Day Break

Wednesday, 23 September 2020

Sector

Cements

Macro Tailwinds Appear to Be Priced-In; Prefer MLCF, DGKC, LUCK and FCCL over Others

- We revisit our investment case on IGI Cements, and have thus revised earnings forecast for our coverage companies.
- Favorable sector dynamics amid a) anticipated higher volumes, b) improved margins and; c) restricted finance costs are expected to present a turnaround in sector earnings with FY21 earnings expected to clock in at PKR 16bn as against a loss of PKR 5bn for FY20
- Given the exponential Bull Run on cements companies so far, we recommend a 'Buy' call on MLCF, DGKC, LUCK and FCCL

We revisit our investment case on IGI Cements, and have thus revised earnings forecast for our coverage companies. Since Mar-20, the combined market capitalization of these companies have gone up by nearly two-fold (+~2.3x) reaching PKR 446bn in comparison to PKR ~196bn in Mar-20 (pre Covid-19) and 10yrs historic average of PKR ~275bn.

Favorable sector dynamics - in the shape of a) anticipated higher volumes on the back of government backed construction theme and attractive private credit offtake scenario, b) improved margins amid increased sales prices, lowered discounts and contained cost structure, and; c) restricted finance costs driven by substantially reduced benchmark interest rates - are expected to present a turnaround in sector earnings with FY21 earnings expected to clock in at PKR 16bn as against a loss of PKR 5bn for FY20 and thereafter present an earnings CAGR of 43% till FY25 to PKR 68bn.

Given the exponential bull run on cements companies so far, based on a fundamental analysis we view KOHC, ACPL, PIOC and CHCC, offer limited upside from its current prices thus we have a '**Hold**' call on them. However, we still see decent upside in MLCF, DGKC, LUCK and FCCL respectively wherein we recommend a '**Buy**' call. For FCCL along with that we expect healthy 5yr average dividend yield of ~11% compared to sector average of 4%.

Exhibit: Key valuation metrics of IGI cements coverage

Earnings (PKR bn)	2020	2021	2022	2023	2024	2025	CAGR	TP	Upside
MLCF	(3.24)	1.83	3.44	4.44	5.80	7.21	47%	54	36%
DGKC	(4.93)	3.06	10.71	13.97	17.53	21.17	79%	134	20%
LUCK	10.34	21.40	49.78	57.22	68.92	79.83	48%	791	19%
FCCL	(0.04)	1.26	2.06	2.84	3.60	4.21	42%	24	17%
KOHC	(2.80)	10.27	18.15	21.37	26.92	32.71	38%	211	7%
ACPL	8.06	12.78	17.48	18.37	21.12	23.68	18%	166	-1%
PIOC	(4.31)	1.01	4.69	8.74	13.81	18.73	139%	96	-2%
CHCC	(9.74)	1.23	8.21	13.18	20.71	27.19	156%	124	-7%

Source: Company Accounts, IGI Research

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Investment Theme

Our investment case on the sector is premised on phenomenal earnings growth driven primarily by improving margins, enhanced volumetric sales and declining substantially finance costs. The key theme is hence as follows:

i. Macro tailwinds to keep sector volumes healthy
ii. Combined with a healthy outlook on margins, amid improvement in retention prices and contained costs
iii. While, reduced finance costs will further act as bottom line catalyst

1# Macro tailwinds to keep sector volumes healthy

Government's pro construction macro theme and forthcoming development projects to keep volumes healthy

To combat the potential economic fallout of Covid-19, the federal government introduced special packages aimed particularly at boosting construction activities across the country. The package, worth PKR 1.1trn, dubbed "Prime Minister Construction Package" contained multiple incentives to foster housing development projects.

Moreover, the State Bank of Pakistan (SBP) stepped up its monetary easing slashing 625bps off the policy rate to bring it close to a decade low level of 7% (6.5% back in May-18). To corroborate government's agenda of pro-construction driven model, SBP has now made it mandatory for commercial banks to bring housing and construction loans (carrying a fixed markup of 5% to 7%) up to at least five percent of total private sector credit up till Dec-2021. This amount roughly comes at PKR ~330bn which compared to current outstanding amount stands at PKR 126bn (Residential stand at PKR 29bn).

These measures are first of its kind in Pakistan and are expected to trigger surge in housing demand and so for cement industry. Whereas on a medium to long term horizon, Dam construction and other infrastructure development measures (recently announced Karachi Transformation package) will be key fuel to volumetric growth for the sector.

Based on these updated trends, we have revised our dispatches growth assumption to 5yrs forward cagr of ~7% reaching 55mnT by 2025. This is slightly higher by ~50bps from its historic average of ~6.5% cagr achieved in past 10yrs.

Exhibit: Sector wide dispatches forecast

mn tons	FY20A	FY21E	FY22F	FY23F	FY24F	FY25F
North	34.33	37.76	40.78	43.23	45.39	46.75
South	5.64	6.12	7.03	7.46	7.83	8.06
Local	**39.97**	**43.88**	**47.82**	**50.68**	**53.22**	**54.81**
North	1.89	1.95	2.01	2.07	2.13	2.19
South	5.96	7.06	7.64	7.98	8.34	8.72
Export	**7.85**	**9.01**	**9.64**	**10.05**	**10.47**	**10.91**
Total	**47.81**	**52.88**	**57.46**	**60.73**	**63.69**	**65.73**
Growth	*2%*	*11%*	*9%*	*6%*	*5%*	*3%*

Source: APCMA, IGI Research

2# Combined with a healthy outlook on margins, amid improvement in retention prices and contained costs

Reduced FED, lesser discounts and rise in cement sales prices amid non-existent price war environment to keep retentions buoyant

Given unfavorable demand dynamics in Fy20, cement retention prices remained on the lower side averaging PKR 261/bag in 9mFy20 as against PKR 327/bag in FY19. This was primarily due to drop in bag prices (in north region prices declined by ~9% to PKR 528/bag as against PKR 583/bag last year) and greater discounts offered by manufacturers to dealers in a bid to keep their market share intact.

However, post Covid, things have become less aggressive and a stronger marketing arrangement appears to have emerged among the players in the wake of fight against Covid-19 and the hatchet of stiff competition appears to have been buried. As a result cement sales prices in north have now jumped to PKR 539/bag (up by +7% FYTD).

Moreover, as part of PM's Construction package, the federal government has promulgated a material reduction of 25%y/y on Federal Excise Duty (FED) to PKR 1,500/ton for FY20 onwards as against PKR 2,000/ton applicable as of FY20. Accordingly, based on reduced FED and lesser discount offerings, we expect retention prices of IGI cement coverage to improve to PKR 312/351/375/bag for FY21/22/23 respectively as against expected retention of PKR 271/bag in FY20E

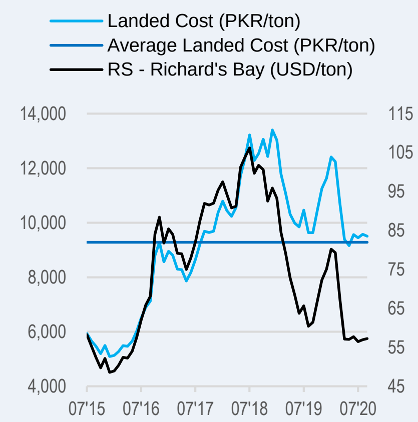
Exhibit: Cement sales and average retention price assumptions

PKR/bag	9MFY20A	FY20E	FY21F	FY22F	FY23F	FY24F	FY25F
North Sales Price	533	528	545	595	625	656	689
South Sales Price	638	634	620	660	680	700	721
National Sales Price	586	581	583	628	652	678	705
Avg. IGI Cement Retention Price	275	263	312	351	375	397	419

Source: PBS, Company Accounts, IGI Research

Global coal prices have witnessed a sharp decline since Aug 2018 with prices dropped down from USD 106/ton in Jul-18 to USD 56/to as of Aug-20. The decline in prices is ascribed to multiple reasons that include

- Over supply from Australian and Indonesian coal harbours,
- Gradual shift of power producers towards environmental friendly and renewable energy sources,
- US-China trade wars; and
- Declined LNG prices globally – an alternative fuel.



