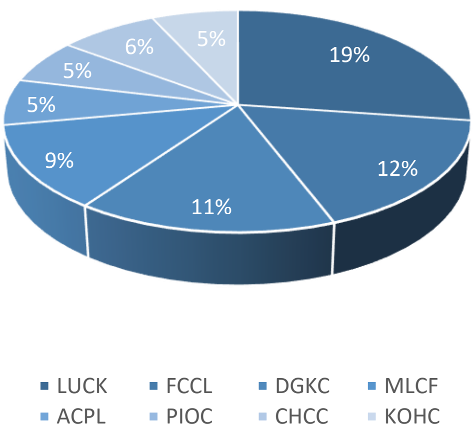
Company Report

Thursday, October 30, 2025

Cement

SECTOR UPDATE

Company Market Share



Source: APCMA, IGI Research

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Cement

Reconstruction and Recovery: Cement Industry on the Rise

- We maintain an Overweight stance on the Pakistan cement sector, we have revised our earnings for upwards driven by i) expectations of a meaningful demand recovery from FY26 backed by macro stability and infrastructure push, ii) Easing input costs from coal and grid resulting in margin relief. iii) Export Growth Supported by Market Diversification and Logistics Expansion. iv) Deleveraging & monetary easing leading to reduced finance cost.
- Sector earnings are expected to post a 3-year (FY25-FY28) CAGR of 18–19% supported by stronger volumes, favorable pricing, declining coal costs, and deleveraging.
- Our top picks are DGKC, FCCL, MLCF, and KOHC for their attractive valuations, strong balance sheets, and cost-efficient operations.

Maintaining Overweight Stance on Cement Sector with Potential

We maintain an Overweight stance on the Pakistan cement sector, we have revised our earnings upwards driven by a) expectations of a meaningful demand recovery from FY26 backed by macro stability and infrastructure push, b) Easing input costs from coal and grid resulting in margin relief, c) Export Growth Supported by Market Diversification and Logistics Expansion and, d) Deleveraging & Monetary Easing leading to reduced finance cost.

Sector earnings are expected to post a 3-year (FY25-FY28) CAGR of 18–19% supported by stronger Dispatches, favorable Cement pricing, declining coal costs, and deleveraging.

Our top picks are DGKC, FCCL, KOHC and MLCF, and for their attractive valuations, strong balance sheets, and cost-efficient operations.

Sector at a Glance

Pakistan's cement sector is showing signs of a meaningful recovery in FY26 after several years of stagnation in domestic demand. Recent data point to strong growth in both local cement-sales and exports. Key cost pressures, notably coal and power, are easing, which alongside lower interest rates, supports improved profitability. However, upside is tempered by risks including input cost volatility, regulatory challenges, and potential delays in infrastructure spending. The sector offers improved earnings prospects, especially for companies with efficient energy use, good logistics, and access to export markets.

Exhibit: IGI Cement Universe Target Price (Jun-26)				
Company	Current Price	Target Price	Upside	EPS FY26
DGKC	216.42	298.0	37%	26.1
MLCF	92.15	134.1	45%	13.47
KOHC	94.14	145.0	54%	13.8
PIOC	209.97	311.5	49%	38.2
CHCC	328.24	513.5	57%	45.6
LUCK	445.93	535.0	20%	34.8
FCCL	50.00	77.0	54%	7.1

Source: PSX, IGI Research. (Prices as of 30th Oct 2025)

Investment Thesis

1. **Expectations of a meaningful demand recovery from FY26 backed by macro stability and infrastructure push**

The strongest signal of demand recovery comes from domestic dispatches: cement sales rose by 18% y/y in Jul-25, dispatches clocked in at 3.8mn tons in Aug-25, displaying a 12% y/y increase, driven by growth in both local and export volumes of 10% and 22% respectively. In Sep-25, total cement dispatches grew 10% m/m (domestic +10%, exports +11%) as post-flood reconstruction and budgetary incentives lifted demand, while on a y/y basis, volumes rose 7% despite a 15% drop in exports due to US tariffs and regional tensions. North-based sales led the recovery with domestic volumes up 14% m/m and 17% y/y, and exports up 9% y/y. For 1QFY26, domestic dispatches rose 15% y/y (North +14%, South +23%) and exports surged 21% y/y (North +30%, South +18%), aided by easing inflation, lower interest rates, and cheaper coal. Looking ahead, flood rehabilitation, FY26 budget measures (PKR 10bn housing support, tax credits), and better macro indicators are expected to drive demand.

Exhibit: Cement Disptaches (Mn'tons)								
	Sep'25	Aug'25	MoM	Sep'24	y/y	1QFY26	1QFY25	y/y
Total Dispatches	4.25	3.85	10%	3.97	7%	12.16	10.46	16%
Local Dispatches	3.42	3.1	10%	2.99	14%	9.57	8.32	15%
North Local	2.94	2.59	14%	2.51	17%	8.01	7.05	14%
South Local	0.48	0.51	-7%	0.47	0%	1.56	1.27	23%
Export Dispatches	0.83	0.75	11%	0.98	-15%	2.59	2.14	21%
North Export	0.22	0.21	6%	0.2	9%	0.66	0.51	30%
South Export	0.61	0.54	13%	0.78	-22%	1.93	1.64	18%

Source: APCMA, IGI Research

2. Export Growth Supported by Market Diversification and Logistics Expansion.

Meanwhile, exports remain robust on improved clinker pricing and market diversification. On the export front, Pakistan recorded about 9.124 million tons of cement & clinker exports in FY24-25, up from 7.08 million tons the previous year; in terms of dollar value, exports grew by roughly 23.7%. The principal export markets include Afghanistan, Bangladesh, Sri Lanka, Madagascar, the USA, and Ghana. These numbers suggests that both domestic demand and foreign demand are contributing to recovery. Additionally, Government plans to expand Port Qasim's capacity with two new berths, a 30,000-tonne storage facility (by end-2025), and repairs of existing infrastructure (in 4–5 months), while exploring clinker exports via Sahiwal berth. These steps should ease logistics bottlenecks, lower export costs, and support higher cement/clinker export volumes, improving the sector's future outlook.

