

Pakistan Cement Sector

Sector primed for a surge

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ASIAMONEY

Best Securities House: 2023
Best Investment Bank: 2023

FinanceAsia

Best Investment Bank: 2022

 **Global
Business
Outlook**

Best Equity House: 2022

 **ASSET ASIAN AWARDS
TRIPLE A**

Best Equity Advisor: 2021

 **CFA Society
Pakistan**

Best Brokerage House: 2023
Corporate Finance House: 2023
Best Economic Research House: 2023
Best Equity Sales Person (Runner up): 2023

 **PAKISTAN
STOCK EXCHANGE
LIMITED**

Top 25 Companies
(2019, 2018 & 2017)

 **CENTRAL
DEPOSITORY
COMPANY**

Excellence Award
Leading Brokerage House for RDA 2021

 **FINANCIAL MARKETS ASSOCIATION OF PAKISTAN
FMA**

Best Money Market Broker
(Islamic) 2021

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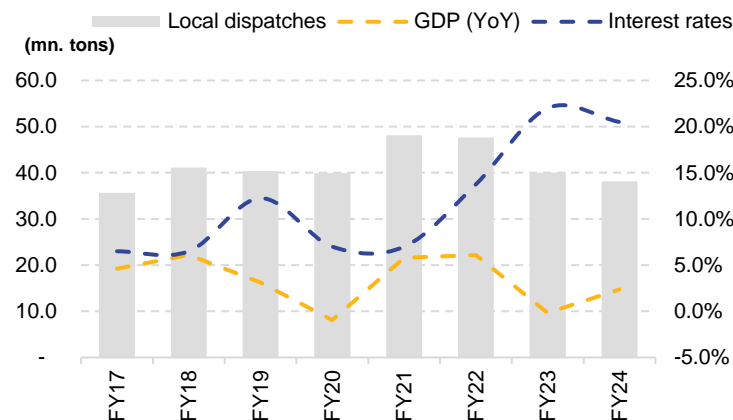
Sector overview

- The cement sector during FY24 underperformed KSE-100 by 20%. The cement sector rose by 69% as compared to 89% increase in KSE-100.
- In FY24, despite a 5% decline in local dispatches compared to the SPLY, the sector experienced a 19% YoY growth in profitability during the 9MFY24. This improvement was driven by a 13% YoY increase in retention prices, which averaged PKR 1,210 per bag. The rise in retention prices was supported by a significant 54% YoY reduction in coal prices.
- Additionally, the recent introduction of a 6% royalty on Punjab manufacturers for limestone and argillaceous clay has been passed on to consumers, as stay order is in place.

North and South price divergence

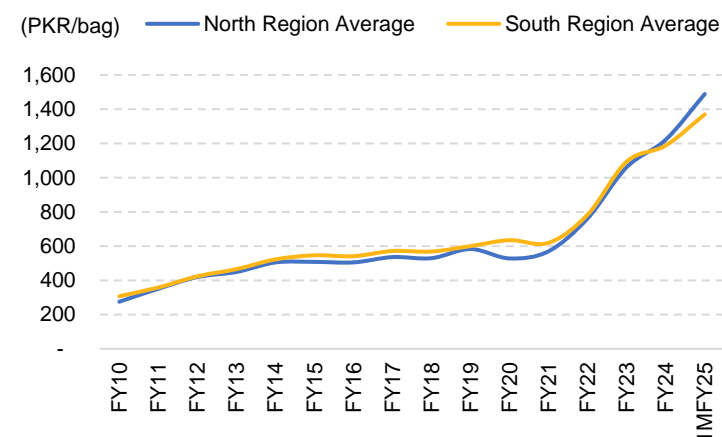
- In FY24, average prices in north surpassed the prices in south by PKR 34/bag, on the back of sharper decline in local demand in the south (down 8% compared to a 4% decline in the north during FY24).
- Currently the price difference between the two regions has further increased to PKR 125/bag on the back of a 6% royalty imposed on Punjab manufacturers for limestone and argillaceous clay.
- Previously, prices in South have been higher than north prices, as in FY23, on average, prices in south were recorded at PKR 1,094/bag as compared to north PKR 1,062/bag.
- It can not be ruled out that southern players would try to match the prices in the north, which will improve southern players margins. Our sensitivity suggests that for every PKR 50/bag increase in price the annualized earnings impact on ACPL, LUCK and DGKC of PKR 6.30/share, 3.94/share and PKR 1.26/share, respectively.

Exhibit: Local dispatches, GDP & Interest rates



Source (s): PSX, AHL Research

Exhibit: North and South cement prices



Source (s): SBP, PBS, Company financials, AHL Research

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Easing inflation to support cement demand

- Companies, in our coverage, with a higher gearing ratio are poised to gain from a decrease in interest rates, with DGKC being the key beneficiary of the rate cut followed by ACPL. Moreover, FCCL and MLCF are also likely to benefit from rate cuts.
- This rate cut is anticipated to stimulate the demand for the cement sector, supported by increased construction activity.

Cement offtakes to show moderate growth

- In FY24 total dispatches recorded at 45.3mn tons (+2 YoY) as compared to 44.6mn tons, primarily attributable to an increase in exports by 56% YoY. Local dispatches have declined, recording at 38.2mn tons, a drop of 5% YoY, as compared to SPLY.
- We project the cement offtakes to rise by a CAGR of 4% over the next three years (FY25-27), on the back of cooling off interest rates and revival of economic activity.

Attractive valuations

- AHL universe cement companies, are trading at an attractive forward P/E(x) of 3.7 for FY25 as compared to 3-year historical P/E(x) of 7.34, trading at a discount of 50%.
- Our top picks in the sector are LUCK, FCCL and MLCF.

Exhibit: Cement Companies Multiples

	PE (x)*	PB (x)*	EV/EBITDA	Debt/Equity
ACPL	3.6	0.5	7.3	53%
DGKC	5.4	0.5	3.7	53%
FCCL	3.5	0.6	4.0	54%
KOHC	5.4	1.0	2.1	7%
LUCK	3.5	0.7	1.1	15%
MLCF	3.5	0.6	2.6	32%

Source: Company Financials, AHL Research, * FY25

Exhibit: Leverage position & impact of rate cut

	Incremental impact % of total earnings*
DGKC	10%
ACPL**	7%
FCCL	4%
MLCF	2%
LUCK	0%
KOHC	-2%

Source: Company Financials, AHL Research, * Impact of expected 3.0% rate cut in FY25, ** excluding other income gain from selling of its associate

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Arif Habib Limited (AHL) uses three rating categories, depending upon return from current market price, with Target period as Jun 2025 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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