Benign global coal prices to contain cost structure further corroborating gross margins

Ever since the emergence of Covid-19, prices of coal (Richard's Bay Index) have further been affected and with second wave continuing to hit world economies, coal prices are expected to hover around USD 60/ton during FY21. Accordingly, our coal price assumption for FY21/22/23 onwards is marked at USD 60/65/70 per ton, respectively.

However, it is pertinent to note here that the material decline in global coal prices have in kind mitigated the adverse impact of currency fluctuations that has depreciated by a substantial +59% since Nov-17. Therefore, technically the decline in coal prices will in effect keep fuel costs, which comprise roughly 40% of cost of sales, upward sticky providing room for future profitability.

3# …while, reduced finance costs will further act as bottom line catalyst

Monetary easing to substantially weigh off finance cost burden, making room for net profitability

The SBP's response of slashing benchmark interest rates by 625bps has been the strongest contributor in surging sector market capitalization in the last couple of months.

To recall, the Pakistan Cement industry has just recently completed a major capacity expansion phase which has effectively jacked up its production capacity to 70mn tons as of Jun-20 as against 48mn tons in Jun-15.

This enhancement of asset base was led principally by enhancement in the loan book of the sector, which has soared up to PKR 78bn as of 9MFY20 as against PKR 14bn in FY16. The decline in interest rates are expected to trigger savings of PKR ~5bn for the sector as a whole and along with improvement in retention prices will turn the fortunes of highly leveraged companies such as DGKC, CHCC and PIOC by converting their earlier loss estimates into profits.

Exhibit: Leverage data of IGI Cements and prospective savings of borrowing costs

Scrip	LT Debt	ST Debt	Total Debt	Decline in Policy Rate	Expected Savings/share
ACPL	1,000	4,112	5,112	6.25%	2.32
CHCC	17,100	2,470	19,570	6.25%	6.30
DGKC	20,588	21,995	42,583	6.25%	6.07
FCCL	532	2,330	2,861	6.25%	0.13
KOHC	5,620	1,141	6,761	6.25%	2.10
MLCF	12,330	7,471	19,801	6.25%	1.13
PIOC	20,499	4,899	25,397	6.25%	6.99
LUCK	507	7,931	8,438	6.25%	1.63

Source: Latest Available Company Financials

Exhibit: IGI Cement Dispatches growth and utilization levels

Sector volumes are expected to rise amid favorable macro tailwinds

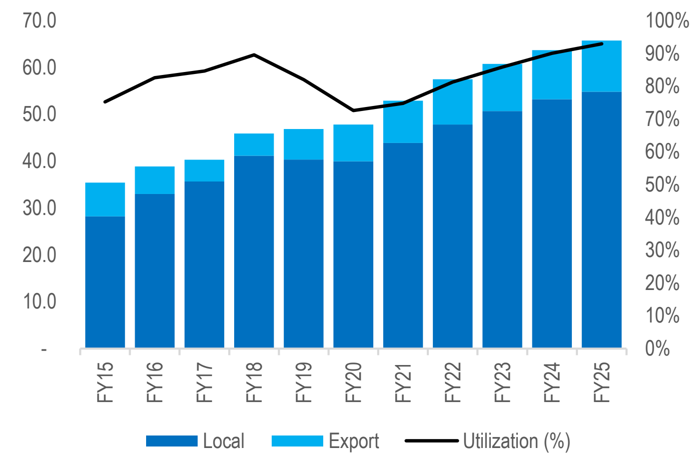


Exhibit: Building construction loans and policy rate

The recent decline in policy rates are expected to encourage issue of building loans

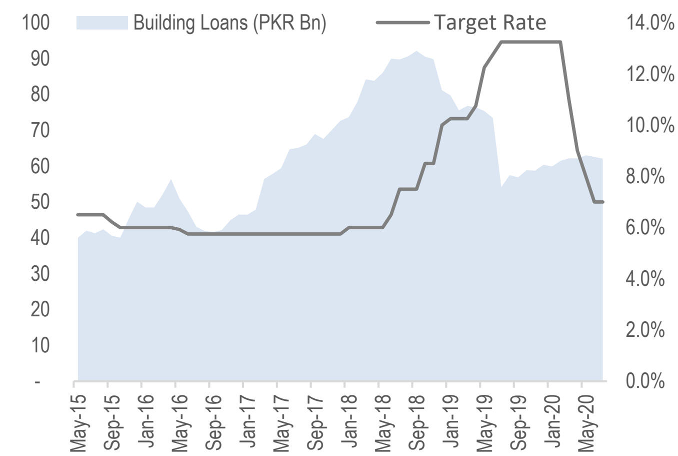


Exhibit: IGI Cement retention prices and cost structure

Improvement in retention prices and restricted cost structure will push gross margins higher

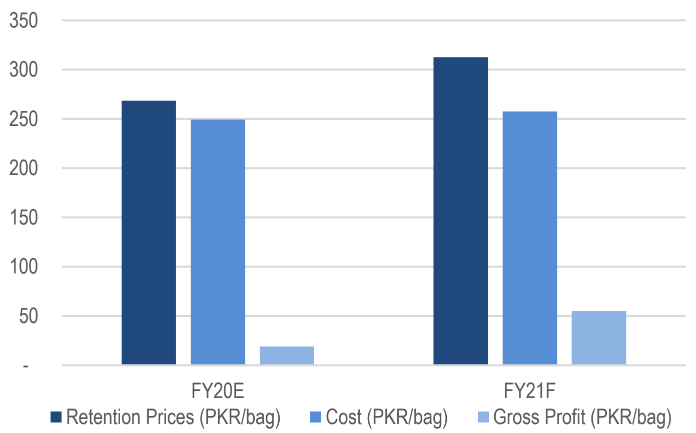


Exhibit: IGI Cement coverage retention prices

Pure North players to witness the highest rise in retentions due to lower FED and improved prices

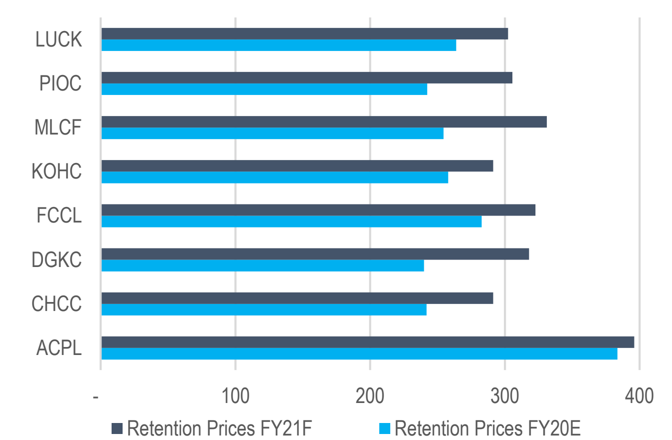


Exhibit: Global coal prices and local landed prices

Decline in global coal prices are expected to balance out the substantial depreciation of PKR/USD