Exhibit: Monthly Cement Dispatches (Mn'tons)

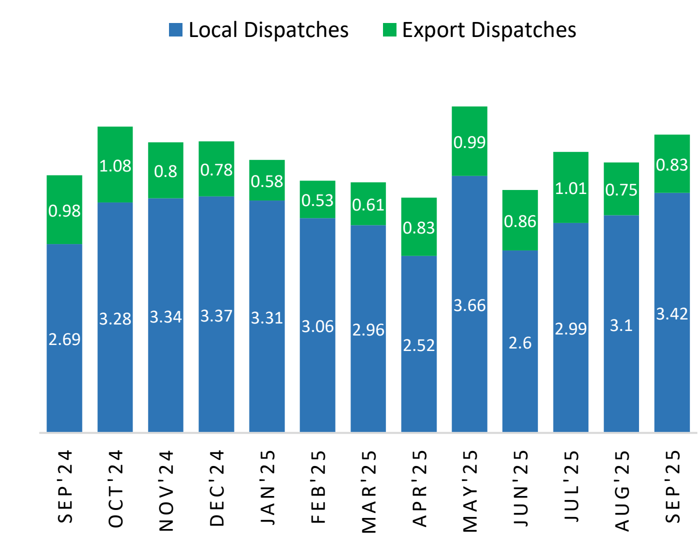
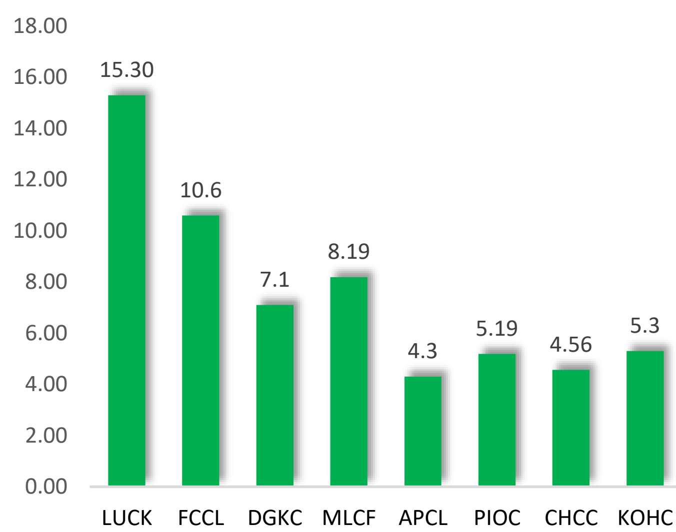


Exhibit: Company Wise Capacities (MPTA)



Source: APCMA, Company AIGI Research

3. Easing input costs from coal/grid & energy optimization resulting in margin relief.

The Pakistan cement sector appears to be exiting a prolonged period of subdued demand and cost pressure. International coal prices have normalized near US$ 90/ton, grid tariffs have eased (Since June 2024 the average national tariff has been reduced from PKR 48.70 per unit including taxes to PKR 39.64 per unit in August this year, translating a decrease of PKR 9.06 per unit). The impact of recent negotiations with power producers and improvements in key economic indicators resulted in reduced tariffs for consumers and its impact has been passed on in FY26 to consume-end tariff rebasing. Additionally, companies are increasingly relying on renewables and local coal, boosting sector margins. Companies with high renewable capacity Lucky Cement (103 MW) and Fauji Cement (67.5MW), are likely to see stronger margin expansion. Similarly, power cost for companies majorly reliant on grid electricity is expected to decline.

Retail cement bag prices vary by region, with estimates for northern regions near PKR 1,410/ bag and slightly higher, near PKR 1,450 /bag in southern regions. Prices per bag might remain largely stable but could creep upward modestly in FY26, especially in the north, to reflect rising demand and cost pass-through; southern prices may also follow but with some lag. However, hike in royalty charges to 6% of ex-factory price could negatively affect FY26 earnings for KPK based players, which can lead to increased cost uncertainty if policy is shifted.

Exhibit: Coal prices (USD$/ton)

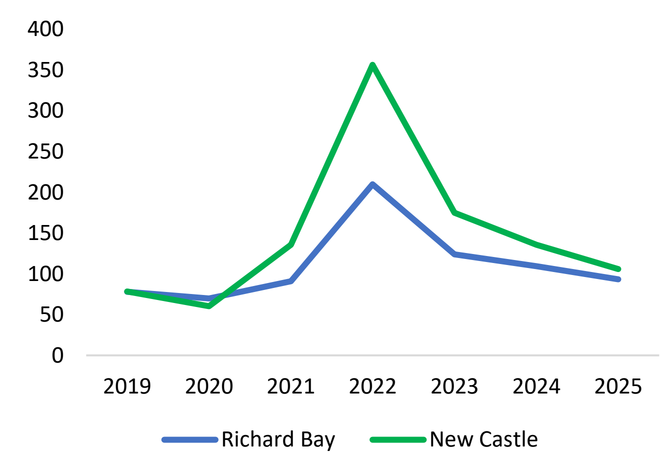
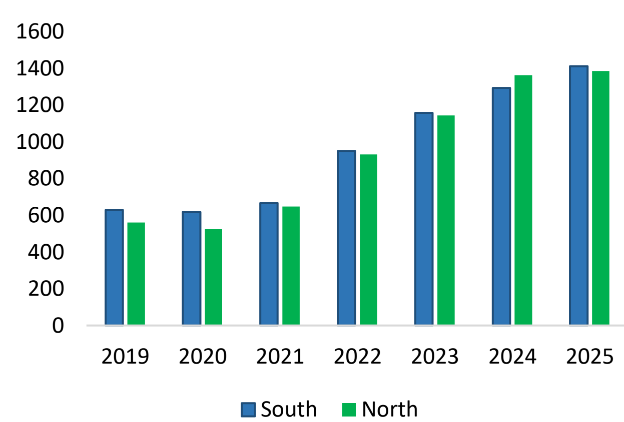


