Pakistan Cement Sector

The Four Variable Shot

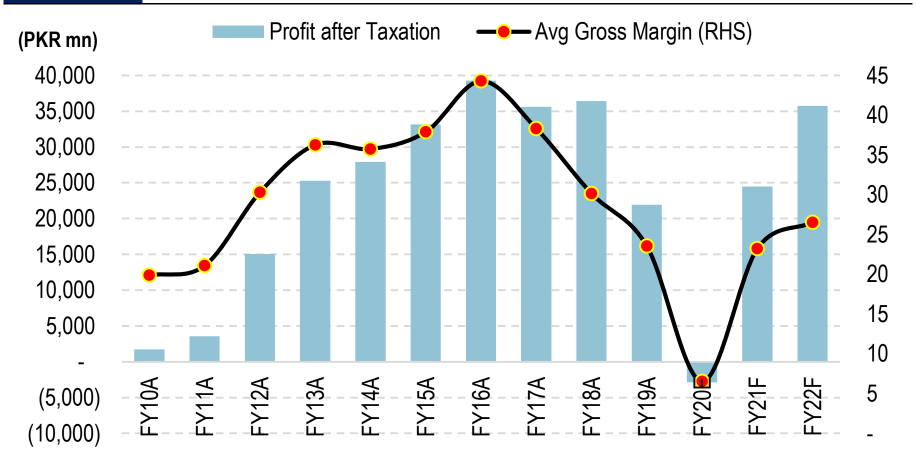
Good Times to Return

Robust growth in offtake alongside strong pricing power, once a trademark of the local cement sector, quickly vanished in the last two years amid an active cycle of capacity additions. While conditions became more grave with economic slowdown coming into play. In the past year and half alone (since the beginning of CY19), 15mn tons p.a. were added in capacity, attributable to major expansions undertaken by CHCC 2.1mn tons, MLCF 2.2mn tons, POWER 2.5mn tons, LUCK 2.8mn tons, PIOC 3.0mn tons and KOHC 2.3mn tons. This entailed a massive investment of over PKR 170bn and took the total capacity of the sector to ~70mn tons.

Following the imminent competition in the local cement space, prices came crashing down. Whereas gross margins of the sector tumbled rapidly amid relentless depreciation in the Pak Rupee against USD, augmenting gas and electricity tariffs as well as hit from costs associated with the new plants.

To recall, margins of the sector dropped to a mere 5.8% in 9MFY20 from 26.1% in SPLY, with a few players posting negative margins in 3Q, despite modest growth in total dispatches (+7% YoY to 37.0mn tons in 9MFY20). In addition, massive finance costs (in lieu of the expansions underway and SBP's prior rate hikes), also kept the sector under stress. With that said, bottom-line of the KSE-100 index cement sector turned red at PKR 3,384mn compared to earnings of PKR 30,036mn tons in 9MFY19.

Figure. 1 Cement Sector PAT and Gross Margins Trend



Source (s): Company Financials, AHL Research

Albeit, we believe the worst is behind us. With headline inflation contracting a sizeable degree from 14.6% in Jan'20 to 8.6% in Jun'20 amid corona led collapse, the State Bank of Pakistan (SBP) has cut its benchmark policy rate by a cumulative of 625bps to 7%. While outlook for inflation appears contained with global oil prices considerably lower in FY21 compared to last year (demand contraction + supply glut) and a spillover in Pakistan given cut in domestic fuel prices, tagged with SBP's intention to support demand via low interest rates.

Pakistan Cement Sector

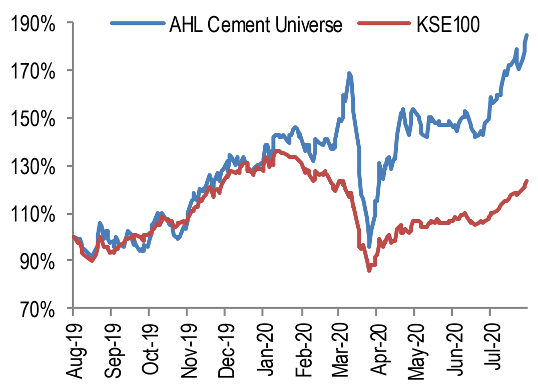
Market Weight

Sector Market Cap (PKR bn)	506
Sector Market Cap (USD mn)	3,031
No. Listed of Companies	20
Weight in KSE100 Index	9.3%

Cement Dispatches

Mn Tons	FY20	FY19	YoY
North Region	**36.30**	**34.88**	**4%**
Local	34.33	32.36	6%
Exports	1.97	2.52	-22%
South Region	**11.51**	**11.99**	**-4%**
Local	5.64	7.98	-29%
Exports	5.88	4.01	46%
Total	**47.81**	**46.87**	**2%**
Local	39.97	40.33	-1%
Exports	7.85	6.54	20%

Relative Performance



Source: Bloomberg

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Therefore, in the following report, we discuss how evolving dynamics of the local cement space signal to a revival in earnings. First off, cement prices had undergone a rebound prior to lockdown while room for further hikes remained in store given losses in the industry. Although the price hike was not sustainable with demand suddenly being axed due to lockdown of businesses post outbreak of corona, the turnaround was inevitable (prices have been raised by PKR 20/bag in North already). Following this, coal, a key component of costs, continues to slide from a high of USD 86/ton in peak winter season to USD 54/ton currently. Additionally, growth in dispatches appears encouraging in lieu of the construction package announced by PM Khan and other key projects (dams, highways, Naya Pakistan Housing scheme). Finally, monetary easing is also set to relieve bottom-line of the debt-heavy sector.

As developments started appearing more visible, the cement sector underwent a tremendous rally at the index. Since Apr'20TD, the sector has generated a return of 60%, outperforming the KSE-100 index (return of 34% since beginning of Apr'20).

Prices to Turn Around Gradually

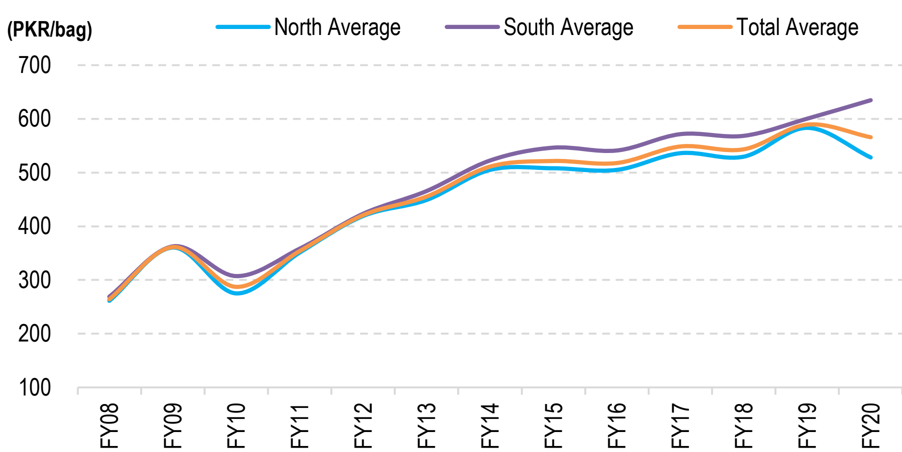
As growth in dispatches shriveled and capacity augmented in the past two years, local players rushed to seize market share. This triggered a price war, initially in North where issues of supply overhang and demand contraction appeared more severe, but eventually spread to the South region as dumping from North took off a couple of months ago.

Although demand started showing signs of improvement post a period of economic consolidation (local offtake rose by 4% YoY in 9MFY20 to 30.6mn tons), hit from corona battered the momentum (total dispatches managed to grow by 2% over SPLY at 47.8mn tons in FY20 whereas domestic offtake dipped by 1% YoY to 40.0mn tons). It is pertinent to highlight that despite growth in dispatches, some players continued to post losses in 9MFY20. Therefore, we believe the only underlying solution to woes of the sector lies in pricing improvement.

To recall, during the last expansion cycle of 2006-2010, cement prices tapered off by PKR 100/bag in FY07 (when major additions came online), and PKR 55-80/bag in FY10. However, post that era of expansion till commencement of the new expansion phase in the beginning of CY17, prices had mounted by ~PKR 220/bag across the country.

As all announced additions have come online in the latest cycle, realization slowly sunk in amongst domestic players, whereby a minor improvement in prices in some regions was witnessed during the end of 3QFY20 (~PKR 25-35/bag). Albeit, a remorseful period of shutdown eroded demand and hence, erased any price hike temporarily achieved. However, taking cue from the last expansionary cycle, and as businesses gradually reopen, we see hurdles to price increase fading away. As recent as last month, some manufacturers in North have raised prices by PKR 20/bag.

Figure. 2 **Cement Prices Trend**



Source (s): AHL Research

Please check below a sensitivity of prices on the earnings and target prices (Jun'21) of domestic cement manufacturers.