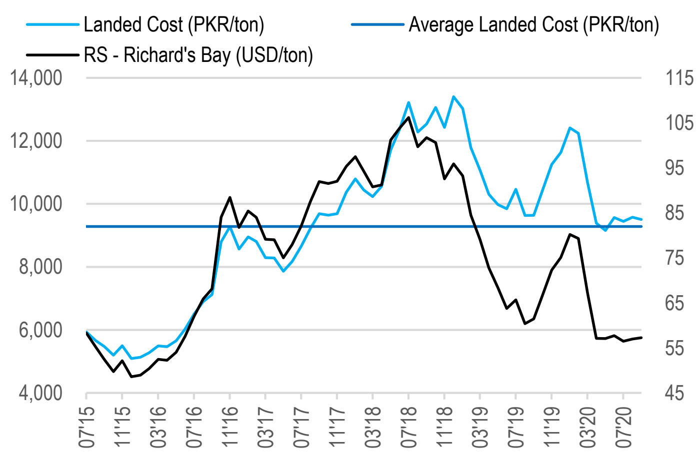
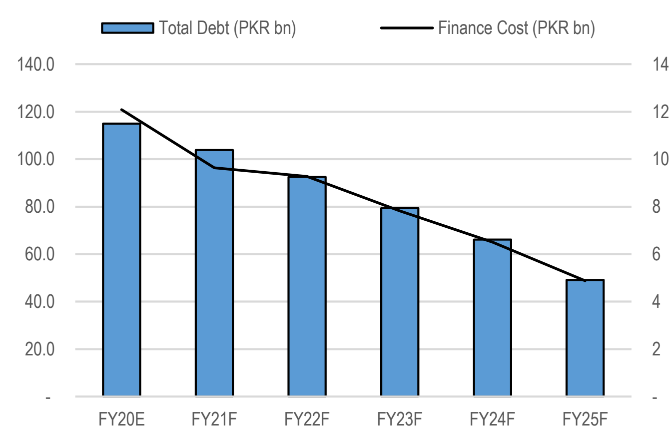


Exhibit: IGI Coverage total debt and interest costs

Gradual repayment of loans and single digit interest rates are expected to lower borrowing costs



Source: Company Accounts, Bloomberg, PBS, SBP, APCMA, IGI Research

Earnings Outlook

Favourable macros to deliver turn around in earnings

Based on revised sector dynamics, IGI cement universe is expected to deliver an earnings of PKR 16bn during FY21E as against loss of PKR 5bn during FY20, marking a rise of 4.4x. Prospectively, IGI Cements are expected to deliver an earnings CAGR of 43% till FY25 to PKR 68bn. The drive in earnings is primarily driven from the above mentioned factors that are a) improved retention prices. B) Contained cost structure, and; c) substantial savings in finance costs.

Exhibit: Cement combined company highlights

Period end (Jun) - PKRbn	FY19a	FY20e	FY21f	FY22f	FY23f	FY24f	FY25f
Dispatches (mn tons)	30.19	34.02	36.96	38.74	40.6	42.26	43.27
Dispatches Growth (%)	5%	13%	9%	5%	5%	4%	2%
Net Sales	197	182	231	271	304	335	361
Cost of sales	153	169	190	211	233	249	262
Gross Profit	45	13	41	61	71	86	99
Sales Growth %	10%	-8%	27%	17%	12%	10%	8%
Gross Margin %	23%	7%	18%	22%	23%	26%	27%
Retention - PKR/Bag	327	268	313	350	374	396	417
Admin, Selling & Distribution	11	13	14	15	16	17	18
Other Op. Income	7	7	6	14	16	18	21
EBIT	37	5	30	55	66	81	95
EBIT Margin %	18%	3%	13%	20%	22%	24%	26%
Financial Charges	7	12	10	9	8	7	5
Profit Before Taxation	30	-7	20	46	58	75	90
Taxation	5	-2	4	10	13	18	22
Effective Tax Rate	18%	37%	19%	21%	23%	24%	24%
Profit After Tax	24	-5	16	36	45	57	68
Net Margin (%)	12%	-3%	7%	13%	15%	17%	19%
PAT Growth YoY	-39%	-0.2x	4.4x	2.2x	24%	27%	20%
Dividends	0.34	0.26	0.31	0.35	0.38	0.40	0.42

Source: Company Accounts, IGI Research, APCMA

Companies covered: LUCK, ACPL, MLCF, DGKC, FCCL, CHCC, KOHC, PIOC

Exhibit: IGI Cement Company wise EPS

PKR	FY20A	FY21E	FY22F	FY23F	FY24F	FY25F
ACPL	8.06	12.78	17.48	18.37	21.12	23.68
CHCC	(9.74)	1.23	8.21	13.18	20.71	27.19
DGKC	(4.93)	3.06	10.71	13.97	17.53	21.17
FCCL	(0.04)	1.26	2.06	2.84	3.60	4.21
KOHC	(2.80)	10.27	18.15	21.37	26.92	32.71
MLCF	(3.24)	1.83	3.44	4.44	5.80	7.21
PIOC	(4.31)	1.01	4.69	8.74	13.81	18.73
LUCK	10.34	21.40	49.78	57.22	68.92	79.83

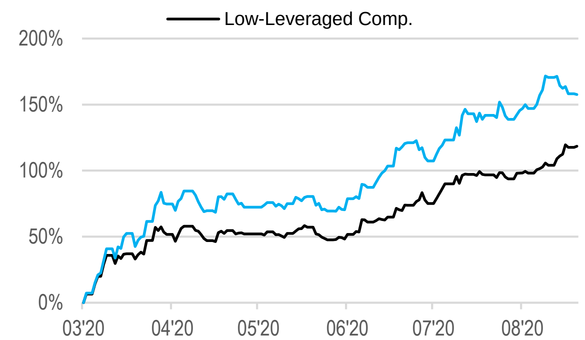
Source: Company Accounts, IGI Research

Valuation

Since Mar-20, overall cements stocks have had a bull run on the bourse, with highly leveraged companies including CHCC, PIOC and DGKC recovering more sharply owing to SBP easing down monetary cycle. Accordingly, the combined market capitalization of our coverage companies has grown by 2.3x to PKR 449bn from PKR 196bn since 26-Mar-20. PIOC followed by CHCC, being highly leveraged players, outperformed its sector and market by 193%/59% and 267%/133% respectively.

Exhibit: Comparison of high and low leveraged IGI cement coverage stock performance

High leveraged IGI Cement coverage stocks have performed better than low leveraged stocks owing to recent monetary reversal



Source: IGI Research, Bloomberg

However, given the exponential bull run on cements companies so far, based on a fundamental analysis we view KOHC, ACPL, PIOC and CHCC, offer limited upside from its current prices thus we have a '**Hold**' call on them. However, we still see decent upside in MLCF, DGKC, LUCK and FCCL respectively wherein we recommend a '**Buy**' call. For FCCL along with that we expect healthy 5yr average dividend yield of ~11% compared to sector average of 4%.

