

Cement: Our universe has a bright future... Take a glimpse on cement industry

We have been continuously covering the cement industry and revealing the strengths of the sector amid strong local demand. Now the exports has accelerated and witnessed growth in the month of April' 2015. DGKC, PIOC, MLCF, CHCC and FCCL are in our coverage sphere.

DGCK ~ 'full capacity' benefit

Triggers:

- ✚ Coal based captive power plant project of 30MW at hub site; we have given project details earlier;
- ✚ Enterprise value per share Rs.135.10;
- ✚ We expect DGKC payout could be Rs4/sh.

PIOC ~ Unlocking prospective

Pioneer cement is a continuous performer and has been posting tremendous results for the last couple of years.

Pioneer Cement	FY15	FY16	FY17
Production Capacity (mn)	2.03	2.03	2.03
Capacity Utilization (assumption)	60%	66%	70%
EPS	10.7	12.0	13.8
P/E	7.0	6.4	5.6

Source: Standard Capital Research

Triggers: ~ idle capacity

- ✚ The capacity utilization stood at **49.2%** with the production of **0.73mn tons** registering a turn down of **7%** compared to the same period last year; utilization was low because of plant maintenance capacity yet to be utilized for the upcoming quarters;
- ✚ The sales volume stood at **0.84mn tons** which is an increase of **1.4%** compared to the same period last year;
- ✚ Soaring demand in local market took it up to **8.4%** where the export of the cement also increased significantly by 41% MoM.

Maple Leaf Cement ~ developments materialized

Maple Leaf Cement	FY15	FY16	FY17
Production Capacity (mn)	3.37	3.37	3.37
Capacity Utilization (assumption)	82%	85%	88%
EPS	6.3	7.1	8.1
P/E	9.7	8.6	7.5

Source: Standard Capital Research

- ✚ MLCF holds a unique standing in the industry with huge production capacity and have an edge in monopoly of white cement;

Future Outlook

- ✚ PSDP development projects are still in pipeline. It is expected the government to float the revised budgeted funds for the development projects across the country;
- ✚ Construction of Dasu dam and bhasha dam are the calls of the time;
- ✚ The real estate projects and the housing schemes are also the lights;
- ✚ Export of cement bags has jumped up significantly by 41.5% MoM;
- ✚ Heightened demand from local and from the neighbouring countries especially from Afghanistan and India will boost up sales volume;
- ✚ CM Punjab vows to reconstruct all rural roads by 2018.

Analyst:

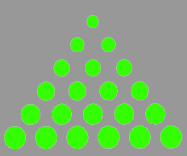
Ubaid Hashmi

Tell: +92-213-5290267

Mobile: +92-332-4654874

www.scstrade.com

Supervised by: Faisal Shaji (Research Head)



- ✚ Given aggrandized sales, MLCF started wiping out debts, which the company is doing since two years;
- ✚ The covenant of nonpayment of dividend removed with this robust display of accelerated payments of long term debt;
- ✚ MLCF holds a unique standing in the industry with huge production capacity and have an edge in monopoly of white cement.

CHCC ~ Expansion sensitivity & PE

Major impact of capacity expansion to materialize in FY17; wherein we have taken a conservative outlook on utilization levels. The incremental EPS will be driven from the capacity utilization which could be higher than our present hunch.

Cherat Cement	FY15	FY16	FY17
Production Capacity (mn)	1.1	1.1	2.4
Capacity Utilization (assumption)	90%	92%	60%
EPS	7.61	8.45	9.71
P/E	9.4	8.5	7.4

Source: Standard Capital Research

Triggers:

- ✚ Increasing local sales are expected to remain the same or even better with respect to the expected huge development programs in pipeline within the proximity of CHCC plant;
- ✚ The extension in the production line will double the production capacity and hence will help in increasing dispatches both in the local and the international markets;
- ✚ The decreasing coal and oil prices to be the helping hands to minimize the cost of production;
- ✚ The export prospects to Afghanistan are positive. The prime location at Noshehra (North of Pakistan) covers huge area of the neighboring country as well as the Pakistani markets.

Catalyst and our thrust...

- ✚ Around 76% of the disbursement of the funds allocated for PSDP is expected to float in FY15;
- ✚ The construction of dams, motorways, housing, real estate projects and other development projects are expected to be in pipeline in this year;
- ✚ Stable democratic government in Afghanistan gives a buzz for the resuming of the development programs that halted for last few months;
- ✚ Export to India is also a trigger. High demand with scarce resources locally will force India to import cement from Pakistan;
- ✚ The lower coal prices and oil prices are helping the companies to reduce their production costs;
- ✚ The expansion and installation of new plants for increasing production with better cost control are the keys for higher profitability in FY15.
- ✚ CM Punjab vows to reconstruct all rural roads by 2018.