

## Gharibwal Cement... Stalking Horse

We initiate our coverage on GWLC albeit affirmative stance on cement sector and the upcoming brownfield expansion & unveiling of *WHR* plant envisaged by the company.

### Demand Stream...

The cement sector has operated on more than 90% capacity utilization in the ongoing year to fulfill surge in local demand which is a result of construction boom (Pakistani cement industry capacity is around 45mn tpa wherein we see huge demand emanating locally).

Our stance on this sector remains affirmative considering the developments under CPEC Project. We also expect the PSDP spending to increase preceding general elections in the country (despite budgetary constraints we expect incumbent government to lay out PKR 1 trillion under PSDP in the wake of an election year). We also expect continuous cement demand from private sector due to mega housing projects, malls and other construction projects in metropolitan cities.

### Expansion bandwagon and operational savings...

In conformity with increase in local demand, GWLC has announced brownfield expansion of 2.5mn tpa (current capacity: 2.1mn tpa), where commercial commencement is expected in 2HFY19.

GWLC has been ideally using their internal source for power requirements. They have both gas-based and FO-based power captive power plants (combined 38 MW). Whilst they have minimal dependence on national grid, they will bring online *WHR* plant as per company books.

The effect of GWLC 20MW *WHR* plant will come this year as per our hunch. The waste heat recovery plant will result in savings in the operational cost.

The start of downhill conveyor belt to result in a faster transportation of limestone, significantly reducing dependence on trucks. The belt can independently fulfill its energy requirements due to the belt process ability to generate electricity.

Refer to disclaimer on last page

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Ticker	GWLC
Bloomberg	GWLC PA
Price	55
52 weeks low	38.61
53 weeks high	70
Beta	1.06
Market Cap (PKR)	21.84bn

Source: SCS Research

### Financial Snapshot

	1HFY17	1HFY16	YoY
Cement Dispatch (ton)	736,712	710,426	4%
PKR (mn)			
Net Sales	5,529	4,906	13%
Gross Profit	1,944	1,726	13%
EBIDTA	1,999	1,799	11%
PBT	1,526	1,396	9%
PAT	1,112	1,024	9%
EPS (PKR)	2.78	2.56	
Gross Margin	35.16%	35.18%	
Net Margin	20.11%	20.87%	

GWLC books, SCS Research

## Valuation...Cheapest cement sector PE

We expect GWLC to post earnings of PKR 7.30/sh along with a dividend of PKR 3/sh. GWLC yields FY17 PE of 7.9x and a dividend yield of 5.17%.

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