

Day Break

Friday, 24 March 2017

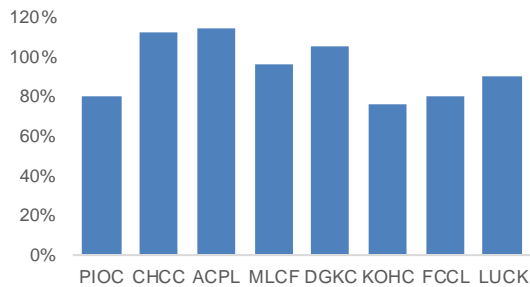
Sector Update

Recommendation

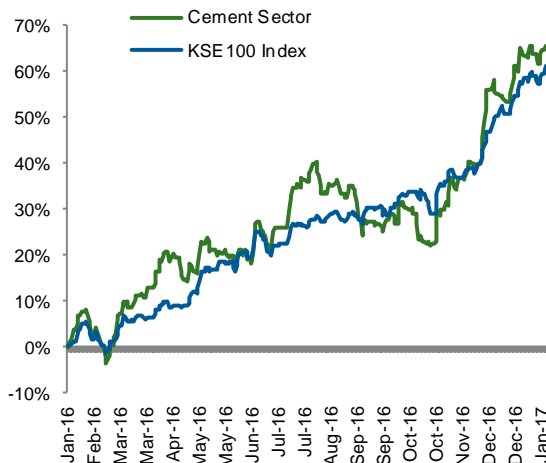
	Target Price	Current Price	Upside
LUCK	943	893	6%
DGKC	274	238	15%
PIOC	171	142	21%
CHCC	199	192	4%
ACPL	373	341	9%
MLCF	141	126	12%
KOHC	364	272	34%
FCCL	51	44	15%

Capacity Utilization 1HFY17 (%)

Capacity Utilization



Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

Analyst

Jawad Ameer Ali

jaw.ad.ameer@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 816

Cements

Earnings improved 6%YoY in 1HFY17; Preferred picks PIOC and DGKC

- The cement industry registered robust growth of +9%YoY during 1HFY17 to reach 19.8mn ton as compared to 18.2mn tons in same period last year. Local demand grew by 11%YoY, recording 16.9mn tons on the back of rising construction activities and infrastructure development stimulated by private and public sector spending.
- Profitability of IGI cement universe during 2QFY17 improved by mere +2%YoY to PKR 11.87bn, taking 1HFY17 profitability to PKR 21.63bn, up by +6%YoY.
- The local demand outlook seems promising where we expect domestic demand in second half of FY17 to remain buoyant on the back of 1) higher allocation of PSDP funds and 2) higher demand post winter season.

Cement Industry witnessed a healthy growth of +11%YoY in domestic demand during 1HFY17 emanating from robust construction activities across public and private sector spending resulting in capacity utilization of 87%. We expect this momentum to continue with more fervor post winter seasons. Among IGI cement universe, our preferred picks include PIOC and DGKC.

1HFY17: Local Offtake grew +11%YoY

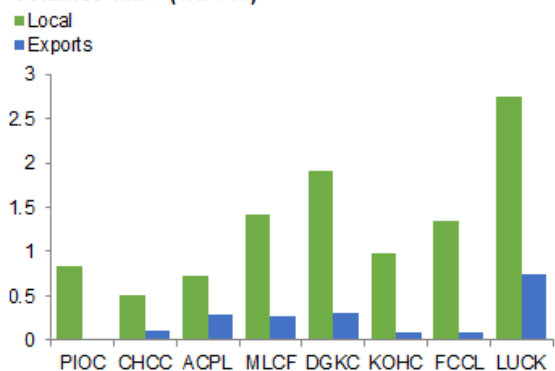
The cement industry registered robust growth of +9%YoY during 1HFY17 to reach 19.8mn ton as compared to 18.2mn tons in same period last year. Local demand grew by 11%YoY, recording 16.9mn tons on the back of rising construction activities and infrastructure development stimulated by private and public sector spending. Disbursement of funds for different social sector developmental projects under PSDP remained at PKR 222bn (28%) as against the total allocations of PKR 800bn in 1HFY17.

Total export volumes declined by 2%YoY in 1HFY17 primarily because of plunge in exports to Afghanistan (12%YoY) owing to stiff competition from Iranian cement. However, export to India bounced back during 1HFY17 to 0.67mn tons, registering steep growth of 80%YoY. The capacity utilization for the sector stood at 87% amid depressing export volumes.

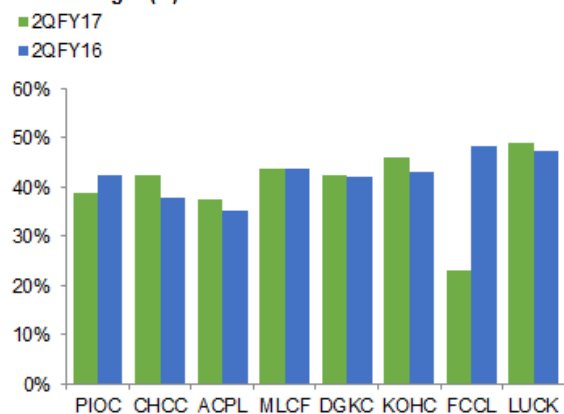
Profitability improved +6%YoY in 1HFY17

Profitability of IGI cement universe during 2QFY17 improved by mere +2%YoY to PKR 11.87bn, taking 1HFY17 profitability to PKR 21.63bn, up by +6%YoY. Except FCCL (facing supply disruption from Line II), all companies under our coverage posted positive earnings growth. The industry observed healthy revenue growth of 8%YoY to PKR 83.95bn emanating from robust growth of 16%YoY in local dispatches where sales mix observed further inclination towards domestic sales (85% in 1HFY17 vs. 80% in 1HFY16).

Volumes 'mnT' (1HFY17)



Gross Margin (%)



Gross margins declined to 42% on rising coal prices

Gross margins declined by 244bps/15bps in 2QFY17/1HFY17 as compared to 44%/42% in 2QFY16/1HFY16 which is mainly attributable to elevated coal prices. To recall, rally in coal prices came after imposition of output cuts and reduction in mining days by China which was followed by weather disruptions affecting coal production in Australia and Indonesia.

Outlook

The local demand outlook seems promising where we expect domestic demand in second half of FY17 to remain buoyant on the back of 1) higher allocation of PSDP funds and 2) higher demand post winter season. However, exports volumes are anticipated to follow downward trend on account of temporary trade disruptions in Pak-Afghan border.

Recommendation: PIOC and DGKC our preferred picks

Among IGI cement universe, our preferred picks include PIOC and DGKC offering upside potential of +21% and +15% trading at FY17E P/E of 10.1x, and 11.3x respectively.

Source: APCMA, Bloomberg, Company Acc.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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Time Horizon: Dec - 2017

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	jawad.ameer@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	anjali.kukreja@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Phone: (92-992) 408243 - 44

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah ShoppingCenter , Opp. Radio
Station, MansehraRoad, Abbottabad
Phone: (+92-99) 2408243 - 44