We have derived our valuation estimates using Discounted Cash flow (DCF) approach deploying a risk free rate of 8%, market premium of 7% and a sustainable growth rate of 3%.

Exhibit: Key Financial Metrics

	2014	2015a	2016a	2017a	2018a	2019a	2020a	2021e	2022f	2023f	2024f	2025f
Sales in MT	21.6	22.1	24.0	25.3	28.7	30.2	34.0	37.0	38.7	40.6	42.3	43.3
Avg. Retention Price (PKR/bag)	341	345	343	334	313	330	263	312	351	375	397	419
Growth												
Volume	3%	2%	8%	6%	14%	5%	13%	9%	5%	5%	4%	2%
Sales	10%	3%	8%	4%	7%	10%	-8%	27%	17%	12%	10%	8%
EPS	10%	19%	17%	-6%	-1%	-39%	n.m.	n.m.	122%	24%	27%	20%
Margin												
Gross Profit	37%	39%	44%	39%	30%	23%	7%	18%	22%	23%	26%	27%
EBIT	31%	34%	39%	35%	25%	18%	3%	13%	20%	22%	24%	26%
Net	21%	24%	27%	24%	22%	12%	-3%	7%	13%	15%	17%	19%
Valuation Metrics												
P/E	14.4	12.1	10.3	11.0	11.1	18.2	n.m.	27.4	12.4	10.0	7.9	6.5
PEG	138.6	63.4	61.3	(179.1)	n.m.	(46.8)	n.m.	n.m.	10.2	41.6	29.4	32.6
D/Y	2.5%	3.3%	3.6%	3.6%	2.7%	1.4%	0.1%	1.2%	2.7%	3.6%	4.8%	5.6%
EV/TON	20.4	19.1	17.2	17.1	16.1	16.1	14.1	12.6	11.3	10.0	9.0	8.1
EV/EBITDA	8.4	7.2	5.9	6.4	8.1	9.6	21.7	9.5	6.0	4.9	3.9	3.1
D/E	0.09	0.05	0.07	0.12	0.20	0.22	0.18	0.14	0.08	0.05	0.04	0.03
ROE	20.0%	20.3%	21.0%	17.4%	15.4%	8.9%	-1.7%	5.8%	11.9%	13.4%	15.4%	16.6%

Cement Key Financial Metrics

Exhibit: IGI Cement Sector Recommendation and key Financial Highlights

SYM	Cur. Price	Target Price	Recom.	EPS			DPS			BVPS			Earnings Gr%		
				'20	'21	'22	'20	'21	'22	'20	'21	'22	'20	'21	'22
ACPL	167.2	165.6	Neutral	8.1	12.8	17.5	2.0	6.5	13.0	121	132	143	-47	59	37
CHCC	132.3	123.5	Neutral	-9.7	1.2	8.2	0.0	0.3	1.8	51	52	60	n/m	n/m	566
DGKC	112.1	134.3	Buy	-4.9	3.1	10.7	0.0	1.0	2.5	156	159	169	n/m	n/m	250
FCCL	20.9	24.4	Buy	0.0	1.3	2.1	0.3	1.0	1.8	14	15	16	n/m	n/m	63
KOHC	198.2	211.5	Neutral	-2.8	10.3	18.2	0.0	3.0	7.0	93	103	118	n/m	n/m	77
MLCF	39.6	53.7	Buy	-3.2	1.8	3.4	0.0	0.5	1.5	29	29	31	n/m	n/m	88
PIOC	97.9	95.7	Neutral	-4.3	1.0	4.7	0.0	0.3	1.0	54	55	59	n/m	n/m	367
LUCK	662.5	790.5	Buy	10.3	21.4	49.8	0.0	4.5	10.0	307	328	373	-68	107	133
Cement													**-119**	**-442**	**122**

Exhibit: IGI Cement Sector Valuation Highlights and price performance

SYM	P/E			DY			P/B			ROE			ROA			52 Week		PERFORMANCE		
	'20	'21	'22	'20	'21	'22	'20	'21	'22	'20	'21	'22	'20	'21	'22	HI	LO	03M	06M	12M
ACPL	20.7	13.1	9.6	1.2	3.9	7.8	1.4	1.3	1.2	6.8	10.1	12.7	4.3	7.1	9.8	179.6	70.5	38%	129%	124%
CHCC	-13.6	107.3	16.1	0.0	0.2	1.3	2.6	2.5	2.2	-17.5	2.4	14.7	-5.5	0.7	5.1	143.8	26.6	58%	191%	396%
DGKC	-22.8	36.6	10.5	0.0	0.9	2.2	0.7	0.7	0.7	-3.1	1.9	6.5	-1.7	1.1	3.9	117.6	44.3	42%	124%	150%
FCCL	-486.3	16.6	10.2	1.2	4.8	8.4	1.5	1.4	1.3	-0.3	8.9	13.6	-0.2	6.4	10.1	22.6	11.7	30%	75%	66%
KOHC	-70.7	19.3	10.9	0.0	1.5	3.5	2.1	1.9	1.7	-2.9	10.5	16.4	-1.8	6.6	11.2	205.9	45.8	45%	173%	333%
MLCF	-12.2	21.6	11.5	0.0	1.3	3.8	1.4	1.4	1.3	-11.5	6.3	11.4	-5.5	3.2	6.2	41.1	13.8	61%	136%	169%
PIOC	-22.7	97.3	20.9	0.0	0.3	1.0	1.8	1.8	1.7	-7.6	1.8	8.2	-2.2	0.5	2.2	104.9	18.5	55%	329%	418%
LUCK	64.1	31.0	13.3	0.0	0.7	1.5	2.2	2.0	1.8	3.5	6.7	14.2	2.6	5.0	10.8	666.3	310.3	50%	114%	95%
Cement	**-93.8**	**27.4**	**12.4**	**0.1**	**1.2**	**2.7**	**1.6**	**1.5**	**1.4**	**-1.7**	**5.8**	**11.9**	**-1.0**	**3.4**	**7.3**			**48%**	**128%**	**132%**

Risks

Downside risks:

- Substantial decline in prices amid intense competition
- Government intervening on price,
- Significant rise in global coal prices
- Administrative energy price hikes.
- Greater than expected rise in benchmark interest rates

Key catalyst:

- Improved cement sales prices
- Higher cement volumes

Exhibit: EPS Sensitivity to changes in key assumptions

	Retention (PKR/Bag)	Chg. EPS (2021)	Coal Prices (USD/T)	Chg. EPS (2021)	KIBOR 6m%	Chg. EPS (2021)	Volumes (mt)	Chg. EPS (2021)
	Base Case	+/-1%	Base Case	+/-5%	Base Case	+/-1%	Base Case	+/-5%
ACPL	396.0	+/-5%	60.0	+/-10%	8.3%	+/-11%	3.1	+/-8%
CHCC	291.3	+/-67%	60.0	+/-60%	8.3%	+/-114%	3.7	+/-65%
DGKC	317.9	+/-22%	60.0	+/-27%	8.3%	+/-50%	6.7	+/-25%
FCCL	322.6	+/-9%	60.0	+/-8%	8.3%	+/-8%	3.3	+/-12%
KOHC	291.3	+/-8%	60.0	+/-7%	8.3%	+/-8%	3.4	+/-6%
MLCF	331.1	+/-11%	60.0	+/-9%	8.3%	+/-14%	4.5	+/-15%
PIOC	305.5	+/-67%	60.0	+/-63%	8.3%	+/-130%	3.1	+/-33%
LUCK	302.3	+/-6%	60.0	+/-7%	8.3%	+/-6%	9.1	+/-7%

