

Pakistan Cements

3QFY23 Previews: Profitability to decline by 5% YoY

We expect ISL cement universe to post a profit of ~PKR10.03bn in 3QFY23 vs. PKR10.58bn in SPLY, down by ~5% YoY. The decline in profitability is mainly attributable to increase in financial charges, up by 2x YoY coupled with decline in other income, down by 58% YoY. On company specific basis, we expect LUCK/DGKC/MLCF/FCCL/PIOC/ACPL to post unconsolidated EPS of PKR10.75/1.38/1.80/1.03/3.00/4.34 in 3QFY23, respectively.

In 3QFY23, local cement dispatches witnessed a decline of 13% YoY to clocked in at 10.54mn tons, while cement exports increased by 5% to clocked in at 1.31mn tons. The decline in local sales is mainly attributable to rising input cost coupled with higher interest rate, economic slowdown and low utilization of PSDP funds which impeded the local cement demand. Moreover, cement prices increased by ~31% YoY in 3QFY23 due to cost pressures coupled with increase in excise duty and sales tax.

LUCK: 3QFY23 expected to post EPS of PKR10.45

We expect LUCK to post a unconsolidated PAT of PKR3.36bn (EPS:PKR10.75) in 3QFY23, as compared to unconsolidated PAT of PKR5.5bn (EPS:PKR17.66) in SPLY, down by 41% YoY. The decline in profitability is mainly due to lower other income. Revenue for the quarter is likely to increase by 36% YoY to clocked in at PKR16.2bn vs. 11.99bn in SPLY. The increase in revenue is mainly attributable to increase in retention prices. Gross margins are likely to clock in at 25.4% in 3QFY23, up by ~3.3ppt as compared to SPLY, mainly due to efficient coal mix. Finance cost is likely to increase by 4.3x YoY to clocked in at PKR366mn, owing to elevated interest rates and higher borrowings. Other income for the quarter is likely to clock in at PKR969mn vs. PKR4,137mn in SPLY, down by 80% YoY mainly due to absence of dividend income from Lucky Motors Corporation (LMC).

DGKC: 3QFY23 expected to post EPS of PKR1.38

We expect DGKC to post profit of PKR603mn (EPS: PKR1.38) in 3QFY23 vs. PKR1,442mn (EPS: PKR3.29) in SPLY. Despite decline in offtakes, revenues are likely to increase by 17% YoY, thanks to increase in retention prices. Gross margins are expected to clock in at 14.1% vs. 18.6% in SPLY, down by 4.5ppts. However, QoQ basis, we expect margins to improved by 60bps to clocked in PKR2.6bn. Finance cost is likely to increase by 2.2x to clocked in at PKR2.02bn YoY, due to increase in debt levels and higher interest rates during the said qtr. On QoQ basis, revenues are likely to increase by 15%, mainly due to higher dispatches compared to previous qtr. We expect other income for DGKC to clock in at PKR883mn in 3QFY23 due to higher dividend income from MCB UBL and AICL.

MLCF: 3QFY23 expected to post consolidated EPS of PKR2.11

We expect MLCF to post consolidated profit of PKR2.26bn (EPS: PKR2.11) vs.

EPS	3QFY23E	3QFY22	2QFY23
Standalone			
LUCK	10.75	17.66	10.45
DGKC	1.38	3.29	1.24
MLCF	1.80	1.11	2.19
FCCL*	1.03	0.50	1.13
PIOC	3.00	2.14	5.17
ACPL	4.34	2.39	3.24
Consolidated			
MLCF	2.11	1.46	2.73

Source: Company accounts, Insight Research

*3QFY23 Askari not included

Dispatches	2QFY23	2QFY22	Change
Local	10.54	12.10	-13%
North	8.53	9.77	-13%
South	2.01	2.33	-14%
Exports	1.31	1.25	5%
North	0.20	0.14	48%
South	1.108	1.12	-1%
Grand total	11.84	13.35	-11%

Source: APCMA, Insight Research

PKR1.56bn (EPS: PKR1.46) in 3QFY22. Revenues are likely to increase by 36% YoY, thanks to increase in retention prices. Wherein gross margins are likely to increased by ~2.3ppts YoY. On QoQ basis, revenues are plunged by 6%, due to decline in dispatches, while margins are also expected to decline by ~3ppts amid increase in afghan coal prices.

FCCL: 3QFY23 EPS expected to clock in at PKR1.03

In 3QFY23, we expect FCCL to post PAT of PKR2.5bn (EPS PKR1.03). Revenue is expected to remain flat QoQ mainly due to similar dispatches witnessed during the qtr. Gross margins are also likely to remain flat to clocked in at ~26.9% QoQ. Finance cost is expected to increase by 62% QoQ mainly due to elevated interest rates and higher debt levels.

PIOC: 3QFY23 estimated to post a profit of PKR682mn

In 3QFY23, we expect PIOC to post profit of PKR682mn (EPS: PKR3.00) vs. profit of PKR485mn (EPS: PKR2.14) in SPLY. Gross margins are expected to clock-in at 24.6% vs. 21.4% in SPLY. The increase is mainly attributable to better coal mix. Revenues are likely to increase by 34% YoY, mainly due to increase in retention prices. On the flipside, QoQ basis, revenue is likely to plunged by 13% due to lower offtakes compared to previous qtr.

ACPL: 3QFY23 expected to post a profit of PKR597mn

In 3QFY23, we expect ACPL to post profit of PKR597mn (EPS: PKR4.34) vs. profit of PKR329mn (EPS: PKR2.39). Revenues are likely to increase by 18% YoY, mainly due to increase in retention prices and higher exports volume. Gross margins are expected to clock-in at ~21.9% vs. 19% in SPLY, up by 290bps. The increase in gross margins is mainly due to optimal coal mix of Mozambique/local coal and better export prices. On QoQ basis, revenues are likely to increase by 20% mainly due to better offtakes witnessed in exports dispatches compared to previous qtr.

ISL universe (PKRmn)	3QFY23E	3QFY22	2QFY23	YoY	QoQ	9MFY23E	9MFY22	YoY
Revenue	94,375	70,741	94,296	33%	0%	262,213	197,700	33%
Cost of Sales	71,840	55,027	70,679	31%	2%	179,138	152,148	18%
Gross Profit	22,535	15,715	23,617	43%	-5%	83,075	45,552	43%
Gross Margins	23.9%	22.2%	25.0%	-	-	31.7%	23.0%	-
Adm. Expense	1,618	1,136	1,635	42%	-1%	4,091	3,421	20%
Other income	2,155	5,106	1,832	-58%	18%	6,783	9,539	-29%
Finance cost	4,857	2,311	3,908	110%	24%	11,341	6,047	88%
Profit Before Tax	14,332	13,738	16,095	4%	-11%	42,698	34,926	4%
Taxation	4,302	3,151	4,962	37%	-13%	11,724	8,806	33%
Profit After Tax	10,029	10,588	11,134	-5%	-10%	29,799	26,121	-5%

Source: Company accounts, Insight Research

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- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

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