TOPLINE

# Pakistan Equity | Cement| Earnings Revision

April 12, 2022

REP-057

## Cement Sector profitability in FY23 to stay muted

## Elevated coal prices & demand slowdown to impact adversely

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

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

Country Awards 2018 FinanceAsia
Best Brokerage House 2018,19-20

2019 International Finance Brokerage Awards
Best Research House 2019-20

The Asset Triple A Asian Awards 2019
Best Brokerage House 2019-21


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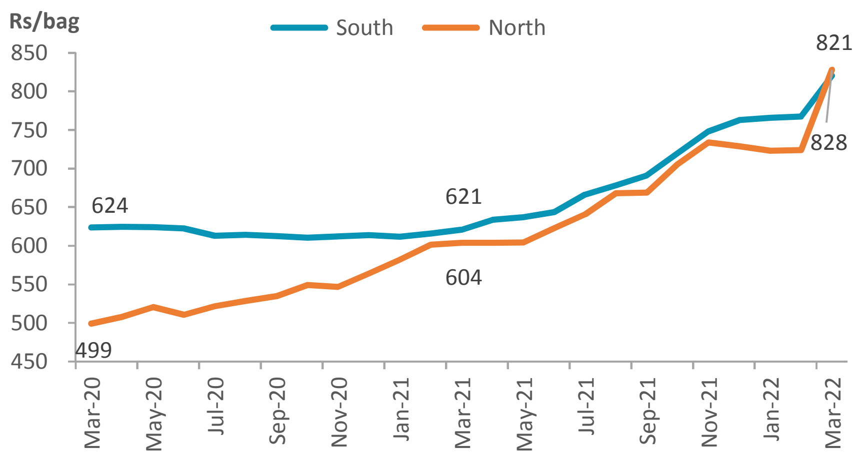
# Core Earnings to decline in FY23

**Cement Universe Earning Revision**

| EPS (Rs) | FY21A | FY22E | FY23F |
|---|---|---|---|
| LUCK* | 70.69 | 79.57 | 105.82 |
| DGKC | 8.49 | 10.31 | 4.83 |
| MLCF* | 3.49 | 5.55 | 5.47 |
| FCCL | 2.52 | 3.80 | 3.15 |
| KOHC | 17.41 | 29.44 | 22.18 |

**Source: Company Accounts, Topline Research, * Consolidated**

**Prices have increased at a greater pace in North Region**




**Source: PBS, Topline Research**

- Cement dispatches have shown signs of slowdown recently amid rising construction cost, lower development budget and higher freight cost as 9MFY22 dispatches were down 6%.
- We believe political noise, economic slowdown and rising cement bag cost could further impact dispatches going ahead. Hence, we expect total cement dispatches to clock in at 54mn ton in FY22 (down 6% YoY) and 51mn tons in FY23 (down 5% YoY).
- Along with the lower dispatches, rising coal cost is another key concern for the sector as global supply chain disruption and Russia-Ukraine has kept the commodity prices elevated thus far. Richard bay coal prices have averaged ~US$182/ton in FY22TD and is currently hovering around US$286/ton.
- In 1HFY22, cement companies used a mix of Afghan, Russian and local coal which was around 20-30% cheaper than the Richard Bay (South African coal). This resulted in earnings growth of 53% as companies were able to increase cement prices and contain their cost simultaneously.
- However, going ahead in FY23 we believe that coal cost from other sources including Afghan Coal, Russian Coal and local coal would gradually rise as cement players will have to procure coal at higher cost. These players were carrying inventory of around 3-4 months.
- We have assumed Richard Bay coal at ~US$225/ton in FY23 and average Cement Price of Rs950/bag. We also believe that due to expected slowdown in dispatches, further cost pass on could be difficult for manufacturers.
- Resultantly, gross margin of Topline Cement Universe is likely to fall to 15% in FY23 vs 24% expected in FY22.
- Due to rise in coal prices and lower dispatches, Topline Cement Universe Earnings (Core Cement) are expected to post a 16% decline in FY23.
- Players in the North region are better placed due to lower inland freight cost of local & Afghan coal. They are currently using 50-60% Afghan coal.
- We currently have a Market Weight stance on sector with 'Buy' stance on LUCK, MLCF and a 'Hold' call on DGKC and KOHC.

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|---|---|
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| Neutral | Stock will perform in line with the average total return of stocks in universe |
| Sell | Stock will underperform the average total return of stocks in universe |

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|---|---|
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| Market Weight | = Weight in KSE-100 Index |
| Under Weight | < Weight in KSE-100 Index |

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