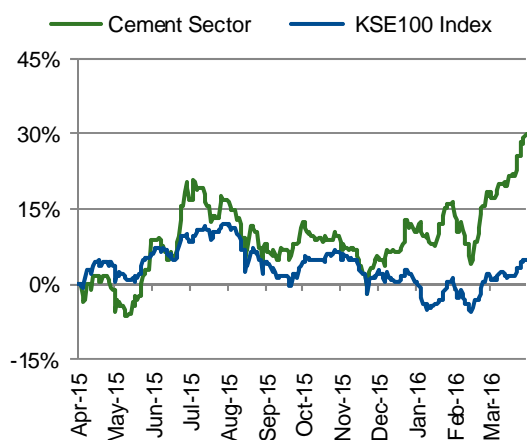
Sector Update

	Dec-16 TP	Upside	P/E	D. Yld %
CHCC	139	19%	13.69	3.00
FCCL	56	25%	12.31	7.16
LUCK	672	19%	11.95	1.92
PIOC	133	27%	10.97	6.71
ACPL	266	18%	10.56	7.10
KOHC	283	3%	10.01	3.58
DGKC	228	24%	9.59	2.99
MLCF	104	5%	8.06	4.16

Total Dispatches (000' tons)

	Mar-16	YoY	9MFY16	YoY
KOHC	186	7%	1,528	21%
PIOC	126	18%	976	13%
MLCF	304	31%	2,276	11%
DGKC	388	29%	3,089	10%
FCCL	241	11%	2,080	9%
FECTC	58	10%	539	7%
ACPL	184	30%	1,443	2%
CHCC	85	9%	737	1%
LUCK	625	10%	4,970	0%
Industry	3,577	24%	28,340	10%

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

Analyst

Rashmina Lalani

rashmina.lalani@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 826

Cement Sector

Booming Dispatches Continued in Mar-16

- Local cement dispatches in Mar-16 posted highest ever monthly sales of 3.05mn tons, rising up by +2%MoM/+24%YoY. For 9MFY15, sales jumped up +16%YoY clocking in at 23.5mn tons, with south region depicting +24%YoY rise and north posting +15%YoY increase. Industry's capacity utilization in 9MFY16 stands at 82% as compared to 74% in the same period last year.
- Export have reversed its downward trend and leaped up by +18%MoM/+23%MoM to 0.5mn tons in Mar-16. However, sales remained fragile for 9MFY16, as exports slid down by 24%YoY to 1.6mn ton.
- Market capitalization of IGI cement universe has soared up by +20% in FY16TD as compared to inept performance of KSE-100 index which has posted -1% return in same period. With further decline in international coal price to USD 49.85/ton on 8th Apr-16 and tremendous construction demand expected in local market, we believe cement sector is all set to reap the benefits of higher profitability going forward. We continue to maintain our overweight stance on the sector, with DGKC, CHCC and LUCK as our favorite stocks.

Highest Ever Domestic Monthly Dispatches in Mar-16

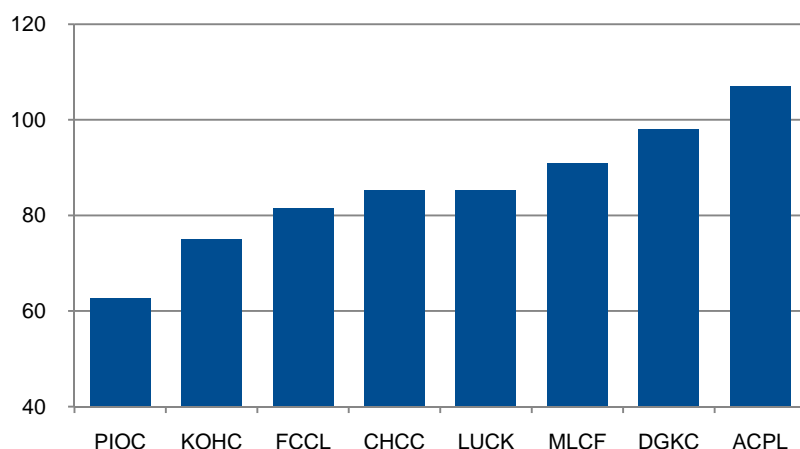
Local cement dispatches in Mar-16 posted highest ever monthly sales of 3.05mn tons, rising up by +2%MoM/+24%YoY, whereas subdued monthly growth in dispatches is on the back of heavy rains in Punjab and KPK. For 9MFY16, local sales jumped up +16%YoY clocking in at 23.5mn tons, with south region depicting +24%YoY rise and north posting +15%YoY increase. This phenomenal growth in volumetric sales is on the back of inception of various CPEC projects where government has nodded construction of 285km long western route, PKR 387.54bn PSDP spending (55.4% of total budgeted for FY16), and augmenting private spending on infrastructure.

