


Pakistan Equity | Cements | Earnings Preview

January 27, 2022

REP-057

Cement earnings likely to increase by 6% QoQ in 2QFY22
Margins likely to witness compression

 CFA Society
Pakistan
Best Local Brokerage
House 2015-16, FY2020

ASIAMONEY
Best Local Brokerage House
Brokers Poll 2011-14, 2016-21


COUNTRY
AWARDS
FOR ACHIEVEMENT
2018
FinanceAsia
Best Brokerage
House 2018,19-20


2019
INTERNATIONAL
FINANCE
BROKERAGE AWARDS
Best Research
House 2019-20


ASSET ASIAN AWARDS 2019
TRIPLE A
Best Brokerage
House 2019-21

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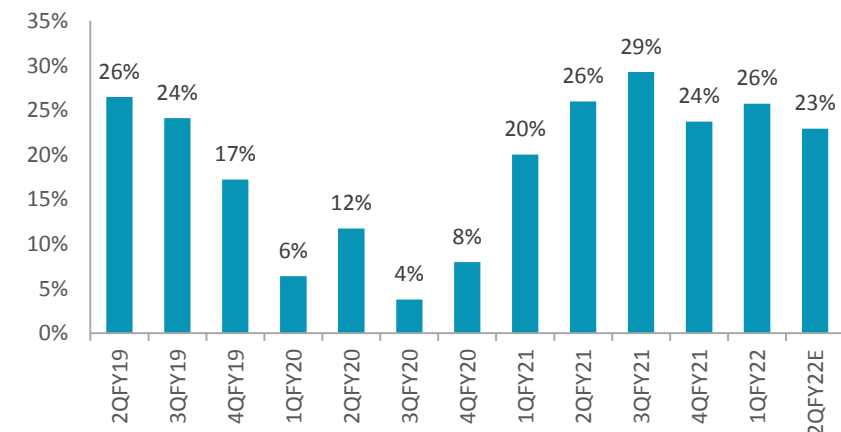
Topline Securities, Pakistan

Gross Margins likely to decline to 23% in 2QFY22 vs. 26% in 1QFY22.

Cement Sales: 1HFY22					
mn tons	2QFY22	YoY	QoQ	1HFY22	YoY
Local	12.78	0%	13%	24.06	2%
North	10.68	-1%	13%	20.16	0%
South	2.11	6%	17%	3.90	15%
Export	1.85	-17%	19%	3.39	-18%
Total	14.63	-3%	14%	27.45	-1%

Source: APCMA, Topline Research

Topline Cement Gross Margins Quarterly Trend*



Source: Company Accounts, Topline Research. *Core Business

- Topline Cement Universe is expected to post earnings growth of 6% QoQ in 2QFY22 due to increase in cement dispatches by 19% QoQ. Net sales of the Topline cement universe are anticipated to grow by 20% QoQ.
- Gross margins are however anticipated to fall by 277bps to 23% in 2QFY22 due to higher coal prices and lower increase in Cement prices.
- Industry local dispatches in 2Q remained flat on a YoY basis to 12.8mn tons, primarily driven by higher base effect given the pent up demand from COVID-19 as compared to last year. On other hand, rainy season coupled with transporters strike in 1QFY22 led local dispatches to a growth of 13% QoQ.
- Industry Exports witnessed a drop of 17% YoY and rise of 19% QoQ. Exports recovery in 2Q was due to freefall of sea freight cost, evident from the Baltic Freight index that peaked in Oct-21 and hence converged to its normal level in the later period of 2Q, we believe.
- During 2QFY22, coal prices grew by 16.8% QoQ to US\$163/ton. Our channel checks suggests local cement players imported coal cost falls in the range of US\$120-160/ton. The cement industry has also used Afghan and local coal during the period to somehow dilute the cost pressure. Nevertheless, margins compression on a QoQ basis could not be ruled out due to higher coal cost.
- The industry had partially passed on this cost impact, whereas average cement prices in North during 2QFY22 increased to Rs723/bag (vs. Rs659/bag in 1QFY22). Similarly, average cement prices in the South increased to Rs745/bag (vs. Rs680/bag in 1QFY22).
- We have a Market-weight stance on Pakistan Cement sector with Luck Cement (LUCK) and Maple Leaf Cement (MLCF) as our top picks.

Earnings likely to increase by an average 6% QoQ

- **Cement Universe:** Topline cement universe is expected to witness a marginal growth in quarterly profit of 6% QoQ. Increase in cement profitability is mainly driven owing to uptick in overall dispatches, partial cost pass on and use of local and Afghan coal in fuel & power mix.
- **Lucky Cement (LUCK):** We expect LUCK's consolidated EPS to remain flat QoQ to Rs20.8 in 2QFY22, wherein unconsolidated EPS is likely to come in at Rs9.8 (down 3% QoQ) due to expected lower margins led by cost pressure despite a jump of 8% QoQ in overall dispatches of the company. As per our estimates, LUCK is one of the producer which has used less local and Afghan coal of ~5-10% in its overall mix during the period.
- **Kohat Cement (KOHK):** KOHC is likely to post EPS of Rs6.9 in 2QFY22, flat QoQ. KOHC also uses ~30% of Afghan and local coal in its fuel and power mix which has diluted the impact on margins as per our channel checks.
- **Fauji Cement (FCCL):** We estimate FCCL to post EPS of Rs0.9, down 8% QoQ despite the volumetric sales of the company rose by 6% QoQ to 0.9mn tons. We expect gross margin to contract to 24% in 2QFY22 vs. 30% in 1QFY22. Similarly, FCCL has also used Afghan and local coal to 20% in its overall energy mix.
- **DG Khan Cement (DGKC):** The company is expected to post EPS of Rs3.1, significantly up by 50% QoQ given its strong dispatches growth of 43% QoQ. Local dispatches grew by 15% QoQ whereas exports reached 700k tons (200k tons was cement) vs overall exports of 57k tons in 1Q.
- **Maple Leaf Cement (MLCF):** MLCF is likely to post consolidated EPS of Rs1, up by 37% QoQ. Volumetric sales of the company are anticipated to clock in at 1.2mn tons (up 7% QoQ). Simultaneously, MLCF have also used 20% local and Afghan coal which bodes well for the company.

Topline Cement Universe Estimated EPS

Rs	2QFY22	YoY	QoQ	1HFY22	YoY
LUCK*	20.8	12%	1%	41.4	29%
DGKC	3.1	18%	50%	5.2	183%
MLCF*	1.0	7%	37%	1.8	22%
FCCL	0.9	36%	-8%	1.9	62%
KOHC	6.9	43%	-1%	13.9	89%

Source: Topline Research. *consolidated

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