Exhibit. 1 Sensitivity Analysis of Cement Prices on Earnings - FY21*

	LUCK	KOHC	ACPL	FCCL	DGKC	MLCF
Scenario 1 EPS (North 600; South 650)	61.64	31.97	14.30	3.31	19.26	5.97
Target price	1,007	371	207	38	189	62
Scenario 2 EPS (North 575; South 625)	55.12	27.79	12.01	2.80	16.61	4.94
Target price	931	328	186	33	168	53
Scenario 3 EPS (North 550; South 600)	48.60	23.63	9.72	2.28	13.96	3.90
Target price	855	285	166	29	146	45
Scenario 4 EPS (North 525; South 575)	42.08	19.47	7.43	1.77	11.31	2.87
Target price	779	243	145	24	124	36
Scenario 5 EPS (North 500; South 550)	35.56	15.29	5.15	1.25	8.66	1.83
Target price	703	200	124	19	102	27

Source: AHL Research, *Coal at USD 60/ton

Exhibit. 2 Sensitivity Analysis of Cement Prices on Earnings - FY22*

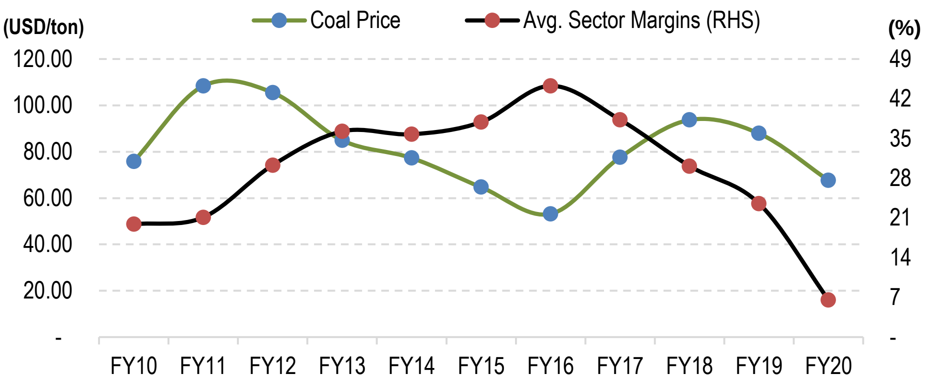
	LUCK	KOHC	ACPL	FCCL	DGKC	MLCF
Scenario 1 EPS (North 618; South 670)	74.22	39.13	18.47	3.85	24.45	6.92
Target price	1,007	371	207	38	189	62
Scenario 2 EPS (North 592; South 644)	67.12	34.11	15.88	3.29	21.73	5.81
Target price	931	328	186	33	168	53
Scenario 3 EPS (North 567; South 618)	60.02	29.13	13.29	2.71	19.01	4.70
Target price	855	285	166	29	146	45
Scenario 4 EPS (North 541; South 592)	52.92	24.16	10.70	2.13	16.29	3.59
Target price	779	243	145	24	124	36
Scenario 5 EPS (North 515; South 567)	45.82	19.12	8.10	1.55	13.57	2.48
Target price	703	200	124	19	102	27

Source: AHL Research, *Coal at USD 61/ton

Weakness in Coal Also Poses Upside

The domestic cement sector remains widely exposed to coal price fluctuations as it forms roughly 40-50% of costs of goods sold, primarily being used to fire kilns. Please note that sectoral margins peaked in FY16 when coal prices were the lowest (at USD 53/ton; decade low).

Figure. 3 Correlation of Coal Prices and Average Gross Margins of the Sector



Source (s): Bloomberg, Company Financials, AHL Research

Given the importance, and a stark decline in the commodity observed over the past few months, we have analyzed the performance of the commodity below. While pollution and greenhouse gas emissions emanating from coal consumption have failed to suppress demand historically, a pickup in renewable sources for energy generation as a cheaper and cleaner alternative, and rapidly changing climate / air-pollution policies appear to be a major threat to future coal projects.

To begin with, China, United States and India generate approximately 71% of the global coal energy demand and it continues to be the largest source of electricity generation world over (~40%) as per the International Energy Agency (IEA). Albeit, global growth in coal demand slowed down to 1.1% in 2018 vs. the past 10 year annual growth rate of 4.5% and more importantly, declined in 2019, with coal-fired power plants recording the largest annual dip in history (-3% YoY) after four consecutive decades of growth. This was led by steep cuts in coal power usage by the developing world (particularly Europe and America) as countries favoured cheaper and cleaner renewable fuels, as well as gas-fired generation (carbon footprint half of coal). Whereas coal-fired power in India registered its first drop in 45 years, attributable to low electricity demand and record high hydropower generation.

Therefore, slowdown of coal has already been set in motion (estimates suggest coals largest ever decline in electricity generation - over 250 terawatt hours {TWhs}, or more than 2.5%) during 2019. Case-in-point: as per the US Energy Information Administration, coal consumption hit a 40-year low in the US at 589mn tons in 2019. Whereas its exports are also forecast to decline going forward amid weakening global economy. Similarly, coal power generation has sunk to decade low levels in Europe as well.

Over the next five years, with the commodity expected not to make any substantial contribution to the global electricity demand, the IEA forecasts share of coal as a source of electricity to decline from 38% in 2018 to 35% in 2024. In light of the aforementioned, we view the long term coal demand to remain meagre.

Although during the last winter season, demand emanating from housing / heating and unusual rains in Africa triggered the commodity to shoot up temporarily, long term coal prices appear upwards sticky. Currently, futures on the Richard Bay Index (Sep'20) are hovering around USD ~58/ton. With regard to this, we carried out a sensitivity of coal on the earnings of the AHL cement universe below.

Exhibit. 3 Sensitivity Analysis of Coal Prices - FY21

		Coal Price				
		50.00	**55.00**	**60.00***	**65.00**	**70.00**
EPS	LUCK	38.30	35.95	33.60	31.24	28.89
	KOHC	15.00	13.73	12.46	11.18	9.90
	ACPL	17.54	15.78	14.03	12.27	10.51
	FCCL	1.67	1.58	1.49	1.39	1.30
	DGKC	13.04	11.80	10.56	9.32	8.07
	MLCF	3.40	3.02	2.64	2.26	1.88

Source: AHL Research, *Base case

Pre-Corona Dispatches Growth Sheds Light on Demand Revival

Pickup in domestic cement dispatches prior to shutdown of industries had been a breeze of cool air for the sector in FY20. Setbacks during the last year such as adoption of fiscal consolidation policies by the government together with contractionary monetary policy stance of the SBP, curtailed public and private sector demand. Consequentially, local offtake dwindled by 2% YoY to 40.3mn tons in FY19.

Albeit, after coming out of a period of economic vulnerability supported by modest growth in PSDP allocation and revival of some housing schemes, despite the governments stringent documentation drive (additional CNIC conditions and restriction on transactions for non-filers), cement dispatches had managed to recuperate earlier this year. Had outbreak of COVID-19 not been a reality, we were confident that FY20 domestic offtake could have shown a jump over SPLY.

Whereas exports of cement and clinker, primarily via land to Afghanistan together with seaborne exports to African countries and Bangladesh, also depicted a robust jump up until 9MFY20 (+26% YoY). On a cumulative basis, total dispatches had sprung up by 7% YoY to 37.0mn tons (9MFY19: 34.6mn tons). The following months, however, were unexpected and disappointing (local offtake dwindled by 1% in FY20 to 40.0mn tons while exports growth had been compressed to 20% YoY to 7.8mn tons).

Pre-empting the consequences of corona, the incumbent government announced a package for the construction sector in early Apr'20 (later formed part of the Finance Act). To recall, under the package, obvious tax benefits such as exemption from wealth declaration under section 111 of Income Tax Ordinance, as well the governments focus on Naya Pakistan Housing Scheme, were expected to give a boost to both public and private sector demand. For further details, review our report **"PM's Special Incentive Package for the Construction Industry".**

The impact of the said package could be significant for construction and allied sectors as our preliminary calculations suggest that 100,000 houses under the Naya Pakistan Housing Program could augment cement and steel demand by 2.3mn tons (5.8% of current local demand) and 0.29mn tons, respectively.

We have calculated a sensitivity of cement dispatches on the companies under coverage in a table below (Exhibit 4).

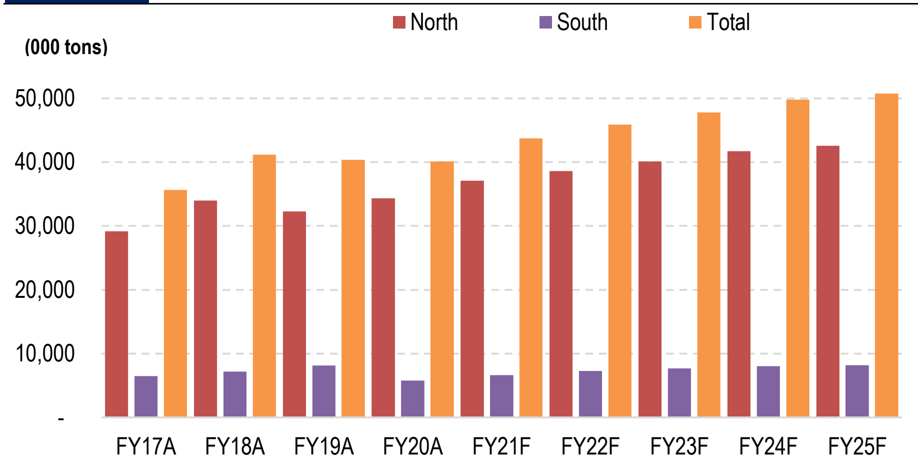
Exhibit. 4 Sensitivity Analysis of Local Dispatches - FY21

		Dispatches assumption (tons)				
		-200,000	-100,000	Base case	+100,000	+200,000
EPS	LUCK	32.41	33.00	33.60	34.19	34.78
	KOHC	11.64	12.05	12.46	12.86	13.27
	ACPL	10.46	12.24	14.03	15.81	17.59
	FCCL	1.26	1.37	1.49	1.60	1.71
	DGKC	9.81	10.19	10.56	10.93	11.31
	MLCF	2.44	2.54	2.64	2.74	2.83

Source: AHL Research

In FY21 local offtake in South is expected to go up 15% while North may witness growth of 8% over FY20. Going forward, we have assumed local dispatches to attain a 5-yr forward CAGR of 5% to FY25 (7% in South and 4% in North) led by demand from housing, as well as work on key projects such as dams, motorways etc. which bodes well for domestic demand. Please check the graph below.