Exhibit: Domestic Cement Prices (PKR/bag)

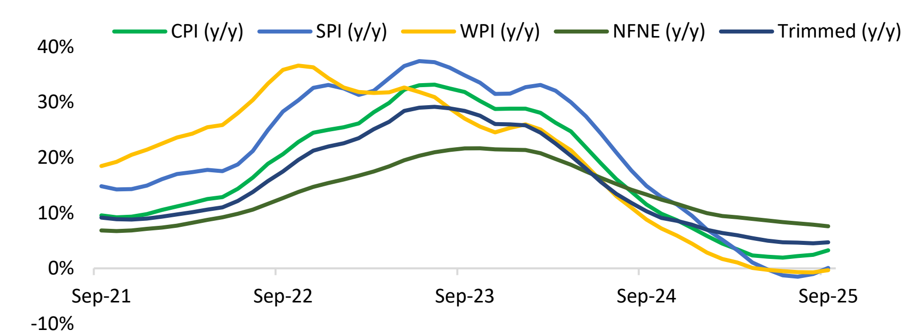


Source: Bloomberg, PBS, IGI Research

4. Deleveraging & monetary easing leading to reduced finance cost.

Interest rates have been moderating, which is boosting affordability of finance for both construction and industrial activity. Lower borrowing costs will help revive construction demand. Inflation pressures, while still present, have eased compared to prior periods, supporting consumer and industrial confidence. With inflation expected to remain within SBP's target range of 5-7% for FY26 despite floods, there is further room for SBP to cut interest rates in its upcoming MPC meetings. Companies that have maintained extensive leverage such as FCCL and DGKC stand to see outsized gains as finance costs fall. With continued deleveraging efforts made by companies such as MLCF, CHCC, DGKC, PIOC, finance cost is expected to further decline significantly.

Exhibit: National Core-inflation measures



Source: PBS, SBP, IGI Research

Exhibit: Finance Cost Trend (PKR bn)

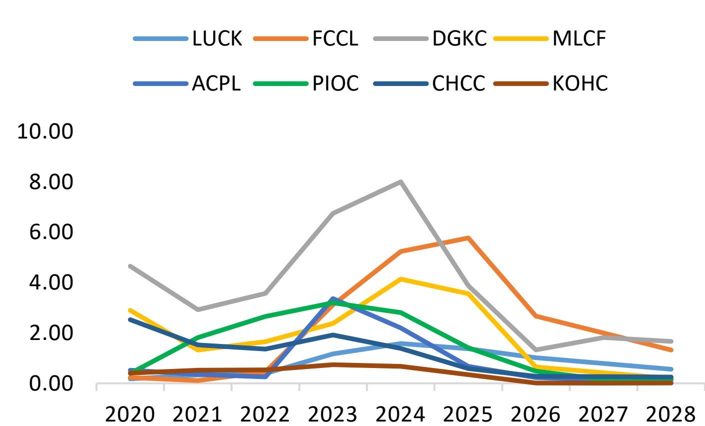
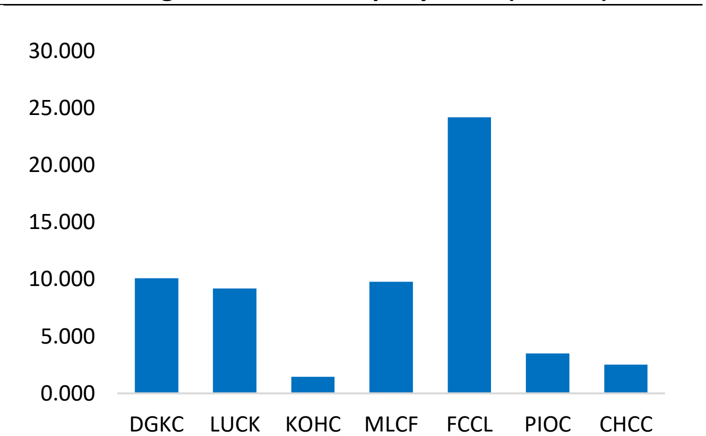


Exhibit: Long Term Debt Company Wise (PKR bn)



Source: Company Accounts, IGI Research

Investment Implications

Firms with advantages in logistics (proximity to coal sources/import ports), better energy efficiency, and diversified fuel mix, captive power, will likely outperform. Export-oriented plants are also set to benefit given the growth in foreign dispatches and value realization. Companies that have maintained conservative leverage stand to see outsized gains as finance costs fall. Meanwhile, companies heavily reliant on grid electricity supply will benefit from easing rates. From a valuation perspective, current market prices do not yet fully reflect the improving demand outlook and margin relief, suggesting potential upside. There are uncertainties such as policy (royalty hikes) and input cost volatility (coal/grid tariffs) but overall the risk-reward profile is improving. Investors should monitor coal price trends, and execution of government infrastructure programmes. If these variables remain supportive, the sector is set for one of its better earnings cycles in recent years.