Source: IGI Research. Highlights **Most Sensitive** - **Least Sensitive**

COMPANY UPDATE

Lucky Cement Limited

Cement

Recommendation	**BUY**
Target Price: Jun-21	790.5
Last Closing: 22-Sep-20	662.5
Upside (%):	19.3
Valuation Methodology:	Discounted Cash Flow (DCF)
Time Horizon:	9M

Market Data

Bloomberg Tkr.	LUCK PA
Shares (mn)	323.4
Free Float Shares (mn)	129.4
Free Float Shares (%)	40.0%
Market Cap (PKRbn | USDmn)	214.2 | 1,284
Exchange	KSE 100

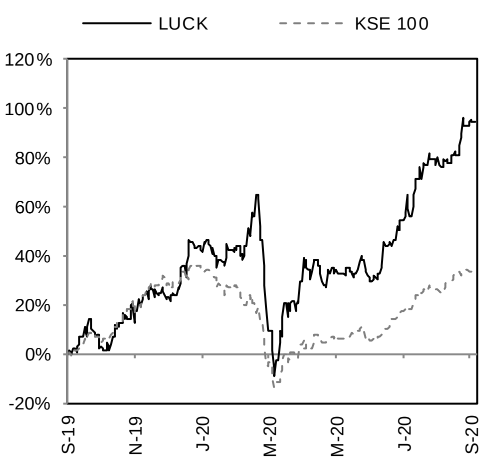
Price Info.	90D	06M	12M
Abs. Return	49.8	77.8	94.8
Lo	441.8	310.3	310.3
Hi	666.3	666.3	666.3

Key Company Financials

Period End: Jun

PKRbn	**2020a**	**2021f**	**2022f**	**2023f**
Total Revenue	41.9	56.8	68.6	77.2
Net Income	3.3	6.9	16.1	18.5
EPS (PKR)	10.3	21.4	49.8	57.2
DPS (PKR)	-	4.5	10.0	14.5
Total Assets	135.9	142.1	157.1	173.5
Total Equity	99.2	106.1	120.7	136.0
Key Financial Ratios				
ROE (%)	14.7	11.6	3.5	6.7
P/E (x)	64.1	31.0	13.3	11.6
P/B (x)	2.5	2.3	2.2	2.0
DY (%)	-	0.7	1.5	2.2

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Lucky Cement Limited (LUCK)

Target Price PKR 791/share, upside 19%, Dividend Yield 1%

Investment Thesis

Amongst our coverage companies we have a strong liking for LUCK. The company's high domestic market share, low cost structure and enhanced product portfolio are the key factors to form our case.

The Company is expected to deliver an earnings of PKR 21.40/share during FY21 (up by +50%YoY) and is expected to present a healthy earnings CAGR of 39% beyond that till FY25.

The rise in unconsolidated earnings is ascribed to a) increase in core cement income driven primarily by improved sector dynamics, and b) substantial rise in non-operating income largely derived through upcoming operations of Lucky Electric Power Limited (LEPL).

The recent reduction in FED, improvement in sales prices and lowered discounts are expected to grow retention prices of LUCK by 15% to PKR 311/bag and thereafter grow at a 4yr CAGR of 7% till FY25. These are expected to revert gross margins to 28% level by FY25 as against 15% recorded in FY20. Moreover, the recent brownfield expansion in the North region will aid in keeping volumetric sales high which are expected to grow by a material 20% in FY21 and thereafter expected to increase at a decent CAGR of +6%. These factors combined are expected to deliver a massive operating profit CAGR of 74% up till FY25.

Simultaneously, LUCK's non-operating income, largely comprising of healthy dividend income from its group companies such as ICI, foreign cement manufacturing subsidiaries etc., also form a fundamental part of its total net income. These are also expected to rise massively from FY22, primarily from post commencement of operations of Lucky Electric Power Limited (due to come online in May-21) besides earnings from KIA Lucky Motors Pakistan Limited (KLMP). Based on this, we expect LUCK's non-operating income to represent almost 47% on average of its total earnings till FY25.

Valuation

Our Jun-21 target price of PKR 791/share offers an upside of +19% from its last closing of PKR 662/share. We have derived our target prices using Sum of the Parts valuation approach. For core Cement valuation of PKR 366/share for domestic and foreign operations of PKR 39/share we have assumed a cost of equity of 16.3%.

Exhibit: LUCK's Sum of the parts (SOTP) Valuation Breakup

Business Segment	Valuation Approach	Share%	Target Price
Core Cement	Discounted Cash flow	51%	405
ICI	Market Based	11%	85
Lucky Electric (LEPL)	Dividend Discount	29%	232
Wind Project	At Cost	1%	10
Kia Motors - KLMP	Relative	7%	59
TOTAL			**791**

COMPANY UPDATE

Maple Leaf Cement Factory Limited

Cement

Recommendation		**BUY**
Target Price:	Jun-21	53.7
Last Closing:	22-Sep-20	39.6
Upside (%):		35.7
Valuation Methodology:		Discounted Cash Flow (DCF)
Time Horizon:		9M

Market Data

Bloomberg Tkr.		MLCF PA
Shares (mn)		1,098.3
Free Float Shares (mn)		494.3
Free Float Shares (%)		45.0%
Market Cap (PKRbn | USDmn)	43.5	261
Exchange		KSE 100

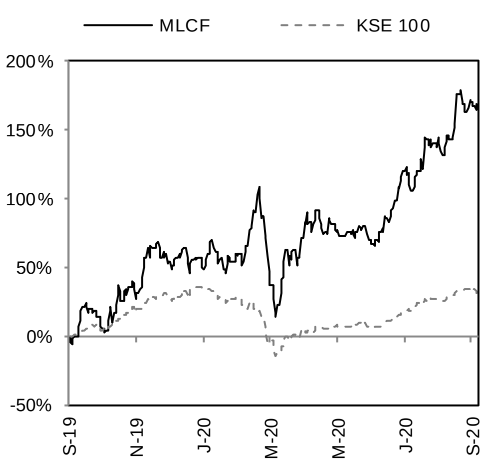
Price Info.	90D	06M	12M
Abs. Return	61.5	95.8	168.5
Lo	24.5	16.7	13.8
Hi	41.1	41.1	41.1

Key Company Financials

Period End: Jun

PKRbn	**2020a**	**2021f**	**2022f**	**2023f**
Total Revenue	29.1	30.2	34.0	38.4
Net Income	(3.6)	2.0	3.8	4.9
EPS (PKR)	(3.2)	1.8	3.4	4.4
DPS (PKR)	-	0.5	1.5	1.8
Total Assets	63.1	61.5	61.1	60.1
Total Equity	31.4	32.1	34.0	35.9
Key Financial Ratios				
ROE (%)	17.1	8.1	(11.5)	6.3
P/E (x)	n/m	21.6	11.5	8.9
P/B (x)	1.5	1.4	1.4	1.4
DY (%)	-	1.3	3.8	4.4

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Maple Leaf Cement Factory Limited (MLCF)

Target Price PKR 54/share, upside 36%, Dividend Yield 1%

Investment Thesis

MLCF is expected to deliver an earnings of PKR 1.83/share in FY21 and an earnings CAGR of 41% beyond that up till FY25, driven largely by improved retention prices, high utilization levels and restricted cost structure.