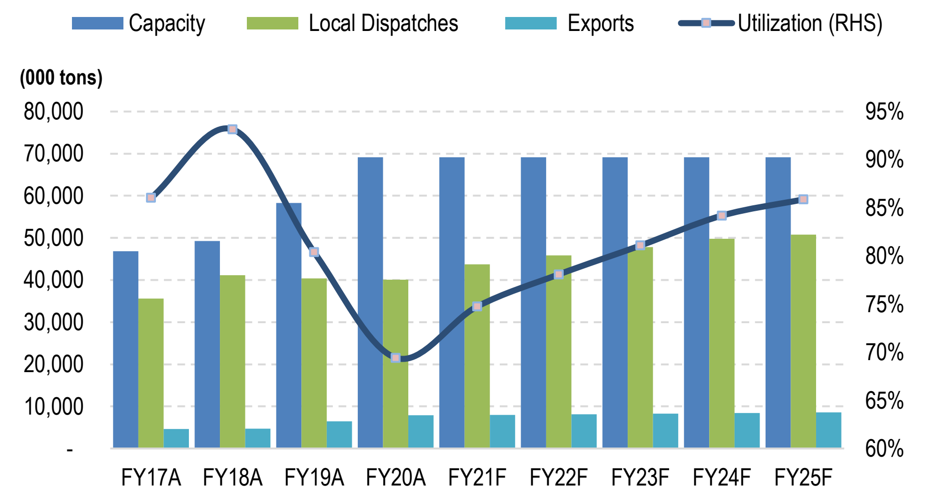
Figure. 4 **Local demand to generate a 5-yr CAGR of 5% to FY25**



Source (s): APCMA, AHL Research

However, as corona continues to hamper global demand and restrictions on travelling and transportation remain in place, exports may remain stagnant next year before recuperating the following year and post a 5-yr CAGR of 2% (2% in South and 2% in North) till FY25.

Figure. 5 **Utilization to Improve with Foreseeable Growth in Demand**



Source (s): APCMA, AHL Research

Monetary Easing to Alleviate Financial Burden

One of the anguishes of the sector had been an excessive jump in the State Bank's borrowing rate over the years which elevated the hit from financial charges on bottom-lines. To recall, leverage position of sector rose significantly from PKR 49.8bn in FY16 to PKR 186.9bn as at 3QFY20 to fund the latest expansionary cycle to 70mn tons per annum. Regrettably, this coincided with a relentless hike in the benchmark policy rate from 5.75% in Jul'16 to 13.25% in Feb'20.

However, a shift has been witnessed in the SBP's monetary policy stance recently as a cumulative of 625bps have been cut in four months (75+150+200+100+100bps) to 7% attributable to improved outlook for inflation in lieu of corona-led weakness in global and domestic demand as well as a dip in International oil prices (price war between Saudi Arabia and Russia + demand cut + supply glut).

This comes at a prime time as all expansions have come online with the last two achieving COD in Jan'20 (LUCK and KOHC) and hence, financial charges of all companies will now be reflected in the Statement of Profit and Loss. Therefore, relief on the policy rate front appears to be a major advantage for leveraged sectors such as cement.

Amongst the companies under coverage, we cite DGKC and MLCF to be the biggest beneficiaries with borrowing as per latest books set at PKR 42.6bn and PKR 25.9bn, respectively. Whereas rate cut is a negative for LUCK, which holds PKR 11.8bn in cash as at 3QFY20 and earns markup income on the same. Please find the table below to check price performance of the stocks following the rate cuts.

Exhibit. 5 **Price Performance of Cement Stocks (625 bps rate cut)**

	Price		Change
Date	17-Mar-20	26-Jun-20	
PIOC	36.37	64.20	76.5%
ACPL	101.00	125.65	24.4%
CHCC	72.65	88.24	21.5%
KOHC	115.95	139.84	20.6%
FLYNG	7.75	9.25	19.4%
DGKC	76.49	84.27	10.2%
BWCL	100.01	108.62	8.6%
POWER	5.85	6.16	5.3%
FECTC	20.16	21.08	4.6%
LUCK	433.53	452.58	4.4%
FCCL	15.94	16.62	4.3%
GWLC	14.78	15.22	3.0%
MLCF	25.34	25.94	2.4%
THCCL	9.25	8.51	-8.0%

Source (s): Bloomberg, AHL Research

Positive Budgetary Measures Underscore Our Thesis

Budget FY21 announced several positive measures for the cement sector.

- **Cut in Federal excise duty (FED).** To recap, FED on the cement sector (particularly in the past two years) has been used as a means of generating additional revenue by the government, whereby it was augmented from PKR 1,250/ton to PKR 1,500/ton in FY19 and by another PKR 500 per ton to PKR 2,000/ton in FY20. Albeit, as the economy contracted, the Pak Rupee lost its value, and interest rates peaked with inflationary readings jumping up, it became near impossible for most companies in the sector to remain profitable. Therefore, the FY21 Budget endorsed a reduction in the FED (further amplified in the Finance Act) by PKR 0.5/kg or PKR 25.00/bag (post tax impact PKR 29.25/bag). This effectively took the duty to PKR 1,500/ton and as the sector continues to bear losses, we believe local players will retain the impact of this slash.
- **Subsidy of PKR 30bn earmarked for the Naya Pakistan Housing Authority.** Given the government's focus on low cost housing, this allocation is expected to provide a kick-start for construction of houses for the lower income group and aid the public sector cement demand. Moreover, the State Bank has officially instructed banks to allocate up to 5% of their portfolio for the construction sector. As at May'20, total private sector credit stands at PKR 6,259bn. Currently a 5% allocation for housing/construction would set aside PKR 235bn. Assuming a 10% growth in total private sector loans by Dec'21, the banking sector is expected to set aside additional PKR 23bn for housing/construction. Assuming consumption of 23 tons of cement for a 5 marla (151 sq. yards) single story house and steel to cement demand ratio of 1:8, 100,000 houses under the Naya Pakistan Housing Program could augment cement and steel demand by 2.3mn tons (5.8% of current local cement demand) and 0.29mn tons (8.2% of local rebar demand at present), respectively.
- In addition, the **construction sector has also been provided relief** which augurs well for cement demand. Pertinently, previously announced Special Incentive Package of the Prime Minister for the construction sector was made part of the FY21 Budget and necessary amendments have made in the new Income Tax Ordinance. Whereas **the budget also bode well for the real estate sector** given i) extension in taxation from profit realized from the sale of immovable property with the objective of development of REIT, and ii) withholding tax on dividend enhanced from 15% to 25% from a company where no tax is payable by such company, due to exemption of income or carry forward of business losses, in-line with the applicable rate of tax on dividends.

Major Assumptions Reviewed

- **Average PKR-USD parity:** We have assumed the closing parity for FY20 at PKR 168/USD and a 4% depreciation p.a. following that over our investment horizon. Although the Pak Rupee came under pressure recently, we believe any major devaluation going forward can be ruled out due to availability of sufficient foreign flows (IMF tranches, Eurobonds receipts, privatization flows, rollover of previous loans, deferment of loan repayment and support from other bilateral institutions) to meet external obligations.
- **Coal assumption:** As discussed earlier, outlook for long term global coal demand is expected to weaken led by competition from renewable energy sources (which are more efficient in cost terms as well as safer for the environment). Therefore, we have assumed coal to average at USD 60/ton in FY21 and witness a minor 1% incline p.a. post that over the next 5 years.
- **Interest rate expectations:** The State Bank of Pakistan has already undertaken rapid cuts in the benchmark policy rate of 625bps to 7% in five installments (75+150+200+100+100bps) within a span of 4 months. We believe interest rates have bottomed-out, keeping our inflation expectations under consideration. With this, we view conclusion in monetary easing for now and have assumed the policy rate at 7% in FY21, while a gradual 50bps uptick p.a. post that has been incorporated in our models.
- **Dispatches growth:** Although domestic dispatches closed the year slightly below prior year's level (-1% YoY in FY20), we have confidence that FY21 would fare better subject to no major shutdown in business activity amid COVID-19 as revival in offtake gradually sets in. We have assumed local dispatches to attain a 5-yr forward CAGR of 5% to FY25 (7% in South and 4% in North). On the other hand, exports in FY20 reaped benefits of the growth observed in earlier half of the year (20% jump YoY). However, as corona continues to hamper global demand and restrictions on travelling and transportation remain in place, exports may remain stagnant next year before recuperating the following year and post a 5-yr CAGR of 2% (2% in South and 2% in North) till FY25.

4QFY20 Earnings Preview

Cement offtake signals at earnings hit in 4QFY20 amid shutdown of businesses and demand uncertainty post outbreak of COVID-19. Domestic dispatches tumbled by 6% over last quarter to 9.4mn tons. While exports bore the brunt of slowdown in the global economy; collapsing by a noteworthy 32% against 3QFY20 to 1.4mn tons. This took the decline in total offtake in the outgoing quarter to 11% QoQ to 10.8mn tons. While PKR depreciation against the Greenback during the quarter will be another dampener for earnings (parity averaged at 157/USD in 3QFY20 and 146/USD in 4QFY19 vis-à-vis 164/USD in 4QFY20). Although, lower coal prices and cut in policy rate would work as band aid on wounds.