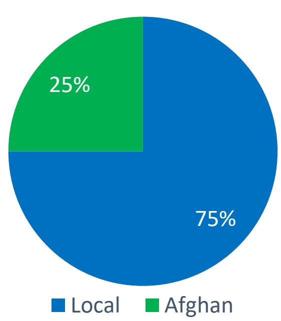
Fauji Cement Company Limited (FCCL)	
Cement	
Recommendation	**BUY**
Target Price: Jun-26	77
Last Closing: 28-Oct-25	50.0
Upside (%):	54%
Valuation Methodology:	DCF

Key Company Financials
Period End: Jun

PKRBn	FY24A	FY25A	FY26E	FY27E
Total Revenue	80.03	88.96	108.75	122.02
Net Income	8.22	13.33	17.34	18.66
EPS (PKR)	3.4	5.4	7.1	7.6
DPS (PKR)	1.00	1.25	2.75	3.25
Total Assets	147.64	160.85	167.52	174.13
Total Equity	73.40	84.27	94.25	103.40
Key Financial Ratios				
ROE (%)	11%	16%	18%	17%
P/E (x)	14.91x	9.20x	7.07x	6.57x
P/B (x)	1.67x	1.46x	1.30x	1.18x
DY (%)	2%	3%	6%	7%

Source: Bloomberg, CapitalStake, PSX, Company Financials, IGI Research

Exhibit: FCCL Fuel Mix



Source: Company Accounts, IGI Research

Fauji Cement Company Limited (FCCL)

We reiterate our Buy rating on FCCL with a Jun-26 target price of PKR 77/share, offering an upside of 54% from last close of PKR 50.0/share (30^{th}-Oct-25).

North Footprint with Third Largest Cement Production

FCCL is the third largest cement producer in Pakistan with a total annual capacity of 10.6Mn tons and current utilization of 51%. The company operates four plants, with one in KPK (35% of capacity) and the remaining three located in Punjab, making FCCL primarily North-concentrated. In FY25, FCCL recorded local dispatches of 4.81Mn tons and exports of 0.56Mn tons, emerging as the largest exporter to Afghanistan with a 33% market share. Management expects 4–5% growth in local sales and 8–9% growth in exports in FY26.

Rising Renewable Share and Local Coal Shift to Drive FCCL's Energy Efficiency

FCCL continues to expand its renewable energy footprint with a 131 MW captive power base, including 67.5 MW solar and 48 MW WHR, raising renewables' share in the power mix to 49% (vs. 43% last year). Additionally, the company had invested PKR 1.5bn in a 15 MW solar captive power project, which will increase in-house generation to cover 55% of its total power needs. FCCL currently sources coal mainly from local (Balochistan and Darra) and Afghan suppliers, Current mix is (75% local coal, 25% Afghan coal) with the mix shifting toward 80–85% local coal in the future. Additionally, FCCL being majorly reliant on grid electricity (40%), is expected to gain from easing grid rates (PKR 31/unit vs PKR 32/unit LY). Alternate fuels contributed 5–7% this year, lower than last year's 10–12% as companied relied more on local coal amid easing prices.

Monetary Easing and Packaging Plant Acquisition to Improve Costs

FCCL carries the highest debt levels in the sector with a D/E ratio of 0.40x in FY26, but remains a key beneficiary of monetary easing, with management expecting a PKR 2–3bn reduction in finance costs in FY26 due to lower interest rates. FCCL maintains one of the highest retention prices in the industry due to its North-based location, while cost optimization initiatives include a recent acquisition of a polypropylene bags plant at Hattar, which has lowered packaging costs by ~PKR 4/bag. Key risks include slower demand recovery, potential equity dilution (the earlier PKR 7.5bn unsecured interest-free loan from the parent company extended for Nizampur expansion in Oct-22, now carries a 10% rate, with uncertainty over possible conversion to equity, posing risk of EPS dilution) and adverse outcomes of ongoing legal cases such as the royalty charge (currently under stay order). On the upside, FCCL sees export potential from its DGK plant given stronger regional pricing trends.

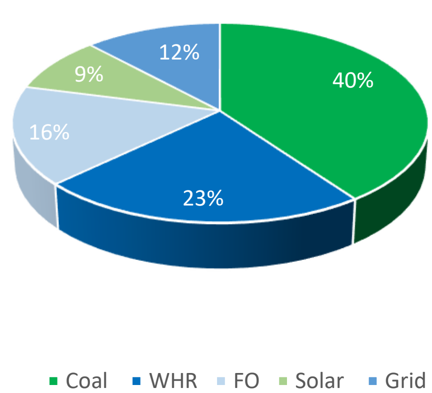
Maple Leaf Cement Company (MLCF)	
Cement	
Recommendation	**BUY**
Target Price: Jun-26	134
Last Closing: 28-Oct-25	92.15
Upside (%):	45%
Valuation Methodology:	DCF

Key Company Financials
Period End: Jun

PKRBn	FY24A	FY25A	FY26E	FY27E
Total Revenue	66.45	68.94	75.26	80.63
Net Income	5.27	17.04	13.47	14.37
EPS (PKR)	5.0	16.30	13.0	13.7
DPS (PKR)	0.00	0.00	1.25	1.25
Total Assets	99.37	119.11	106.32	108.51
Total Equity	52.62	71.46	85.84	96.68
Key Financial Ratios				
ROE (%)	10%	24%	20%	16%
P/E (x)	18.31x	5.67x	7.17x	6.72x
P/B (x)	1.83x	1.35x	1.15x	1.00x
DY (%)	0%	0%	1%	1%

Source: Bloomberg, CapitalStake, PSX, Company Financials, IGI Research

Exhibit: MLCF Power Mix



Source: Company Accounts, IGI Research

Maple Leaf Cement Company Limited (MLCF)

We reiterate our Buy stance on MLCF, with a Jun-26 target price of PKR 134/share, offering an upside of 45% from last close of PKR 92.15/share (30th-Oct-25).

