

Sector Update

Exhibit: Cement historical Sales

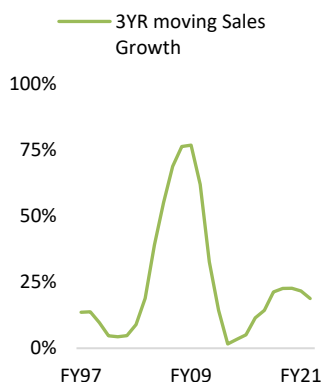
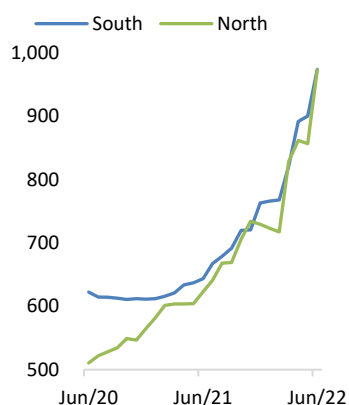


Exhibit: Cement Monthly Prices



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Cements

Jun-22: Cement Dispatches increased by 1% to 5.2mn ton

- For the month of Jun-22, as per the latest available data on cement sales, total industry volume increased to 5.3mnT up by 59% on a monthly basis and 1% on yearly basis.
- In terms local versus export, domestic sales showed a healthy growth of +58% to 4.9mnT and is up by 7% on yearly basis. Further on comparison, north sales stood at 4.1mn tons up by +60% (+7%y), whereas south based cement manufacturers, dispatches stood at 0.86mn up by +49% (+6%y).
- Looking ahead; demand for cement sector is likely to fall in short to medium term on the back of slowdown in construction activities, rising input costs, devaluation of local currency, increasing inflation and monsoon ahead. However, for long-run we have assumed FY23 sales to stay relatively stable with expected local growth at 5% to 55.5mnT.

We review cements sales for the month of Jun-22.

Cement sales reported an increase of 1% to 5.2mnT

For the month of Jun-22, as per the latest available data on cement sales, total industry volume increased to 5.3mnT up by 59% on a monthly basis and 1% on yearly basis. This takes FY22 total cement dispatches to 52.9mnT compared to 57.4mnT last year; depicting a decline of 8%y.

Exhibit: Monthly Cement Dispatches								
in k Tons	Jun/22	May/22	m/m	Jun/21	y/y	Fy22	Fy21	y/y
North	↑ 4,120	2,570	60%	3,860	7%	39,431	40,582	-3%
South	↑ 857	576	49%	808	6%	8,235	7,537	9%
Local	↑ 4,977	3,146	58%	4,668	7%	47,661	48,119	-1%
North	↑ 97	73	34%	202	-52%	910	2,566	-65%
South	↑ 188	99	89%	341	-45%	4,345	6,748	-36%
Export	↑ 285	172	66%	543	-48%	5,255	9,314	-44%
North	↑ 4,217	2,643	60%	4,061	4%	40,341	43,148	-7%
South	↑ 1,045	676	55%	1,150	-9%	12,580	14,285	-12%
Grand Total	↑ 5,262	3,318	59%	5,211	1%	52,916	57,433	-8%

Local sales up on pre-budgetary buying

In terms local versus export, domestic sales showed a healthy growth of +58% to 4.9mnT and is up by 7% on yearly basis. Further on comparison, north sales stood at 4.1mnT up by +60% (+7%y), whereas south based cement manufacturers, dispatches stood at 0.86mnT up by +49% (+6%y). Higher domestic sales on a monthly basis in our view is due to dealer buying in anticipation of budgetary measures.

Exports remain volatile

Sector exports continue to remain volatile, with latest Jun-22 dispatches up by +66%_m (down by 48%_y) to 0.3mnT. Including the current month, FY22 total exports have now almost halved to 5.3mnT, when compared to last year export quantum of 9.3mnT. Exports in north suffered more than south, declining by 65%_y to 0.9mnT versus 36% decline in south export to 4.3mnT. On a monthly, low base effect of north propped up sales growth by +34%_m to 0.09mnT compared to south 0.12mnT up by +89%_m. reduced exports is mainly due to rise in transportation & freight costs, limited border opening, such as Afghanistan. Moreover, as per company's management sales to Sri Lanka have also suffered due to tough economic condition. Moreover, manufacturer's management expects recently culminated sales to USA, looks promising and sales outlook on China & Afghanistan also looks hopeful.