Barring LUCK and ACPL, all players in the AHL cement universe are forecast to post losses during 4Q. Whereas in the full year only LUCK, ACPL and FCCL will book profits. LUCK is projected to display its lowest quarterly earnings at PKR 2.42/share vs. PKR 6.79/share in 4QFY19, down by 64% YoY. This will primarily be owed to lower domestic offtake (-5% YoY), weaker retention prices, PKR depreciation and augmented costs associated with the new plant. With that said, earnings in FY20 are expected at PKR 11.50 (-65% YoY) due to aforementioned reasons. Meanwhile ACPL's earnings are forecast at PKR 1.28/share (-75% YoY) in 4Q amid a 21% drop in offtake tagged with PKR depreciation. Whereas cumulative earnings are set to witness a dip of 38% YoY to PKR 9.41/share in FY20 attributable to a 7% pullback in dispatches sold (-33% in local offtake), hit from higher FED alongside PKR depreciation.

On the other hand, profitable companies last year that will churn out losses in 4Q include KOHC, MLCF and FCCL. KOHC's loss at PKR 2.02/share in 4Q will be led by a 14% YoY plummet in offtake to 563k tons given lockdown and loss of export orders, together with lower retention prices, devaluation in the Pak Rupee, higher utility tariffs and augmented depreciation post expansion in Jan'20. This will take the FY20 loss to PKR 3.43/share (FY19 EPS: PKR 12.29) for aforementioned reasons plus higher financial charges due to SBP's rate hikes and additional borrowing for expansion. MLCF is expected to post a loss of PKR 0.80/share in the quarter under review vs. earnings of PKR 0.96 in 4QFY19 led by 20% YoY dip in offtake to 1,021k tons. Margins are estimated to turn red owed to volumetric decline together with lower retention prices, PKR depreciation, and higher electricity tariff. Cumulative FY20 loss would arrive at PKR 3.28/share in contrast to EPS of PKR 4.14 in FY19 despite augmented dispatches (+41% YoY) as lower prices and aforementioned costs eroded bottom-line. Similarly, FCCL would display a loss of PKR 0.17/share in 4Q given a 10% volumetric decline, lower retention prices and PKR depreciation. In FY20, profit would arrive at a miniscule PKR 0.03/share vs. PKR 2.05/share in SPLY amid squeezed margins.

DGKC will continue witnessing losses in 4Q at PKR 2.32/share in lieu of 15% decline in volumetric sales, lower retention prices, and weaker Pak Rupee, while lower coal prices and recognition of tax credit will provide some relief. Cumulative loss for FY20 at PKR 6.55/share would be a product of aforementioned reasons and hit from higher financial charges.

Exhibit. 6 Earnings expectations

EPS / (LPS) PKR	FY20E	FY19A	YoY	4QFY20E	4QFY19A	YoY	3QFY20A	QoQ
LUCK	11.50	32.44	-65%	2.42	6.79	-64%	3.09	-22%
KOHC	(3.43)	12.29	n/m	(2.02)	1.48	n/m	(1.90)	n/m
ACPL	9.41	15.09	-38%	1.28	5.07	-75%	2.57	-50%
FCCL	0.03	2.05	-99%	(0.17)	0.28	n/m	(0.15)	11%
DGKC	(6.55)	3.67	n/m	(2.32)	(2.32)	0%	(2.29)	2%
MLCF	(3.28)	4.14	n/m	(0.80)	0.96	n/m	(0.87)	-9%

Source: Company Financials, AHL Research

Lucky Cement Limited (LUCK)

Our top pick in the AHL Cement universe is Lucky Cement Limited (LUCK) with a Jun'21 sum of the parts based target price of PKR 713.77/share, providing an upside of 23% from last closing, we recommend BUY. Our investment thesis is premised on a 5-yr forward earnings CAGR of 22% by FY24 to PKR 28,848mn (EPS: PKR 89.21) and a well-diversified portfolio which unlocks potential for a higher multiple and shields against operational risks in the cement business.

Revival of earnings and margins in FY21

LUCK has become the largest cement manufacturer in Pakistan post addition of a 2.8mn tons plant in Jan'20 (total capacity set around 12mn tons). This is expected to aid the company's market share (over 17% in the next 5 years vs. past 3-yr average of 16%) and render it to attain augmented offtake in upcoming years. In addition, conclusion in the latest expansionary cycle and reopening of businesses after a dreaded coronavirus-infused hiatus, is expected to bring more confidence on the pricing front; players in North have already raised prices by PKR 20/bag. Whereas cut in FED to PKR 1,500/ton, lower interest rates as well as soft coal prices should also bode well for margins. We expect earnings in FY21 to arrive at PKR 10,864mn (EPS: PKR 33.60) vis-à-vis PKR 3,114mn (EPS: PKR 9.63) in FY20E, and generate a 5-yr CAGR of 22% by FY24 to PKR 28,848mn (EPS: PKR 89.21).

Upcoming projects boost portfolio value

Commissioning of a 660MW coal power plant (wholly owned), earlier targeted on 1st Mar'21 has been pushed forward and although LUCK is trying to mitigate the postponement in the project, the new commercial operations date remains uncertain. Albeit, we have assumed delay of a quarter and expect the coal plant to come online in FY22, adding 33% (PKR 234.6/share) to the portfolio value. The company also continues to undertake erection work on site of its Greenfield grinding mill and packaging plant with a capacity of 1.2mn tons in the city of Samawah, Iraq. Some critical equipment has been delivered and the company targets COD by 2QFY21.

Exhibit. 7 Key highlights and Ratio Analysis

		FY18A	FY19A	FY20E	FY21F	FY22F
Revenue	PKR mn	47,542	48,021	41,983	59,677	65,124
Profit after Tax	PKR mn	12,197	10,490	3,719	11,263	15,288
Gross Margins	%	35.7	29.1	14.1	28.3	30.2
EBITDA Margins	%	29.2	20.9	2.3	19.4	21.6
Net Margins	%	25.7	21.8	8.9	18.9	23.5
ROE	%	14.7	11.6	3.9	11.1	13.6
ROA	%	11.8	9.0	2.9	8.1	10.0
Dividend Yield	%	2.6	1.7	0.6	1.7	2.4
P/E	x	13.5	11.7	40.1	16.7	12.3
P/B	x	2.1	1.4	1.6	2.0	1.8

Source: Company Financials, AHL Research

	LUCK PA
Recommendation	**BUY**
Target Price (Jun'21)	713.8
Current Price	581.5
Upside (%)	22.8
Shares (mn)	323
Market Cap. (PKR mn)	188,033
Market Cap. (USD mn)	1,127

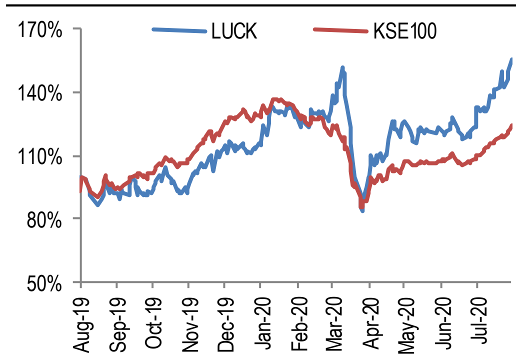
Major Shareholders

- Associated Companies

Price Performance

	3M	6M	12M
Return (%)	23.6	21.9	57.5
Avg. Volume (000)	822	1,162	1,070
High Price - PKR	581.5	581.5	581.5
Low Price - PKR	433.4	310.3	310.3

Relative Performance



Source: Bloomberg

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Exhibit. 8 Income Statement

(PKR mn)		FY18A	FY19A	FY20E	FY21F	FY22F
Net Sales		47,542	48,021	41,983	59,677	65,124
Gross Profit		16,952	13,984	5,911	16,898	19,639
Operating Profit		13,870	10,027	969	11,551	14,044
EBITDA		18,094	15,497	8,213	18,598	23,791
Profit after Tax		12,197	10,490	3,719	11,263	15,288
EPS	PKR	37.72	32.44	11.50	34.83	47.28
DPS	PKR	13.00	6.50	3.00	10.00	14.00

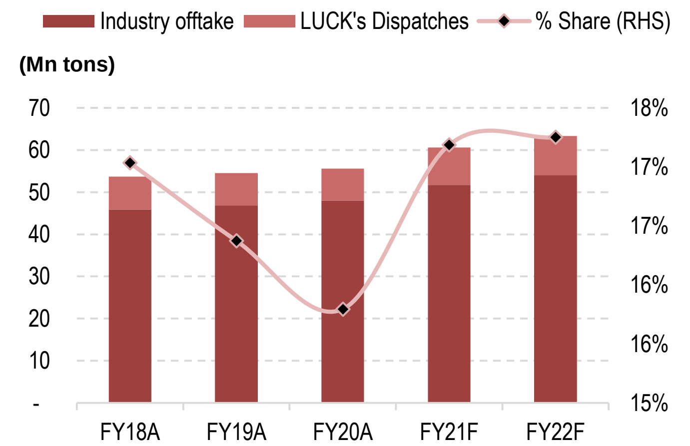
Source: Company Financials, AHL Research

Exhibit. 9 Balance Sheet

(PKR mn)	FY18A	FY19A	FY20E	FY21F	FY22F
Shareholders' Equity	86,367	94,318	95,936	106,229	118,283
Non-Current Liabilities					
Long Term Loan	-	-	-	-	-
Total Non-Current Liabilities	7,395	7,193	7,335	7,480	7,627
Current Liabilities					
Trade Payables	13,252	19,196	21,276	30,243	32,838
Total Current Liabilities	15,237	23,578	30,588	31,725	34,320
Total Liabilities and Equity	108,999	125,089	133,859	145,433	160,231
Assets					
Non-Current Assets	66,043	91,710	104,839	109,636	107,709
Current Assets	42,956	33,379	29,020	35,797	52,522
Total Assets	108,999	125,089	133,859	145,433	160,231