Largest Single Site Cement manufacturing facility

MLCF, majority owned by Kohinoor Textile Mills (57.9%), operates the largest single-site cement manufacturing facility in Pakistan with a total capacity of 8.19Mn tons. The company has a domestic market share of 10.3%, with current utilization of ~49%. A key differentiator for MLCF is its premium product mix, particularly white cement, where it commands a dominant ~90% market share. This focus on higher-value products, including putty cement, supports the company's industry-leading retention prices relative to peers.

Optimized Power Mix and Rail Connectivity Enable MLCF's Lowest Energy Cost in Sector (~PKR 17.9/KWh)

MLCF has consistently invested in power mix optimization, resulting in one of the lowest weighted average power costs in the sector (~PKR 17.9/KWh). Its current power mix comprises 40% coal-based generation, 23% WHR, 16% furnace oil, 9% solar, and 12% grid reliance. The company also operates a 20MW solar plant, which further reduces energy costs. On the fuel side, 23% of energy requirements are currently met through biomass, with plans to raise this share to 40%, while coal sourcing is diversified with 50% local coal and the flexibility to use pet coke as a cheaper alternative. Direct rail access to the plant provides an additional cost advantage by reducing inland freight expenses for imported coal compared to North-based peers.

High-Value White and Putty Cement Segments Drive Premium Pricing and Margin Advantage

A significant strength for MLCF lies in its white cement (Rs 2150-2250/40kg Bag) and putty cement portfolio, which allows it to maintain premium pricing and higher margins versus conventional gray cement producers. The company's ability to operate efficiently on pet coke further provides a cost edge, particularly during periods of elevated coal prices.

Debt repayment and Diversification to Support Long Term Growth

Beyond cement, MLCF has been diversifying into other industries, including healthcare (Novacare hospitals) and the fertilizer sector through its acquisition of Agritech Limited (AGL). On the financial front, the company has initiated deleveraging, with repayment of PKR 4.5bn debt in 3QFY25 to Maple Leaf Power (MLPL), which is expected to lower financing costs going forward.

DG Khan Cement Company Limited (DGKC)	
Cements	
Recommendation	**BUY**
Target Price: Jun-26	297.5
Last Closing: 30-Jul-25	216.42
Upside (%):	37%
Valuation Methodology:	DCF

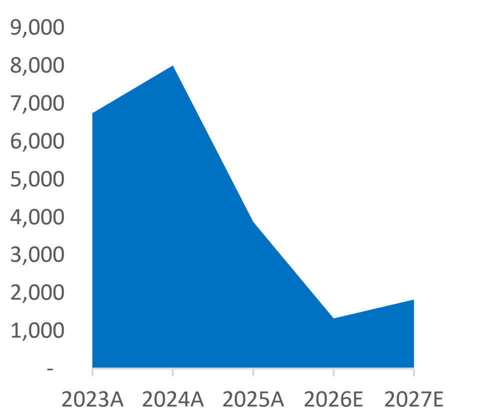
Key Company Financials

Period End: Jun

PKRBn	**FY24A**	**FY25A**	**FY26E**	**FY27E**
Total Revenue	66.04	71.89	88.29	95.38
Net Income	0.54	8.68	11.45	15.52
EPS (PKR)	1.2	19.8	26.1	34.8
DPS (PKR)	0.00	2.00	2.50	3.00
Total Assets	138.39	145.92	193.16	207.40
Total Equity	75.85	94.67	104.37	117.32
Key Financial Ratios				
ROE (%)	1%	9%	11%	13%
P/E (x)	174.8x	10.93x	8.29x	6.22x
P/B (x)	1.25x	1.00x	0.91x	0.81x
DY (%)	0%	1%	1%	1%

Source: Bloomberg, CapitalStake, PSX, Company Financials, IGI Research

Exhibit: DGKC Finance Cost (PKR Mn)



Source: Company Accounts, IGI Research

D.G Khan Cement Company Limited (DGKC)

We reiterate our Buy rating on DG Khan Cement Factory Ltd (DGKC), with a Jun-26 target price of PKR 298/share, offering an upside of 37% from last close of PKR 216.42/share (30th-Oct-25).

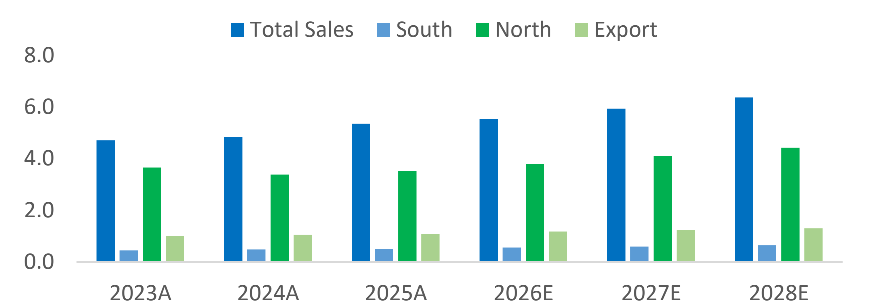
Dual Region Presence to Drive Operational Flexibility

DG Khan Cement (DGKC) is among the largest cement manufacturers in Pakistan with a production capacity of 7.1Mn tons per annum, supported by a presence in both the North and South regions. This dual geographic footprint provides the company with operational flexibility and a competitive edge in catering to both domestic and export markets. In FY25, DGKC recorded a 52% y/y increase in exports from its South-based operations, underscoring its strategic pivot toward external markets where pricing dynamics are more favorable.

Gains from Falling Coal Prices and Rising Export Realizations

The company's margins are expected to remain sustained and stable, supported by declining coal prices, better export realizations, and increased reliance on alternate fuels. DGKC has optimized its coal mix and continues to expand captive power generation, which is likely to keep production costs on the lower side compared to peers. Clinker Export pricing has improved notably, with realizations increasing to USD 35/ton from USD 30/ton previously, aided particularly by shipments to the USA where pricing remains strong.

