


Pakistan Equity | Cements | Sector Research

May 10, 2022

REP-057

Cement sector profits grew by 7% QoQ in 3QFY22
Better than expected results despite lower margins



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
the Asset
TRIPLE A
Best Brokerage
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Profits grew on sequential basis led by higher other income

- Pakistan's listed cement sector has reported profits of Rs17.7bn in 3QFY22, down 7% YoY and up 7% QoQ. These set of results were slightly better than industry expectations, largely due to (1) Lower realized coal costs owing to higher usage of discounted price of local/Afghan coal compared to Richard bay coal, and 2) higher than expected other income.
- Sector's profitability excluding Lucky Cement (LUCK) was down 13% QoQ and up 2% YoY.
- Net sales of the sector remained flat on QoQ basis driven by lower cement dispatches and a marginal increase in prices. Gross margins of the sector also witnessed slight decline clocking at 23% in 3QFY22 vs. 25% in 2QFY22 and 28% in 3QFY21 led by rising coal prices and gradual catching of coal prices by alternate coal sources.
- Other income of the sector was up by 92% QoQ primarily led by higher other income of LUCK (driven from Lucky Motor Corporation).
- Major contribution in sector profitability during the period was higher profits from LUCK, Bestway Cement (BWCL), and Kohat Cement (KOHC).
- LUCK, BWCL, and KOHC reported QoQ earnings growth of 122%, 6%, and 4% respectively, due to higher other income, higher cement prices and higher usage of cheaper Afghan coal.

Cement Sector: Financial Highlights						
Rsmn	3QFY22	3QFY21	YoY	QoQ	9MFY22	YoY
Sales	122,064	96,609	26%	-1%	343,490	30%
Cost of Sales	93,716	69,607	35%	1%	260,115	30%
Gross profit	28,350	27,006	5%	-7%	83,380	29%
Administrative Expenses	2,424	1,868	30%	5%	6,814	34%
Selling & Distribution Expenses	3,267	3,125	5%	-13%	9,883	-2%
Other Operating Expenses	1,509	1,671	-10%	-13%	4,981	54%
Other Income	5,463	6,562	-17%	92%	10,933	28%
Profit from Operations	26,613	26,904	-1%	5%	72,635	32%
Finance Cost	3,971	3,180	25%	19%	10,550	7%
Profit before Tax	23,367	24,312	-4%	3%	63,991	38%
Taxation	5,641	5,246	8%	-9%	16,773	71%
Profit after Tax	17,726	19,070	-7%	7%	47,223	29%

Source: Company Accounts, Topline Research

Dispatches Dropped, GP margins shrunk amid elevated coal cost

Pakistan Cement Sector: Profit After Tax (Rsmn)*

Company	3QFY22	3QFY21	YoY	QoQ	9MFY22	YoY
Lucky Cement	5,535	7,146	-23%	122%	11,310	-3%
Bestway Cement	3,798	3,595	6%	6%	10,361	25%
Kohat Cement	1,646	1,059	55%	4%	4,630	83%
Maple Leaf Cement	1,563	1,223	28%	-19%	4,321	52%
DG Khan Cement	1,442	2,048	-30%	14%	3,619	27%
Fauji Cement	1,234	1,010	22%	-16%	4,063	56%
Cherat Cement	1,065	1,094	-3%	-10%	3,435	55%
Pioneer Cement	485	687	-29%	-27%	1,628	26%
Gharibwal Cement	447	480	-7%	-48%	1,695	44%
Attock Cement	329	414	-21%	-43%	1,181	23%
Flying Cement	302	42	NM	17%	766	485%
Dewan Cement	92	157	-41%	-30%	(65)	NM
Fecto Cement	33	15	120%	43%	183	-516%
Thatta Cement	29	58	-50%	-29%	89	-30%
Power Cement	(274)	42	NM	NM	7	-94%
Total	17,726	19,070	-7%	7%	47,223	29%

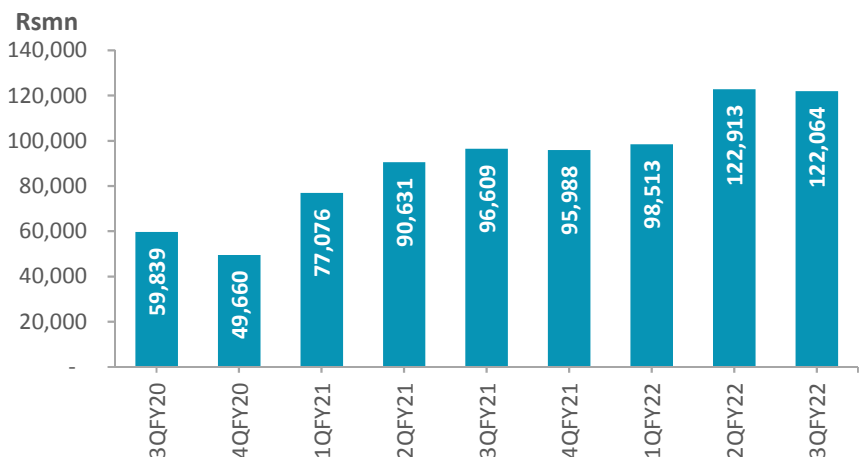
Source: Company Accounts, Topline Research,

