

Cement manufacturers reporting better margins

Some of the top notch cement players have come into the limelight given firmed up local prices plus decrease in international coal prices. Some of the companies are also coming out of the debt morass and hence decrease in KIBOR is giving them good benefit.

Moreover, we are embracing an election year wherein federal government has increased public sector disbursements which in return beneficial for local cement dispatches at the time when there are certain restrictions in supplies to India through Wagah border.

Even some of the debt ridden units such as MLCF have increased gross margins for instance 30% in 1Q wherein KOHC too is reporting impressive margins i.e. 35%. Furthermore, these companies are liable for higher principal repayments in following year wherein we see their decreasing debt – equity ratio which is a good sign. If investors remember, many of the north zone cement manufacturers were perilously facing problems related to demand constraints and resultant price war which has now been subsided despite the fact that winter season is setting in those areas.

Cost reduction is the name of the game

The companies are running their plants on coal and few of them have adopted RDF system to attain plant efficiency which is now been reflected into lowering of costs. Hence cement manufacturers are mostly price plays and also good margins play which is being delineated in the given tables.

	LUCK		KOHC		CHCC		FCCL		MLCF		DGKC		LPCL	
	1QFY13	1QFY12	1QFY13	1QFY12	1QFY13	1QFY12	1QFY13	1QFY12	1QFY13	1QFY12	1QFY13	1QFY12	3QCY12	3QCY11
GP Margin	44%	39%	35%	20%	32%	6%	29%	15%	30%	20%	38%	30%	30%	11%
Net Margin	23%	20%	23%	8%	18%	-6%	10%	6%	10%	-7%	24%	6%	12%	-16%
	1QFY13	FY12	1QFY13	FY12	1QFY13	FY12	1QFY13	FY12	1QFY13	FY12	1QFY13	FY12	3QCY12	CY11
Debt/Equity	12%	11%	58%	68%	30%	34%	77%	81%	133%	142%	17%	20%	30%	41%

Source www.scstrade.com and Research Deptt.

LUCK and DGKC remain our picks

We maintain our positive outlook over LUCK and DGKC based on earnings sustainability and dividend stream.

Mohammad Mubeen Diwan

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