Pakistan Cement Sector: Result Preview 2QFY25

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Monday, January 20, 2025

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Profitability is expected to rise due to DGKC and THCCL's stronger earnings

Cement sector to report core earnings of PkR 21.3bn: BMA Cement universe is anticipated to report core earnings of PkR 21.3bn in 2QFY25, reflecting an 18% YoY increase compared to PkR 18.1bn in 2QFY24 and an 8% QoQ growth. The YoY growth is primarily driven by higher earnings from DGKC and THCCL, while the QoQ growth is attributed to increased cement dispatches and reduced finance costs.

YoY growth in net sales led by higher retention prices and exports: Net sales are expected to grow by 8% YoY, reaching PkR 130.9bn in 2QFY25. This increase is attributed to a 19% YoY surge in average cement prices and a 13% YoY rise in exports, despite a 1% YoY decline in local sales.

YoY decline in cement dispatches in 2QFY25 is due to (1) high cost of construction and (2) lower govt. infrastructure spending amid fiscal constraints. Capacity utilization of the cement sector clocked in at 59.1% in 2QFY25, compared to 58.8% in 2QFY24 and 49.9% in 1QFY25.

Gross margin to settle at 33.4%: The sector's gross margin is expected to improve by 2.8 ppts YoY to 33.4% in 2QFY25, compared to 30.6% in 2QFY24 and 33.3% in 1QFY25, driven by higher cement prices and lower coal prices. The QoQ stability in gross margin, despite a decline in cement prices, is attributed to increased dispatches. Cement prices for 2QFY25 are estimated at PkR 1,460 per bag in the North (up 19% YoY, down 3% QoQ) and PkR 1,426 per bag in the South (up 20% YoY, 3% QoQ).

YoY decline in coal prices: During 2QFY25, cement producers in the South region primarily relied on Richards Bay coal, while those in the North region utilized a mix of Afghan and local coal. Richards Bay coal prices averaged USD 110.37 per ton in 2QFY25, reflecting a 5% YoY decline from USD 115.91 per ton in 2QFY24.

Moreover, price of RB in PkR terms along with local coal have declined. To highlight, RB, Afghan and Darra coal declined by 7% YoY, 17% YoY and 6% YoY respectively.

Cement Price

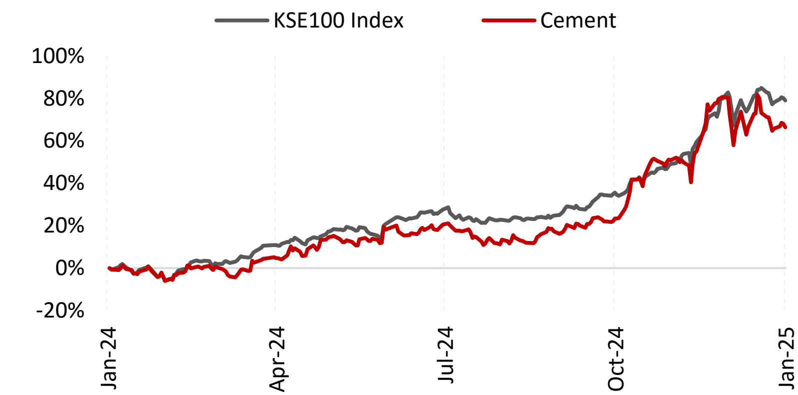
PkR/Bag	2QFY25A	2QFY24A	YoY	1QFY25A	QoQ
North	1,460	1,229	19%	1,501	-3%
South	1,426	1,187	20%	1,383	3%

Source: PBS, BMA Research

Other income to drop to PkR 5.7bn: Other income of the sector is estimated to clock in at PkR 5.7bn in 2QFY25, down by 9% YoY and 19% QoQ. LUCK is expected to contribute 44% in sector's other income.

We have an **Overweight stance** on Pakistan Cement sector with **Thatta Cement (THCCL), Fauji Cement (FCCL), Lucky Cement (LUCK) and Maple Leaf Cement (MLCF)** as our top picks.

