

Day Break

Monday, 22 July 2019

Sector Update

Exhibit: Earning Estimates

000' tons	Jun-19	YoY%	FY19	YoY%
LUCK	382	-25%	7,641	-4%
DGKC	480	40%	6,314	31%
FCCL	122	-48%	2,978	-13%
CHCC	222	-4%	2,494	-1%
KOHC	174	52%	2,359	5%
ACPL	200	-20%	3,268	31%
MLCF	200	-34%	3,391	-10%
PIOC	118	-19%	1,446	-12%

Exhibit: Rise in export dispatches have mitigated the impact of declining domestic offtakes.

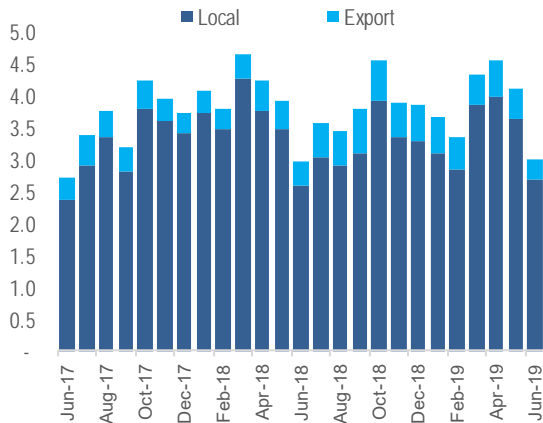
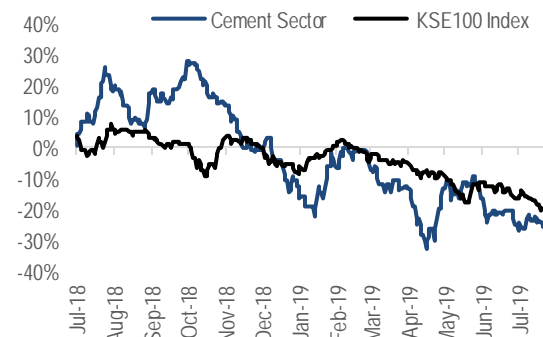


Exhibit: Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Cement

FY19 closes with dispatches growth of +1%YoY

- As per the provisional numbers, cement dispatches for the month of Jun-19 registered a meagre decline of 1%YoY to clock in at 3.01mn tons as against 2.98mn tons in the similar month last year.
- This brings FY19 dispatches to 46.16mn tons in contrast to 45.89mn tons in FY18, marking a rise of +1%YoY
- While local offtakes from South grew by +11%YoY during the year owing to excess capacities and deeper penetration, those from North, which comprises 80% of the pie, dropped by 7%YoY largely owing to curtailed government spending on development projects and lesser private construction activities amid weak macros.
- However, deeper penetration in the local market from South players amid enhanced capacities and better exploitation of clinker exports via sea has enabled South market to post a phenomenal 35%YoY growth, with ACPL and DGKC flying high.

FY19 dispatches grow by +1%YoY

As per the provisional numbers, cement dispatches for the month of Jun-19 registered a meagre decline of 1%YoY to clock in at 3.01mn tons as against 2.98mn tons in the similar month last year. Cumulatively, this brings FY19 dispatches to 46.16mn tons in contrast to 45.89mn tons in FY18, marking a rise of +1%YoY. However, on a sequential basis, a considerable fall of 27%MoM was witnessed, largely accredited to benign construction activities in the holy month of Ramadan and festive holidays following it.

Exhibit: Monthly Provisional Cement Dispatches

('000) tons	Jun-19	May-19	M/M	Y/Y	FY19	FY18	Y/Y
North	2,227	3,051	-27%	3.2%	31,650	33,968	-6.8%
South	455	589	-23%	7.5%	7,984	7,179	11.2%
Local	2,682	3,640	-26%	4%	39,634	41,147	-4%
North	121	164	-26%	-33%	2,474	3,034	-18%
South	207	319	-35%	-4%	4,051	1,713	137%
Export	328	483	-32%	-17%	6,526	4,747	37%
Total	3,010	4,123	-27%	1%	46,160	45,894	1%

Source: APCMA, IGI Research

Local dispatches suffered amid curtailed fiscal space and inflationary pressures.

Ever since the beginning of FY19, local cement dispatches have witnessed a declining trend. While local offtakes from South grew by +11%YoY during the year owing to excess capacities and deeper penetration, those from North, which comprises 80% of the pie, dropped by 7%YoY largely owing to curtailed government spending on development projects and lesser private construction activities amid weak macros. Cumulatively this has brought local sales down by 4%YoY.

Low retention clinker exports boost overall export sales

Contrary to negative growth in local dispatches, export dispatches during FY19 have risen sharply by 37%YoY, with South players leading from the front with a

remarkable 137%YoY growth. While this growth is primarily driven by excess capacities in South, a major proportion of them is comprised of clinker sales, which is a relatively invaluable product as compared to cement and generates considerably lesser revenues.

South players leading the charts; ACPL ranking on the top with respect to volumes.

While local offtakes have been considerably marred amid deteriorating macros, North players, which cater ~80% of the total domestic pie have failed to display positive dispatches growth. However, deeper penetration in the local market from South players amid enhanced capacities and better exploitation of clinker exports via sea has enabled South market to post a phenomenal 35%YoY growth, with ACPL and DGKC flying high.

Outlook: Demand pressure to persist in FY20 amid heavy inflation, peaked interest rates and challenging fiscal space

Based on deteriorating macro position and limited fiscal space, we expect cement demand pressures to continue during FY20. Substantial rise in inflation, peaked interest rates and heavy devaluation of PKR against the greenback are expected to severely hamper construction activities during the short term.

However a possible breather could come in the shape of positive outcomes of real estate sector reforms, wherein in Finance Act 2019 the government has provided incentives for genuine real estate buyers and commencement of construction activities of PM's Naya Pakistan Housing Scheme.

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