

Day Break

Thursday, 27 September 2018

Sector Update

Exhibit: Coverage companies dispatches

'000' tons	Sep-18	YoY%	1QFY18	YoY%
LUCK	641	8%	1,901	5%
DGKC	461	37%	1,249	10%
ACPL	329	120%	981	88%
FCCL	259	17%	753	3%
MLCF	235	-9%	714	-13%
CHCC	186	-31%	536	-21%
KOHC	175	4%	507	-6%
PIOC	106	-28%	323	-16%
Industry	3,666	15%	10,673	3%

Exhibit: Export sales are rising amid excess capacities

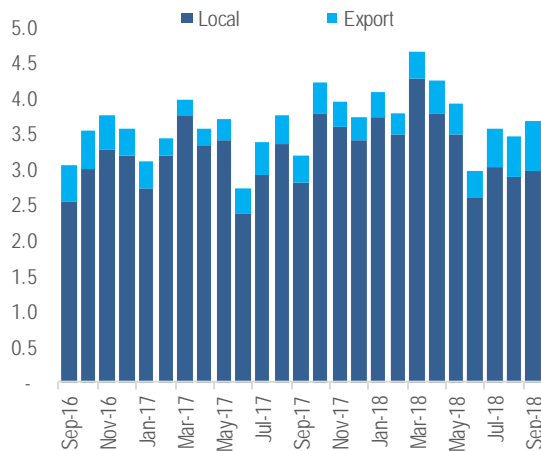
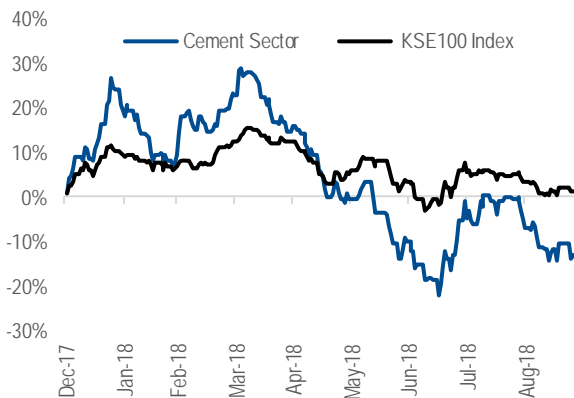


Exhibit: Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Cement

Provisional numbers depict strong export performance; South players reaping benefits of expansions

- As per the provisional numbers, cement dispatches for the month of Sep-18 registered a growth +15%YoY to clock in at 3.67mn tons as against 3.20mn tons recorded in the similar month last year.
- Though the year over year growth number appears quite promising, it largely reflects the low base anomaly on account of FY18 Eid Holidays which occurred in Sep-17
- On a positive note, cement and clinker exports from Pakistan have risen quite sharply (75%YoY) as compared to similar month of the preceding year.
- The real reason behind the massively increasing exports lies behind the availability of excess capacities from the comparative period, especially in South
- Looking ahead, we expect the overall demand to remain upbeat for the year with enhanced zeal to be witnessed in 2HFY19, especially in the North, ascribed to higher demand post winter season.

Sep-18 dispatches up by +15%YoY amid low base effect; rise by +2%MoM

As per the provisional numbers, cement dispatches for the month of Sep-18 registered a growth +15%YoY to clock in at 3.67mn tons as against 3.20mn tons recorded in the similar month last year. Though the year over year growth number appears quite promising, it largely reflects the low base anomaly on account of FY18 Eid Holidays which occurred in Sep-17 (FY19 Eid Holidays began from 22nd Aug-18 and usually construction activities are held back for 7-10 days during such holidays). However, on FY19TD basis, 1QFY19 dispatches accumulate to 10.67mn tons, up by +3%YoY as against 10.35mn tons dispatched in 1QFY18.

If normalized, the numbers do not appeal much on a sequential basis as well. Though, local sales have grown by +2%MoM, we believe the same could not have been achieved had Eid Holidays had not fallen in Aug-18.

Exhibit:

Cement Dispatches

(mn) tons	Sep-18	Aug-18	MM	Sep-17	Y/Y	1QFY19	1QFY18	Y/Y
North	2.37	2.33	2%	2.37	0%	7.07	7.52	-6%
South	0.60	0.57	5%	0.43	39%	1.83	1.54	19%
Local	2.97	2.90	2%	2.80	6%	8.90	9.06	-2%
North	0.34	0.26	30%	0.30	11%	0.78	0.93	-16%
South	0.36	0.30	22%	0.10	271%	1.00	0.35	183%
Exports	0.70	0.56	26%	0.40	75%	1.78	1.29	38%
Grand Total	3.67	3.45	6%	3.20	15%	10.67	10.35	3%

Source: IGI Research

Notable highlights in Sep-18

- ACPL reported FY18 unconsolidated earnings of PKR 4.4bn (EPS: PKR 38.42), up by 43%YoY.
- FCCL declared FY18 unconsolidated earnings of PKR 3.4bn (EPS: PKR 2.49), up by 32%YoY
- FCCL announced FY18 unconsolidated earnings of PKR 2.1bn (EPS: PKR 12.07), up by 9%YoY
- DGKC announced FY18 unconsolidated earnings of PKR 8.8bn (EPS: PKR 20.17), up by 11%YoY
- MLCF reported FY18 consolidated earnings of PKR 4.6bn (EPS: PKR 7.92), down by 4%YoY.
- KOHC reported FY18 unconsolidated earnings of PKR3.0bn (EPS: PKR 19.29), down by 16%YoY.

