

Day Break

Friday, 02 February 2018

Sector Update

Exhibit: Coverage companies dispatches

000' tons	Jan-18	YoY%	7MFY18	YoY%
LUCK	564	4%	4,307	4%
DGKC	471	36%	2,940	15%
MLCF	220	-13%	1,977	3%
FCCL	317	29%	1,932	14%
CHCC	205	83%	1,537	112%
KOHC	184	22%	1,286	6%
ACPL	210	16%	1,288	7%
PIOC	136	22%	921	9%
Industry	3,806	23%	26,048	14%

Exhibit: Industry focusing towards local sales

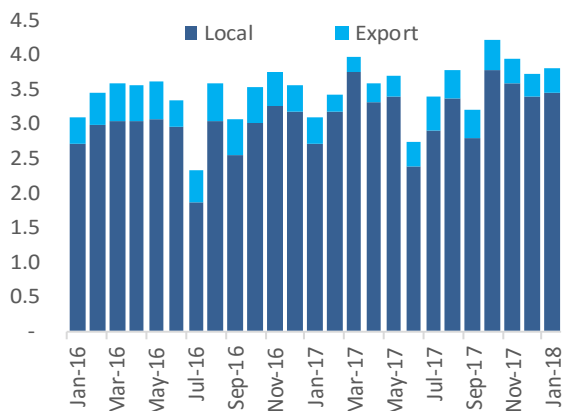
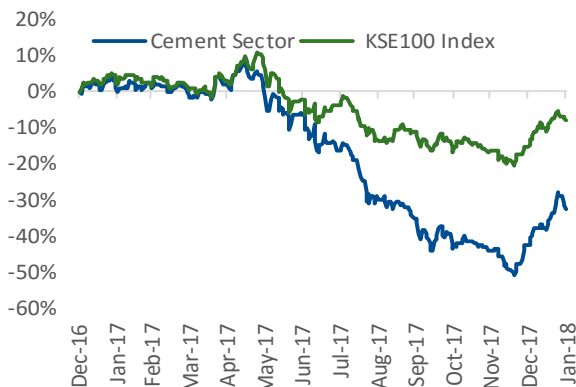


Exhibit: Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Cement

Strong start to 2018; Cement dispatches up by +23%YoY, new expansions lift South offtakes

- As per the provisional numbers, cement dispatches for the month of Jan-18 registered a remarkable +23%YoY growth to clock in at 3.81mn tons as against 3.10mn tons in the similar month last year.
- With back to back expansions of both LUCK and ACPL, the South market has posted an impressive 21%YoY growth.
- Cement prices in north region were axed yet again by 1.65%MoM. This was the fifth monthly price cut witnessed in the north region. However prices in South remained stable despite 35% enhance in capacities.
- Poor weather conditions in China push global coal prices up by 6% to USD 97.48 as against USD 91.82 in the previous month.
- Going forward, we expect the overall demand to regain confidence in 2HFY18 ascribed to a) increase in ground breaking of pipelined infrastructure projects in the wake of an election year; and b) higher demand post winter season.
- We have a strong liking for ACPL, KOHC and PIOC based on their Dec-18 target prices of PKR 359/270/134 per share, providing capital upside of around 88%/63%/69% respectively.

Provisional dispatches figures post +23%YoY growth; rise by +2%MoM

As per the provisional numbers, cement dispatches for the month of Jan-18 registered a remarkable +23%YoY growth to clock in at 3.81mn tons as against 3.10mn tons in the similar month last year. Cumulatively, this brought 7MFY18 dispatches to 26.05mn tons in contrast to 22.90mn tons in 7MFY17, marking a rise of +14%YoY. However, on a sequential basis, a mere increase of +2% was witnessed, largely accredited to negative sales growth in North due to poor weather conditions prevalent there.

Exhibit:

Cement Dispatches

(mn) tons	Jan-18	Dec-17	M/M	Jan-17	Y/Y	7MFY18	7MFY17	Y/Y
Local	3.46	3.40	2%	2.72	27%	23.30	19.62	19%
Exports	0.35	0.33	6%	0.38	-8%	2.75	3.29	-16%
Grand Total	3.81	3.73	2%	3.10	23%	26.05	22.90	14%

Source: IGI Research

With expansions coming online South market posts +21%YoY growth

Growing by +27%YoY, domestic dispatches accumulated to 3.46mn tons in contrast to 2.72mn tons in the same month last year, whereas exports continued its downward trajectory posting an 8%YoY decline to clock in at 0.35mn tons as against 0.38mn tons in Jan-17. With Lucky Cement Limited's (LUCK) 1.2mn tpa brownfield expansion plant coming online in Dec-17 followed by Attock Cement Pakistan Limited's (ACPL) plant having similar capacity coming online during the month in focus, the South market posted an impressive +21%YoY growth.

Notable highlights in Jan-18

- ACPL successfully commissioned its 1.2mn tpa brownfield expansion plant.
- Mega Conglomerate (Private) Limited, a sponsor company of Pioneer Cement Limited has shown interest in acquiring majority stake in Dewan Cement Limited (DCL), the details of which have not yet been finalized.

Upcoming developments to lookout for in Feb-18

- Kohat Cement Company Limited (KOHCL) is expected to announce the commissioning of its new grinding mill. We expect the Company to enhance its market share once this is achieved.
- Similarly, PIOC is also expected to notify the bourse about the launch of its new grinding mill.

