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Cement industry : DGKC expansion ~ a real threat or mere illusion

We see DG Khan Cement (DGKC) is entering in southern zone with 2.6mn tons production line. In an announcement, DGKC has solicited 40MW electricity from K-Electric (KEL). We don't see any supply side glut situation in cement dispatches immediately. Since this expansion will not materialize in next 2-3 years at least.

Given reference to the expansion of DG Khan Cement, we don't see any chance of cartel collapse since cement manufacturers use this cartel for 'price stability'. There may be some disagreements on respective quota allocation but in coming months we see cement dispatches demand to increase in southern region given Prime Minister's thrust of constructing M9 in that region.

Strong supply side is the name of the game – we don't see any impact

- We see cement manufacturers to shield their interest via cartel;
- In case of collapse, a price war could hurt margins which big companies would avoid;
- As a matter of fact, the demand or the consumption of the cement locally is escalating and is expected to grow in the same fashion given big housing schemes in and outside Karachi;
- Although, the export of the cement went down especially in the last few months. Yet we see momentous growth in export to India & Afghanistan given peculiar developments;
- DGKC supplies would be directed to various regions once that capacity would come online. DGKC would be in a better position to eye ever booming southern zone and hence dispatches would be adjusted in later part of this decade.

Industry looks good ~ intensifying growth

- Construction of Dasu dam and Bhasha dam are the call of the time; federal government has disbursed allocations for Dasu. Prime Minister showed his resolve to construct Bhasha in recent public meeting at Gilgit Baltistan;
- Real estate projects and housing schemes will also help in increasing demand locally;
- Export to India will also help in better export numbers;
- PSDP projects are still in pipeline and are expected to increase the demand of the cement bags locally;
- Around 70% of the total budgeted PSDP funds are still to be floated;
- Cement dispatches amplified by 4% MoM and YoY. MLCF, LUCK and FCCL showing momentous growth by 12%, 7% and 6% respectively;

Valuation - DGKC undervalued

We like DGKC based on FY15PE of 7.7x (EV/sh – Rs 135) which makes the company most undervalued.

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