

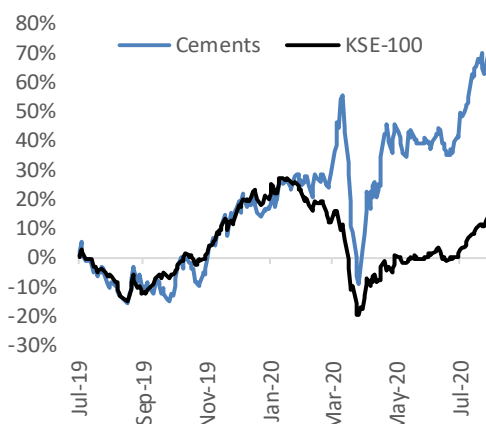
Sector Update

Cements Result preview

PKR/share	4q/20e	QoQ	FY20e	YoY
EPS				
LUCK	1.7	-47%	10.7	-67%
ACPL	0.2	-92%	8.3	-45%
FCCL	(0.0)	98%	0.2	-91%
MLCF	(0.4)	55%	(2.9)	-1.3x
KOHC	(1.4)	29%	(2.8)	-0.2x
DGKC	(1.8)	21%	(6.0)	-1.6x
PIOC	(2.0)	-11%	(4.3)	-1.2x
CHCC	(2.5)	21%	(8.7)	-0.9x

DPS	2q/20e	YoY	1h/20e	YoY
LUCK	2.5	-	2.5	-
ACPL	2.0	-	2.0	-
FCCL	-	-	0.3	-
MLCF	-	-	-	-
KOHC	-	-	-	-
DGKC	-	-	-	-
PIOC	-	-	-	-
CHCC	-	-	-	-

Relative Performance to KSE 100



Source: Bloomberg, PSX 100 & IGI Research

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Cements

4Q earning preview: North players to restrict losses QoQ, while South to see free fall amid poor volumes

- ✓ We preview IGI cements earnings for 4QFY20, where we expect earnings to decline by -0.7x/y while improve by +16%QoQ to a net loss of PKR 1.9bn.
- ✓ This will close FY20 with a full year loss of PKR 4.1bn as against a net profitability of PKR 24.5bn reported in FY19.
- ✓ From payout perspective, we expect only LUCK and ACPL to declare final cash dividends, making FY20 a dry year with respect to cash payouts.
- ✓ We remain bullish on IGI cements backed on strong fundamentals and overall pro-construction macro theme. Our liking on the sector stems from a) positive tax measures introduced under PM's construction package, b) material reduction in FED, c) substantial decline in benchmark interest rates; and d) mandatory targets given by SBP to increase housing and construction financing to at least 5% of private sector credit.

4QFY20: Losses to continue; albeit improved retentions and lesser distribution expenses to restrict them as against sequential quarter

We preview IGI cements earnings for 4QFY20, where we expect earnings to decline by -0.7xYoY while improve by +16%QoQ to a net loss of PKR 1.9bn. This will close FY20 with a full year loss of PKR 4.1bn as against a net profitability of PKR 24.5bn reported in FY19. From payout perspective, we expect only LUCK and ACPL to declare final cash dividends (payout ratio of LUCK & ACPL: 20%), making FY20 a dry year with respect to cash payouts (FCCL declared interim dividend of PKR 0.25/share). The earnings performance for 4QFY20 is largely ascribed to:

- ✓ **Low overall dispatches:** During 4QFY20, total cement dispatches declined by 12% QoQ. Wherein local offtakes fell off by 8% QoQ, export dispatches declined by a substantial 32% QoQ on a sequential basis. The drop in dispatches was largely due to province wide lockdowns and halt in economic activities in the wake of Covid-19 pandemic. The decline in volumes emerges as one of the fundamental reasons of decline in gross profits of IGI cements during 4QFY20E as against 3QFY20.
- ✓ **Improved retention prices:** During 4QFY20 average cement sales price for North region rose by +1.5% QoQ to PKR 513/bag as against PKR 505/bag in 3QFY20. Whereas, that of South region remained rather stable at PKR 624/bag. In addition to sales price improvement, further increase in retention prices is expected to occur through reduced discounts offered to dealers during the quarter. To recall, owing to stiff competition in the domestic market amid enhanced supply capacity, manufacturers offered substantial discounts up till the previous quarter to retain their respective market share. However, post Covid-19 we expect these discounts to soften a bit to arrest the impact of declined volumes. Accordingly, we expect average domestic retention prices (North + South) for 4QFY20 to clock in at PKR 271/bag as against PKR 261/bag in 3QFY20.