Exhibit: DGKC Cement Sales (Mn'Tn)



Source: Company Accounts, IGI Researh

Balance sheet strengthening through deleveraging and other income

DGKC is one of the most leveraged companies in the sector, with a D/E ratio of 0.3x, making it a direct beneficiary of monetary easing. The company has been actively deleveraging its balance sheet, reducing its debt by PKR 13.5bn to 22.3bn in FY25, which led to a 52% y/y drop in finance charges. Additionally, the company benefits from strategic holdings in group companies, most notably MCB Bank, from which it derives stable dividend income (around 70% of other income).

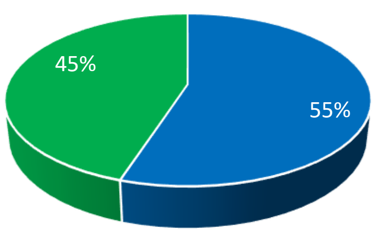
Lucky Cement Company Limited (LUKC)	
Cement	
Recommendation	**BUY**
Target Price: Jun-26	535
Last Closing: 28-Oct-25	445.93
Upside (%):	20%
Valuation Methodology:	DCF

Key Company Financials
Period End: Jun

PKRBn	FY24A	FY25A	FY26E	FY27E
Total Revenue	115.32	124.51	177.88	192.12
Net Income	28.11	33.09	50.94	59.99
EPS (PKR)	19.2	22.6	34.8	40.9
DPS (PKR)	3.00	4.00	8.00	11.25
Total Assets	234.02	266.75	325.57	379.80
Total Equity	147.76	175.91	228.28	284.97
Key Financial Ratios				
ROE (%)	19%	19%	22%	21%
P/E (x)	23.24x	19.74x	12.83x	10.89x
P/B (x)	4.49x	3.77x	2.90x	2.33x
DY (%)	1%	1%	2%	3%

Source: Bloomberg, CapitalStake, PSX, Company Financials, IGI Research

Exhibit: LUCK Power Mix



Source: Company Accounts, IGI Research

Lucky Cement Company Limited (LUCK)

We reiterate our Buy stance on LUCK with a Jun-26 target price of PKR 535/share by, offering an upside of 20% from last close of PKR 445.93/share (30^{th}-Oct-25).

Largest Cement Producer with Dominant Export Share

LUCK is the largest cement producer in Pakistan with a total capacity of 15.3Mn tons, comprising a 10Mn ton plant in KPK (North) and a 5.3Mn ton plant in Karachi (South). The company holds a ~16% domestic market share. In FY25, Total volumetric dispatches increased 8%y/y, driven by strong export growth (+53%y/y to 3.4Mn tons), which raised Lucky's export market share to 36.6% (vs. 30.7% LY), making it the largest contributor to industry exports. Africa remained the leading export destination, accounting for 62% of total exports.

Renewable Expansion and Thar Coal Supply to Strengthen Cost Leadership

LUCK is the second lowest cost producer in the industry, supported by its reliance on self-generation and focus on renewables. In 2QFY25, the company commissioned a 28.8MW wind power project at its Karachi plant, while a Battery Energy Storage System (BESS) was installed post-June 2025 to optimize renewable usage. With these additions, the South plant now sources 55% of its energy from renewables, On the fuel mix side, the South plant depends on imported coal (~USD 100/ton), while the North plant sources 80% local and 20% Afghan coal. From FY26, supply of local Thar coal is expected, which should reduce imported fuel reliance and further enhance cost efficiency. LUCK's foreign operations remain robust, with its Iraq plant operating at ~95% utilization and Congo plant at ~85%, both under consideration for expansion.

Solid FY25 Performance and PIA Acquisition Plan Signal Broader Growth Vision

LUCK's FY25 financial results depicted robust growth. Standalone revenues rose 8% y/y to PKR 124.5bn, while PAT increased 23.5% y/y to PKR 20.5bn. On a consolidated basis, revenues climbed 9.4% y/y to PKR 449.6bn, and PAT increased 16.9% y/y to PKR 84.5bn. Beyond cement, the company derives significant value from its 660MW IPP (LEPCL), which operates on imported coal but is transitioning to local Thar lignite, expected to improve merit order positioning. Additionally, Lucky holds PKR 142bn in consolidated cash reserves (PKR 97/sh), providing ample liquidity for diversification. Notably, the company has submitted an Expression of Interest (EOI) for acquiring a 51–100% stake in PIA, with PKR 70bn earmarked for the investment.

Looking ahead, the company expects gradual recovery in domestic cement demand, supported by lower interest rates, easing inflation, and a revival in housing and infrastructure activity.

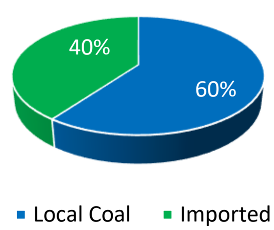
Cherat Cement Company Limited (CHCC)	
Cement	
Recommendation	**BUY**
Target Price: Jun-26	514
Last Closing: 30-Jul-25	328.24
Upside (%):	57%
Valuation Methodology:	DCF

Key Company Financials
Period End: Jun

PKRBn	FY24A	FY25A	FY26E	FY27E
Total Revenue	38.43	37.81	40.97	43.46
Net Income	5.50	8.68	8.85	9.04
EPS (PKR)	28.3	44.7	45.6	46.5
DPS (PKR)	5.50	5.50	6.50	9.00
Total Assets	41.03	50.55	59.20	66.74
Total Equity	25.54	33.31	40.90	48.19
Key Financial Ratios				
ROE (%)	22%	26%	22%	20%
P/E (x)	11.60x	7.35x	7.21x	7.05x
P/B (x)	2.50x	1.91x	1.56x	1.32x
DY (%)	2%	2%	2%	3%