*excluding DBCI, DNCC, JVDC, SMCPL & ZELP

- Net sales of the sector remained flat in 3QFY22 at Rs122bn owing to rise in prices during the quarter and decrease in local & export dispatches by 5% QoQ and 32% QoQ, respectively.
- Average gross margins of the sector clocked in at 23% in 3QFY22, lower than the realized margins in 1QFY22 and 2QFY22.
- Margins remained depressed during the period on account of higher coal prices (up 45% QoQ) and rise in fuel prices as the industry passed on the cost impact in the later period of the 3QFY22.
- Selling and distribution costs was down by 13% QoQ owing to decline in industry dispatches.
- Finance cost of the sector increased by 19% QoQ due to higher working capital requirements and higher KIBOR rates.
- LUCK, Fecto Cement (FECTC), Flying Cement (FLYNG) posted earnings growth of 122%, 43% and 17%, respectively. On other hand, GWCL, ACPL, and DCL posted decline of 48%, 43% and 30% QoQ.
- Going forward, elevated coal and commodity prices remains a key concern for the sector. Presently, north region players are using higher Afghan and local than preceding quarters. In the end of 3QFY22, the industry has partially passed on the impact into the prices which would reflect in the upcoming period.
- In terms of dispatches, slowdown in construction activity and rising construction cost may keep the dispatches in check. For FY22, we foresee the overall dispatches are likely to fall by 5-6%.

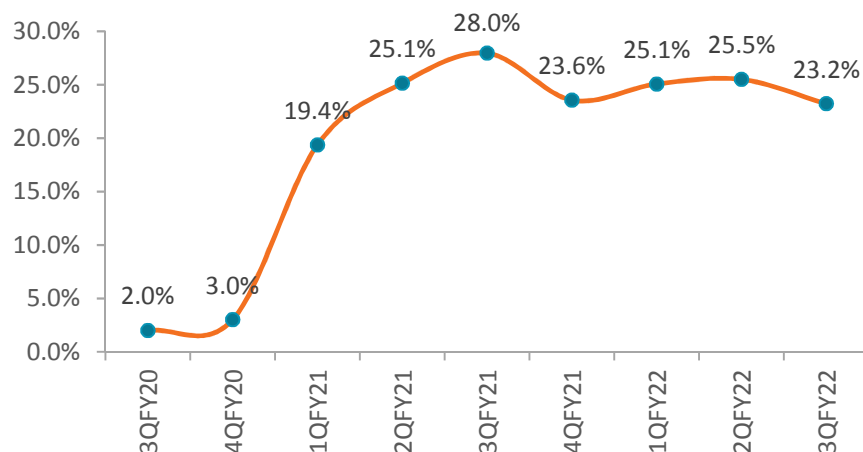
Quarterly analysis at a glance

Sample Companies: Sales



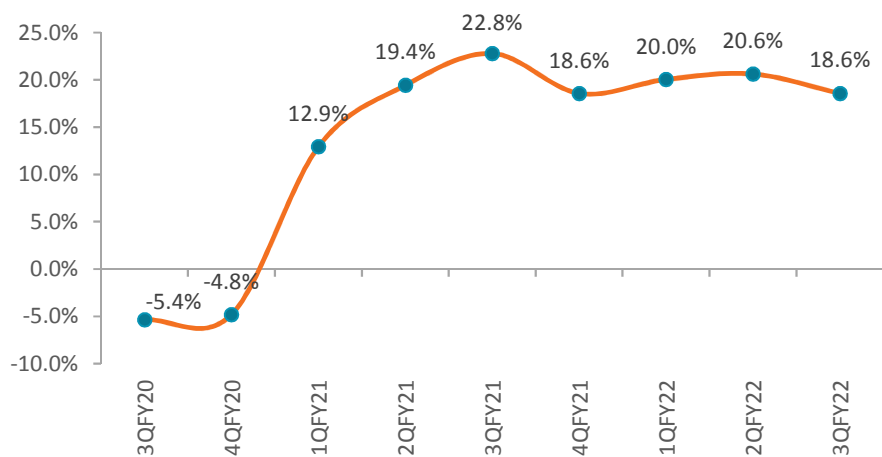
Source: Company Accounts, PSX, Topline Research.

Sample Companies: Gross Margins



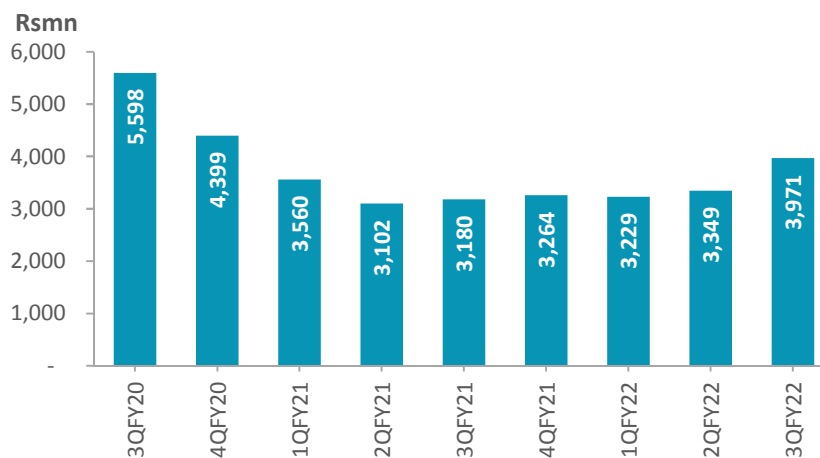
Source: Company Accounts, PSX, Topline Research.

Sample Companies: Operating Margins



Source: Company Accounts, PSX, Topline Research.

Sample Companies: Finance costs



Source: Company Accounts, PSX, Topline Research.

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