

## Pakistan Cements

### Staying afloat despite multiple headwinds

ISL cement universe topline witnessed an increase of ~26% in 3QFY23, taking 9MFY23 sales to PKR263.5bn, up by ~24%. The higher revenue during the quarter is mainly attributable to increase in retention price by 42% YoY. On volumetric front, local cement dispatches witnessed a decline of ~15.5%. While, exports plunged by ~17.6% to clocked in at ~3.03mn tons during 9MFY23. The decline in sales is attributable to burgeoning cost of construction, higher interest rates, low PSDP utilization and political uncertainty. However, despite the decline in offtakes, cement sector's revenue witnessed an increase amid higher retention prices, offsetting the impact of lower offtakes during the period.

#### Profitability plunged by ~5% during 3QFY23

ISL cement universe gross margins grew by 230bps to clocked in at 24.5% vs. 22.2% in SPLY. The increase is mainly attributable to industry's shift towards alternate fuel, renewable energy (solar power plant & WHR) coupled with substitution of imported coal with local & Afghan coal. However, QoQ basis, margins plunged by 60bps mainly due to increase in afghan and local coal prices coupled with lower volumetric sales. ISL cement universe profitability witnessed a decline of ~5% YoY during 3QFY23 to clocked in at PKR10.4bn. The decline in profitability is mainly due to slight decline in gross margins, lower other income coupled with higher finance charge during the quarter. However, in 9MFY23, ISL cement universe profitability witnessed a growth of ~10% YoY. Furthermore, EBITDA margins for ISL universe clocked in at 25.4% in 9MFY23 vs. 23.5% in SPLY, up by 190bps.

#### Gloomy Outlook Persists for the Local Cement

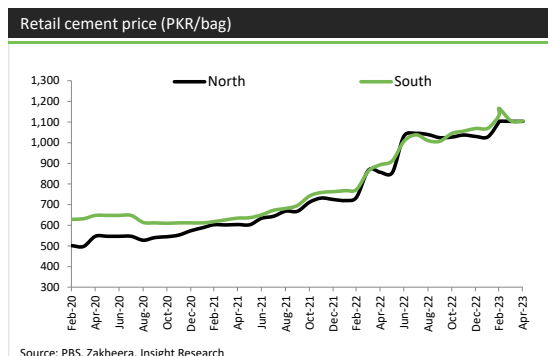
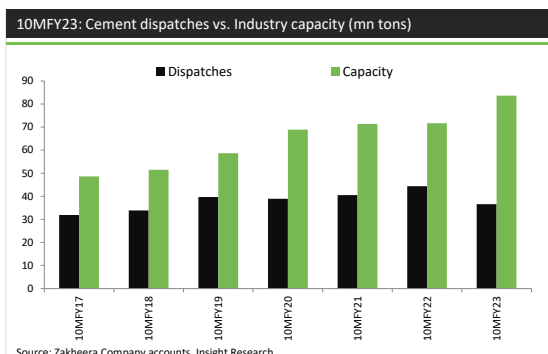
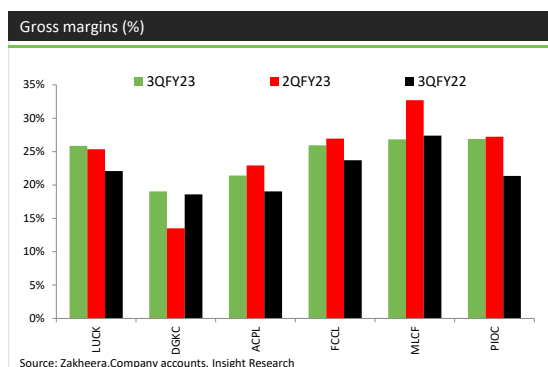
Local cement demand has been hit significantly amid economic upheaval and rising cost of construction. The situation is likely to persist in coming quarters as economic and political uncertainty has grappled the country. In addition, impediments in raw material imports due to LC restrictions will negatively impact the local construction industry, which is expected to keep cement dispatches under pressure. As per industry experts, cement demand is likely to record 16-18% decline in FY23 and is expected to remain flattish in FY24.

#### Outlook remains positive for export sales

Export sales recorded declined by ~35% to clock in at 3.03mn tons in 9MFY23 compared to SPLY. The decline in export sales is primarily attributable to global recession, which kept export markets under pressure, making it difficult to pass on cost pressures. However, as per industry experts, devaluation of PKR against greenback has made export viable, as evident from 3QFY23 exports sales which is up by 82% QoQ. Moreover, declining international coal prices coupled with some ease in import restrictions, will improve the profitability of southern players in coming quarters.

Retention price	3QFY23	3QFY22	YoY	QoQ	9MFY23	9MFY22	YoY
LUCK	668	451	48%	4%	646	417	55%
DGKC	791	581	36%	18%	724	531	36%
ACPL	615	466	32%	-3%	622	419	49%
FCCL	712	470	52%	4%	694	452	54%
MLCF	733	516	42%	3%	719	478	50%
PIOC	676	477	42%	2%	665	439	51%

Source: Company accounts, Insight Research



**Financial Result: 3QFY23**

(PKR mn)	LUCK	PIOC	MLCF	FCCL	ACPL	DGKC
Revenue	25,015	9,150	17,038	18,234	8,017	18,282
Cost of sales	18,544	6,689	12,465	13,504	6,299	14,802
<b>Gross profit</b>	<b>6,471</b>	<b>2,461</b>	<b>4,573</b>	<b>4,730</b>	<b>1,718</b>	<b>3,480</b>
<i>Gross margins</i>	<i>25.9%</i>	<i>26.9%</i>	<i>26.8%</i>	<i>25.9%</i>	<i>21.4%</i>	<i>19.0%</i>
Adm. Expense	453	39	363	383	177	219
Other income	1,558	21	32	284	3	756
Finance cost	185	867	409	1,612	93	1,673
<b>PBT</b>	<b>5,639</b>	<b>1,418</b>	<b>2,668</b>	<b>2,695</b>	<b>727</b>	<b>1,767</b>
Taxation	1,634	468	792	807	230	587
<b>PAT</b>	<b>4,005</b>	<b>950</b>	<b>1,876</b>	<b>1,888</b>	<b>497</b>	<b>1,180</b>
<b>EPS</b>	<b>12.8</b>	<b>4.2</b>	<b>1.7</b>	<b>0.8</b>	<b>3.6</b>	<b>2.7</b>

Source: Company accounts, Insight Research

Dispatches (MT)	3QFY23	3QFY22	YoY	2QFY23	QoQ	9MFY23	9MFY22
LUCK	1.87	2.36	-21%	2.0	-6%	5.44	7.07
DGKC	1.16	1.37	-15%	1.2	-5%	3.32	4.08
ACPL	0.65	0.66	-1%	0.5	38%	1.48	1.91
FCCL	1.28	1.39	-8%	1.4	-8%	3.74	4.25
MLCF	1.16	1.16	0%	1.2	-4%	3.28	3.57
PIOC	0.68	0.81	-16%	0.8	-13%	2.09	2.57
<b>Total</b>	<b>6.80</b>	<b>7.75</b>	<b>-12%</b>	<b>7.1</b>	<b>-4%</b>	<b>19.3</b>	<b>23.4</b>

Source: Company accounts, Insight Research

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### Frequently Used Acronyms

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

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