Though we foresee a negative dispatches growth of -23%YoY in FY21, we expect them to grow at a CAGR of 7% beyond that. To note FY20 dispatches of MLCF remained higher than its capacity rated share - due to stiff market competition - but is expected to revert back to normalize capacity rated levels in FY21 and beyond as per prevailing industry dynamics.

Operational efficiencies and substantial tax savings from Maple Leaf Power Limited (MLPL), a 100% owned subsidiary of MLCF having 40MW coal power producing facility, remain an attraction while sharp deceleration of finance cost following early retirement of debt via recent right issue proceeds of PKR ~6bn and quick monetary reversal by SBP will aid towards earnings accretion.

Valuation

Our Jun-21 target price of PKR 54/share offers an upside of +36% from its last closing of PKR 40/share. We have derived our target prices using discounted cash flow valuation approach and have assumed a cost of equity of 17%.

COMPANY UPDATE

Fauji Cement Company Limited

Cement

Recommendation		**BUY**
Target Price:	Jun-21	24.4
Last Closing:	22-Sep-20	20.9
Upside (%):		16.8
Valuation Methodology:		Discounted Cash Flow (DCF)
Time Horizon:		9M

Market Data		
Bloomberg Tkr.		FCCL PA
Shares (mn)		1,379.8
Free Float Shares (mn)		758.9
Free Float Shares (%)		55.0%
Market Cap (PKRbn | USDmn)	28.9	173
Exchange		KSE 100

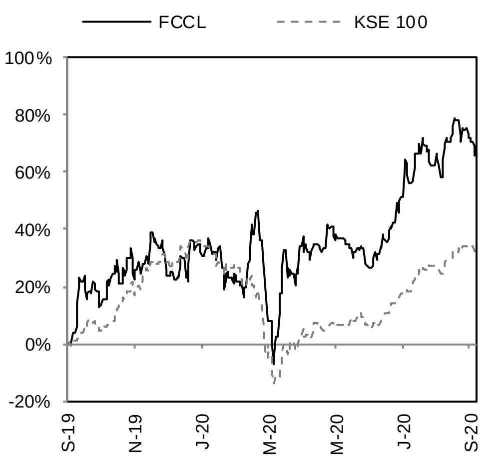
Price Info.	90D	06M	12M
Abs. Return	30.4	53.3	65.8
Lo	16.1	11.7	11.7
Hi	22.6	22.6	22.6

Key Company Financials

Period End: Jun

PKRbn	**2020a**	**2021f**	**2022f**	**2023f**
Total Revenue	17.2	21.4	24.2	27.3
Net Income	(0.1)	1.7	2.8	3.9
EPS (PKR)	(0.0)	1.3	2.1	2.8
DPS (PKR)	0.3	1.0	1.8	2.3
Total Assets	27.0	27.5	28.7	30.5
Total Equity	18.8	20.2	21.6	23.1
Key Financial Ratios				
ROE (%)	17.5	13.6	(0.3)	8.9
P/E (x)	n/m	16.6	10.2	7.4
P/B (x)	1.4	1.4	1.5	1.4
DY (%)	1.2	4.8	8.4	10.8

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Fauji Cement Company Limited (FCCL)

Target Price PKR 24/share, upside 17%, Dividend Yield 5%

Investment Thesis

Our investment case on the scrip is premised on lavish earnings growth, healthy balance sheet and consistent heavy cash pay-out. The stock is expected to present 5Yrs earnings CAGR of 84% during FY21-25 primarily driven by improved retentions owed to recently reduced FED, rising sales prices and lowered dealer discounts amid expected strong marketing arrangement between cement players. This will keep gross margins afloat at a 5Yr average of 22% as against 3% recorded during 9MFY20.

While no expansion by FCCL is expected to drop its market share to 7.1% as against 8.2% recorded in FY20, we believe this won't hurt it for long since FCCL always comes up with an expansion once the industry is done with it. We have not yet incorporated the expected expansion in our estimates.

Alternatively, with no expansion undertaken, FCCL's books stand clear from debt and are hence secure from impacts of finance cost as against rest of IGI cement coverage that are heavily geared. FCCL is expected to continue paying a high dividend pay-out of 80% for the foreseeable future (till it undertakes new expansion) which further corroborates our liking for the scrip.

Valuation

Our Jun-21 target price of PKR 24/share offers an upside of +17% from its last closing of PKR 21/share. We have derived our target prices using discounted cash flow valuation approach and have assumed a cost of equity of 16.3%.

COMPANY UPDATE

Kohat Cement Company Limited

Cement

Recommendation		**NEUTRAL**
Target Price:	Jun-21	211.5
Last Closing:	22-Sep-20	198.2
Upside (%):		6.7
Valuation Methodology:		Discounted Cash Flow (DCF)
Time Horizon:		9M

Market Data

Bloomberg Tkr.	KOHC PA
Shares (mn)	200.9
Free Float Shares (mn)	60.3
Free Float Shares (%)	30.0%
Market Cap (PKRbn | USDmn)	39.8 | 239
Exchange	KSE 100

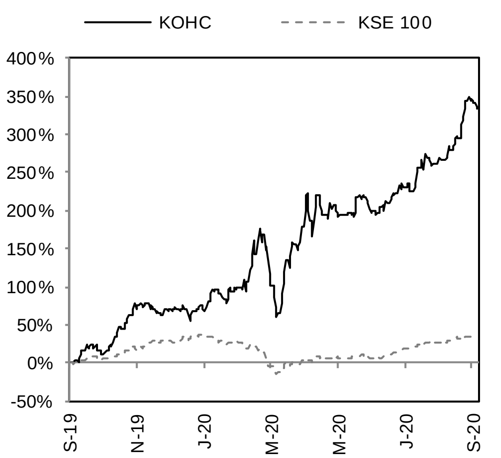
Price Info.	90D	06M	12M
Abs. Return	45.1	116.0	333.1
Lo	135.3	72.7	45.8
Hi	205.9	205.9	205.9

Key Company Financials

Period End: Jun

PKRbn	**2020a**	**2021f**	**2022f**	**2023f**
Total Revenue	11.4	20.0	24.3	27.3
Net Income	(0.6)	2.1	3.6	4.3
EPS (PKR)	(2.8)	10.3	18.2	21.4
DPS (PKR)	-	3.0	7.0	9.0
Total Assets	30.1	32.3	32.9	33.8
Total Equity	18.6	20.7	23.7	26.6
Key Financial Ratios				
ROE (%)	17.9	13.1	(2.9)	10.5
P/E (x)	n/m	19.3	10.9	9.3
P/B (x)	2.2	2.0	2.1	1.9
DY (%)	-	1.5	3.5	4.5

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Kohat Cement Company Limited (KOHC)

Target Price PKR 211/share, upside 7%, Dividend Yield 2%

Investment Thesis

We build our investment case on strong earnings growth outlook and healthy balance sheet. The Company is expected to revive its fortunes in FY21 with an estimated EPS of PKR 10.27/share driven by a) increased market share post expansion (expected to rise to 8.6% as against 6.5% recorded in FY20) and b) improved retentions. The recent improvement in cement sales prices, reduction in FED and lowered discounts are estimated to rise KOHC's retention prices to PKR 292/bag as against PKR 244/bag expected during FY20, up by 20%. Post FY21 we estimate the scrip to deliver 4yrs earnings CAGR of 34% till FY25. With a strong balance sheet and with benchmark interest rates already curtailed substantially, KOHC appears safe from heavy finance costs that are expected to cannibalize operating profits of its competitors.

