

# Day Break

Thursday, 09 November 2017

## Sector Update

Exhibit: Coverage companies 1Q dispatches

000' tons	Oct-17	YoY%	4MFY18	YoY%
LUCK	701	5%	2,505	6%
DGKC	475	18%	1,231	10%
FCCL	305	19%	799	8%
CHCC	239	1.2x	724	1.3x
KOHC	200	1%	566	4%
ACPL	195	15%	540	3%
MLCF	328	15%	880	1%
FECTC	80	9%	217	-4%
PIOC	142	26%	409	-5%
Industry	4,166	18%	14,514	16%

Exhibit: Rising coal prices depressed overall sector gross margins

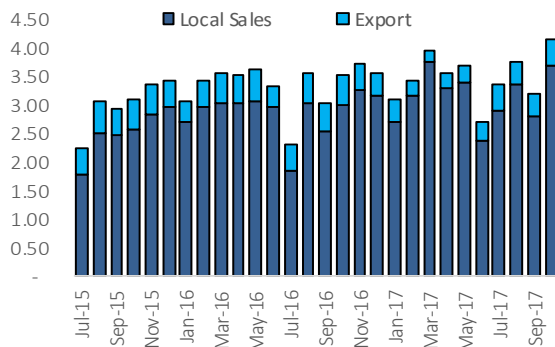
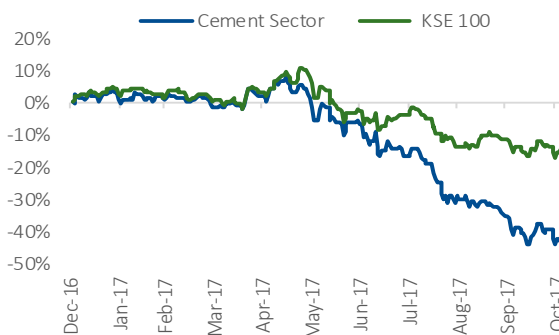


Exhibit: Relative Performance to KSE 100



Source: Bloomberg, PSX &amp; IGI Research

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## Cement

### Oct-17; Provisional cement dispatches depict robust performance

- As per the provisional numbers, cement dispatches for the month of Oct-17 grew by +18%YoY to accomplish record heights of 4.17mn tons.
- Local cement offtakes posted an impressive +24%YoY rise, whereas exports fell by 13%YoY.
- Cement prices in north region were axed yet again by 2%MoM. This was the third consecutive monthly price cut witnessed in the north region following heated competition by regional players in an effort to dominate dispatches growth.
- Dispatches to normalize in the upcoming months to 1HFY18 owing to smog in the northern region and arrival of winter in the country.

#### Provisional dispatch figures claim to set a new record

As per the provisional numbers, cement dispatches for the month of Oct-17 grew by +18%YoY to accomplish record heights of 4.17mn tons as against 3.53mn tons in the similar month last year. Cumulatively, this brought 4MFY18 dispatches to 14.51mn tons in contrast to 12.50mn tons in 4MFY17, marking a rise of +16%YoY. However, on a sequential basis, this implied a +30%MoM improvement, largely accredited to low base effect in the month of Sep-17.

Exhibit:

#### Cement Dispatches

(mn) tons	Oct-17	Sep-17	M/M	Oct-16	Y/Y	4MFY18	4MFY17	Y/Y
Local	3.72	2.80	33%	3.01	24%	12.78	10.44	22%
Exports	0.45	0.40	12%	0.52	-13%	1.74	2.06	-16%
<b>Grand Total</b>	<b>4.17</b>	<b>3.20</b>	<b>30%</b>	<b>3.53</b>	<b>18%</b>	<b>14.51</b>	<b>12.50</b>	<b>16%</b>

Source: IGI Research

#### Domestic sales paved way for success

Export sales having dropped 13%YoY, failed to materially alter the overall dispatches growth, since the export sales mix has been further toned down to 11% as against 15% (Local sales 1QFY18: 89%, 1QFY17: 85%) in the same month last year. On the contrary a remarkable growth of +24%YoY (+33%MoM) in local offtakes, owing to higher penetration in the domestic market, continued to drive overall growth in dispatches. Accordingly, the industry achieved an unprecedented capacity utilization level of ~106%.

#### Company wise: BWCL & LUCK led the volumetric chart

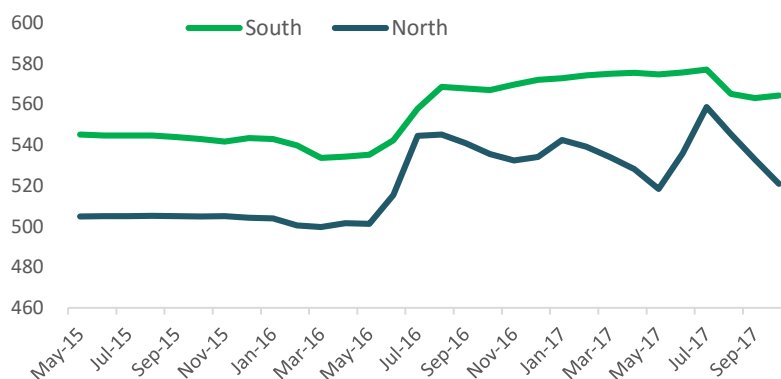
Market share, as determined by the capacity available to each player, continued to be led by Bestway Cement Limited (BWCL) with Lucky Cement Limited (LUCK) playing second fiddle. Conversely, with respect to growth in dispatches, Cherat Cement Company Limited (CHCC) spearheaded the volumetric chart with a significant +119%YoY growth attributed to enhanced capacity whereas PIOC claimed the second spot at +26%YoY rise.

### Fall in cement prices deteriorate net retentions

As per the weekly data published by Pakistan Bureau of Statistics (PBS), cement prices in north region were axed yet again by +2%MoM to clock in at an average price of PKR 521/bag as opposed to PKR 533/bag in Sep-17, albeit prices in south region remained relatively stable at PKR 564/bag. To recall, this is the third consecutive monthly price cut witnessed in north region following heated competition by regional players in an effort to dominate dispatches growth. Needless to mention, this has severely wounded the industry and has further deteriorated retentions.

Exhibit:

### North and South Price Statistics



Source: PBS, IGI Research

### Notable highlights in Oct-17

- Pioneer Cement Limited (PIOC) signed Memorandum of Understanding with major shareholders of Galadari Cement (Gulf) Limited (GCGL) for acquisition of the latter.
- Commissioning of Maple Leaf Cement Factor's (MLCF) 40MW coal power project.
- Restoration of Fauji Cement Company Limited's (FCCL) production line II.
- The Board of Lucky Cement Limited (LUCK) resolved to inject further equity of up to PKR 2bn (Existing: PKR 12bn) in KIA Lucky Motors Pakistan Limited along with investment of up to PKR 720mn in Yunus Wind Power Limited for 50MW Wind Farm. The Company further notified its interest towards another wind farm project.

### Smog & poor weather in north to hamper offtakes in the coming months

Looking ahead, we expect dispatches to normalize in the upcoming months to 1H FY18 owing to smog in the northern region and arrival of winter in the country. However, the overall demand is expected to regain confidence in 2H FY18 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.

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