

Day Break

Friday, 04 March 2016

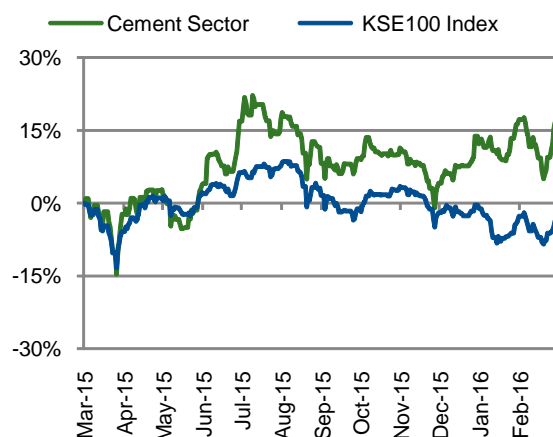
Sector Update

	Dec-16 TP	Upside	P/E	D. Yld %
FCCL	56	37%	11.23	7.85
CHCC	139	50%	10.86	3.79
LUCK	672	31%	10.81	2.13
KOHC	283	11%	9.33	3.85
PIOC	133	53%	9.3	7.11
DGKC	228	39%	8.56	3.35
ACPL	266	59%	7.82	9.60
MLCF	104	20%	7.10	4.72

Total Dispatches (000' tons)

	Feb-16	YoY	7MFY16	YoY
KOHC	187	30%	1,335	23%
PIOC	113	23%	846	11%
FCCL	240	31%	1,821	7%
MLCF	276	20%	1,954	7%
DGKC	366	19%	2,679	7%
FECTC	67	36%	479	6%
CHCC	84	26%	651	0%
ACPL	174	5%	1,256	-1%
LUCK	581	10%	4,310	-3%
Industry	3,226	17%	24,069	6%

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

Analyst

Rashmina Lalani

rashmina.lalani@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 826

Cement Sector

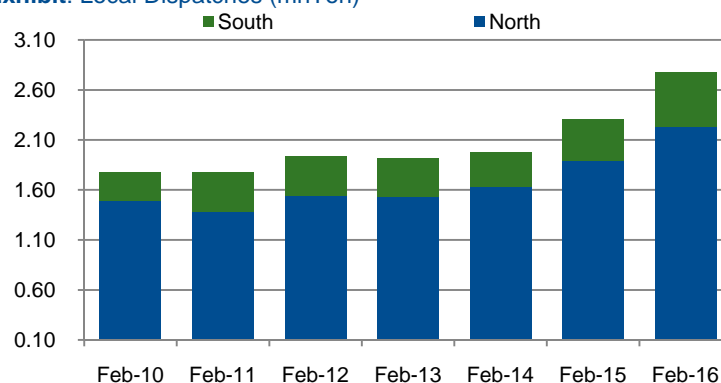
Feb Local Dispatches; 7 years High

- Local dispatches grew by +21%YoY/+4%MoM to 2.8mn tons for the month of Feb-16, which is the highest number reported in any given February for last 7 years.
- Exports for the month of Feb-16 increased by +15%MoM to ~0.45mn tons, however on yearly basis, a 3% decline was witnessed. Exports from South and North regions climbed up by 21%MoM and 13%MoM, respectively.
- Company wise, KOHC posted the highest growth of +23%YoY to 1.34mn tons (local +29%YoY, exports -15%YoY) in 8MFY16, followed by +11%YoY upsurge in cement offtake by PIOC (local +13%YoY, export -19%YoY).

Highest Feb-16 Local Dispatches in 7 years

Local dispatches grew by +21%YoY/+4%MoM to 2.8mn tons for the month of Feb-16, which is the highest number reported in any given February for last 7 years. Northern region posted rise in sales by +18%YoY/+6%MoM whereas Southern region's dispatches grew up by +32%YoY/-2%MoM in Feb-16.

Exhibit: Local Dispatches (mnTon)



Source: IGI Research, APCMA

During 8MFY16, local cement dispatches showed an impressive growth of +15%YoY to arrive at 20.3mn tons, with south region posting +24%YoY increase and north side sales going up by +13%YoY (Actual growth number has again exceeded our assumption of +11%YoY/+10%YoY rise for North/South regions). This growth in cement dispatches in our view is attributed to a) winter season reaching its end, b) leap year, c) higher private sector spending on

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infrastructure due to increasing urbanization and lower interest rates, and d) higher PSDP spending as well as start of CPEC projects.

Cement Exports-Soared Up in Feb-16

Exports for the month of Feb-16 increased by +15%MoM to ~0.45mn tons, however on yearly basis, a 3% decline was witnessed. Exports from South and North regions climbed up by 21%MoM and 13%MoM, respectively. During 8MFY16, exports faltered by 24%YoY to 3.8mn tons as compared to 5mn tons in same period last year.

Exhibit: Cement Dispatches

(000) tons	Feb-16	Jan-16	MoM	Feb-15	YoY	8MFY16	8MFY15	YoY
North	2,525	2,368	7%	2,141	18%	19,049	17,822	7%
Local	2,237	2,112	6%	1,891	18%	16,651	14,769	13%
Exports	288	256	13%	250	15%	2,399	3,052	-21%
South	701	683	3%	550	27%	5,020	4,879	3%
Local	541	551	-2%	411	32%	3,619	2,913	24%
Exports	160	132	21%	210	-24%	1,401	1,967	-29%
Total Local	2,778	2,663	4%	2,301	21%	20,269	17,682	15%
Total Exports	448	388	15%	460	-3%	3,800	5,019	-24%
Grand Total	3,226	3,051	6%	2,762	17%	24,069	22,701	6%

Source: IGI Research

KOHC and PIOC; Leading the Growth Chart

Company wise, KOHC posted the highest growth of +23%YoY to 1.34mn tons (local +29%YoY, exports -15%YoY) in 8MFY16, followed by +11%YoY upsurge in cement offtake by PIOC (local +13%YoY, export -19%YoY). On the other hand LUCK and ACPL posted -3%YoY and -1%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 +7% in FY16TD as compared to -7% return earned by KSE 100. We maintain our overweight stance on the sector.

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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

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	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) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queeshi@igi.com.pk

IGI Finex Securities Limited

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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- Liaquat Road, Faisalabad
 Tel: (+92-41) 2540843-45
 Fax: (+92-41) 2540815

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