



## Cement sector expansion saga....see supply side

A newspaper on Oct 10, 2015 carried a news of a Lucky Cement (LUCK) expansion from its existing capacity of 7.78mn tons/annum. The capacity size is still not announced wherein newspaper cited CEO saying the size would be announced in AGM which is going to be held in October end.

As far as our opinion is concerned, LUCK expansion is very much awaited given:

>>>cash in hand as per 9MFY15 remained Rs16bn in the books of LUCK;

>>> overall cement industry in Pakistan witnessed fantastic growth in overall margins and profitability over the past few years given accelerated demand in the wake of mega projects;

>>>hightened demand comes from increasing local demand especially in northern zone;

>>>given our supply side analogy we expect capacity expansion is a good news since such capacities are expected to be absorbed in FY18-19. Pakistan cement industry has grown with the pace of around 9% per annum over the past 4 years;

>>>in this scenrio, the industry is in expansion phase. Currently, the cement industry has total production capacity of 45.6 mn tons which is in utilization of 78% annually.

>>>Previously, big players like DGKC, ACPL and CHCC announced their expansion in capacity by 2.4mn tons, 1.9mn tons and 1.3mn tons respectively. In no way can say that ongoing capacity utilization would be affected in the wake of mega project such as dam construction & Chinese-Pakistan Economic Corridor (CPEC). As per media reports, CPEC is under full swing with full participation from Islamabad based Planning Commission as well as Frontier Works Organization (FWO) since we hear lot of demand is also emnating in steel rebars, fibre optic, asphalt in addition to cement sector.

Every player has its own niche.....

>>> There are some reservations or analogy such as breaking up of let say a hidden cement cartel given expansion announcements by players such as LUCK, DGKC, ACPL and CHCC. We don't see any threats this league. **As a matter of fact, in our opinion, each cement manufacturer in Pakistan has its own market share according to the place where it's situated.** The expansion is due to the future demand which indeed signals an increase in demand.

COMPANIES	EPS		DPS		P/E	
	FY15	FY16E	FY15	FY16E	FY15	FY16E
LUCK	38.44	43.7	9.0	12.0	14.3	12.6
DGKC	17.4	21.9	5.0	8.0	8.4	6.7
MLCF	6.55	7.95	2.0	4.0	11.2	9.3
FCCL	3.09	4.25	2.5	3.5	11.9	8.5
PIOC	10.99	12.85	6.25	7.5	8.2	7.0
CHCC	7.29	8.12	3.0	4.25	12.3	11.0

Source: Standard Capital Research

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