

## Sector Update

### Cement companies 31 Fy21 eps

|       | 3QFY21 | Y/Y   | Q/Q  |
|-------|--------|-------|------|
| PIOC  | 3.4    | n.m   | 21%  |
| CHCC  | 5.8    | n.m   | 13%  |
| MLCF* | 1.2    | n.m   | 19%  |
| DGKC  | 5.3    | n.m   | 2.0x |
| KOHC  | 5.6    | n.m   | 16%  |
| FCCL  | 0.8    | n.m   | 23%  |
| LUCK* | 22.3   | 5.00x | 20%  |
| ACPL  | 3.9    | 31%   | 25%  |

Source: Bloomberg, SBP, MOF, PSX

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## Cements

### Strong sector fundamentals to keep 3qFy21 earnings upbeat

- We preview IGI cement earnings for 3QFY21, where we expect earnings to increase by ~38%y/y to PKR 4.48bn. The earnings performance for 3QFY21 is largely ascribed to: higher dispatches, retention price and lower finance cost.
- We remain bullish on IGI cements backed on strong fundamentals and overall pro-construction macro theme. Going forward, we expect local dispatches to continue to grow amid low cost housing scheme, and revision in mark-up subsidy.
- However, due to Ramadan season and Eid holidays the slowdown in construction activities can limit the dispatches growth in coming months.

### Higher retention prices and dispatches to drive +38%y/y eps growth in 3qFY21

We preview IGI cement earnings for 3QFY21, where we expect earnings to increase by ~38%y/y to PKR 4.48bn. The earnings performance for 3QFY21 is largely ascribed to:

- **High dispatches:** During 3QFY21, local cement sales increase by 35%y/y to 13.1mn tons, as compared to 9.75mn tons in the corresponding period last year. While, exports declined by 8%y/y to 1.9mn tons. The increase in dispatches is largely due to private sector demand amid low interest rate regime, construction package and PSDP disbursement. The increase in volumes emerges as one of the fundamental reasons of increase in gross profits of IGI cements during 3QFY21 as against 3QFY20.
- **Improved retention:** During 3QFY21 average cement sales price for northern region rose by 17%y/y to PKR 504/bag. Whereas, that of southern region remained rather stable. In addition to sales price improvement, further increase in retention price is expected to occur through reduced FED and discounts offered to dealer during the quarter.
- **Finance cost:** while Company wise, finance expense of certain companies are expected to decline materially due to reduction in reference rate. However, PIOC is expected to report higher finance cost due to expense out of the finance cost which was previously being capitalized.

### Outlook

We remain bullish on Cements backed on strong fundamentals and overall pro-construction macro theme. Going forward, we expect local dispatches to continue to grow amid low cost housing scheme, and revision in mark-up subsidy. However, due to Ramadan season and Eid holidays the slowdown in construction activities can limit the dispatches growth in coming months.

**Exhibit: 3QFY21 Result Preview**

| <b>PKR/share</b> | <b>3QFY21</b> | <b>3QFY20</b> | <b>Y/Y</b> | <b>2QFY21</b> | <b>Q/Q</b> |
|------------------|---------------|---------------|------------|---------------|------------|
| PIOC             | 3.43          | -1.81         | n.m        | 2.84          | 21%        |
| CHCC             | 4.76          | -3.23         | -147%      | 4.22          | 13%        |
| MLCF*            | 1.15          | -0.87         | n.m        | 0.97          | 19%        |
| DGKC             | 5.26          | -2.29         | n.m        | 2.63          | 100%       |
| KOHC             | 5.6           | -1.9          | n.m        | 4.81          | 16%        |
| FCCL             | 0.81          | -0.15         | n.m        | 0.66          | 23%        |
| LUCK*            | 22.25         | 4.45          | 400%       | 18.6          | 20%        |
| ACPL             | 3.85          | 2.95          | 31%        | 3.09          | 25%        |

Source: Company accounts, IGI Research, \*consolidated

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**Time Horizon:** Dec – 2021

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IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

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