

Cement ~ Safe Heaven

According to the data released by All Pakistan Cement Manufacturers Association, during 2MFY15, cement industry dispatched **5.01 mn tons** posting a growth of **3.22%** compared with industry dispatches during the same period of last fiscal year that were **4.86 mn tons**.

Local dispatches increased by **7.35%** to **3.68 mn tons** compared with local dispatches during same period last fiscal year that were **3.43 mn tons**. We noticed that North zone cement manufacturers reported massive growth of **8.7%** to **3.07 mn tons** as compared to **2.83 mn tons** in the corresponding period last year. Whereas, South zone manufacturers showed slight growth of **1.2%** to **609,159 tons** as compared to **601,886 tons** in the corresponding period last year

Exports were declined during the 2MFY15 by **6.7%** to **1.33 mn tons** as compared to **1.43 mn tons** in the corresponding period last year. North zone manufacturers reported decline in exports by **17.2%** to **797,849 tons** as compared to **963,180 tons** in the corresponding period last year.

Whereas, South zone manufacturers reported growth in exports by **15%** to **532,710 tons** as compared to **463,209 tons** in the corresponding period last year.

Analyst:

Saad Hashmi

Tel: +9221 3246 1421 - 4

Mob: +92 332 255 6205

www.scstrade.com

Supervised by Faisal Shaji ~ Research Head

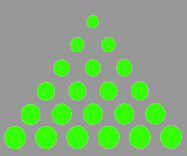
Cement sector fundatmentals

	PE		Dividend yield	
	FY14	FY15E	FY14	FY15E
LUCK	11.3	9.9	2.3%	2.5%
FCCL	9.7	7.6	7.9%	10.5%
PIOC	6.6	5.9	8.3%	8.8%
DGKC	5.8	5.3	4.4%	5.1%
KOHC	5.9	5.3	1.7%	5.0%
MLCF	5.0	3.9	0.0%	2.8%

Source: Standard capital securities

Month	FY14			FY15			Growth %						
	North Local	North Export	South Total	North Local	North Export	South Total	Local	Export	Total				
July	1,511.8	525.3	339.9	224.1	2,601.1	1,422.2	295.0	308.9	207.8	2,233.9	-6.5%	-32.9%	-14.1%
August	1,315.6	437.9	261.9	239.1	2,254.5	1,650.1	502.8	300.3	324.9	2,778.1	23.6%	22.3%	23.2%
Total	2,827.4	963.2	601.9	463.2	4,855.7	3,072.3	797.8	609.2	532.7	5,012.0			
Growth	-	-	-	-	-	8.7%	-17.2%	1.2%	15.0%	3.2%	17.1%	-6.7%	3.2%

Source: APCMA



The released data by APCMA also revealed that cement supplies also increased by **24.4%** M-o-M basis in the month of August-14. North zone manufacturers reported increase in dispatches by **25.4%** (local dispatches 16% & exports 70.5%). South zone manufacturers reported increase in dispatches by **21%** (local dispatches -2.8% % exports 56.3%).

Month	North			South			Grand Total
	Local	Export	Total	Local	Export	Total	
July	1,422.2	295.0	1,717.2	308.9	207.8	516.7	2,233.9
August	1,650.1	502.8	2,153.0	300.3	324.9	625.1	2,778.1
Growth	16.0%	70.5%	25.4%	-2.8%	56.3%	21.0%	24.4%

We have noticed that exports to Afghanistan and India increased drastically M-o-M basis and we expect that same trend will continue in FY15.

FY15 Expectations

We expect that cement supplies will increase by more than **7%** in FY15 due to launch of numerous private and public development projects i.e. Dasu Dam project which will increase cement demand by **1 mn ton** for next **3-4 years** and reconstruction of flooded areas which are destroyed in the recent floods and tribal areas which are affected due to Army operations along with different private projects i.e. Bahria town Karachi, D.H.A Karachi. Federal and Provincial government cumulatively allocated more than **Rs 1 trillion** for PSDP in FY15 budget. We expect that allocation of funds will be more than Rs 1 trillion due to rehabilitation of N.W. IDPs and flood victims.

Imposition of **5% FED** on MRP and **import duty** on coal will not affect the profits of cement manufacturers as we are expecting minimum increase in cement prices by **Rs 5 – Rs 10 per bag** in FY15. This increase will nullify the effect of FED and import duty on coal.

Cement manufacturers are also aggressively working on better cost reduction techniques and signing special contracts with Pakistan railways for the transportation of raw material and finished goods.