- ✓ **Lower capacity utilization restricting positive gains of reduced coal and FO prices:** Owing to melt over of global commodity prices during 4QFY20, average coal inventory price of manufacturers is expected to drop by 10%QoQ. Simultaneously average domestic price of Furnace Oil, used in captive power generation by cement manufacturers, also dropped by 18%QoQ. However, despite material reduction in these commodity prices, overall cost structure is expected to remain similar to the previous quarter. This is primarily ascribed to low capacity utilization levels achieved during the quarter which are not expected to optimally cover fixed manufacturing overheads. To note, capacity utilization level of the industry during 4QFY20 is expected to stand at 61% as against 71% recorded in the sequential quarter.
- ✓ **Substantial reduction in freight charges improving operating margins:** On a positive note, drop in dispatches and substantial decline in diesel prices across the country during 4QFY20 is expected to materially reduce distribution expenses of the sector, which in turn are expected to bring operating profits to a positive range of PKR 0.4bn as against an operating loss of PKR (0.1bn) in 3QFY20. To recall, avg. diesel prices during the period fell to PKR 90/ltr as against PKR 125/ltr in the sequential quarter.
- ✓ **Finance cost:** While company wise, finance expenses of certain companies are expected to recede marginally due to slight reduction in reference rates for the period, however from a total coverage perspective these are expected to marginally rise. This is due to inclusion of substantial borrowing costs of PIOC in 4QFY20 that was not included in 3QFY20. It is pertinent to note that since loan rates are repriced at the end of every quarter as per practice of commercial banks, the applicable 3M and 6M KIBOR rate for 4QFY20 would be 11.2%/11.6% respectively despite the average 3M and 6M KIBOR for 4QFY20 being 8.7%/8.4% respectively. Accordingly, further gains of reduced interest rates will be reflected from 1QFY21.

Exhibit: Cements combined earnings highlights										
LUCK, ACPL, MLCF, DGKC, FCCL, CHCC, KOHC, PIOC										
Period end (Jun) - PKRbn	FY20	4Q'20	3Q'20	2Q'20	1Q'20	FY19	4Q'19	3Q'19	2Q'19	1Q'19
Net Sales	183.0	39.9	45.0	53.7	44.4	197.4	48.5	50.3	53.2	45.3
Cost of sales	170.0	38.2	42.8	47.8	41.1	152.6	39.8	38.4	39.6	34.8
Gross Profit	13.1	1.7	2.2	5.9	3.3	44.8	8.7	12.0	13.6	10.5
Sales Growth %	-7%	-18%	-11%	1%	-2%	10%	8%	8%	16%	7%
Gross Margin %	7%	4%	5%	11%	7%	23%	18%	24%	26%	23%
Admin, Selling & Distribution	13.4	2.8	3.4	3.7	3.4	11.5	2.9	3.0	2.9	2.8
Other Op. Income	7.1	1.7	1.9	1.8	1.7	6.7	1.9	1.5	1.9	1.3
EBIT	5.4	0.4	(0.1)	3.7	1.4	36.5	6.7	9.8	11.5	8.4
EBIT Margin %	3%	1%	0%	7%	3%	18%	14%	20%	22%	19%
Financial Charges	12.1	3.1	3.0	3.1	3.0	6.7	2.0	1.9	1.6	1.3
Profit Before Taxation	(6.8)	(2.6)	(3.1)	0.6	(1.6)	29.7	4.7	7.9	9.9	7.2
Taxation	(2.6)	(0.8)	(0.9)	(0.7)	(0.3)	5.3	2.1	0.4	1.6	1.2
Effective Tax Rate	39%	28%	28%	-117%	21%	18%	44%	5%	16%	17%
Profit After Tax	(4.1)	(1.9)	(2.2)	1.2	(1.2)	24.5	2.6	7.6	8.4	5.9
Net Margin (%)	-2%	-5%	-5%	2%	-3%	12%	5%	15%	16%	13%
PAT Growth YoY	-117%	-173%	-130%	-85%	-121%	-39%	-80%	-12%	-5%	-40%

Source: Company Accounts, IGI Research

Exhibit: 4QFY20 dispatches of cement sector have dropped amid lockdowns despite excess available capacity

