

Flash Note

Monday, 02 July 2018

Cements

LUCK: Pricing discipline intact; Slight decrease in South MRP is part of routine marketing strategy to alleviate budgeted sales gap.

- As per market news circulated, Lucky Cement Limited (LUCK) has decreased approximately PKR 20/bag for its dispatches being made from its Karachi plant.
- Without negating such a fall in cement prices, the management of LUCK have declined the notion that it has to do something with the arrival of DGKC Hub Plant. According to management, prices of cement vary for each distribution center and as such are reflective of budgeted targets set for each of them. Consequently, the recent fall in prices at some distribution centers is to bridge the actual-budgeted sales gap.
- It is pertinent to mention that Attock Cement Pakistan Limited (ACPL), another dominant player of South market, had revised its price list twice in the month of Jun-18. Once on 19-Jun-2018, wherein the Company reduced the MRP on Ordinary Portland Cement (OPC) and Sulphate Resistant Cement (SRC) by PKR 5/bag (OPC and SRC represent almost 85-90% of total cement sales) coupled with a similar decrease (PKR 5/bag) on its Falcon Block Cement (FBC). It was followed by a revised price list issued on 28-Jun-18, wherein prices of FBC (only) were further reduced by PKR 10/bag, taking total decline on FBC to PKR 15/bag.

Analyst Comments:

- While we do recognize the comments presented by management of LUCK relating the recent fall in prices on certain distribution centers as a routine strategy to alleviate the budgeted to actual gap in sales from these locations, we do maintain that arrival of DGKC Hub plant may have impacted this short term price movement.
- We maintain our price structure view of South as per our recently published report **DGKC: South pricing discipline to sustain; Inexpensive multiples; Strong 'Buy' maintained** ([click here](#) to view report).
- The annualized impact of PKR 20/bag fall in cement prices across the South market for FY19 is tabulated below:

Exhibit:

Annualized Impact of FY19 EPS in response to reduction in PKR 20/bag in South market

Company	Change in Net Profit	No. of Shares	Per Share Impact
ACPL	(457.71)	114.52	(4.00)
LUCK	(497.42)	323.38	(1.54)
DGKC*	(263.12)	438.12	(0.60)

Source: IGI Research, * reported losses to reduce overall impact due to taxation

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Time Horizon: Dec – 2018

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(Discounted Cash Flow)

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