Company wise dispatches

LUCK being one of the largest cement manufactures recorded a +49%_m to 0.9mnT. However, on yearly basis showed a decline of 6%_y. DGKC has reported sharp increase of 60%_m to 0.6mnT and is first cement company to export cement and clinker to USA. MLCF stood at 0.47mnT up by 46%_m, margins supported by better cost and inventory management. ACPL cement sales clocked in at 0.19mnT an increase of 58%_m majorly driven by exports.

Exhibit: Company-wise sales									
in kTons		Jun/22	May/22	m/m	Jun/21	y/y	Fy22	Fy21	y/y
LUCK	↑	840	563	49%	896	-6%	8,957	9,976	-10%
DGKC	↑	554	346	60%	580	-5%	6,632	7,268	-9%
MLCF	↑	471	323	46%	440	7%	4,542	4,851	-6%
CHCC	↑	353	253	40%	381	-7%	3,486	3,946	-12%
KOHC	↑	397	248	60%	354	12%	3,562	3,746	-5%
FCCL	↑	332	199	67%	362	-8%	3,244	3,481	-7%
PIOC	↑	326	209	56%	322	1%	3,291	3,381	-3%
ACPL	↑	188	119	58%	237	-20%	2,254	3,310	-32%

*Provisional numbers, IGI Research

Sales likely to stay muted as economic activity slows down

Looking ahead; demand for cement sector is likely to fall in short to medium term on the back of slowdown in construction activities, rising input costs, devaluation of local currency, increasing inflation and monsoon ahead. However, for long-run we have assumed FY23 sales to stay relatively stable with expected local growth at 5% to 55.5mnT. We mainly base our outlook on;

- High Public Sector Development Projects (PSDP) fund allocation – PKR 727bn has been allocated under FY23 PSDP programs which is 56% higher than last year actual disbursement
- Dams and Highways – PKR 99.57bn and PKR 118.4Bn, respectively have been directly placed under construction of dams and Highways which directly correlates to cement and steel sales.

- Housing Scheme – Discontinuation of government subsidised housing schemes such as Mera Pakistan, Mera Ghar (MPMG) (link) will have a minimal impact in our view as demand has been rather slow. So far PKR 85bn has been disbursed accounting for ~170,000 houses either constructed or under construction out of initial estimate of 5million. Secondly PKR 500mn has been earmarked under FY23 budget for Naya Pakistan Housing & Development Authority (NAPHDA) which is far less to propel any material construction growth.
- Private sector housing schemes will continue to support cement demand.

Rising Coal Prices and Energy prices

Amid rise in global energy prices and fresh demand from EU and Asia, coal prices have shot up once again touching a high of US\$ 315/ton (Richard Bay), compared to last year US\$ 90/ton, that is almost 3.2x up. This combined with PKR devaluation the impact is even more pronounced with base land prices up nearly 4.2x (from PKR ~15,000/ton last year in June to current PKR ~63,000/ton).

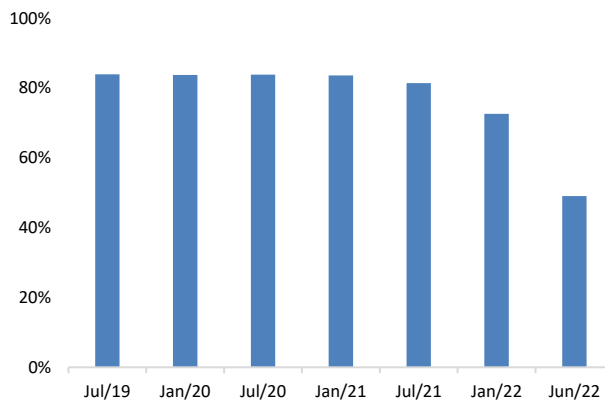
Exhibit: Rising Coal Prices

Richard Bay Coal Prices (US \$) FY22



Exhibit: Shrinking Core Margins

Core cement margins - retail cement price (adjusted for sales tax) minus average coal prices, have shrink significantly



Domestic cement producers have been able to pass on part of this exuberant coal price increase on to local market taking the current price of local cement bag to PKR 1,023 (or PKR 20,460/ton) which is up by 62%y. This lower increase to international coal prices was achieved via mixture of cheaper imported Afghanistan (25-30% at discounted price of intl. coal prices) and local coal. However only recently, Afghan Government has fixed the floor price of coal export to US\$ 200/ton translated to a delivery price of US\$ 260/ton. Moreover, combine this will local, rise in energy prices, transportation costs, further price increase by local players is expected to sustain positive margins.

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