

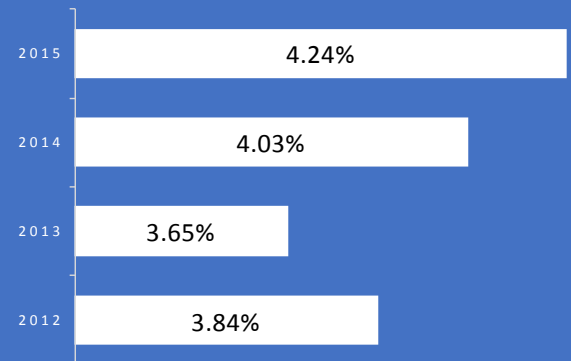
Cement Sector... Binge watching

Cement sector is one of the good performing sectors

- Construction boom in the country with both public and private investments.
- CPEC is a trigger for the cement sector as there is massive deployment of 2,400-km road structure from Kashgar to Gwadar.
- Cement industry capacity utilization has reached more than 90%.
- Major players of the cement sector have announced expansion. We expect capacity to reach more than 60mn tons per annum by FY19 (currently 45mn tons per annum)
- We expect absorption of these capacities coming online in various parts of the country, considering demand increase up to 15% CAGR i.e. around 59mn tons per annum by FY19.

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GDP GROWTH RATE



Source: tradingeconomics.com

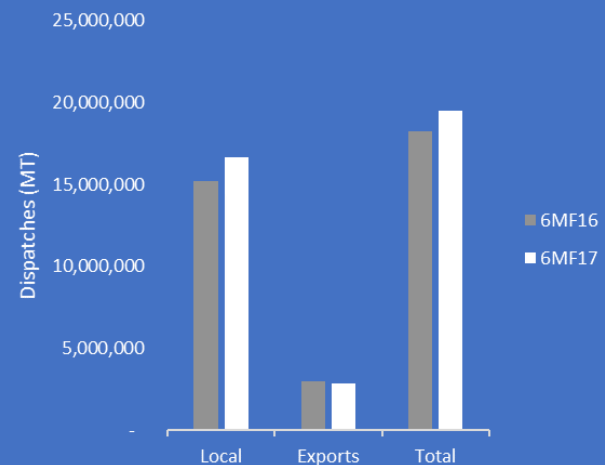
Cement Total Dispatches

Tons	6MF17	6MF16	YoY
Lucky Cement	3,382,177	3,288,521	2.8%
DG Khan Cement	2,205,917	2,016,474	9.4%
Fauji Cement	1,429,132	1,377,752	3.7%
Cherat Cement	609,273	505,269	20.6%
Kohat Cement	1,047,914	1,020,548	2.7%
Attock Cement	1,025,002	908,982	12.8%
Maple Leaf Cement	1,621,779	1,493,703	8.6%
Fecto Cement	414,637	359,305	15.4%
Pioneer Cement	623,601	632,705	-1.4%

Source: SCS Research

MSCI Re-classification: Game is on...

Pakistan will be an ideal market for foreign investments after re-classification to Emerging Market status by May 2017. Lucky Cement constitutes 13.53% of the index weightage. The other constituents of the provisional emerging index are Fauji Cement (FCCL), Maple Leaf Cement (MLCF) and Kohat Cement (KOHK) among cement companies.



Source: SCS Research

Refer to disclaimer on last page

6 months' performance: Déjà vu

Cement sector has outperformed KSE-100 index during 6MFY17. The major reason for this solidity was a rise in demand of cement in the local market. Although exports remained under pressure, the overall dispatches have risen by more than 7%.

International Cement Price		
	Bag Price (PKR)	Price per MT
China	255	5,100
Iran	231	4,620
India	292	5,840
UAE	262	5,240
Pakistan	510	10,200

Source: SCS Research

Margins:

The major players of the cement sector were able to achieve a gross margin of more than 40%. The major contribution to this was depressed coal prices. The companies were able to achieve higher-than-ever net margins due to consistent decrease in finance cost considering decrease in interest rates. Another major contributor to this was the devitalized international oil prices that helped in the managed distribution costs.

Margins (FY16)		
	GP%	NP%
Lucky Cement	48.21%	28.62%
Fauji Cement Company	45.72%	26.78%
D. G. Khan Cement Co.	42.65%	29.59%
Maple Leaf Cement	42.77%	20.85%
Pioneer Cement Limited	42.76%	26.89%
Kohat Cement Limited	46.34%	31.44%

Source: SCS Research

Outlook:

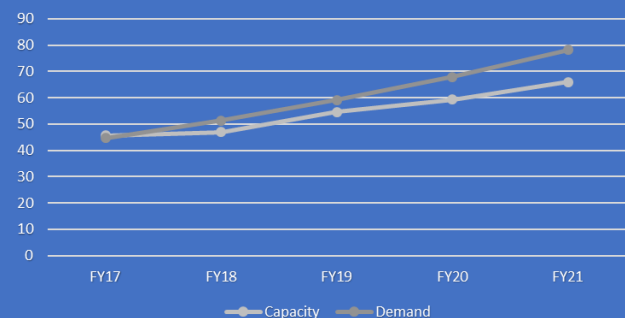
With huge amount of investments made in the construction sector, the cement sector will have to produce on more than 90% capacity. If demand of cement continues to grow at 15% CAGR, the existing capacities won't be able to fulfill demand in FY18 and FY19 (Figure on RHS). This can bring about a rise in the cement prices, as per our hunch.

MARKET SHARE (CAPACITY WISE)

Bestway Cement Ltd	Other	Fauji Cement Company Ltd	Maple Leaf Cement
		Dewan Cement Limited	Gharibwal Cement Ltd.
Lucky Cement	D. G. Khan Cement Co. Li	Kohat Cement Limited	Pioneer Cement Limited

Source: SCS Research

Capacity vs Demand



Source: SCS Research

Risks:

- The cement price in Pakistan is higher than the region and a government intervention can result negatively on cement company's margins.
- A probable increase in interest rate can result in a higher finance cost considering the cement sector is going through an expansionary phase and some players might be more dependent on the long-term finance.
- There is a continuous decrease in exports of cement.
- A delay in fund release under Public Sector Development Program (PSDP).

We have covered Maple Leaf Cemenf (MLCF), D.G.Khan Cement (DGKC), Bestway Cement (BWCL), Attock Cement (ACPL) in our reports.

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