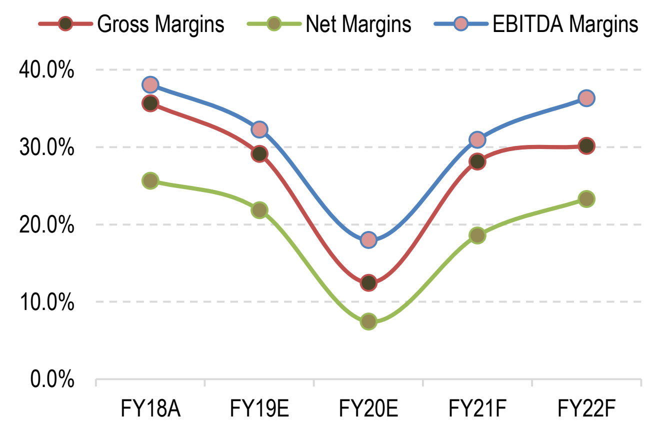
Source: Company Financials, AHL Research

Figure. 6 Market Share to Improve



Source (s): APCMA, Company Financials, AHL Research

Figure. 7 Revival in Margins Foreseeable



Source (s): Company Financials, AHL Research

Attock Cement Pakistan Limited (ACPL)

We have a strong BUY on Attock Cement Pakistan Limited (ACPL) based on our Jun'21 sum of the parts valuation of PKR 209.62/share, offering a 51% upside from last closing. Our conviction on the stock is hinged upon solid pricing power the company holds in South in lieu of its strong brand name while its close vicinity to the port opens up a great window for exports. Moreover, ACPL's 900,000 tons p.a. plant in Iraq also adds PKR 31.64/share (15%) to the target price.

The pricing king

Despite severe competition during the tough expansion cycle, ACPL's brand image enabled it to charge premium prices which provided respite at a time when relentless increase in costs (PKR depreciation, higher utility tariffs, and higher raw material packaging costs) together with abrupt price cuts amid dumping from North, allowed the company to post positive earnings (apart from ACPL, LUCK and FCCL, all other coverage companies are set to recognize losses in FY20). In addition, ACPL is one of the lowest cost producers in the country; a combination of low costs and superior prices has permitted the company to post the highest margins in the sector (at 23.5% in 3QFY20 vs. 1.1% of the industry). Going forward, as sector dynamics turn encouraging (improvement in prices, lower FED, soft coal prices and cut in interest rates), we expect the company to post earnings of PKR 1,928mn (EPS: PKR 14.03) in FY21 and a 5-yr CAGR of 17% to PKR 4,540mn (EPS: PKR 33.04) by FY24.

Exhibit. 10 Key Highlights and Ratio Analysis

		FY18A	FY19A	FY20E	FY21F	FY22F
Revenue	PKR mn	16,884	20,781	18,977	20,367	22,688
Profit / (Loss) after Tax	PKR mn	4,400	2,073	1,293	1,929	2,544
Gross Margins	%	30.7	23.1	23.2	25.9	27.7
EBITDA Margins	%	20.6	13.9	10.5	13.8	15.6
Net Margins	%	26.1	10.0	6.8	9.5	11.2
ROE	%	32.8	13.4	7.8	10.8	13.2
ROA	%	18.7	7.7	4.7	7.0	9.2
Dividend Yield	%	9.7	5.6	1.6	2.9	5.8
P/E	x	4.2	4.7	13.2	9.9	7.5
P/B	x	1.5	0.7	1.1	1.1	1.0

Source: Company Financials, AHL Research

	ACPL PA
Recommendation	**BUY**
Target Price (Jun21)	209.6
Current Price	138.9
Upside (%)	50.9
Shares (mn)	137
Market Cap. (PKR mn)	19,086
Market Cap. (USD mn)	114

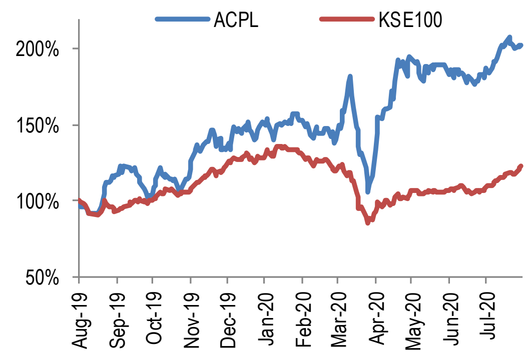
Major Shareholders

- Pharaon Investment Group Limited

Price Performance

	3M	6M	12M
Return (%)	4.2	32.1	107.3
Avg. Volume (000)	30.4	60.2	59.9
High Price - PKR	142.6	142.6	142.6
Low Price - PKR	121.2	72.9	63.0

Relative Performance



Source: Bloomberg

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Exhibit. 11 Income Statement

(PKR mn)		FY18A	FY19A	FY20E	FY21F	FY22F
Net Sales		16,884	20,781	18,977	20,367	22,688
Gross Profit		5,187	4,803	4,397	5,277	6,293
Operating Profit		3,483	2,883	1,999	2,804	3,537
EBITDA		3,917	3,822	3,014	3,961	4,752
Profit after Tax		4,400	2,073	1,293	1,929	2,544
EPS	PKR	32.02	15.09	9.41	14.04	18.51
DPS	PKR	13.00	4.00	2.00	4.00	8.00

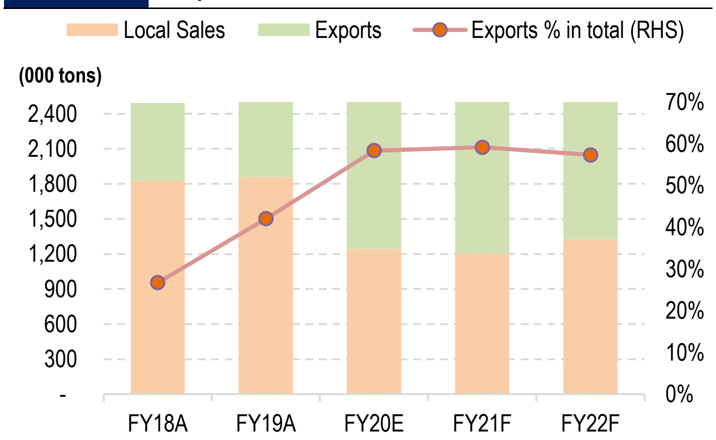
Source: Company Financials, AHL Research

Exhibit. 12 Balance Sheet

(PKR mn)	FY18A	FY19A	FY20E	FY21F	FY22F
Shareholders' Equity	14,873	16,099	17,117	18,497	19,942
Non-Current Liabilities					
Long Term Loan	3,438	2,188	2,188	1,458	729
Total Non-Current Liabilities	3,835	2,814	2,814	2,084	1,355
Current Liabilities					
Trade Payables	4,984	3,577	3,054	3,194	3,464
Total Current Liabilities	7,698	8,404	7,392	6,937	6,554
Total Liabilities and Equity	26,406	27,317	27,323	27,518	27,851
Assets					
Non-Current Assets	19,677	19,670	19,498	19,321	19,138
Current Assets	6,729	7,647	7,825	8,197	8,713
Total Assets	26,406	27,317	27,323	27,518	27,851

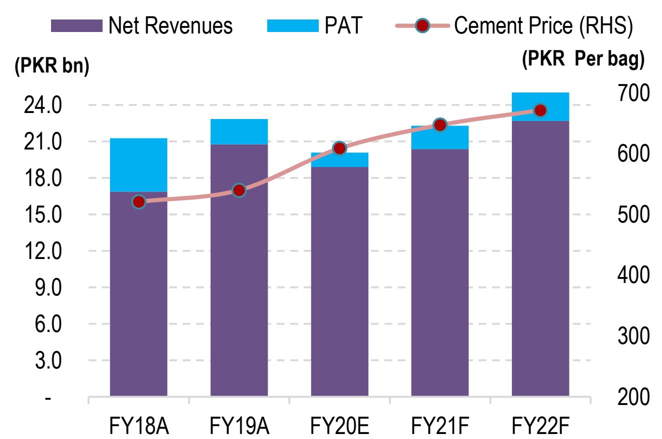
Source: Company Financials, AHL Research

Figure. 8 Exports to Dominate Sales



Source (s): Company Financials, AHL Research

Figure. 9 Pricing King



Source (s): Company Financials, AHL Research

D.G. Khan Cement Company Limited (DGKC)

We recommend BUY for D.G. Khan Cement Company Limited (DGKC) with our Jun'21 sum of the parts target price set at PKR 127.14/share, providing an upside of 22% from current levels. Our liking for the stock is backed by i) a stunning 3-yr forward earnings CAGR of 66% to PKR 7,387mn (EPS: PKR 16.86) by FY22, and ii) emerging power efficiency amid the addition of a new 30MW coal-power plant and a 10MW Waste Heat Recovery (WHR) plant at the Hub, Baluchistan plant.

Steepest revival in earnings

Despite posting a disappointing performance in FY20 (loss expected at PKR 2,932mn – LPS: PKR 6.69), a turnout in financials is on the cards given conclusion of expansionary cycle which should aid prices, lower FED post cut in FY21 budget to PKR 1,500/ton, soft coal prices, and 625bps slash in interest rates by the SBP. These are expected to turn bottom-line of DGKC to green in FY21 at PKR 4,626mn (EPS: PKR 10.56) and post a 3-yr CAGR of 66% to PKR 7,387mn (EPS: PKR 16.86) by FY22.