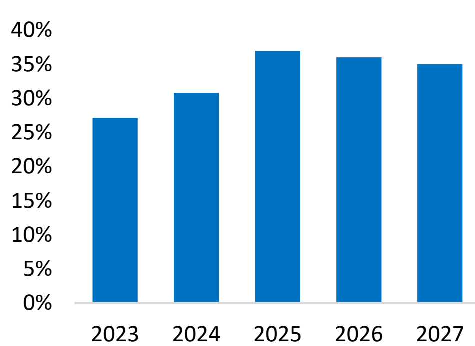
Source: Bloomberg, CapitalStake, PSX, Company Financials, IGI Research

Exhibit: CHCC Fuel Mix



Source: Company Accounts, IGI Research

Exhibit: Gross Margins



Source: Company Accounts, IGI Research

Cherat Cement Company Limited (CHCC)

We reiterate our Buy rating on CHCC, with a Jun-26 target price of PKR 513.5/share, offering an upside of 57% from last close of PKR 328.24/share (30^{th}-Oct-25).

Northern-most Cement Player Benefits from Cheaper Afghan Coal

CHCC operates as the northern-most cement manufacturer in Pakistan, with a total production capacity of 4.56Mn tons per annum through its plant located in KPK. Its strategic location provides a competitive edge for exports to Afghanistan, which currently account for ~17% of total volumes. The company benefits from cheaper coal procurement from Afghan and Darra sources, which, along with lower limestone royalty rates (PKR 350/ton vs PKR 1,400/ton in Punjab), enables CHCC to consistently post industry-leading margins.

Lowest Leverage and Fuel Mix Optimization Help Offset Tariff Impact

The company has one of the lowest debt levels in the industry, with a debt-to-equity ratio of 0.17x following significant deleveraging. On the energy side, CHCC has increased reliance on local coal to 60% of its fuel mix, providing a ~25% cost advantage compared to imported coal. Additionally, the company has expanded its solar capacity to 23MW, complementing its coal base and lowering costs further. However, rising tariffs on captive gas, as well as new levies and Petroleum Development Levy (PDL) on furnace oil, are expected to exert pressure on margins, pushing management to shift more towards grid electricity going forward.

Sector Leading Margins Backed by Low Debt/tn and Royalty Charges

CHCC enjoys the highest margins in the cement sector, supported by its cost-efficient sourcing, lower royalty structure, and optimized fuel mix. Its deleveraging drive has left it with the lowest debt/ton metrics among peers, allowing the company to sustain strong profitability even in periods of demand weakness. This financial strength gives CHCC flexibility to invest more in renewable energy.

Future Outlook Dependant on Royalty Hike

Key risks for CHCC include the potential increase in royalty charges, which would narrow its cost advantage, and political or trade instability with Afghanistan, which could disrupt export flows and impact earnings. Nevertheless, the company's lean balance sheet, strategic coal sourcing, and energy diversification position it favorably to withstand cost pressures and maintain superior profitability relative to peers. Looking ahead, CHCC's focus on further optimizing its fuel mix and shifting away from expensive captive gas should help preserve margins and support sustainable earnings growth.

Kohat Cement Company Limited (KOHC)	
Cement	
Recommendation	**BUY**
Target Price: Jun-26	145
Last Closing: 28-Oct-25	94.14
Upside (%):	54%
Valuation Methodology:	DCF

Key Company Financials
Period End: Jun

PKRBn	**FY24A**	**FY25A**	**FY26E**	**FY27E**
Total Revenue	38.65	37.54	41.44	43.28
Net Income	8.89	11.58	12.64	14.24
EPS (PKR)	9.1	12.6	13.8	15.5
DPS (PKR)	0.00	0.00	1.00	1.50
Total Assets	58.84	69.66	83.58	95.88
Total Equity	41.09	54.62	67.06	81.01
Key Financial Ratios				
ROE (%)	22%	21%	19%	20%
P/E (x)	10.40x	7.47x	6.84x	6.07x
P/B (x)	2.11x	1.58x	1.29x	1.07x
DY (%)	0%	0%	1%	2%

Source: Bloomberg, CapitalStake, PSX, Company Financials, IGI Research

Kohat Cement Company Limited (KOHC)

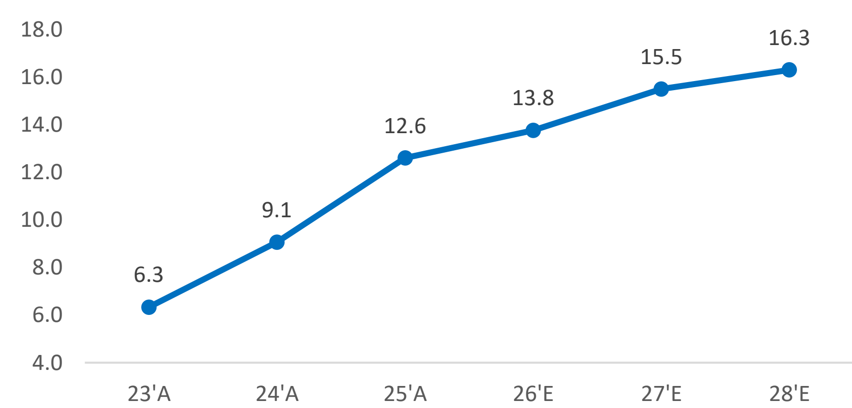
We reiterate our Buy stance on KOHC, with a Jun-26 target price of PKR 145/share, offering an upside of 54% from last close of PKR 94.14/share (30th-Oct-25).

