Pakistan Cement Sector: Result Preview 3QFY25

BMA CAPITAL

Friday, April 18, 2025

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Profitability is expected to rise due to FCCL and MLCF stronger earnings

Cement sector to report core earnings of PkR 19.4bn: BMA Cement universe is anticipated to report core earnings of PkR 19.4bn in 3QFY25, reflecting an 35% YoY increase compared to PkR 14.4bn in 3QFY24 and down 25% QoQ. The YoY growth is primarily driven by higher earnings from FCCL and MLCF, while the QoQ decline is attributed to decline in cement dispatches and reduced cement prices.

Net sales are expected to grow by 3% YoY: Net sales are expected to grow by 3% YoY, reaching PkR 107.9bn in 3QFY25. This increase is attributed to a 13% YoY surge in average cement prices and a 19% YoY rise in exports and a 2% YoY growth in local sales.

YoY increase in cement dispatches in 3QFY25 is due to (1) improved purchasing power owing to reduced inflationary pressures and (2) lower interest rate. Capacity utilization of the cement sector clocked in at 53.7% in 3QFY25, compared to 52.1% in 3QFY24 and 61.4% in 2QFY25.

Gross margin to settle at 33.7%: The sector's gross margin is expected to improve by 4.7 ppts YoY to 33.7% in 3QFY25, compared to 29.0% in 3QFY24 and 35.2% in 2QFY25, driven by higher cement prices and lower coal prices. The QoQ decline in gross margin, despite a decline in coal prices, is attributed to reduced dispatches and lower cement prices. Cement prices for 3QFY25 are estimated at PkR 1,367per bag in the North (up 10% YoY, down 6% QoQ) and PkR 1,375 per bag in the South (up 15% YoY, down 4% QoQ).

YoY decline in coal prices: During 3QFY25, 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 95.7 per ton in 3QFY25, reflecting a 1% YoY and 13% QoQ decline from USD 97.0 per ton and 110.4 per ton in 3QFY24 and 2QFY25 respectively.

Lower financial charges: The sector's financial charges are expected to decline by 24% YoY and 8% QoQ to PR 4.5bn. This decline is attributed lower debt on the balance sheet along with the reduced KIBOR.

Cement Price

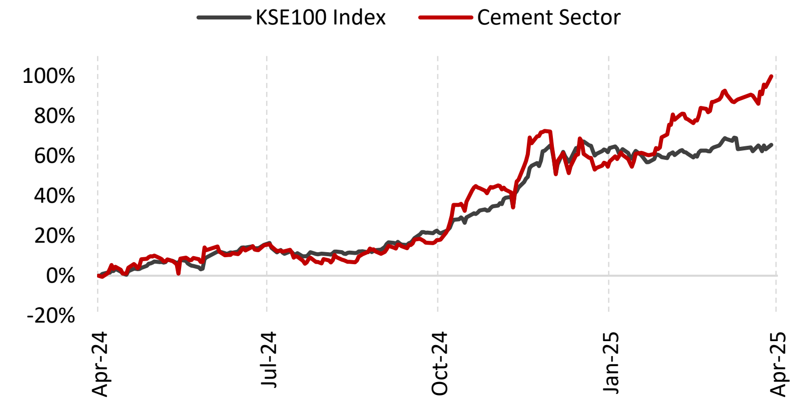
PkR/Bag	3QFY25A	3QFY24A	YoY	2QFY25A	QoQ
North	1,367	1,240	10%	1,460	-6%
South	1,375	1,197	15%	1,426	-4%

Source: PBS, BMA Research

Other income to drop to PkR 7.6bn: Other income of the sector is estimated to clock in at PkR 7.6bn in 3QFY25, up 35% YoY and down 13% 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	3QFY25A	3QFY24A	YoY	2QFY25A	QoQ
Local	**9.3**	**9.2**	**2%**	**10.0**	**-7%**
North	7.6	7.5	2%	8.3	-9%
South	1.7	1.7	1%	1.7	4%
Exports	**1.7**	**1.4**	**19%**	**2.7**	**-35%**
Total	**11.1**	**10.6**	**4%**	**12.7**	**-13%**

Source: APCMA, BMA Research

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Company wise earnings estimates

Lucky Cement (LUCK): We expect LUCK's consolidated earnings to rise by 32% YoY and down 4% QoQ to PkR 70.28 per share in 3QFY25. The YoY growth is mainly driven by increased profits from cement operations along with the portfolio companies. Meanwhile, the QoQ decline is attributed to lower profitability from local cement operations.