Investment in power key for efficient energy mix

The company in undertaking installation of a new 30MW coal power plant and a 10MW waste heat recovery plant expected to be commissioned by Jun'21 at the Hub, Baluchistan plant. This will allow the company to completely evade usage of the gas (the more expensive fuel), translating to improved margins and profitability going forward.

Exhibit. 13 Key highlights and Ratio Analysis

		FY18A	FY19A	FY20E	FY21F	FY22F
Revenue	PKR mn	30,668	40,517	38,651	47,498	50,662
Profit / (Loss) after Tax	PKR mn	8,838	1,610	(4,706)	6,515	10,404
Gross Margins	%	28.5	13.2	2.4	24.7	30.6
EBITDA Margins	%	23.5	8.5	-3.8	19.2	25.0
Net Margins	%	28.8	4.0	-12.2	13.7	20.5
ROE	%	11.6	2.2	-6.8	9.3	13.8
ROA	%	7.7	1.3	-3.8	5.4	8.7
Dividend Yield	%	3.7	1.8	0.0	1.6	1.9
P/E	x	5.7	15.4	-13.0	9.9	6.2
P/B	x	0.7	0.3	0.5	0.7	0.6

Source: Company Financials, AHL Research

	DGKC PA
Recommendation	**BUY**
Target Price (Jun'21)	127.1
Current Price	104.1
Upside (%)	22.1
Shares (mn)	438
Market Cap. (PKR mn)	45,608
Market Cap. (USD mn)	273.45

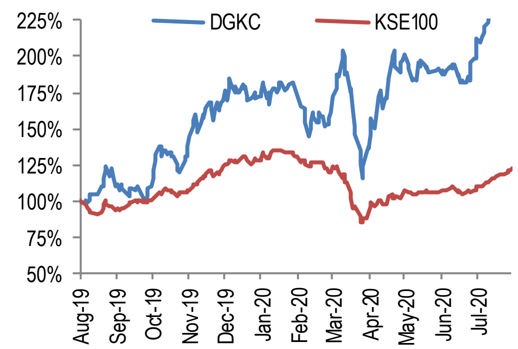
Major Shareholders

- Nishat Mills Limited

Price Performance

	3M	6M	12M
Return (%)	20.1	39.4	141.7
Avg. Volume (000)	4,500	5,705	4,794
High Price - PKR	105.5	105.5	105.5
Low Price - PKR	78.2	50.1	42.6

Relative Performance



Source: Bloomberg

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Exhibit. 14 **Income Statement**

(PKR mn)		FY18A	FY19A	FY20E	FY21F	FY22F
Net Sales		30,668	40,517	38,651	47,498	50,662
Gross Profit		8,740	5,362	925	11,745	15,481
Operating Profit		7,217	3,428	(1,474)	9,100	12,689
EBITDA		10,194	8,795	3,910	13,426	16,411
Profit / (Loss) after Tax		8,838	1,610	(4,706)	6,515	10,404
EPS / (LPS)	PKR	20.17	3.67	(6.55)	10.56	16.86
DPS	PKR	4.25	1.00	-	1.70	2.00

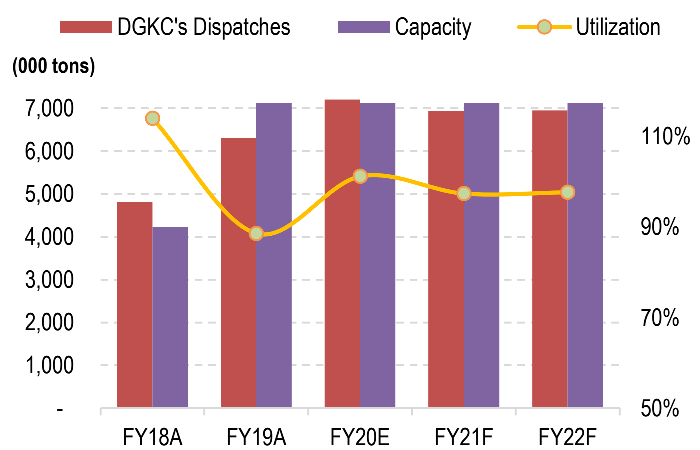
Source: Company Financials, AHL Research

Exhibit. 15 **Balance Sheet**

(PKR mn)	FY18A	FY19A	FY20E	FY21F	FY22F
Shareholders' Equity	77,134	70,928	68,060	71,941	78,452
Non-Current Liabilities					
Long Term Loan	17,730	15,985	10,437	5,608	1,499
Total Non-Current Liabilities	22,201	20,766	15,218	10,389	6,280
Current Liabilities					
Trade Payables	7,624	8,063	8,605	10,046	10,554
Total Current Liabilities	22,553	34,247	37,020	37,658	33,362
Total Liabilities and Equity	121,889	125,941	120,298	119,988	118,094
Assets					
Non-Current Assets	92,813	92,318	86,914	84,384	81,824
Current Assets	29,076	33,623	33,384	35,604	36,270
Total Assets	121,889	125,941	120,298	119,988	118,094

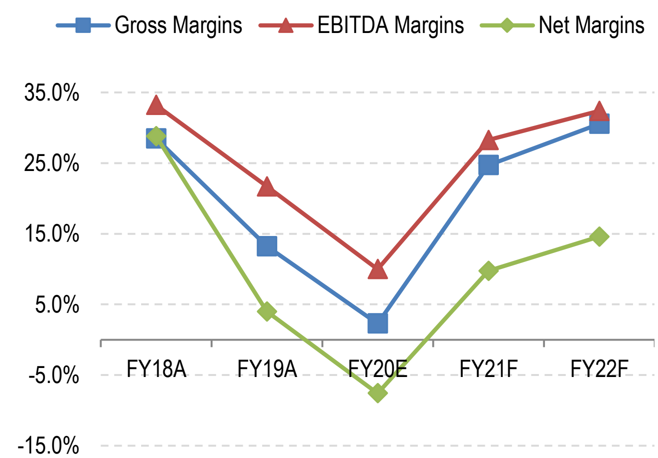
Source: Company Financials, AHL Research

Figure. 10 **Utilization to Stabilize**



Source (s): Company Financials, AHL Research

Figure. 11 **Impressive Rebound in Margins Expected**



Source (s): Company Financials, AHL Research

Kohat Cement Company Limited (KOHC)

Our Jun'21 free cash flow based target price for Kohat Cement Company Limited (KOHC) arrives at PKR 192.84/share. At current levels the stock offers an upside of 18%, we recommend BUY. With the addition of its latest 2.3mn tons p.a. plant in North, the company's total capacity has gone up to over 5mn tons p.a. As KOHC's market share goes north, we project its earnings to record a 5-yr CAGR of 16% to PKR 5,197mn (EPS: PKR 25.87).

Amongst the big fish

With its latest expansion coming online in Jan'20, KOHC has become the fifth largest player in North (and in the country). Its capacity has almost doubled at over 5mn tons p.a. and the company's market share is set to climb from an average of 5% in the past 3 years to 7% (average) in the next 5 years.

Environment conducive for earnings growth

As certain variables adjust positively, including pricing outlook, cut in FED, lower interest rates and soft coal prices, bottom-line of KOHC is set to witness a massive jump in FY21 to PKR 2,502mn (EPS: PKR 12.46) and post a 5-yr CAGR of 16% to PKR 5,197mn (EPS: PKR 25.87) by FY24.

Exhibit. 16 key Highlights and Ratio Analysis

		FY18A	FY19A	FY20E	FY21F	FY22F
Revenue	PKR mn	13,439	15,646	11,180	21,480	26,046
Profit / (Loss) after Tax	PKR mn	2,980	2,469	(689)	2,502	3,729
Gross Margins	%	32.4	26.9	(3.3)	21.5	24.8
EBITDA Margins	%	30.0	24.5	(5.9)	19.3	22.6
Net Margins	%	22.2	15.8	(6.2)	11.6	14.3
ROE	%	17.9	13.1	(3.6)	12.5	16.7
ROA	%	13.7	9.0	(2.1)	7.6	11.1
Dividend Yield	%	4.1	7.6	-	1.2	3.7
P/E	x	8.3	4.3	nm	13.1	8.8
P/B	x	1.6	0.6	1.4	1.7	1.6

Source: Company Financials, AHL Research

KOHC PA

Recommendation	BUY
Target Price (Jun'21)	192.8
Current Price	163.4
Upside (%)	18.0
Shares (mn)	201
Market Cap. (PKR mn)	32,819
Market Cap. (USD mn)	196.13

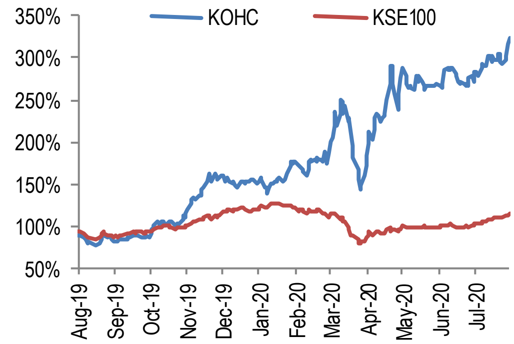
Major Shareholders

- ANS Capital (Pvt) Limited

Price Performance

	3M	6M	12M
Return (%)	11.7	82.4	258.0
Avg. Volume (000)	256.5	550.3	415.7
High Price - PKR	163.4	163.4	163.4
Low Price - PKR	132.6	72.7	39.6

Relative Performance



Source: Bloomberg

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Exhibit. 17 Income Statement

