

Sector Update

	TP	Upside	P/E	D. Yld %
ACPL	266	51%	8.63	8.69
DGKC	228	45%	8.21	3.49
FCCL	56	44%	10.71	8.22
KOHC	287	7%	10.00	4.11
LUCK	626	26%	10.49	2.19
MLCF	115	38%	9.38	2.75
PIOC	133	46%	9.71	6.83

Total Dispatches (000' tons)

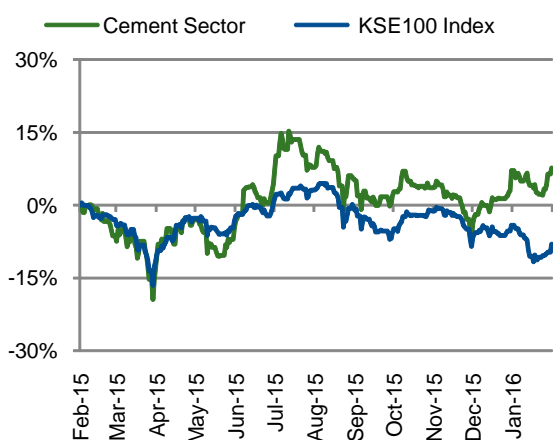
	Jan-16	YoY	7MFY16	YoY
KOHC	163	75%	1,148	34%
PIOC	109	6%	733	10%
DGKC	364	14%	2,313	5%
MLCF	244	-2%	1,678	5%
FCCL	223	9%	1,581	4%
FECTC	59	10%	412	2%
ACPL	192	4%	1,082	-2%
CHCC	80	29%	568	-3%
LUCK	550	-2%	3,654	-6%
Industry	3,051	11%	20,843	5%

Cement Sector

Industry Dispatches grew by +5%YoY in 7MFY16

- Local dispatches grew by +17%YoY/-2%MoM to 2.7mn tons for the month of Jan-16. Southern region won the game by posting higher sales growth of +39%YoY/17%MoM in Jan-16 as compared to +13%YoY/-6%MoM increase/decrease in cement offtake in the northern region. During 7MFY16, local cement dispatches augmented by impressive +14%YoY to arrive at 17.5mn tons, with south region posting +23%YoY increase and north side sales going up by +12%YoY.
- Exports for the month of Jan-16 declined by -17%YoY/-11%MoM to ~0.4mn tons, with southern region sales tripping by- 45%YoY/-28%MoM as compared to +11%YoY/+1%MoM growth witnessed in cement dispatches in the northern region. During 7MFY16, exports faltered by 26%YoY to 3.4mn tons as compared to 4.6mn tons in same period last year.
- We maintain our overweight stance on the sector, with PIOC, DGKC and MLCF as our favorite stocks, having upside potential of +46%, +45% and +38%, respectively to our DEC-16 target prices.

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Local Dispatches-Strong just got Stronger

Local dispatches grew by +17%YoY/-2%MoM to 2.7mn tons for the month of Jan-16. Southern region won the game by posting higher sales growth of +39%YoY/17%MoM in Jan-16 as compared to +13%YoY/-6%MoM increase/decrease in cement offtake in the northern region. During 7MFY16, local cement dispatches augmented by impressive +14%YoY to arrive at 17.5mn tons, with south region posting +23%YoY increase and north side sales going up by +12%YoY (Actual growth number has exceeded our assumption of +11%YoY/+10%YoY rise for North/South regions). In our view, this remarkable progress can be attributed to a) +36%YoY increased PSDP spending of PKR 290bn in 7MFY16 (42% of allocated budget) versus PKR 216bn in 7MFY15 (41% of allocated PSDP), and b) higher private sector spending on infrastructure due to increasing urbanization and lower interest rates.

Cement Exports-Weak just got Weaker

Exports for the month of Jan-16 declined by -17%YoY/-11%MoM to ~0.4mn tons, with southern region sales tripping by- 45%YoY/-28%MoM as compared to +11%YoY/+1%MoM growth witnessed in cement

dispatches in the northern region. During 7MFY16, exports faltered by 26%YoY to 3.4mn tons as compared to 4.6mn tons in same period last year.

Exhibit: Cement Dispatches

(000) tons	Jan-16	Dec-15	MoM	Jan-15	YoY	7MFY16	7MFY15	YoY
North	2,368	2,502	-5%	2,103	13%	16,524	15,681	5%
<i>Local</i>	2,112	2,248	-6%	1,871	13%	14,414	12,879	12%
<i>Exports</i>	256	254	1%	231	11%	2,111	2,802	-25%
South	683	656	4%	550	24%	4,319	2,955	46%
<i>Local</i>	551	472	17%	396	39%	3,078	2,502	23%
<i>Exports</i>	132	184	-28%	238	-45%	1,241	1,757	-29%
Total Local	2,663	2,720	-2%	2,268	17%	17,491	15,381	14%
Total Exports	388	438	-11%	469	-17%	3,352	4,559	-26%
Grand Total	3,051	3,158	-3%	2,737	11%	20,843	19,939	5%

Source: IGI Research

KOHC and PIOC-Leading Wolfs in 7MFY16

Cement industry dispatches grew by +11%YoY/-3%MoM in Jan-16, taking 7MFY16 total dispatches to ~21mn tons, depicting a growth of +5%YoY. Company wise, KOHC has headed the pack by posting highest rise of +34%YoY to 1.15mn tons (local +45%YoY, exports -22%YoY) in 7MFY16, followed by +10%YoY upsurge in cement offtake by PIOC (local +12%YoY, export -28%YoY). On the other hand ACPL, CHCC and LUCK posted -2%YoY, -3%YoY and -6%YoY decline in overall cement offtake, respectively, due to large drop in exports. However, with declining exports and increasing local sales, we estimate net retention for the companies to improve holistically.

Recommendation

Market Capitalization for the sector has increased by +4% in FY16TD as compared to -7% return earned by KSE 100. We maintain our overweight stance on the sector, with PIOC, DGKC and MLCF as our favorite stocks, having upside potential of +46%, +45% and +38%, respectively to our DEC-16 target prices.

Analyst Certification

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF(Discounted Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure

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