Exports mark a massive 75%YoY increase; Excess capacities being channelized towards international markets

On a positive note, cement and clinker exports from Pakistan have risen quite sharply (75%YoY) as compared to similar month of the preceding year. Though the benefits of a weakened currency have made export retentions quite attractive, the real reason behind the massively increasing exports lies behind the availability of excess capacities from the comparative period, especially in South. Accordingly, based on the numbers, overall local to export sales mix has now become 81:19 (%) as against 87:13 (%) from last year.

Bestway Cement leading the export growth in the North, thanks to recent inauguration of its Farooqia Plant.

Exports via land route mainly towards Afghanistan and India (via North) have risen by 11%YoY, which we believe reflects incremental supplies from Bestway Cement Limited's (BWCL) recently inaugurated Farooqia plant. To recall BWCL commenced operations of its newly erected Farooqia Plant from Jun-18.

South players sailing smoothly in the Sea; ACPL leading the exports growth chart

However, exports from South (predominantly via sea) have witnessed almost a threefold increase, a clear reflection of 60% upside of fresh capacities from the comparative period. To recall LUCK, ACPL and DGKC had expanded /entered their South plant by 1.25mn, 1.20mn and 2.84mn tpa respectively during FY18.

Attock Cement Pakistan Limited (ACPL) leads the exports volume chart in the South market by a massive 5.2x increase. As an interesting observation, ACPL's expansion plant appears to be purely focused towards exports as depicted from its local: export sales mix, which has changed dramatically to 46:54 (%) as against 77:23 (%) in the similar month of the preceding year. The same is evident for other players as well.

Company wise: ACPL and DGKC lead the YoY volumetric growth chart

ACPL has led the volumetric growth chart with a massive +120%YoY figure (13%MoM), attributed primarily to its enhanced capacity which is predominantly focused towards exports, whereas DG Khan Cement Company Limited (DGKC) claimed the second spot with a +37%YoY rise due to similar reasons.

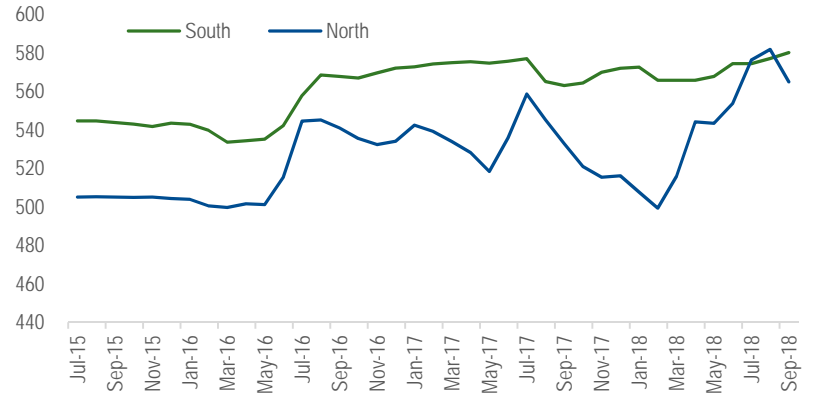
Cement prices; Sales price increasing amid rising input prices.

As per the weekly data published by Pakistan Bureau of Statistics (PBS) as of 18th Sep-18, average cement prices in the North region stood at PKR 565/bag. However, following the recent hike in gas prices commissioned by the Economic Coordination Committee (ECC) of the Parliament, our channel checks confirm that prices in North region have been increased by an average PKR 20/bag, effective 26-Sep-2018. Based on this our revised average cement sales price is estimated at PKR 585/bag while revised monthly average turns out to be PKR 569/bag.

Alternatively, average cement sale prices in the South region inched up marginally by 1%MoM to PKR 580/bag. Though, no information of a gas price hike driven increase in the region has been received yet, we believe such a scenario cannot be ruled out in the upcoming days.

Exhibit:

North and South Price Statistics (PKR/bag)



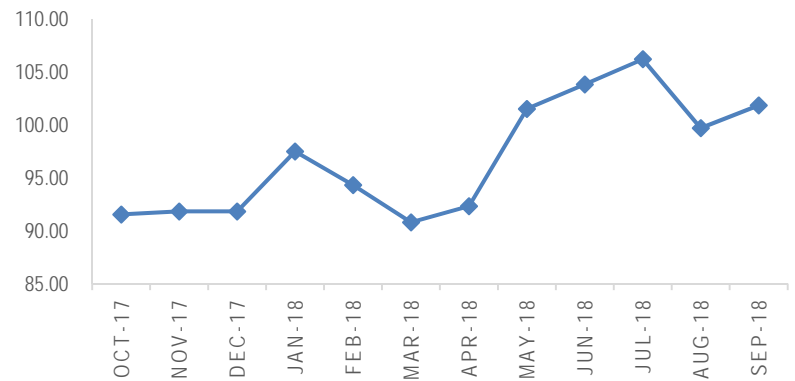
Source: PBS, IGI Research

Coal prices remain generally stable

Average coal prices for the month also inched up by +2%MoM during Sep-18 to USD 101.83/ton, as against USD 99.68/ton recorded in the previous month.

Exhibit:

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



Source: Bloomberg, IGI Research

Outlook: Improved weather conditions to support dispatches growth in the 2HFY19

Looking ahead, we expect the overall demand to remain upbeat for the year with enhanced zeal to be witnessed in 2HFY19, especially in the North, ascribed to higher demand post winter season. Though, cements sales prices are being increased to counterweigh rising input costs, we believe this may not be sustainable for long given stiff competition among players in an effort to dominate dispatches growth which will keep margins in check.

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Time Horizon: Dec – 2018

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