

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.

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Cement sector fundatmentals

	Р	E	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%				
КОНС	5.9	5.3	1.7%	5.0%				
MLCF	5.0	3.9	0.0%	2.8%				
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Source: Standard capital securities

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.

	FY14				FY15				Growth %				
Month	Nor Local	rth Export		uth Export	Total	Noi Local	rth Export		uth Export	Total	Local	Export 000	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													

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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%).

	Nor	th		Grand			
Month	Local	Export	Total	Local 000	Export	Total	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.

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