KSE`-100 Index and Cement Sector Performance



Source: PSX, BMA Research

Pakistan Cement Dispatches

Mn Tons	2QFY25A	2QFY24A	YoY	1QFY25A	QoQ
Local	**10.0**	**10.1**	**-1%**	**8.1**	**23%**
North	8.3	8.4	-19%	6.9	21%
South	1.7	1.7	-23%	1.3	31%
Exports	**2.2**	**1.9**	**13%**	**2.1**	**2%**
Total	**12.2**	**12.0**	**1%**	**10.3**	**18%**

Source: APCMA, BMA Research

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Company wise earnings estimates

Lucky Cement (LUCK): We expect LUCK's consolidated earnings to rise by 14% YoY and 12% QoQ to PkR 68.67 per share in 2QFY25. The YoY growth is mainly driven by increased profits from portfolio companies, particularly Lucky Motor and foreign cement businesses. Meanwhile, the QoQ improvement is attributed to higher profitability from portfolio companies and improved earnings from local cement operations.

On an unconsolidated basis, LUCK is expected to report an EPS of PkR 24.67, reflecting a 7% YoY increase and a 12% QoQ rise. The YoY growth in earnings is driven by a higher retention price, increased dispatches, lower coal prices, and reduced finance costs. Meanwhile, the QoQ increase is attributed to higher cement dispatches. The gross margin is projected to reach 35% in 2QFY25, compared to 36% in 2QFY24 and 35% in 1QFY25.

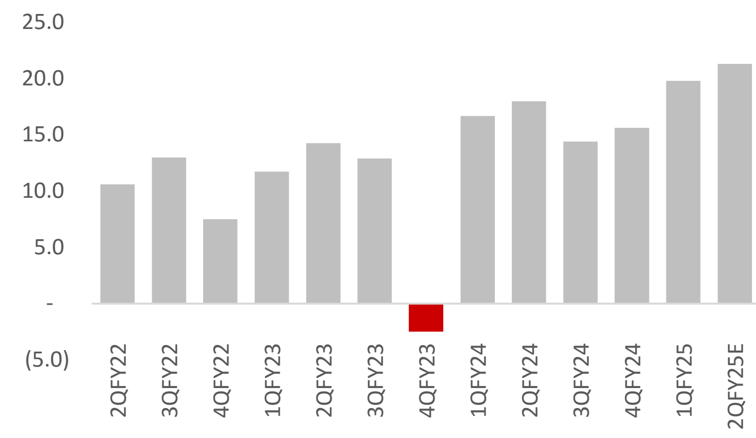
Maple Leaf Cement (MLCF): MLCF is expected to report a consolidated EPS of PkR 1.42 in 2QFY25, reflecting a 33% YoY decline but an 11% QoQ increase. The YoY decline is primarily due to lower cement dispatches and a significant rise in raw material costs. In contrast, the QoQ increase is driven by higher cement dispatches. Gross margins are projected at 33% for 2QFY25, compared to 35% in 2QFY24 and 32% in 1QFY25.

Fauji Cement (FCCL): We expect FCCL's earnings to reach PkR 1.55 per share, reflecting a 43% YoY increase. This growth is driven by a 12% YoY rise in retention prices and a 19% YoY growth in total cement dispatches. On a QoQ basis, FCCL's earnings are also projected to rise by 17%, supported by a 12% increase in total dispatches and lower finance costs. The gross margin is expected to reach 35% in 2QFY25, compared to 33% in 2QFY24 and 34% in 1QFY25.

DG Khan Cement (DGKC): We expect DGKC to report unconsolidated EPS of PkR 4.71, up from PkR 0.90 in the same period last year. The YoY increase in earnings is driven by a 7% growth in local dispatches, higher retention prices, and lower finance costs. On a QoQ basis, DGKC's earnings are expected to rise, supported by a 30% increase in total dispatches and reduced finance costs. Gross margins are projected to reach 22% in 2QFY25, compared to 13% in 2QFY24 and 20% in 1QFY25.

Kohat Cement (KOHC): KOHC is expected to report EPS of PkR 14.65 in 2QFY25, reflecting a 29% YoY increase, primarily due to higher retention prices and lower royalty charges compared to Punjab-based players. However, on a QoQ basis, earnings are projected to decline by 17% due to lower retention prices. Gross margins are expected to reach 38% in 2QFY25, compared to 26% in 2QFY24 and 43% in 1QFY25.

