

Day Break

Thursday, 05 December 2019

Sector Update

Exhibit: Overall dispatches have increased compared to last year.

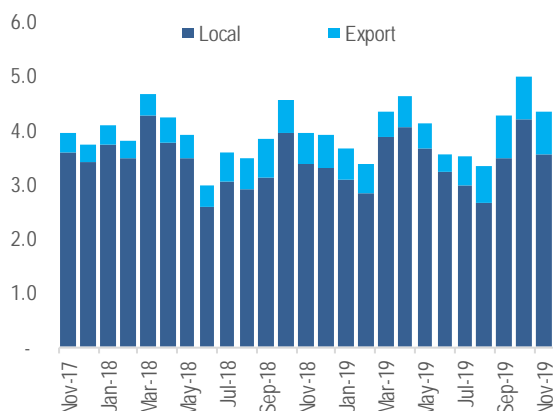


Exhibit: Composition of South sales has fallen in recent months as compared previously.

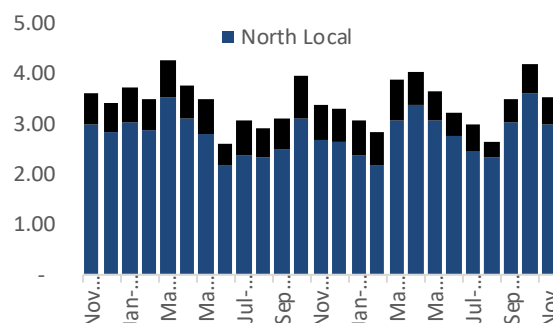
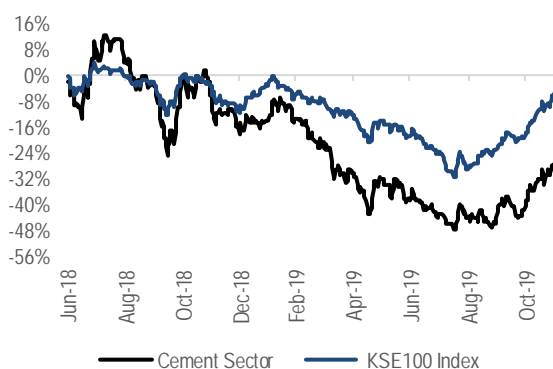


Exhibit: Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Cements

Nov-19 dispatches up by +11%YoY; North local leads the way, South local continues to bleed

- As per news briefings, cement dispatches for the month of Nov-19 rose by +11%YoY to 4.35mn tons, however declined by 13%MoM on a sequential basis. On a cumulative basis, this brings 5MFY20 total dispatches count to 20.44mn tons as against 19.34mn tons recorded in the same period last year, marking a rise of 6%YoY.
- Despite shallow economic indicators in 5MFY19, domestic cement dispatches in the North region have risen by a notable 11%YoY. However, domestic offtakes position in the South has been quite the opposite, with 5MFY19 numbers having declined by almost 29%YoY.
- Exports from North side have fallen yet again in Nov-19, taking 5MFY20 tally to 1.16mn tons, down by 6%YoY. On the contrary, exports from South during 5MFY20 have risen by a phenomenal 41%YoY, though a major chunk of these (~65%) comprise of less valuable clinker exports.
- With the winter season arrived, we expect domestic cement dispatches to be restricted in the next couple of months, especially in North, where effects of smog also plays a vital role. However, we expect healthy recovery in 2HFY20, wherein improving economic indicators and expected rise in domestic expenditure allocations will boost volume performance.

Nov-19 dispatches up +11%YoY; however decline 13%MoM on a monthly basis

As per news briefings, cement dispatches for the month of Nov-19 rose by +11%YoY to 4.35mn tons, however declined by 13%MoM on a sequential basis. On a cumulative basis, this brings 5MFY20 total dispatches count to 20.44mn tons as against 19.34mn tons recorded in the same period last year, marking a rise of 6%YoY.

Exhibit:

Cement Dispatches

(mn) tons	Nov-19	Oct-19	M/M	Nov-18	Y/Y	5M'20	5M'19	Y/Y
North	2.98	3.60	-17%	2.66	12%	14.41	12.96	11%
South	0.56	0.59	-5%	0.71	-20%	2.42	3.41	-29%
Local	3.54	4.20	-16%	3.36	5%	16.83	16.37	3%
North	0.26	0.25	5%	0.24	11%	1.16	1.23	-6%
South	0.54	0.54	2%	0.33	67%	2.45	1.74	41%
Exports	0.81	0.79	3%	0.56	44%	3.61	2.97	21%
Grand Total	4.35	4.98	-13%	3.93	11%	20.44	19.34	6%

Source: IGI Research

Local dispatches rise by +3%YoY. North dispatches increase by +11%YoY, however South local falls short massively by 29%YoY.

Despite shallow economic indicators in 5MFY19, domestic cement dispatches in the North region have risen by a notable 11%YoY. The remarkable rise is primarily driven by disbursement of development funds by the provincial government and initiation of priority projects of the federal government.

Meanwhile, domestic offtakes position in the South has been quite the opposite, with 5MFY19 numbers having declined by almost 29%YoY to 2.4mn tons. We believe this decline to occur on account of low private development expenditure marred by concerns in the real estate sector and limited work in the public infrastructure front.

41%YoY rise in exports cover up for South, albeit that of North are down by 6%YoY.

Whereas the overall domestic market has witnessed growth of 3%YoY, the overall export dispatches have grown by a whopping 21%YoY.

While exports from North side have fallen yet again in Nov-19, taking 5MFY20 tally to 1.16mn tons, down by 6%YoY. The decline is primarily ascribed to closure of Indian market post Feb-19 Pulwama attacks.

On the contrary, exports from South during 5MFY20 have risen by a phenomenal 41%YoY. However, a major chunk of these (~65%) comprise of less valuable clinker exports which are being used by manufacturers to maintain an optimum utilization level.

Cement prices; North sales price increasing gradually while that of South facing pressure.

As per the weekly data published by Pakistan Bureau of Statistics (PBS) as of 28th Nov-19, average cement prices in the North region stood at PKR 549/bag, up by 1%MoM. Alternatively, average cement sale prices in the South region declined by 1%MoM to PKR 640/bag.

Coal prices rising on account of winter demand

Average coal prices continued to increase with monthly avg. rising by 8%MoM to USD 72/ton. As of Dec 03rd, Richard Bay coal prices stood at USD 77/ton, which we expect to further rise to USD 80/ton given winter season has begun and demand of coal in kiln firing for domestic purposes will rise, mainly in Northern China.

Outlook: Winter season to restrict sales, healthy recovery expected in 2HFY20

With the winter season arrived, we expect domestic cement dispatches to be restricted in the next couple of months, especially in North, where effects of smog also plays a vital role. However, we expect healthy recovery in 2HFY20, wherein improving economic indicators and expected rise in domestic expenditure allocations will boost volume performance.

However, with 3 major expansions expected to come online in the next few months (LUCK, PIOC and KOHC) we may see price turbulences in the North region which may keep sector profitability on the lower side. While players residing in South may continue to enjoy benefits of improved export retentions, courtesy positive exchange translation from export proceeds.

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