(PKR mn)		FY18A	FY19A	FY20E	FY21F	FY22F
Net Sales		13,439	15,646	11,180	21,480	26,046
Gross Profit		4,353	4,206	(364)	4,612	6,459
Operating Profit		4,025	3,834	(662)	4,138	5,894
EBITDA		4,599	4,307	333	5,018	6,604
Profit / (Loss) after Tax		2,980	2,469	(689)	2,502	3,729
EPS / (LPS)	PKR	14.84	12.29	(3.43)	12.46	18.57
DPS	PKR	5.00	4.00	-	2.00	6.00

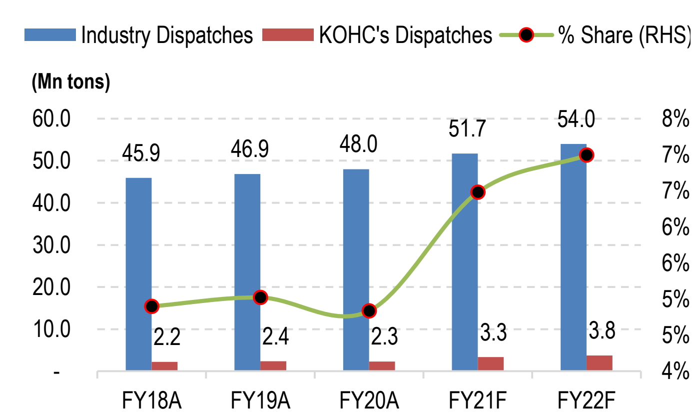
Source: Company Financials, AHL Research

Exhibit. 18 Balance Sheet

(PKR mn)	FY18A	FY19A	FY20E	FY21F	FY22F
Shareholders' Equity	17,977	19,673	18,983	21,083	23,608
Non-Current Liabilities					
Long Term Loan	142	4,400	3,558	2,696	1,834
Total Non-Current Liabilities	1,661	6,118	5,276	4,414	3,552
Current Liabilities					
Trade Payables	3,351	3,800	4,099	4,911	5,532
Total Current Liabilities	3,679	5,524	8,554	7,548	6,870
Total Liabilities and Equity	23,316	31,315	32,814	33,046	34,030
Assets					
Non-Current Assets	12,909	25,709	26,593	25,932	25,261
Current Assets	10,407	5,606	6,221	7,113	8,769
Total Assets	23,316	31,315	32,814	33,046	34,030

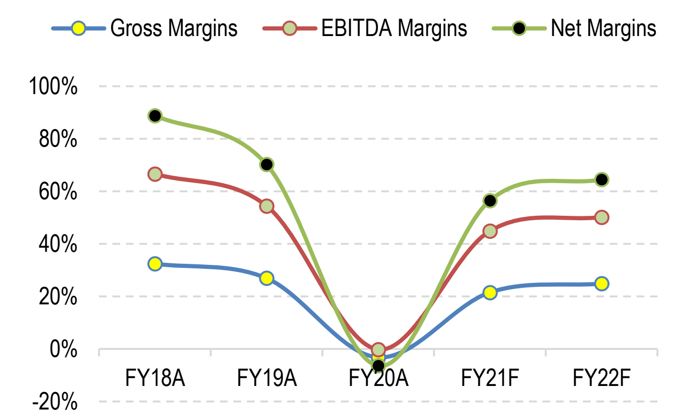
Source: Company Financials, AHL Research

Figure. 12 Market Share to Climb Post Expansion



Source (s): Company Financials, AHL Research

Figure. 13 Impressive Rebound in Margins Expected



Source (s): Company Financials, AHL Research

Fauji Cement Company Limited (FCCL)

Our Jun'21 free cash flow based target price arrives at PKR 23.87/share. From last day's closing, the stock offers an upside of 14%, we recommend BUY. We cite sharp recovery in earnings in FY21 to change in the industry landscape. Albeit, given the company's decision to sideline itself from the latest expansionary cycle, FCCL's market share will be squeezed going forward, keeping the 5-yr earnings CAGR contained at 8% to PKR 3,853mn (EPS: PKR 2.97) by FY24.

Noteworthy earnings retrieval in FY21

Earnings of FCCL are set to recuperate in FY21, as expected across the board in all cement companies, attributable to positive developments such as removal of obstacles to price improvement (end of expansionary cycle), cut in FED to PKR 1,500/ton, lower coal prices and policy rate at 7% compared to 13.25% in Feb'20. This should translate to a bottom-line of PKR 1,810mn (EPS: PKR 1.49) next year, in contrast to PKR 39mn (EPS: PKR 0.03) expected in FY20.

Future earnings growth to remain in-check

Upside for the company remains contained as its failure to jump on the expansion bandwagon will compress the market share from the past 3-yr average of 7% to 5% in FY21 and beyond. Consequentially, its 5-yr earnings CAGR is forecast at 8% to PKR 3,853mn (EPS: PKR 2.97) by FY24.

Exhibit. 19 Key Highlights and Ratio Analysis

		FY18A	FY19A	FY20E	FY21F	FY22F
Revenue	PKR mn	21,161	20,798	17,312	20,064	22,935
Profit / (Loss) after Tax	PKR mn	3,429	2,824	39	2,050	3,035
Gross Margins	%	24.2	25.6	3.8	18.9	22.9
EBITDA Margins	%	21.0	22.6	0.2	15.7	20.0
Net Margins	%	16.2	13.6	0.2	10.2	13.2
ROE	%	17.1	13.6	0.2	9.6	13.5
ROA	%	12.1	9.7	0.1	7.2	10.6
Dividend Yield	%	4.4	9.5	-	1.2	7.1
P/E	x	9.2	7.7	599.0	14.1	9.5
P/B	x	1.6	1.1	1.1	1.4	1.3

Source: Company Financials, AHL Research

FCCL PA	
Recommendation	**BUY**
Target Price (Jun'21)	23.9
Current Price	21.0
Upside (%)	13.8
Shares (mn)	1,380
Market Cap. (PKR mn)	28,949
Market Cap. (USD mn)	173

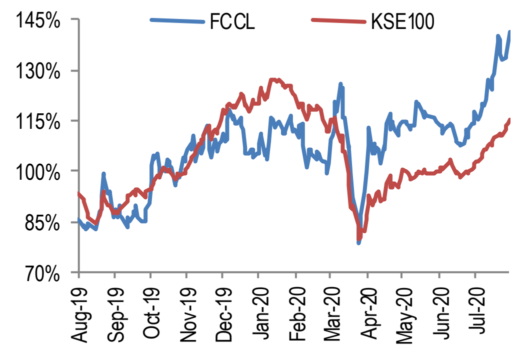
Major Shareholders

- Fauji Foundation

Price Performance

	3M	6M	12M
Return (%)	23.1	26.1	65.0
Avg. Volume (000)	4,868	6,632	6,351
High Price - PKR	21.0	21.0	21.0
Low Price - PKR	16.0	11.7	11.7

Relative Performance



Source: Bloomberg

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Exhibit. 20 Income Statement

(PKR mn)		FY18A	FY19A	FY20E	FY21F	FY22F
Net Sales		21,161	20,798	17,312	20,064	22,935
Gross Profit		5,115	5,323	666	3,793	5,253
Operating Profit		4,453	4,697	38	3,149	4,593
EBITDA		5,663	6,039	1,796	4,606	5,968
Profit / (Loss) after Tax		3,429	2,824	39	2,050	3,035
EPS / (LPS)	PKR	2.49	2.05	0.03	1.49	2.20
DPS	PKR	1.00	1.50	-	0.25	1.50

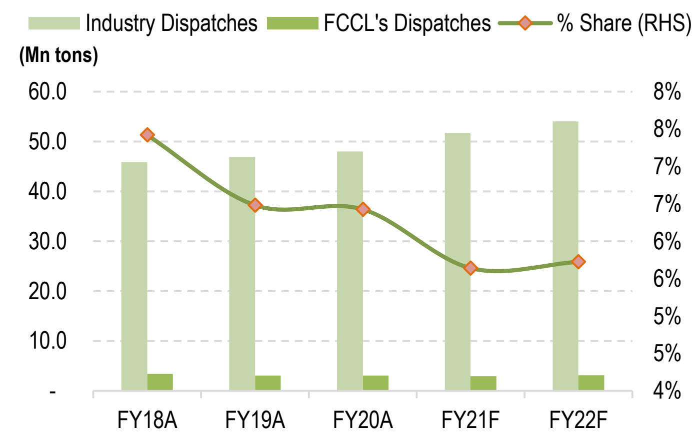
Source: Company Financials, AHL Research

Exhibit. 21 Balance Sheet

(PKR mn)	FY18A	FY19A	FY20E	FY21F	FY22F
Shareholders' Equity	20,489	20,899	20,697	22,161	22,885
Non-Current Liabilities					
Long Term Loan	637	318	106	-	-
Total Non-Current Liabilities	4,302	4,315	4,103	3,997	3,997
Current Liabilities					
Trade Payables	2,158	2,404	2,111	2,064	2,063
Total Current Liabilities	4,259	3,752	4,017	2,209	2,102
Total Liabilities and Equity	29,049	28,965	28,817	28,367	28,985
Assets					
Non-Current Assets	22,711	23,290	22,011	20,719	19,417
Current Assets	6,338	5,676	6,806	7,648	9,567
Total Assets	29,049	28,965	28,817	28,367	28,985

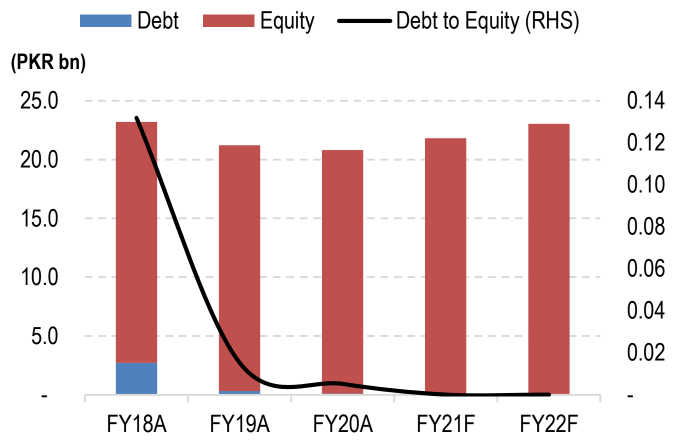
Source: Company Financials, AHL Research

Figure. 14 Market Share Under Threat Amid Failure to Expand



Source (s): Company Financials, AHL Research

Figure. 15 Unleveraged Balance Sheet



Source (s): Company Financials, AHL Research

Maple Leaf Cement Factory Limited (MLCF)

We have a BUY recommendation for Maple Leaf Cement Factory Limited (MLCF); the stock offers 19% from current levels with our Jun'21 target price set at PKR 38.54/share. We believe the recent run at the index was not only long awaited, but also justifiable as forward earnings appear robust.