Company wise: CHCC and DGKC lead the YoY volumetric growth chart; ACPL's new plant providing support to MoM volumes

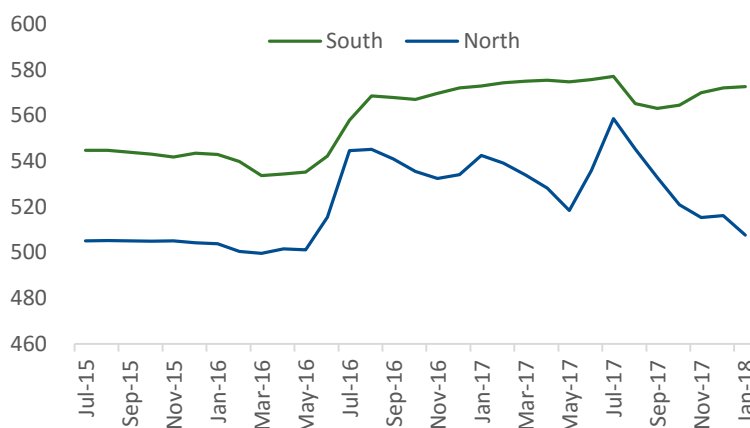
Cherat Cement Company Limited (CHCC) yet again led the volumetric chart with a massive +83%YoY growth attributed to enhanced capacity whereas DG Khan Cement Company Limited (DGKC) claimed the second spot with a +36%YoY rise. Alternatively, on a MoM basis, ACPL left all the players lagging behind with a +21%MoM rise owing to enhanced production capacity.

Cement prices; North falls yet again - this time by 1.65%, South remains strong footed despite 35% enhanced capacities coming online.

As per the weekly data published by Pakistan Bureau of Statistics (PBS), cement prices in the north region dropped yet again, this time by 1.65%MoM to clock in at an average price of PKR 508/bag as opposed to PKR 516/bag in Dec-17. To recall, this is the fifth monthly price cut witnessed since Jul-17 in the north region following heated competition by regional players in an effort to dominate dispatches growth. However, on a national level the average prices remained relatively stable with cement prices/bag in the south region being steadfast at PKR 573/bag as against PKR 572/bag in Dec-17. However, given the recent commissioning of expansions in the South market, the stability of prices in the said market depicts a positive sign.

Exhibit:

North and South Price Statistics (PKR/bag)

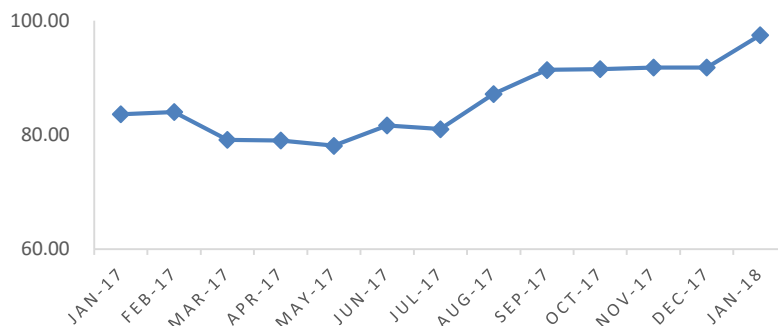


Source: PBS, IGI Research

Poor weather conditions in China push global coal prices upwards

China has lately been involved in switching its fuel requirements to natural gas as against coal which is acknowledged as an environmentally hazardous energy source. However, the recent measures taken by its National Development & Reform Commission (NDRC) in this regard, such as imposition of duties on import of coal and reducing number of coal mining days in the country, have had a detrimental impact in the very short term. With smooth supply of gas not made available yet followed by poor winter conditions in the country, especially in Northern China where temperatures have dropped below average levels, the demand of coal has surged sky high. Accordingly, average international coal prices clocked in at USD 97.48 in Jan-18 as against USD 91.82 in the previous month, marking a rise of 6% MoM.

Exhibit:

Last 12 month International coal price movement (USD/ton)

Source: Bloomberg, IGI Research

**Kabul attacks may hamper trade with Afghanistan in the coming months...
 CHCC & KOHC to remain most affected in such a situation...**

The recent ill-fated tragedy of Kabul attacks has once again spurred controversy between the already fragile relationships of the two countries. With Afghanistan claiming to have undeniable evidence that the unfortunate attacks had been planned in Pakistan soil, imposition of barriers in cross border trade for the short term might become probable, hurting the already meek export market of Pakistan. Given, CHCC and KOHC hold close proximity to the Afghan border and control major share of exports to the war trodden country, such an event may hamper their respective dispatches.

Improved weather conditions to support dispatches growth in the 2HFY18

Looking ahead, we expect the overall demand to regain confidence in 2HFY18 ascribed to a) increase in ground breaking of pipelined infrastructure projects in the wake of an election year; and b) higher demand post winter season. Rising coal prices and falling cement prices may continue to hinder margins in 3QFY18, however these are expected to be subsided by enhanced volumetric growth.

Recommendation

Given the recent rally in cement sector, the upside on some of our cement scrips have subsided. Nevertheless we still have a strong liking for ACPL, KOHC and PIOC based on their Dec-18 target prices of PKR 359/270/134 per share, providing capital upside of around 88%/63%/69% respectively.

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Time Horizon: Dec – 2018

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