



Flood | Economy to be affected except cements!! Negative for market

Unluckily once again Pakistan has been hit by a severe flood which causes a devastating affect over the economic condition. We see colossal losses in an economy whose reverberations would be echoed in coming months.

This flood has mainly hit the agricultural sector as crops have been damaged in the area of Central Punjab from Jhelum River to Chenab River which encompasses all Punjab cities. We see rice crop massively destroyed wherein cash crop cotton which was harvested yet still it has been destroyed since there are no modern methods to store bales.

Wheat cultivation will now be delayed by nearly 25 to 30 days. Analyst feels that there could be huge losses in case of GDP rise as it would be contained around 3% given impact of production losses in the agriculture.

Flood impact on sectors:

Fertilizer Sector: Negative

Fertilizer demand will be delayed as flood makes the land non harvestable; this water to stay in fields at least for 25 to 30 days and after that, things will resume. We do not expect plants of EFERT, FATIMA and FFC to directly affect by flood.

Depicting this flood will normally delay the urea demand by a month hence negatively affecting the company's profitability of at least EFERT whose supply chain is not better than Faujis.

The plants of Fatima Fertilizers are small and hence absorption of urea won't be a problem.

Cement Sector: Positive after a lag

Cement sector to flourish with some lag as the devastation caused by flood will prompt increased development spending in the economy hence company's profitability to rise in 2QFY15 and a reflection in earnings can be expected in FY15.

We do not expect company's plant to hit by flood hence things are in green zone. Most of the cement plants are in Potohar or Soon Sakesar and hence not affected by devastation.

Power Sector: Negative

The water has also entered in Muzaffargarh district wherein there are KAPCO, PakGen & Lalpir. Lalpir was already reeling from a devastation caused in 2012. Already Neelum Jhelum project has suffered since all machinery is drowned in Jhelum River.

We have yet to hear about Narowal project of HUBC since that district is worst affected due to flooding.

We see overall negativity in insurance for obvious reasons. We also see lowering of GDP estimates to result in rerating. We recommend SELL in OMCs, power sector, fertilizers, insurance etc. We **see appetite for private sector lending from banks to increase. We like cement sector since most of the plants are safe in Potohar and Soon Sakesar.**

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