

# Pakistan Equity | Cement | Sector Research

October 03, 2023

REP-057

## Cement sector profits down 3% YoY in FY23

Pre-tax profitability up 11% YoY in FY23



Best Local Brokerage  
House 2015-16, FY2020

**ASIAMONEY**

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Brokers Poll 2011-14, 2016-22



Best Brokerage  
House 2018, 19-20, 23



Best Research  
House 2019-20



Best Brokerage  
House 2019-21

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# EBITDA up 20% YoY in FY23

## Pakistan Listed Cement Sector's Financial Highlights

Rsmn	FY23	FY22	YoY
Sales	589,635	486,213	21%
Cost of Sales	430,467	364,944	18%
<b>Gross profit</b>	<b>148,382</b>	<b>121,273</b>	<b>22%</b>
Administrative Expenses	10,088	9,531	6%
Selling & Distribution Expenses	16,369	12,927	27%
Other Operating Expenses	8,071	7,918	2%
Other Income	15,304	13,159	16%
<b>Profit from Operations</b>	<b>198,214</b>	<b>104,056</b>	<b>90%</b>
Finance Cost	28,936	16,171	79%
<b>Profit/(Loss) before Tax</b>	<b>99,958</b>	<b>90,013</b>	<b>11%</b>
Taxation	49,292	37,896	30%
<b>Profit/(Loss) after Tax</b>	<b>50,667</b>	<b>52,122</b>	<b>-3%</b>

Source: Company Accounts, Topline Research

## Listed Cement Sector Profitability Trend



Source: Companies Accounts, Topline Research



Pakistan Cement

- Pakistan's listed cement sector has reported after tax earnings (PAT) of Rs51bn down 3% YoY in FY23 vs growth of 8% in FY22. The negative earnings growth is primarily due to higher tax expense amid implementation of 10% super tax.
- However Cement sector recorded pre tax earnings (PBT) of Rs100bn up 11% despite 16% YoY fall in total cement dispatches and 78% YoY increase in finance cost.
- The improvement in PBT is primarily back of increase in sales by 21% YoY to Rs590bn in FY23 led by 37% YoY increase in cement prices.
- Listed sector reported highest ever net sales Rs590bn, up 21% in FY23 owing to higher retention prices.
- Gross margins of the sector witnessed slight improvement clocking at 25.1% in FY23 vs. 24.9% in FY22 led by lower coal prices.
- Cement sector reported highest ever EBITDA of Rs151bn, up 20% YoY. EBITDA margin of the sector remained flat at 26% in FY23.
- Other income of the sector was up by 16% YoY to Rs15.2bn in FY23 amid higher dividend income and interest income.
- Selling and distribution cost up by 6% YoY to Rs10bn in FY23 owing to increase in local fuel prices and inflationary environment.
- Finance cost of the sector clocked in at Rs28.8bn in FY23, up 78% YoY due to higher KIBOR and borrowings of the sector.
- Sector reported effective tax rate of 49% in FY23 vs 42% in FY22 and 22% in FY21.
- Our analysis is based on a sample of 13 listed companies out of 15, as the remaining two companies, i.e., Fecto and Flying Cement, have not yet announced financial results. These 13 companies make up 99% of the total sector market capitalization.