Valuation

Our Jun-21 target price of PKR 212/share offers an upside of +7% from its last closing of PKR 198/share. We have derived our target prices using discounted cash flow valuation approach and have assumed a cost of equity of 16.1%.

COMPANY UPDATE

Attock Cement Pakistan Limited

Cement

Recommendation		**NEUTRAL**
Target Price:	Jun-21	165.6
Last Closing:	22-Sep-20	167.2
Upside (%):		- 1.0
Valuation Methodology:		Discounted Cash Flow (DCF)
Time Horizon:		9M

Market Data

Bloomberg Tkr.		ACPL PA
Shares (mn)		137.4
Free Float Shares (mn)		27.5
Free Float Shares (%)		20.0%
Market Cap (PKRbn | USDmn)	23.0	138
Exchange		KSE 100

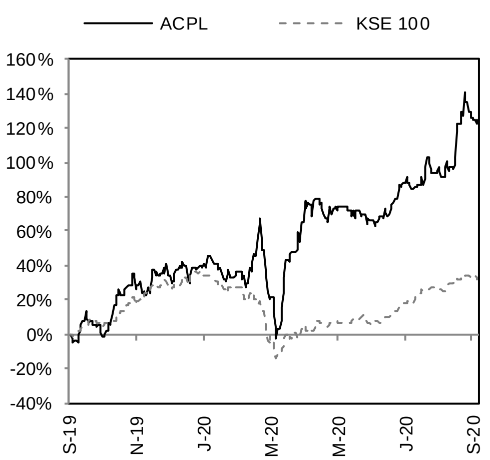
Price Info.	90D	06M	12M
Abs. Return	37.9	84.5	124.4
Lo	121.2	72.9	70.5
Hi	179.6	179.6	179.6

Key Company Financials

Period End: Jun

PKRbn	**2020a**	**2021f**	**2022f**	**2023f**
Total Revenue	18.5	20.7	22.7	23.8
Net Income	1.1	1.8	2.4	2.5
EPS (PKR)	8.1	12.8	17.5	18.4
DPS (PKR)	2.0	6.5	13.0	14.0
Total Assets	24.7	24.7	24.2	24.9
Total Equity	16.7	18.1	19.6	20.4
Key Financial Ratios				
ROE (%)	32.8	13.4	6.8	10.1
P/E (x)	20.7	13.1	9.6	9.1
P/B (x)	1.5	1.4	1.4	1.3
DY (%)	1.2	3.9	7.8	8.4

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Attock Cement Pakistan Limited (ACPL)

Target Price PKR 166/share, downside -1%, Dividend Yield 4%

Investment Thesis

Our investment case on the scrip is premised on robust earnings growth, strong balance sheet and healthy dividend payout. The stock is expected to deliver an earnings of PKR 12.78/share during FY21 (+59%YoY) and an earnings CAGR of 18% post that till FY25 primarily driven by high utilization levels and improved retentions owed to recently reduced FED and lowered dealer discounts. This will keep gross margins afloat at a 5Yr average of 25% as against 17% recorded during 3QFY20. Additionally, the Company holds a pretty neat balance sheet with minimal debt borrowings in place protecting its operating profits from finance charge which other local players are subject to. Moreover, ACPL's history of distributing heavy cash dividends in the range of 50-75% (albeit not done during FY18-20 – to retain cash to finance its expansion activities) are expected to resume from FY21 onwards and hence corroborate our liking for the stock.

Valuation

Our Jun-21 target price of PKR 166/share provides a downside of 1% from its last closing of PKR 167/share. We have derived our target prices using discounted cash flow valuation approach and have assumed a cost of equity of 17%.

COMPANY UPDATE

Pioneer Cement Limited

Cement

Recommendation		NEUTRAL
Target Price:	Jun-21	95.7
Last Closing:	22-Sep-20	97.9
Upside (%):		- 2.2
Valuation Methodology:		Discounted Cash Flow (DCF)
Time Horizon:		9M

Market Data

Bloomberg Tkr.		PIOC PA
Shares (mn)		227.1
Free Float Shares (mn)		124.9
Free Float Shares (%)		55.0%
Market Cap (PKRbn | USDmn)	22.2	133
Exchange		KSE 100

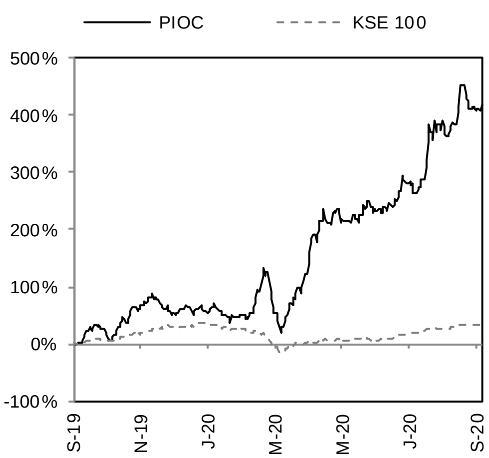
Price Info.	90D	06M	12M
Abs. Return	54.7	239.8	417.5
Lo	62.3	22.8	18.5
Hi	104.9	104.9	104.9

Key Company Financials

Period End: Jun

PKRbn	**2020a**	**2021f**	**2022f**	**2023f**
Total Revenue	9.0	18.8	24.0	27.9
Net Income	(1.0)	0.2	1.1	2.0
EPS (PKR)	(4.3)	1.0	4.7	8.7
DPS (PKR)	-	0.3	1.0	1.8
Total Assets	46.9	47.8	47.0	46.1
Total Equity	12.3	12.5	13.4	14.9
Key Financial Ratios				
ROE (%)	12.7	5.9	(7.6)	1.8
P/E (x)	n/m	97.3	20.9	11.2
P/B (x)	1.6	1.7	1.8	1.8
DY (%)	-	0.3	1.0	1.8

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Pioneer Cement Limited (PIOC)

Target Price PKR 96/share, downside -2%, Dividend Yield 0%

Investment Thesis

PIOC has seen a phenomenal run of over 5x with respect to stock performance in the last couple of months with investors cuing it to be the largest beneficiary of recent events. With volumes to rise amid available capacity from new plant, FED reduced, sales prices improving gradually in the North region, discounts expected to lower, operational savings being reaped from newly inaugurated coal power plant and above all decline in interest rates by 625bps at a time when PIOC is heavily geared is more then what PIOC could ever ask for.

We see a strong turnaround in earnings during FY21 wherein we see an EPS of PKR 1.01 after an expected loss of PKR 4.31/share in FY20. Beyond that we expect the Company to deliver an earnings CAGR of 108% till FY25. The robust earnings growth is expected to come from improved sales prices outlook, positive demand numbers and lower finance costs as the Company repays its debt obligations. However, due to its heavily geared balance sheet, and heavy principal repayments in the next five years, the Company appears to be restrictive in paying cash dividends from now on until it comes up with an equity injection.