Forward earnings to reflect improved sectoral dynamics

We forecast the company to display a 5-yr forward earnings CAGR of 21% to PKR 6,461mn (EPS: PKR 5.88) by FY24, attributable to reviving fundamentals. We cite these as: improved pricing outlook as all companies have commissioned new capacities, cut in FED to PKR 1,500/ton, soft coal prices vis-à-vis last year, and 625bps cut in the benchmark policy rate. These are expected to reinvigorate margins and hence, support the robust growth in bottom-line, starting with a striking turnaround in FY21 to PKR 2,896mn (EPS: PKR 2.64) against a loss of PKR 3,603mn (LPS: PKR 3.28) in FY20.

High debt levels still a cause of concern

Amongst the AHL cement universe, MLCF has the second highest debt to equity of 05x as at 3QFY20 compared to the average of 0.3x of other coverage companies. Although the company managed to raise an additional PKR 6bn via an 85% right issuance at PKR 12/share (premium of PKR 2/share), its borrowing remains a colossal PKR 19bn as per latest books. Going forward as the company generates cash positive earnings, it is expected to retire its debt entirely by FY24.

Exhibit. 22 Key Highlights and Ratio Analysis

		FY18A	FY19A	FY20E	FY21F	FY22F
Revenue	PKR mn	25,684	26,006	28,580	32,664	36,364
Profit / (Loss) after Tax	PKR mn	4,573	2,460	(3,603)	2,896	4,379
Gross Margins	%	33.2	23.3	1.4	21.6	24.7
EBITDA Margins	%	33.2	23.3	1.4	21.6	24.7
Net Margins	%	17.8	9.5	(12.6)	8.9	12.0
ROE	%	16.8	7.8	(10.7)	8.0	11.1
ROA	%	8.8	3.9	(5.4)	4.4	6.8
Dividend Yield	%	4.9	2.1	-	-	3.1
P/E	x	12.2	10.7	(7.9)	12.3	8.1
P/B	x	1.8	0.8	0.8	0.9	0.9

Source: Company Financials, AHL Research

MLCF PA

Recommendation	BUY
Target Price (Jun'21)	38.5
Current Price	32.5
Upside (%)	18.8
Shares (mn)	1,098
Market Cap. (PKR mn)	35,641
Market Cap. (USD mn)	214

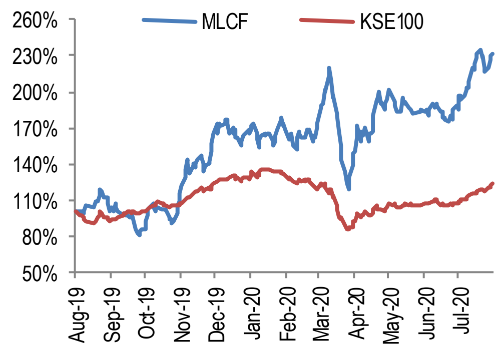
Major Shareholders

- Kohinoor Textile Mills Ltd.

Price Performance

	3M	6M	12M
Return (%)	9.0	26.6	119.1
Avg. Volume (000)	13,906	14,953	11,981
High Price - PKR	32.9	32.9	32.9
Low Price - PKR	24.5	16.7	11.4

Relative Performance



Source: Bloomberg

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Exhibit. 23 **Income Statement**

(PKR mn)		FY18A	FY19A	FY20E	FY21F	FY22F
Net Sales		25,684	26,006	28,580	32,664	36,364
Gross Profit		8,525	6,062	414	7,058	8,971
Operating Profit		6,557	4,387	(973)	5,541	7,333
EBITDA		8,466	6,422	2,564	8,412	10,046
Profit / (Loss) after Tax		4,573	2,460	(3,603)	2,896	4,386
EPS / (LPS)	PKR	4.16	2.24	(3.28)	2.64	3.99
DPS	PKR	2.50	0.50	-	-	1.00

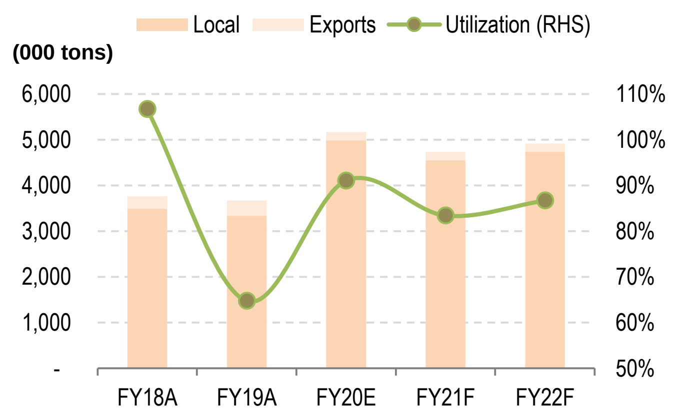
Source: Company Financials, AHL Research

Exhibit. 24 **Balance Sheet**

(PKR mn)	FY18A	FY19A	FY20E	FY21F	FY22F
Shareholders' Equity	30,809	32,408	34,860	37,756	41,044
Non-Current Liabilities					
Long Term Loan	15,990	15,990	11,395	7,101	6,971
Total Non-Current Liabilities	16,863	20,279	15,683	11,390	11,260
Current Liabilities					
Trade Payables	5,573	7,595	7,315	7,648	8,345
Total Current Liabilities	12,566	14,227	16,485	15,970	11,009
Total Liabilities and Equity	60,238	66,913	67,028	65,116	63,312
Assets					
Non-Current Assets	46,551	52,187	49,478	46,883	44,261
Current Assets	13,687	14,727	17,550	18,233	19,051
Total Assets	60,238	66,913	67,028	65,116	63,312

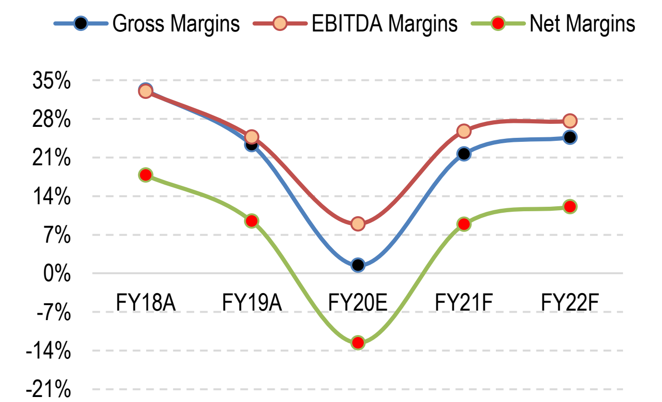
Source: Company Financials, AHL Research

Figure. 16 **Dispatches to Normalize**



Source (s): Company Financials, AHL Research

Figure. 17 **Marked Improvement in Margins Expected**



Source (s): Company Financials, AHL Research

Risks to Our Thesis

- **Coronavirus led economic slowdown:** This might hamper domestic offtake if new cases of the novel coronavirus materialize at a rapid pace and certain parts of the country are put under lockdown again. While exports growth may suffer with airlines going out of business amid emerging travel restrictions and potential ban on cross border movement. While an indirect impact in the form of adverse inflationary readings (with the public hoarding certain items and others being short as imports get hit), will build pressure on the government to maintain the historic average in real interest rates.
- **Slower than expected revival in demand to delay the possibility of price hikes:** The cement sector is currently routing for a sustainable hike in prices so as to overcome losses that have been piling up for the last few quarters. This however, is subjected to various factors including: risk of corona led slowdown to be visibly eased, no imposition of mandatory lockdown, and revival in cement demand. If any of the aforementioned lag behind our expectations, it is possible that an increase in cement prices may not materialize (to the extent that we have assumed) which will drastically hit our earnings expectations.
- **PKR depreciation amid extension in the ongoing capital flight and foreign debt repayments:** With foreign investors drawing out investment from Emerging markets in general given expectations of a corona-led slump, alongside ongoing cuts by the SBP in its benchmark interest rate (625bps to date), capital outflow from government securities of Pakistan since Mar'20 to date has arrived at USD 2.5bn. This, alongside forthcoming debt repayments, had built immense pressure on the Pak Rupee, which lost ground from 155/USD to 167/USD at present. If weakness in the currency continues to uncover, profitability of the domestic cement sector will witness impediment.

Disclaimer

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Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as December 2020 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 +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% from last closing of market price(s)

* Upside for Power Generation Companies is upside plus dividend yield.

Equity Valuation Methodology

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

- **Discounted Cash Flow (DCF)**
- **Dividend Discounted Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserve 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**