Cement Sector Quarterly Profitability Trend (PkR Bn)



Source: Company Accounts, BMA Research

Pakistan Cement EPS estimates

PkR	2QFY25E	2QFY24A	YoY	1QFY25A	QoQ	1HFY25E	1HFY24A	YoY
LUCK*	68.67	60.18	14%	61.18	12%	129.9	120.6	8%
MLCF*	1.42	2.14	-33%	1.28	11%	2.7	3.7	-27%
FCCL	1.55	1.08	43%	1.32	17%	2.9	2.2	34%
DGKC	4.71	0.90	424%	1.84	156%	6.5	2.4	172%
KOHC	14.65	11.35	29%	17.56	-17%	32.2	22.7	42%
CHCC	10.30	9.62	7%	14.81	-30%	25.1	17.5	43%
PIOC	5.38	7.45	-28%	4.50	20%	9.9	11.6	-14%
THCCL	7.55	2.79	170%	7.05	7%	14.6	4.2	245%

Source: Company Accounts, BMA Research, * Consolidated

Company wise earnings estimates

Cherat Cement (CHCC): CHCC is expected to report EPS of PkR 10.30, compared to PkR 9.62 in the same period last year. The YoY increase in earnings is primarily driven by an 11% rise in retention prices and lower finance costs. However, on a QoQ basis, earnings are expected to decline by 30% due to lower retention prices and higher tax expenses. Gross margins are projected to reach 38% in 2QFY25, compared to 35% in 2QFY24 and 40% in 1QFY25.

Pioneer Cement (PIOC): We expect PIOC to report EPS of PkR 5.38 in 2QFY25, compared to PkR 7.45 in 2QFY24, reflecting a 28% YoY decline due to higher royalty charges and lower cement dispatches. However, on a QoQ basis, earnings are projected to increase by 20%, driven by a 20% growth in cement dispatches. Gross margins are expected to settle at 29% in 2QFY25, compared to 35% in 2QFY24 and 30% in 1QFY25.

Thatta Cement (THCCL): THCCL is expected to report EPS of PkR 7.55 in 2QFY25, compared to PkR 2.79 in the same period last year. The YoY improvement in earnings is primarily driven by a 5% increase in cement dispatches, higher gross margins, and increased other income. On a QoQ basis, earnings are projected to grow by 7%, supported by an 8% growth in total dispatches. Gross margins are anticipated to reach 43% in 2QFY25, compared to 27% in 2QFY24 and 43% in 1QFY25.

Company wise cement dispatches

Mn Tons	2QFY25	2QFY24	YoY	1QFY25	QoQ
LUCK	**2.63**	**2.12**	**24%**	**2.18**	**20%**
Local	1.60	1.56	2%	1.37	17%
Exports	1.03	0.55	86%	0.81	26%
DGKC	**1.54**	**1.34**	**15%**	**1.18**	**30%**
Local	1.03	0.96	7%	0.75	38%
Exports	0.51	0.39	33%	0.44	17%
MLCF	**1.03**	**1.06**	**-3%**	**0.85**	**21%**
Local	0.96	1.02	-6%	0.78	24%
Exports	0.07	0.04	65%	0.07	-3%
FCCL	**1.49**	**1.25**	**19%**	**1.33**	**12%**
Local	1.33	1.14	17%	1.16	14%
Exports	0.16	0.11	42%	0.16	-2%
PIOC	**0.56**	**0.67**	**-17%**	**0.46**	**20%**
Local	0.56	0.67	-17%	0.46	20%
Exports	-	-		-	
CHCC	**0.65**	**0.69**	**-5%**	**0.59**	**11%**
Local	0.55	0.61	-10%	0.44	24%
Exports	0.11	0.08	37%	0.15	-28%
KOHC	**0.63**	**0.68**	**-7%**	**0.59**	**6%**
Local	0.63	0.67	-6%	0.58	7%
Exports	0.00	0.01	-60%	0.01	-59%
THCCL	**0.12**	**0.12**	**5%**	**0.11**	**8%**
Local	0.12	0.12	5%	0.11	8%
Exports	-	-		-	

Source: APCMA, BMA Research

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Old rating system

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.)

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