

Cement sector - DGKC

Global commodity prices are decreasing and with that coal price is also coming down which sounds good to Pakistani cement manufacturers. We have earlier forecasted that total dispatches of the sector could go as high as 35mn tons given increase in local dispatches.

We believe that work on one big dam has already been started where things have gone beyond land purchase which is a good omen for FCCL at least whose capacity is geared for dam construction. We also see DGKC to be among volume leaders to cater to these kinds of projects.

Also we see prices of cements have increased in the southern zone to nearly Rs 515 – 525/ 50kg bag on the retail side wherein we still see margins of cement players to be more glaring in 3Q.

Coal prices may hit earnings

The cement industry may indeed take sigh of relief on stabilizing coal prices. Earlier they weren't able to pass on price increase onto consumer in term of price hike in per beg.

Coal prices have risen from \$71.34/t in September to \$80.48/t in Nov. The price of coal for Dec is also predicted to be around \$90/t. We expect earnings of cement companies to stabilize in 3Q with increased dispatches since we see public schemes being speed up in the Punjab province which is a good aspect of PSDP disbursement.

Cement Sector- Fundamentals

Script	1QFY14E PS	Exp. P/E	Dividend Yield	LT debt to equity	T. Debt to assets	PBV	ROE	ROA
FECTC	3.05	3.7	3%	13%	43%	1.1	25.20	10.59
PIOC	1.28	7.1	2%	32%	47%	0.8	12.23	5.95
KOHC	4.78	5.0	2%	41%	44%	1.9	44.20	18.02
CHCC	2.85	5.3	3%	15%	27%	1.4	15.90	9.27
FCCL	0.44	8.2	9%	62%	47%	1.3	2.71	1.23
DGKC	2.44	8.5	4%	13%	24%	0.7	12.48	8.11
LPCL	0.69(9M)	7.5	4%	39%	45%	1.0	9.38	6.98
LUCK	7.87	9.3	3%	13%	18%	2.2	20.39	16.69
DCL	0.19	9.2	n/a	96%	62%	0.3	4.87	1.82
ACPL	3.69	9.9	9%	14%	26%	2.3	21.67	16.14

Source: www.scstrade.com

Among players we have earlier highlighted FECTC and CHCC as better players. We also came up with detailed call on PIOC. Among less leveraged we continue to see FECTC & CHCC as better options.

Among less leveraged we see DGKC with bright chances of volume increase. DGKC is showing less long term debt to equity ratio which is a good omen in terms of its less sensitivity to interest rate charge.

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