# LUCK, BWCL and FCCL major contributor in profitability

## Company wise cement sector profitability

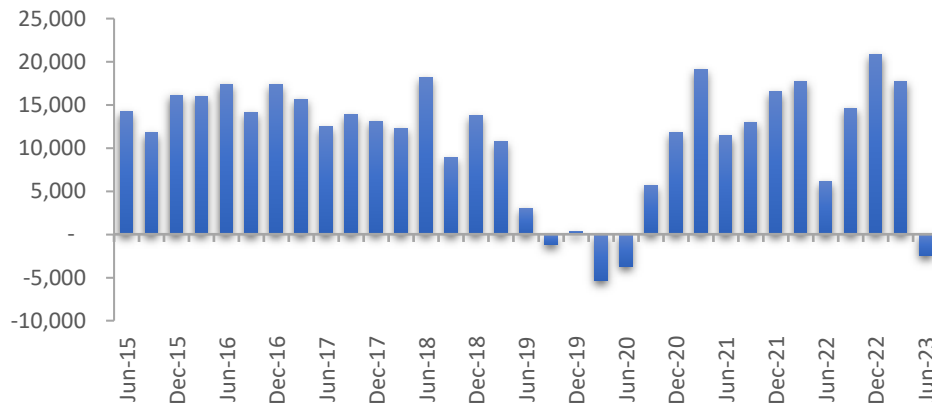
Rsmn	FY23	FY22	YoY
Lucky Cement*	13,725	15,300	-10%
Bestway Cement	11,892	10,239	16%
Fauji Cement	7,439	7,113	5%
Kohat Cement	5,821	5,024	16%
Maple Leaf Cement	5,771	4,553	27%
Cherat Cement	4,404	4,456	-1%
Pioneer Cement	2,611	1,050	149%
Attock Cement*	1,517	1,122	35%
Gharibwal Cement	1,232	1,355	-9%
Thatta Cement	309	86	258%
Power Cement	169	(444)	NM
Dewan Cement	(587)	(703)	NM
DG Khan Cement*	(3,636)	2,972	NM
<b>Total</b>	<b>50,667</b>	<b>52,123</b>	<b>-3%</b>

Source: Company Accounts, Topline Research \*Unconsolidated

- Major contributors to the profitability of the cement sector in FY23 were Lucky Cement (LUCK), followed by Bestway Cement (BWCL) and Fauji Cement (FCCL).
- LUCK contributes 27% to the total cement sector profitability. However profits down was 10% YoY to Rs13.7bn due to 18% YoY decline in other income in FY23. Moreover, LUCK reported gross margin of 27.2% better than sector average of 25.1%.
- BWCL profitability surged by 16% YoY in FY23 due to 21% YoY increase in sales and higher other income of Rs1.3bn. Company reported gross margins of 31.1% in FY23 as compared to 31.8% in previous year. BWCL contributes 23% to the total cement sector profitability in FY23.
- FCCL earnings in FY23 clocked in at Rs7.1bn, up 5% YoY due to 25% YoY increase in sales. Company reported gross margins of 30% in FY23 as compared to 26.5% in FY22 mainly due to better coal mix. FCCL contributes 15% to the total cement sector profitability in FY23.
- All companies in sector reported profitability except for D.G. Khan Cement (DGKC) and Dewan Cement (DCL) where both companies reported loss in FY23.
- DGKC had the worst performance in the sector, reporting a loss of Rs3.6bn, primarily attributed to a lower gross margin of 14.7% in FY23 vs 17.9% in FY22 and a higher tax charge.
- Similarly DCL reported loss of Rs587mn in FY23, despite 22% jump in sales amid decline in gross margin to just 2.2% in FY23 as compared to 7.4% in previous year.
- We expect local cement dispatches to grow by 5% in FY24 due to improved farmer's income and economic stability. Moreover, margins to remain stable amid stable cement prices.
- Pakistan's cement Sector is trading at an average EV/ton of US\$23.5 which is significantly lower than replacement of US\$70-80/ton.
- We maintain our over-weight stance on cement sector where LUCK and MLCF are our top picks.