Industry's capacity utilization in 9MFY16 stands at 82% as compared to 74% in the same period last year. Going forward, we expect local dispatches to inflate by +11%YoY for the period of FY16E-FY20F, which can be easily surpassed, once the projects under CPEC umbrella gain momentum. Considering the current capacity, PIOC would be the major beneficiary of further increase in local demand as it currently operates on lowest capacity utilization among IGI Cement Universe. However, DGKC and CHCC are also likely to have sufficient room to grow sales, with their

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additional capacities coming online in FY17-FY18.

Exhibit: 9MFY16 Capacity Utilization (%)



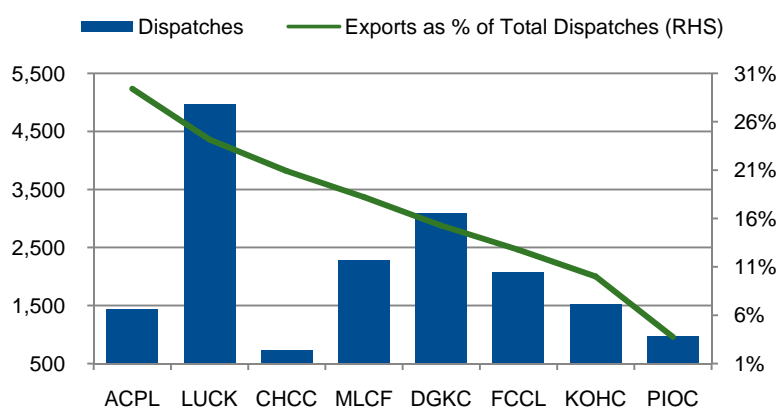
Source: IGI Research, Company Financials, APCMA

Exports- A positive turn

Export have reversed its downward trend and leaped up by +18%MoM/+23%MoM to ~0.5mn tons in Mar-16. However, sales remained fragile in 9MFY16, as exports slid down by 24%YoY to 1.6mn ton.

Going forward, we expect exports to continue to decline by 30%YoY in FY16E-FY20F, however, we think that attractive demand in local market would likely compensate producers for declining exports. In our view, ACPL, LUCK and CHCC can take advantage of fall in exports as companies can increase their retention per ton, based on successful substitution of exports in domestic market.

Exhibit : Proportion of Export to Total Dispatches (000'tons)



Source: IGI Research, Company Financials, APCMA

3QFY16 Earnings Outlook

Among IGI Cement universe, we expect FCCL to post highest growth in earnings in 3QFY16 to PKR 1.20/share (+114%YoY) due to +13%YoY growth in dispatches in third quarter and savings provided by 10MW WHR, which is

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operational since 4QFY15. MLCF is also poised to dart +68%YoY mount in profitability, attributable to +18%YoY hike in dispatches, savings coming in from oil based captive power plant and reduced financial cost.

Exhibit: IGI Cement Universe Earnings for 3QFY16

	3QFY16E	3QFY15	YoY	9MFY16E	9MFY15	YoY
FCCL	1.20	0.56	114%	3.29	1.81	81%
MLCF	2.90	1.73	68%	7.33	4.44	65%
CHCC	2.50	1.69	48%	6.33	5.31	19%
KOHC	7.40	5.60	32%	21.00	14.44	45%
ACPL	6.89	5.41	27%	16.96	14.34	18%
DGKC	5.69	4.52	26%	14.81	12.26	21%
LUCK	13.78	11.45	20%	33.12	28.77	15%
PIOC	2.68	2.50	7%	7.03	8.19	-14%

Source: IGI Research

Recommendation

Market capitalization of IGI cement universe has soared up by +20% in FY16TD as compared to inept performance of KSE-100 index which has posted -1% return in same period. With further decline in international coal price to USD 49.85/ton on 8th Apr-16 and tremendous construction demand expected in local market, we believe cement sector is all set to reap the benefits of higher profitability going forward. We continue to maintain our overweight stance on the sector, with DGKC, CHCC and LUCK as our favorite stocks.

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Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- FCF(Free Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

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) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queeshi@igi.com.pk

IGI Finex Securities Limited

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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
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road, Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life Building, 2- Liaquat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area, Islamabad
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, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651