



Cement sector – Sanguine FCCL & PIOC

Provisional Cement Dispatches: Cement sales to post 8%

MoM drop in May -2015

Cement dispatches in the month of May-2015 was expected to fall 1% YoY to 3mn tons. A MoM assessment, however, shows a significant decline of 8% MoM, primarily due to the seasonal factor. The hot wave across the country has also affected dispatch sales. Our coverage companies viz. Pioneer Cement (PIOC), DG Khan Cement (DGKC) & Fauji Cement (FCCL) shown exemplary performance mainly owing to housing & construction demand in the country. Now with the advent of China-Pakistan Economic Corridor (CPEC), prospects of FCCL looks even more prosperous in shape of capacity utilization.

Local Sales down by 7% - seasonal impact

As per the provisional statistics available from market sources, the cement sector has performed decently throughout the year and showed positive movement reaching its new high by taking all the possible benefits from the local increasing demand. As per the provisional dispatches figures, the local demand decreased by 7% mainly due to the seasonal factor. Another factor that also affects the dispatches is the wheat harvesting season.

Export Sales down by -12% - opportunity remains

The export sales down significantly by 12% on MoM basis due to the lower demand in neighboring countries especially Afghanistan. However, export of the cement bags since last month shows a sparkling future dispatches. The local dispatches are covering this dip decently and are expected to do even better in future as well due to the development projects countrywide and especially in KPK and Punjab.

DR Cut – helping hands | FCCL to stand out in FY16

100 basis points cut in DR will help the companies in shape of lowering respective finance cost, although it will not significantly affect the whole industry but companies like MLCF would take more advantage (we will separately cover MLCF). We also see FCCL leveraging would significantly decrease in FY16. Our preference remains given its application in road construction in FY16.

Pioneer Cement (PIOC) FY15 & FY16 PE of 8x & 7.3x

Pioneer Cement (PIOC), the best performing cement manufacturer for the month of MAY-2015 posting an increase of 7.2% MoM and 10% increase YoY. The significant jump in export sales of 171.7% makes it look good among its peer.

DG Khan Cement (DGKC) FY15 & FY16 PE of 8.5x & 8.0x

DG Khan Cement (DGKC) also posted a decent increase in its export sales. An increase of 32.8% in export is also a trigger which gives a hint of better exports in future. DGKC should brace of export markets especially Frontier Market regions such as Africa.

Fauji Cement (FCCL) FY15 & FY16 PE of 12x & 8.6x

Fauji Cement (FCCL) which is a continuous well performer posted an impressive numbers in dispatches. A decrease of 0.90% MoM dispatches were covered up by the gigantic increase of 31.6% in exports sales. FCCL goes beyond Kabul in Afghanistan. Our projected FY16 EPS could notch Rs4 given the fact if CPEC starts.

Analyst:

Ubaid Hashmi

Tell: +92-213-2461429-30

Mobile: +92-332-4654874

www.scstrade.com

(Oversaw by Research Head – Faisal Shaji)