On an unconsolidated basis, LUCK is expected to report an EPS of PkR 22.28, reflecting a 32% YoY increase and a 10% QoQ decline. The YoY growth in earnings is driven by a higher retention price, increased dispatches, lower coal prices, and reduced finance costs. Meanwhile, the QoQ decrease is attributed to lower cement dispatches and reduced cement prices. The gross margin is projected to reach 36% in 3QFY25, compared to 29% in 3QFY24 and 35% in 2QFY25.

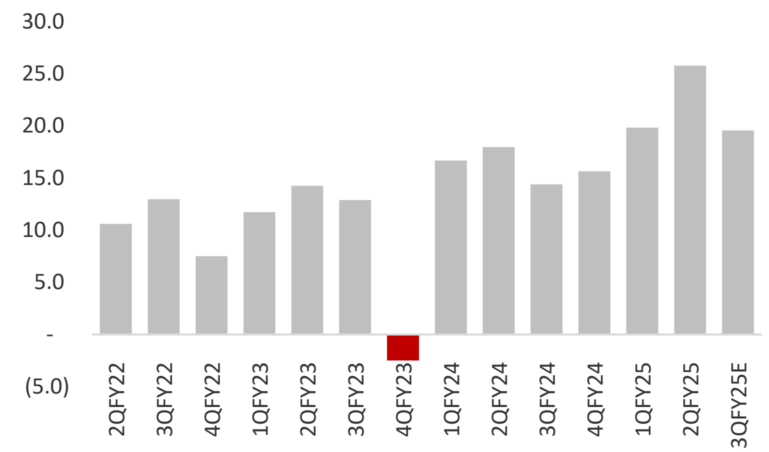
Maple Leaf Cement (MLCF): MLCF is expected to report a consolidated EPS of PkR 2.12 in 3QFY25, reflecting a 48% YoY surge but an 41% QoQ decrease. The YoY growth is primarily due to higher cement dispatches and higher cement prices. In contrast, the QoQ decrease is driven by lower cement dispatches and lower other income. Gross margins are projected at 34% for 3QFY25, compared to 30% in 3QFY24 and 40% in 2QFY25.

Fauji Cement (FCCL): We expect FCCL’s earnings to reach PkR 1.13 per share, reflecting a 57% YoY increase. This growth is driven by higher gross margin, lower finance cost and higher local cement dispatches. On a QoQ basis, FCCL's earnings are also projected to decline by 31%, owing to 20% decrease in total dispatches and lower cement prices. The gross margin is expected to reach 35% in 3QFY25, compared to 28% in 3QFY24 and 36% in 2QFY25.

DG Khan Cement (DGKC): We expect DGKC to report unconsolidated EPS of PkR 3.76, up from PkR 2.69 in the same period last year. The YoY increase in earnings is driven by a 30% growth in total dispatches and lower finance costs. On a QoQ basis, DGKC's earnings are expected to decline, due to 13% decline in total dispatches and higher effective tax rate. Gross margins are projected to reach 23% in 3QFY25, compared to 26% in 3QFY24 and 25% in 2QFY25.

Kohat Cement (KOHC): KOHC is expected to report EPS of PkR 13.35 in 3QFY25, reflecting a 27% YoY increase, primarily due to higher gross margin and higher other income. However, on a QoQ basis, earnings are projected to decline by 24% due to lower cement prices and 14% decline in total cement dispatches. Gross margins are expected to reach 36% in 3QFY25, compared to 30% in 3QFY24 and 42% in 2QFY25.