30MW Captive Power Project and Premium White Cement Portfolio to Strengthen Margins

KOHC is undertaking a 30MW coal-fired captive power plant, with commissioning targeted by FY26 and expected operations from FY27. The project entails a capex of around PKR 10bn, financed largely through equity given the company's healthy liquidity position (cash & equivalents of PKR 31.5bn as of 9MFY25), alongside some debt. This investment comes in addition to KOHC's increasing reliance on self-generation, as it has already commissioned a 5.3MW solar project, lifting total solar capacity to 15.4MW, with plans to expand further to 20MW.

The company maintains a total cement capacity of 5.3MTPA. A key differentiator for KOHC is its premium product mix, particularly white cement (Rs. 2050-2100/kg Bag). KOHC has a structural advantage from lower royalty charges in Khyber Pakhtunkhwa (KPK) compared to Punjab-based players, supporting profitability. However, potential increases in royalty rates (up to 6% of ex-factory price) remain a key earnings risk for FY26. Additionally, higher capex may suppress other income, partly offsetting gains from an optimized power and fuel mix. Despite these risks, KOHC continues to post industry-leading margins.

Exhibit: KOHC Earning Per Share



Source: Company Accounts, IGI Research

Pioneer Cement Company Limited				
Cement				
Recommendation				**BUY**
Target Price: Jun-26				312
Last Closing: 28-Oct-25				209.97
Upside (%):				49%
Valuation Methodology:				DCF

Key Company Financials				
Period End: Jun				
PKRBn	**FY24A**	**FY25A**	**FY26E**	**FY27E**
Total Revenue	35.52	33.31	39.68	42.85
Net Income	5.18	4.88	8.68	10.79
EPS (PKR)	22.8	21.5	38.2	47.5
DPS (PKR)	15.00	15.00	27.00	36.00
Total Assets	85.08	86.37	88.88	91.67
Total Equity	45.67	47.13	52.30	52.91
Key Financial Ratios				
ROE (%)	11%	10%	17%	20%
P/E (x)	9.21x	9.77x	5.50x	4.42x
P/B (x)	1.04x	1.01x	0.95x	0.90x
DY (%)	7%	7%	13%	17%

Source: Bloomberg, CapitalStake, PSX, Company Financials, IGI Research

Pioneer Cement Company Limited (PIOC)

We reiterate our Buy rating on PIOC, with a Jun-26 target price of PKR 311.5/share, offering an upside of 49% from last close of PKR 209.97/share (30th-Oct-25).

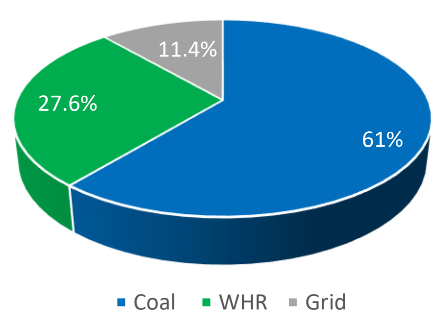
Strong Captive Power Base and Local-Afghan Coal Blend Bolster Cost Efficiency

PIOC, with a total cement capacity of 5.2MTPA at its Punjab-based plant, benefits from strong captive power generation, around 61% of power needs are met through its coal-fired plant, 27.6% via the WHR system, and the balance through the grid. The company maintains fuel cost efficiency through a diversified coal mix - 40% local, 50% Afghan, and 10% imported coal, making it more resilient to volatility in global coal prices. Importantly, PIOC's high reliance on coal in its power mix positions it well to capitalize on declining coal prices.

High Retention Prices and Low Leverage Support Margins amid Weak Utilization

The company also enjoys higher retention prices relative to peers, but currently faces the drawback of lowest capacity utilization due to subdued local demand and the absence of export sales, which remains a key risk. On the balance sheet side, Pioneer is in a stronger position as it continues to benefit from its deleveraging efforts, providing room for future flexibility. Overall, while pricing strength and improved financial health support margins, weak utilization and lack of exports weigh on near-term performance.

Exhibit: PIOC Power Mix



Source: Company Accounts, IGI Research

Exhibit: Gross Profit Margin

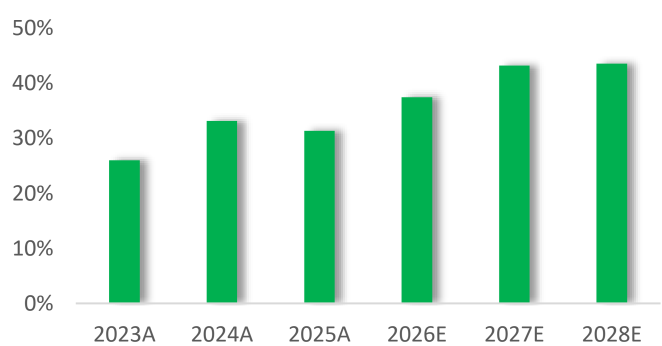
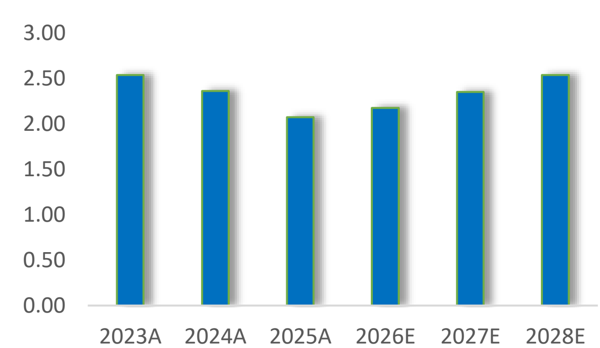


Exhibit: Sales (Mn'tons)



Source: *Company Accounts, IGI Research*

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Hold if target price on aforementioned security (ies) is in between -10% and 10%, from its last closing price(s)
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- Reserve Based DCF
- Dividend Discount Model (DDM)
- Justified Price to Book
- Residual Income (RI)
- Relative Valuation (Price to Earning, Price to Sales, Price to Book)

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