Day Break

Monday, 01 April 2019

Sector Update

Exhibit: Earning Estimates

000' tons	Mar-19	YoY%	9MFY19	YoY%
LUCK	727	-5%	5,981	2%
DGKC	575	33%	4,723	27%
FCCL	300	-12%	2,201	-14%
ACPL	278	4%	2,515	45%
MLCF	271	-35%	2,357	-18%
CHCC	257	68%	1,683	-11%
KOHC	205	-20%	1,667	-4%
PIOC	123	-31%	1,059	-14%

Exhibit: Overall dispatches have fallen compared to last year; albeit export volumes have increased.

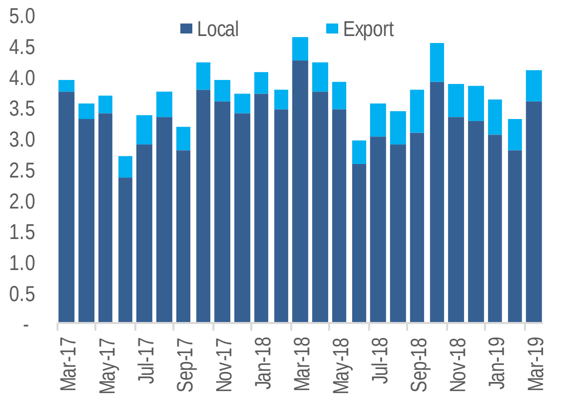
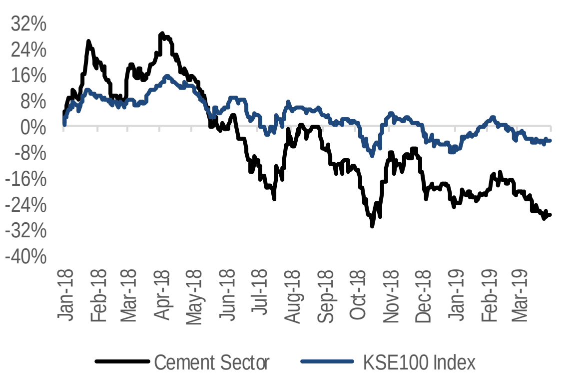


Exhibit: Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

Muhammad Saad, ACCA
Research Analyst
saad.khan@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 810

Cements

Mar-19 dispatches drop by 12%YoY; bleak outlook expected for FY20 as well

- As per the provisional numbers, cement dispatches for the month of Mar-19 declined by 12%YoY to 4.11mn tons
- While local offtakes from South have grown by +15% during the nine month period owing to excess capacities and deeper penetration, those from North have dropped by 12%YoY largely owing to curtailed government spending on development projects and lesser private construction activities amid weak macros.
- Though export offtakes have been on the rising trend ever since 4QFY18 amid rising capacities in South, a major portion of them comprise of clinker exports. Contrary to cement exports which garner better prices of USD 50-55 internationally, clinker is sold at relatively lower prices of USD 32-35, making them less valuable in terms of profitability
- With 9MFY19 local dispatches already contracted by 7%YoY and provided the Holy month of Ramadan is around the corner, we expect FY19 to end with a below par performance as compared to the previous year.
- With limited fiscal space disabling government to earmark huge reserves for development projects along with higher cost of borrowing discouraging private construction activities, we do not see any substantial progress in the FY20 as well.

Mar-19 dispatches down by 12%YoY amid; however 23%MoM recovery witnessed on a monthly basis

As per the provisional numbers, cement dispatches for the month of Mar-19 declined by 12%YoY to 4.11mn tons, however posted a decent recovery of 23%MoM on a sequential basis. On a cumulative basis, this brings 9MFY19 total dispatches count to 34.19mn tons as against 34.76mn tons recorded in the same period last year, marking a fall of 2%YoY.

Exhibit: **Monthly Provisional Cement Dispatches**

('000) tons	Mar-19	Feb-19	M/M	Y/Y	9MFY19	9MFY18	Y/Y
North	2,834	2,148	32%	-20.0%	22,809	25,887	-11.9%
South	783	669	17%	9.2%	6,245	5,426	15.1%
Local	**3,617**	**2,817**	**28%**	**-15%**	**29,054**	**31,313**	**-7%**
North	130	165	-21%	-41%	1,969	2,388	-18%
South	358	343	4%	107%	3,166	1,057	199%
Export	**488**	**508**	**-4%**	**25%**	**5,135**	**3,446**	**49%**
Total	**4,105**	**3,325**	**23%**	**-12%**	**34,190**	**34,758**	**-2%**

Source: APCMA, IGI Research

Local dispatches continue to suffer amid curtailed fiscal space and inflationary pressures.

Ever since the beginning of FY19, local cement dispatches, and constituting 85% of the total cement dispatches, have been declining. While local offtakes from South have grown by +15% during the nine month period owing to excess capacities and deeper penetration, those from North have dropped by 12%YoY largely owing to curtailed government spending on development projects and lesser private construction activities amid weak macros.