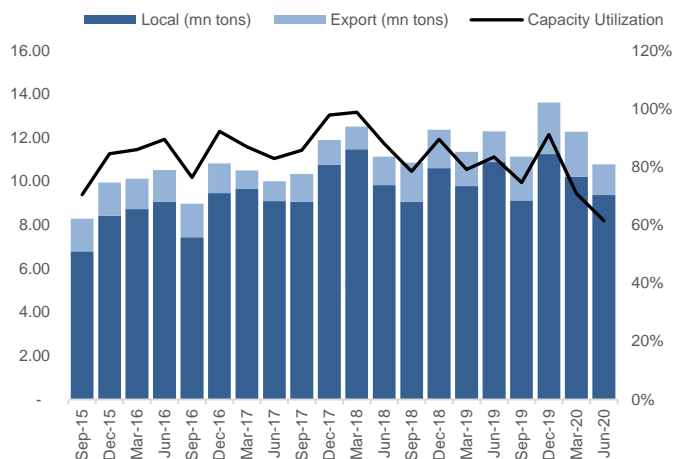
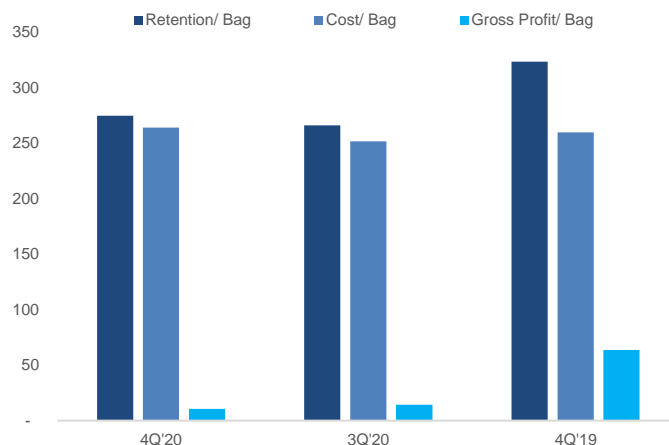


Exhibit: Rising cost/ bag amid low utilization are expected to hamper gross profitability of IGI cements



Company wise: North players to restrict losses QoQ amid improved retentions, while South players to lose out on low capacity utilization

Company wise, we expect North based players to arrest their losses in 4QFY20 while South players, albeit expected to remain profitable, will see massive reduction in comparison to sequential quarter.

Exhibit: IGI Cement 4QFY20 Earnings Preview								
PKR/share	4QFY20E	3QFY20A	4QFY19A	QoQ	YoY	FY20E	FY19A	YoY
EPS / (LPS)								
LUCK	1.65	3.09	6.79	-47%	-76%	10.73	32.44	-67%
ACPL	0.20	2.57	5.07	-92%	-96%	8.33	15.09	-45%
FCCL	(0.00)	(0.15)	0.28	98%	-0.0x	0.19	2.05	-91%
MLCF	(0.39)	(0.87)	0.52	55%	-0.8x	(2.88)	2.24	-1.3x
KOHC	(1.35)	(1.90)	1.48	29%	-0.9x	(2.80)	12.29	-0.2x
DGKC	(1.81)	(2.29)	(2.32)	21%	-22%	(6.04)	3.67	-1.6x
PIOC	(2.01)	(1.81)	(0.15)	-11%	13.1x	(4.31)	3.48	-1.2x
CHCC	(2.55)	(3.23)	(2.51)	21%	1%	(8.66)	9.07	-0.9x
DPS								
LUCK	2.50	-	6.50			2.50	6.50	-62%
ACPL	2.00	-	4.00			2.00	4.00	-50%
FCCL	-	-	0.75			0.25	1.50	-83%
MLCF	-	-	-			-	-	-
KOHC	-	-	2.50			-	2.50	-100%
DGKC	-	-	1.00			-	1.00	-100%
PIOC	-	-	-			-	-	-
CHCC	-	-	1.00			-	1.00	-100%

LUCK: We expect LUCK to present unconsolidated EPS of PKR 1.65 for 4QFY20, down by 47% QoQ. The decline in earnings is largely owed to 18% QoQ drop in total dispatches and fall in gross margins to 9% (3QFY20 GP Margin: 12%) due underutilization of South plant. We expect the Company to declare final cash dividend of PKR 2.5/share along with the result.

ACPL: 4QFY20 EPS is anticipated to clock in at PKR 0.20, down by a massive 92% QoQ. This is expected on the back of 35% drop in overall dispatches and decline in gross margins due to underutilization of plant. We expect ACPL to declare final cash dividend of PKR 2.0/share along with the result.

FCCL: The Company is likely to present a pretty minute loss of PKR 4mn (LPS: PKR 0.00) for the quarter under review. The recovery in performance, as compared to sequential quarter is due to improved retentions in North region for 4QFY20. Overall volumes of FCCL only shed by 5% QoQ. Nil final dividend expected.

MLCF: We expect MLCF to display consolidated LPS of PKR 0.39 for 4QFY20, better by 55% QoQ. The performance is due to improved margins led by better retentions in North market and reduced finance cost post retirement of debt. Nil dividends expected.

KOHC: 4QFY20 LPS is expected to clock in at PKR 1.35, better by 29% QoQ. This performance is largely ascribed to improved margins led by increased retentions in North market despite decline in total dispatch by 6% QoQ.

DGKC: The Company is likely to post unconsolidated LPS of PKR 1.81 for 4QFY20, better by 21% QoQ. While core performance is expected to remain rather stable wherein gains from improved retentions in North markets are expected to be offset by underutilization of South plant, non-recurrence of heavy exchange loss (3QFY20 Other Exp: PKR 505mn) in 4Q will add to curtailment of net loss for the period. Nil dividends are expected along with the result.