Cement Sector Quarterly Profitability Trend (PkR Bn)



Source: Company Accounts, BMA Research

Pakistan Cement EPS estimates

PkR	3QFY25E	3QFY24A	YoY	2QFY25A	QoQ	9MFY25E	9MFY24A	YoY
LUCK*	70.28	53.20	32%	73.17	-4%	204.6	173.8	18%
MLCF*	2.12	1.44	48%	3.57	-41%	7.0	5.1	36%
FCCL	1.13	0.72	57%	1.64	-31%	4.1	2.9	43%
DGKC	3.76	2.69	40%	6.21	-39%	11.8	5.1	131%
KOHC	13.35	10.51	27%	17.59	-24%	48.5	33.2	46%
CHCC	8.71	6.40	36%	11.69	-25%	35.2	23.9	47%
PIOC	5.98	5.29	13%	7.70	-23%	18.2	16.9	8%
THCCL	6.74	6.26	8%	6.27	8%	20.1	10.5	91%

Source: Company Accounts, BMA Research, * Consolidated

Company wise earnings estimates

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Cherat Cement (CHCC): CHCC is expected to report EPS of PkR 8.71, compared to PkR 6.40 in the same period last year. The YoY increase in earnings is primarily driven by higher gross margin. However, on a QoQ basis, earnings are expected to decline by 25% due to lower cement prices and lower cement dispatches. Gross margins are projected to reach 34% in 3QFY25, compared to 30% in 3QFY24 and 36% in 2QFY25.

Pioneer Cement (PIOC): We expect PIOC to report EPS of PkR 5.96 in 3QFY25, compared to PkR 5.29 in 3QFY24, reflecting a 13% YoY increase due higher gross margin and lower finance cost. However, on a QoQ basis, earnings are projected to decrease by 23%, owing to 6% decline in cement dispatches and lower gross margin. Gross margins are expected to settle at 39% in 3QFY25, compared to 32% in 3QFY24 and 42% in 2QFY25.

Thatta Cement (THCCL): THCCL is expected to report EPS of PkR 6.74 in 3QFY25, compared to PkR 6.26 in the same period last year. The YoY improvement in earnings is primarily driven by a 2% increase in cement dispatches, higher gross margins, and increased other income. On a QoQ basis, earnings are projected to improve by 8%, supported by an 19% growth in total dispatches and higher gross margin. Gross margins are anticipated to reach 31% in 3QFY25, compared to 37% in 3QFY24 and 22% in 2QFY25.

Company wise cement dispatches

Mn Tons	3QFY25	3QFY24	YoY	2QFY25	QoQ
LUCK	**2.25**	**2.03**	**11%**	**2.63**	**-14%**
Local	1.53	1.51	2%	1.60	-4%
Exports	0.72	0.52	37%	1.03	-30%
DGKC	**1.35**	**1.04**	**30%**	**1.54**	**-13%**
Local	0.90	0.86	4%	1.03	-13%
Exports	0.45	0.17	161%	0.51	-13%
MLCF	**0.97**	**0.92**	**5%**	**1.03**	**-6%**
Local	0.94	0.90	5%	0.96	-2%
Exports	0.03	0.02	8%	0.07	-61%
FCCL	**1.19**	**1.19**	**0%**	**1.49**	**-20%**
Local	1.15	1.11	4%	1.33	-13%
Exports	0.04	0.08	-53%	0.16	-76%
PIOC	**0.52**	**0.56**	**-6%**	**0.56**	**-6%**
Local	0.52	0.56	-6%	0.56	-6%
Exports	-	-		-	
CHCC	**0.51**	**0.59**	**-14%**	**0.65**	**-22%**
Local	0.49	0.52	-6%	0.55	-11%
Exports	0.02	0.07	-74%	0.11	-83%
KOHC	**0.54**	**0.57**	**-5%**	**0.63**	**-14%**
Local	0.54	0.56	-4%	0.63	-14%
Exports	0.00	0.01	-85%	0.00	-80%
THCCL	**0.17**	**0.16**	**2%**	**0.14**	**19%**
Local	0.17	0.16	2%	0.14	19%
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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