Valuation

Our Jun-21 target price of PKR 96/share provides a downside of 2% from its last closing of PKR 98/share. We have derived our target prices using discounted cash flow valuation approach and have assumed a cost of equity of 16.6%.

COMPANY UPDATE

D.G. Khan Cement Company Limited

Cement

Recommendation		**BUY**
Target Price:	Jun-21	134.3
Last Closing:	22-Sep-20	112.1
Upside (%):		19.8
Valuation Methodology:		Discounted Cash Flow (DCF)
Time Horizon:		9M

Market Data

Bloomberg Tkr.	DGKC PA
Shares (mn)	438.1
Free Float Shares (mn)	219.1
Free Float Shares (%)	50.0%
Market Cap (PKRbn | USDmn)	49.1 | 294
Exchange	KSE 100

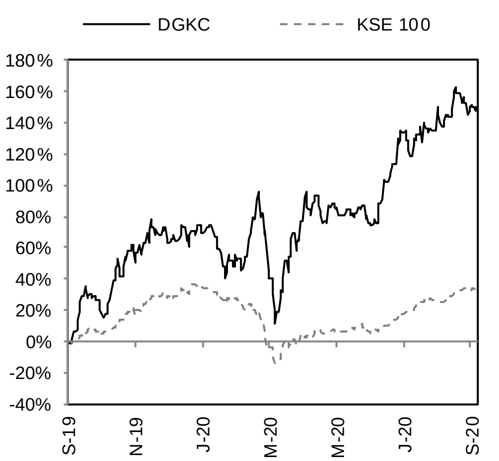
Price Info.	90D	06M	12M
Abs. Return	42.5	77.7	149.9
Lo	78.7	50.1	44.3
Hi	117.6	117.6	117.6

Key Company Financials

Period End: Jun

PKRbn	**2020a**	**2021f**	**2022f**	**2023f**
Total Revenue	38.0	41.6	47.2	52.1
Net Income	(2.2)	1.3	4.7	6.1
EPS (PKR)	(4.9)	3.1	10.7	14.0
DPS (PKR)	-	1.0	2.5	4.0
Total Assets	122.6	120.0	118.7	117.4
Total Equity	68.3	69.7	73.9	79.0
Key Financial Ratios				
ROE (%)	11.6	2.2	(3.1)	1.9
P/E (x)	n/m	36.6	10.5	8.0
P/B (x)	0.6	0.7	0.7	0.7
DY (%)	-	0.9	2.2	3.6

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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D. G. Khan Cement Limited (DGKC)

Target Price PKR 134/share, upside 20%, Dividend Yield 1%

Investment Thesis

After an expected loss of PKR 6.04/share for FY20 amid intense competition with respect to price and demand, DGKC is expected to deliver an earnings of PKR 3.0/share in FY21 ascribed to revived sector dynamics and decline in finance costs. Post FY21, we expect the scrip to deliver a CAGR of 63% during FY21-25F, driven largely by improved retention prices, high utilization levels and restricted cost structure.

Though we foresee a negative dispatches growth of -7%YoY in FY21, due to the Company's losing footprint in the North market, we expect them to grow at a CAGR of 2% beyond that. However, the possibility of coming up with further expansion in the North market also stays active for the Company to cover it up. Decline in benchmark interest rates are expected to provide breather to up-coming earnings while operational efficiencies from scheduled Coal Power Plant and Waste Heat Recovery Plant for DGKC Hub Plant will also add to gains prospectively. Additionally, operating income of DGKC will continue to be supported from healthy non-operating income from its group companies.

Valuation

Our Jun-21 target price of PKR 134/share offers an upside of +20% from its last closing of PKR 112/share. We have derived our target prices using sum of the parts valuation approach wherein core cement business is valued at PKR 74/share while other portfolio investments are valued at PKR 46/share. For core cement business valuation we have assumed a cost of equity of 17%.

COMPANY UPDATE

Cherat Cement Company Limited

Cement

Recommendation		**NEUTRAL**
Target Price:	Jun-21	123.5
Last Closing:	22-Sep-20	132.3
Upside (%):		- 6.6
Valuation Methodology:		Discounted Cash Flow (DCF)
Time Horizon:		9M

Market Data

Bloomberg Tkr.		CHCC PA
Shares (mn)		194.3
Free Float Shares (mn)		106.9
Free Float Shares (%)		55.0%
Market Cap (PKRbn | USDmn)	25.7	154
Exchange		KSE 100

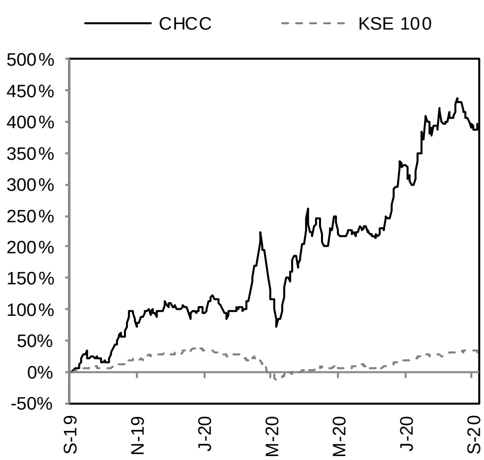
Price Info.	90D	06M	12M
Abs. Return	58.1	130.0	396.1
Lo	83.7	45.5	26.6
Hi	143.8	143.8	143.8

Key Company Financials

Period End: Jun

PKRbn	**2020a**	**2021f**	**2022f**	**2023f**
Total Revenue	17.1	21.6	26.2	29.9
Net Income	(1.9)	0.2	1.6	2.6
EPS (PKR)	(9.7)	1.2	8.2	13.2
DPS (PKR)	-	0.3	1.8	2.8
Total Assets	33.1	31.8	31.3	30.7
Total Equity	9.9	10.1	11.6	13.9
Key Financial Ratios				
ROE (%)	18.3	15.4	(17.5)	2.4
P/E (x)	n/m	107.3	16.1	10.0
P/B (x)	2.3	2.2	2.6	2.5
DY (%)	-	0.2	1.3	2.1

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Cherat Cement Company Limited (CHCC)

Target Price PKR 124/share, downside -7%, Dividend Yield 0%

Investment Thesis

With a target price of PKR 124/share, we present a 'Hold" call for CHCC. We believe the stock has been over played by market and is as such trading at its fundamental value.

The recent turn around in industry dynamics is expected to convert CHCC's heavy loss of 9.74/share in FY20 into a profit of 1.23/share for FY21 and thereafter expected to present an earnings CAGR of 117% during FY22-25.

The growth in earnings is primarily driven by improved retentions, 7% growth in volumes during FY21-25 and low finance costs post rate cut. To note, CHCC holds the second highest Total Debt / Equity ratio in our coverage and the decline in benchmark interest rates is expected to add about PKR 900mn towards the bottom line of the Company.

Alternatively, on the export front, we do not see much rise given expansion capacities of KOHC and LUCK are also present and the demand in Afghanistan is already saturated.

Valuation

Our Jun-21 target price of PKR 124/share provides a downside of 7% from its last closing of PKR 132/share. We have derived our target prices using discounted cash flow valuation approach and have assumed a cost of equity of 16.3%.

Important Disclaimer and Disclosures

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Time Horizon: Dec – 2020
Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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