PIOC: For 4QFY20, PIOC is expected to present LPS of PKR 2.01, worse by 11% QoQ. Gross loss of the Company is expected to increase to PKR 242mn, despite increase in dispatches (+55% QoQ) and improvement in retention prices, largely due to impact of incremental depreciation from added capacity. We expect PIOC to capitalize its expansion capex during 4QFY20 taking cue from enhanced dispatches sold during the quarter. This will also lead to an estimated 4 fold rise in finance cost of the Company. However, some positivity will be witnessed from gains in equity investments of the Company due from upbeat performance of KSE-100 during the period.

CHCC: For 4QFY2, CHCC is expected to declare LPS of PKR 2.55, better by 21% QoQ. The performance is primarily driven by improved margins led by increased retentions in North market. Nil dividends expected.

Outlook

We remain bullish on IGI cements backed on strong fundamentals and overall pro-construction macro theme. Our liking on the sector stems from a) positive tax measures introduced under PM's construction package, b) material reduction in FED (down 25% YoY), c) substantial decline in benchmark interest rates (down 625bps); and d) mandatory targets given by SBP to increase housing and construction financing to at least 5% of private sector credit (~PKR 330bn).

DISPATCHES POSITION

Exhibit: Monthly Provisional Cement Dispatches								
('000) tons	4Q'20	3Q'20	Q/Q	4Q'19	Y/Y	FY20	FY19	Y/Y
North	8.31	8.61	-3%	9.16	-9.2%	34.33	32.36	6.1%
South	1.06	1.61	-34%	1.73	-38.5%	5.64	7.98	-29.3%
Local	9.38	10.21	-8%	10.88	-14%	39.97	40.33	-1%
North	0.05	0.48	-90%	0.49	-90%	1.89	2.44	-22%
South	1.35	1.59	-15%	0.92	47%	5.96	4.10	45%
Export	1.40	2.07	-32%	1.40	0%	7.85	6.54	20%
Total - Dispatches	10.78	12.28	-12%	12.29	-12%	47.81	46.87	2%

Exhibit: Company wise cement dispatches								
('000) tons	4Q'20	3Q'20	Q/Q	4Q'19	Y/Y	FY20	FY19	Y/Y
LUCK	1.74	2.13	-18%	1.72	1%	7.54	7.67	-2%
Local	1.38	1.52	-9%	1.43	-4%	5.49	5.85	-6%
Exports	0.36	0.61	-40%	0.29	26%	2.05	1.82	13%
DGKC	1.45	1.86	-22%	1.72	-16%	7.20	6.31	14%
Local	1.13	1.35	-17%	1.51	-25%	5.34	5.33	0%
Exports	0.32	0.51	-37%	0.21	56%	1.87	0.98	91%
FCCL	0.70	0.74	-5%	0.79	-11%	3.08	3.04	2%
Local	0.70	0.65	8%	0.74	-5%	2.81	2.82	0%
Exports	0.00	0.09	-96%	0.05	-94%	0.27	0.22	24%
CHCC	0.78	0.83	-7%	0.80	-3%	3.39	2.49	36%
Local	0.77	0.72	7%	0.67	15%	2.92	2.14	37%
Exports	0.01	0.11	-92%	0.13	-94%	0.47	0.36	32%
KOHC	0.58	0.61	-6%	0.56	3%	2.34	2.36	-1%
Local	0.58	0.58	-1%	0.53	9%	2.24	2.24	0%
Exports	0.00	0.03	-97%	0.03	-97%	0.10	0.12	-19%
ACPL	0.50	0.78	-35%	0.69	-27%	2.95	3.21	-8%
Local	0.23	0.35	-34%	0.38	-41%	1.24	1.86	-33%
Exports	0.28	0.43	-36%	0.30	-10%	1.70	1.35	26%
MLCF	1.02	1.30	-21%	1.28	-20%	5.17	3.67	41%
Local	1.02	1.25	-18%	1.18	-14%	4.99	3.34	49%
Exports	0.00	0.05	-92%	0.09	-96%	0.18	0.33	-47%
BWCL	1.77	1.86	-5%	2.13	-17%	7.27	8.05	-10%
Local	1.76	1.79	-2%	2.04	-14%	6.97	7.37	-5%
Exports	0.01	0.07	-83%	0.09	-87%	0.30	0.68	-55%
PIOC	0.59	0.38	55%	0.38	54%	1.73	1.45	20%
Local	0.59	0.38	57%	0.38	56%	1.72	1.38	24%
Exports	0.00	0.00	-97%	0.00	-98%	0.01	0.06	-80%

Source: APCMA, Market Source, IGI Research