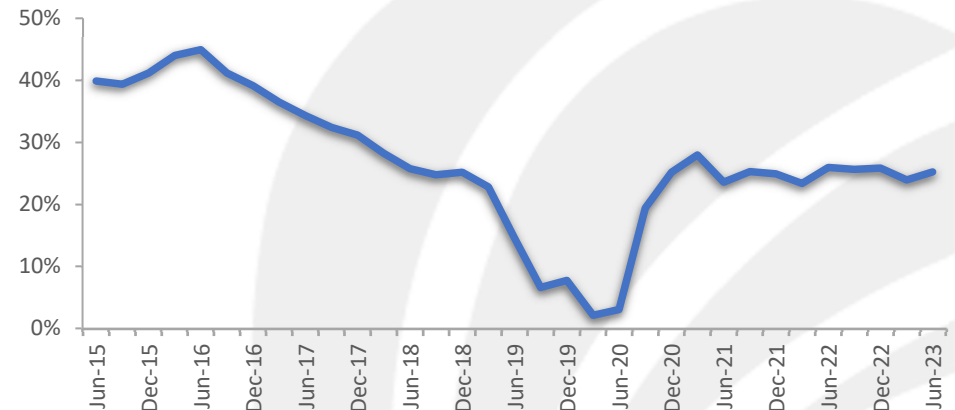
# Quarterly analysis at a glance

Sample companies: Profit/(Loss) after tax (Rsmn)



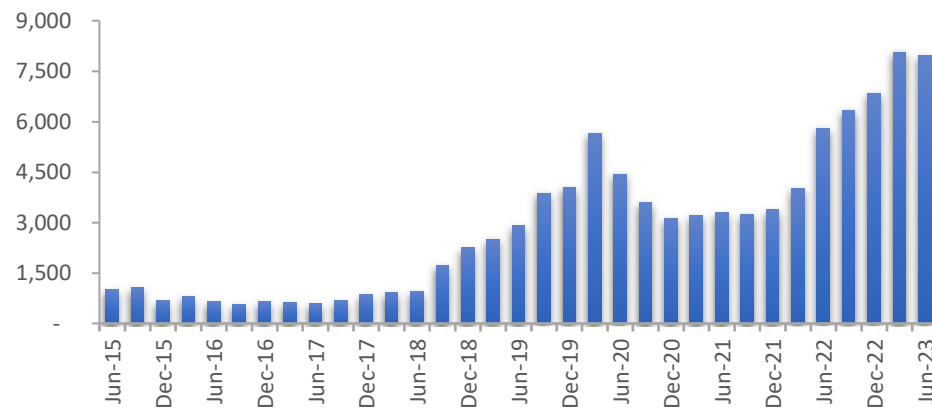
Source: Company Accounts, Topline Research

Sample companies: Gross margin



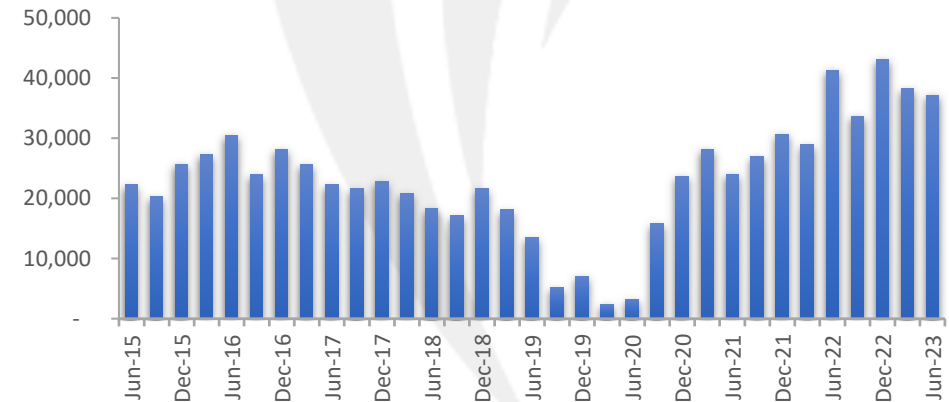
Source: Company Accounts, Topline Research

Sample companies: Finance cost (Rsmn)



Source: Company Accounts, Topline Research

Sample companies: EBITDA (Rsmn)



