

Pakistan Cement Sector

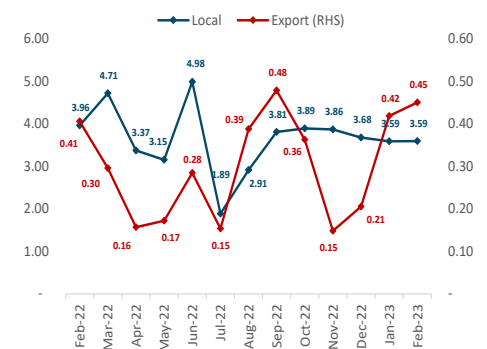
Cement dispatches remain unappealing; decline by 7% YoY in Feb'23

Monday, March 6, 2023

All Pakistan Cement Manufacturers Association (APCMA) released monthly cement numbers where the total cement dispatches for Feb'23 were reported at 4.04Mn tons as against 4.35Mn tons last year, registering a decline of 7% YoY. Moreover, in 8MFY23, total dispatches reached 29.81Mn tons as compared to 35.76Mn tons in the SPly, depicting a drop of 17% YoY.

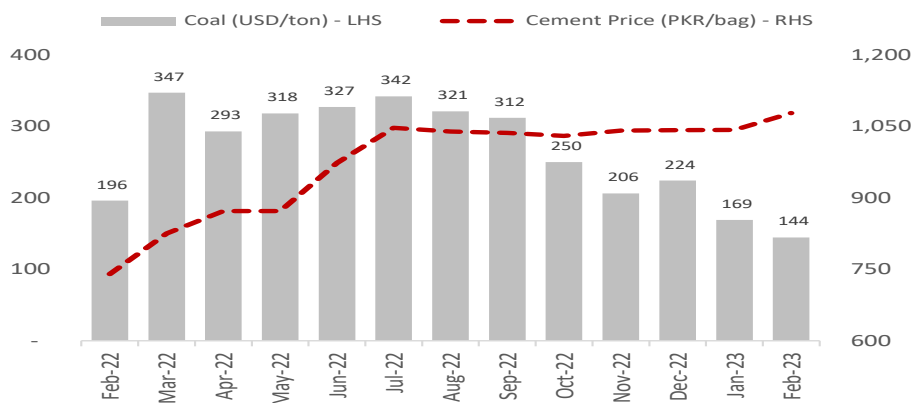
- Local dispatches plunged by 9% YoY in Feb'23 to clock-in at 3.59Mn tons and we expect the trend to continue in the remaining months of the ongoing fiscal year on the back of reduced govt. spending and limited purchasing power of the general public. However, recovery in local cement demand from FY24 can be expected as the work on damaged infrastructure and rehabilitation of masses picks up momentum which will also be aided by the successful resumption of the IMF program and resultantly multilateral flows. On the flip side, retail cement prices are assumed to hold ground on the back of inflationary pressures with the cement manufacturers not ready to compromise on gross margins.
- Talking about segments, North based cement mills sold 2.95Mn tons in the domestic markets, down by 8% YoY while South based mills sold 0.64Mn tons that were 12% lower YoY. Exports in Feb'23 increased by 11% YoY to 0.45Mn tons from 0.41Mn tons in Feb'22.
- Given the weak sales trend amid a high inflation environment, we advise positions in low leverage, relatively insulated to energy tariff hikes and less reactive companies. Our top picks are LUCK, FCCL & KOHC.

Monthly Cement dispatches (Mn tons)



Source: APCMA, BMA Research

Cement prices trending up



Source: Bloomberg, PBS, BMA Research

Cement Dispatches

Mn tons	Feb-23	Feb-22	YoY	Jan-23	MoM	8MFY23	8MFY22	YoY
North	3.01	3.26	-7%	2.89	4%	23.01	26.69	-14%
Local	2.95	3.22	-8%	2.86	3%	22.33	26.09	-14%
Export	0.06	0.04	58%	0.04	84%	0.68	0.60	13%
South	1.03	1.09	-6%	1.11	-8%	6.80	9.08	-25%
Local	0.64	0.73	-12%	0.73	-12%	4.88	5.33	-8%
Export	0.39	0.36	6%	0.38	1%	1.92	3.75	-49%
Total Local	3.59	3.94	-9%	3.59	0%	27.21	31.42	-13%
Total Export	0.45	0.41	11%	0.42	8%	2.60	4.35	-40%
Total	4.04	4.35	-7%	4.01	1%	29.81	35.76	-17%

Source: APCMA, BMA Research

Fahad Hussain Khan

Senior Research Analyst

Tel: 111-262-111 Ext. 2062

E-mail: fahad.hussain@bmacapital.com

BMA Capital Management Ltd.

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

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