Low retention clinker exports used for maintaining optimal utilization levels by South players, while unattractive trade terms from India hamper exports from North

Though export offtakes have been on the rising trend ever since 4QFY18 amid rising capacities in South, a major portion of them comprise of clinker exports. Contrary to cement exports which garner better prices of USD 50-55 internationally, clinker is sold at relatively lower prices of USD 32-35, making them less valuable in terms of profitability. While export numbers depict a substantial increase of 49%YoY during 9MFY19, ~44% of this growth stems from clinker offtakes with only ~5% pertaining to cements. None the less, these are still useful given they help maintain a healthy utilization level for South players.

However, in recent development, cement exports from North, particularly in the last two months have been on the declining trend, largely owing to deteriorating trade terms from India amid rising political tensions between the two countries.

South players leading the charts; ACPL ranking on the top with respect to growth.

While local offtakes have been considerably marred In the midst of deteriorating macros, North players, which cater ~80% of the total domestic pie have failed to display positive dispatches growth. However, deeper penetration in the local market from South players amid enhanced capacities and better exploitation of clinker exports via sea has enabled South market to post a phenomenal 45% YoY growth, with ACPL, DGKC and LUCK flying high.

Cement prices; Sales price increasing amid rising input prices.

As per the weekly data published by Pakistan Bureau of Statistics (PBS) as of 28th Mar-19, average cement prices in the North region stood at PKR 596/bag, down by 1%MoM. Alternatively, average cement sale prices In the South region have marginally inched up by +0.60% to PKR PKR 613/bag.

Coal prices remain generally stable

Average coal prices continued to drop with monthly avg. dropping by 6%MoM taking cumulative drop for the quarter to 17%QoQ.

Outlook: FY19 ending with a poor show; nothing better expected in FY20

With 9MFY19 local dispatches already contracted by 7%YoY and provided the Holy month of Ramadan is around the corner, whereby construction activities are substantially curtailed, we expect FY19 to end with a below par performance as compared to the previous year.

Prospectively, with limited fiscal space disabling government to earmark huge reserves for development projects along with higher cost of borrowing discouraging private construction activities, we do not see any substantial progress in the next year as well. While coal prices are expected to remain range bound between USD 75-85, substantial PKR depreciation is expected to counter off the gains. While we believe that prospects of a price war are very bleak in the wake of upcoming capacities coming online, especially in the North, we anticipate sector profitability to remain in the lower side given limited price pass over ability and higher input costs.

Exhibit: **North and South Price statistic (PKR/Bag)**

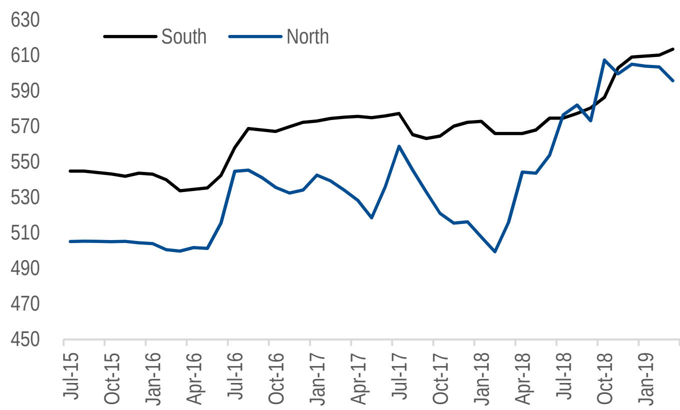
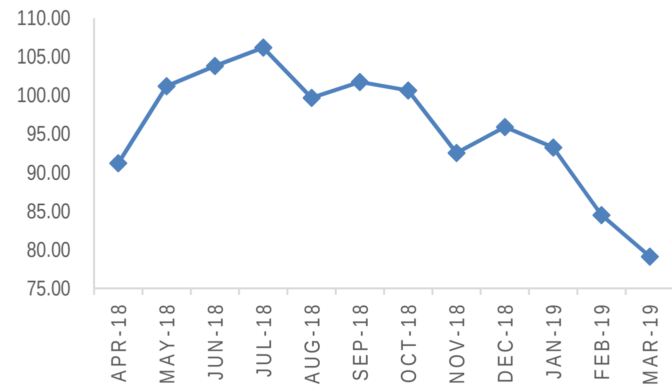


Exhibit: **12 month trailing global coal price movement (USD/ton)**



Source: IGI Research, SBP

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. 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)

Time Horizon: Dec – 2019

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

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. CY/FY: Calendar/Fiscal/Financial Year. YoY/ QoQ/ MoM: Year-on-Year, Quarter-on-Quarter, Month-on-Month. Th /Mn /Bn /Tn: Thousands/Million/Billion/Trillion.

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

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	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) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@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

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 # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

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 Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	**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	**Abbottabad Office** Ground Floor, Al Fatah Shopping Center , Opp. Radio Station, Mansehra Road Tel: (+92-99) 2408243 - 44
Peshawar Office 2nd Floor, The Mall Tower, 35 The Mall Saddar Cantt. Tel: (92-91) 5273035, 5223882	**Sialkot Office** Suite No. 10 & 11, 1st Floor, Soni Square, Mubarik Pura Tel: (+92-52) 3258028

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