Source: Company Accounts, Topline Research

# Pakistan Listed Cement Comp Sheet

## Listed Cement Comp Sheet

Companies	Price (Rs/share) (Oct 2, 2023)	Market Cap (US\$mn)	Sales CAGR		Profit CAGR		P/E (x)		P/S(x)		P/B(x)		EV/Ton (US\$) (Inv Adjusted)	EV/EBITDA (x) (Inv. Adjusted)		Cement Sales Market Share	
			5-Year (FY18-23)	10-Year (FY13-23)	5-Year (FY18-23)	10-Year (FY13-23)	FY22A	FY23A	FY22A	FY23A	FY22A	FY23A		FY22A	FY23A	FY22A	FY23A
Lucky Cement Limited (LUCK)*	564.41	616	15%	10%	2%	3%	4.9	3.0	0.5	0.5	0.9	0.7	21.4	4.5	3.9	17.2%	16.5%
Bestway Cement Limited (BWCL)	167.98	349	11%	14%	-2%	7%	9.8	8.4	1.4	1.1	1.6	1.6	37.1	6.5	5.3	14.7%	14.6%
Maple Leaf Cement Factory Limited (MLCF)	29.70	111	19%	14%	5%	6%	7.0	5.5	0.7	0.5	0.8	0.7	20.3	3.2	2.5	8.6%	9.2%
Kohat Cement Company Limited (KOHK)	171.47	117	24%	13%	14%	8%	6.7	5.8	1.0	0.9	1.2	1.0	12.7	1.9	1.8	6.7%	6.7%
DG Khan Cement Company Limited (DGKC) *	45.45	69	16%	10%	NM	NM	5.9	NM	0.3	0.3	0.3	0.3	18.1	3.1	3.4	12.3%	11.3%
Cherat Cement Company Limited (CHCC)	129.07	87	21%	20%	16%	14%	5.6	5.7	0.8	0.7	1.4	1.2	26.9	3.6	3.3	6.7%	6.4%
Fauji Cement Company Limited (FCCL)	11.26	96	26%	16%	17%	14%	3.9	3.7	0.5	0.4	0.5	0.4	24.6	3.7	2.9	6.2%	5.7%
Attock Cement Pakistan Limited (ACPL)*	85.25	41	9%	8%	-19%	-3%	8.6	5.6	0.6	0.5	0.7	0.6	20.0	6.5	4.0	4.3%	4.6%
Pioneer Cement Limited (PIOC)	84.62	67	29%	17%	10%	5%	18.3	7.4	0.6	0.5	0.6	0.6	25.3	4.7	3.2	6.4%	6.1%
Gharibwal Cement Limited (GWLC)	15.88	22	9%	11%	-4%	2%	4.7	5.2	0.4	0.3	0.4	0.4	11.5	1.6	1.7	3.2%	3.0%
Power Cement Limited (POWER)	4.00	15	46%	23%	-12%	-8%	NM	25.2	0.2	0.1	0.2	0.2	29.7	14.0	5.2	3.8%	5.1%
Flying Cement Company Limited (FLYNG)	5.81	14	13%	20%	11%	39%	4.4	13.4	0.8	0.8	0.3	0.3	27.1	10.0	12.3	0.0%	0.0%
Thatta Cement Company Limited (THCCL)	13.95	5	8%	7%	-16%	-1%	16.2	4.5	0.3	0.3	0.3	0.3	4.1	1.5	1.2	1.0%	1.0%
Fecto Cement Limited (FECTC)	19.50	3	12%	7%	NM	NM	3.4	NM	0.1	0.1	0.3	0.3	10.8	3.5	8.0	1.3%	1.2%
Dewan Cement Limited (DCL)	4.03	7	9%	9%	NM	NM	NM	NM	0.1	0.1	0.1	0.1	8.4	5.8	12.7	3.3%	3.4%
<b>Listing Sector Total</b>		<b>1,620</b>	<b>17%</b>	<b>13%</b>	<b>-2%</b>	<b>3%</b>	<b>6.2</b>	<b>4.8</b>	<b>0.6</b>	<b>0.5</b>	<b>0.8</b>	<b>0.7</b>	<b>23.5</b>	<b>4.4</b>	<b>3.6</b>	<b>95.5%</b>	<b>94.7%</b>

Source: Company Accounts, Topline Research, \*Unconsolidated, \*\*For P/E, P/S, and P/B we have taken consolidated numbers for all companies, \*\*\*FECTC and FLYNG is extrapolated.



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