



Cement Sector Profits down 24% YoY in 3QFY18

Near 6-Year low margins on quarterly basis

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While local dispatches increase, margins continue to fall

Cement Sector: Financial Highlights

Rsmn	3QFY18	3QFY17	YoY	QoQ	9MFY18	9MFY17	YoY
Sales	71,785	68,724	4%	3%	205,834	197,984	4%
Cost of Sales	51,976	43,758	19%	10%	143,015	120,621	19%
Gross profit	19,810	24,965	-21%	-10%	62,819	77,364	-19%
Administrative Expenses	1,911	1,681	14%	-3%	5,671	5,240	8%
Selling & Distribution Expenses	2,175	1,743	25%	7%	5,999	5,958	1%
Other Operating Expenses	1,171	1,529	-23%	-22%	3,929	5,123	-23%
Other Income	1,753	1,883	-7%	-27%	5,720	5,983	-4%
Profit from Operations	16,306	21,895	-26%	-14%	52,941	67,026	-21%
Finance Cost	890	630	41%	6%	2,440	1,962	24%
Profit/(Loss) before Tax	15,416	21,266	-28%	-15%	50,501	65,064	-22%
Taxation	3,501	5,661	-38%	-34%	12,009	18,011	-33%
Profit/(Loss) after Tax	11,916	15,604	-24%	-7%	38,491	47,052	-18%

Source: Company Accounts, Topline Research

- Pakistan cement producers announced their Mar 2018 quarter results where profitability declined by 24% YoY vs. marginal decline of 1% YoY in Mar 2017 quarter. Decline in profits was mainly on the back of lower margins which fell to nearly 6-Year low of 28%.
- To note, margins have been on a declining trajectory since 3QFY17 (a period when CHCC's new capacity of 1.3mn tons per annum came online and prices weakened in the North region thereafter).
- Our analysis is based on a sample of 15 listed cement manufacturers (out of a total of 17) which represents 99.7% of total cement companies' market capitalization.

While local dispatches increase, margins continue to fall

- Volumetric growth remained robust during the outgoing quarter, up 19% YoY thanks to higher local dispatches, fueled by private sector construction activities and demand from CPEC related projects.
- Despite robust dispatches, sector revenues grew by mere 4% YoY in 3QFY18, primarily owing to decline in high margin local net retention prices. We estimate that the industry's average net retention prices declined by around 12% YoY to Rs323/bag in 3QFY18. While on sequential basis, average net retention prices were down by Rs12/bag (4%).
- Sector's gross margins fell to near 6-year low of 28% in 3QFY18, down 8.7ppts YoY. We attribute this to 1) higher Federal Excise Duty (FED); the Govt. in last Budget increased FED by 25% to Rs1.25/kg which North producers were unable to pass on due to weak pricing power, 2) lower local net retention prices and 3) higher input costs. To note, FOB coal prices have increased to US\$93.3/ton, up 13% YoY in 3QFY18. Combining the devaluation effect, coal prices in rupee terms actually increased by 19%. On sequential basis, gross margins were down 4.2ppts.
- Sector's financial charges grew by 41% YoY during the outgoing quarter on the back of increase in producers' debt level to fund upcoming expansions.
- While pretax profits were down 28% YoY in 3QFY18, lower effective tax rate restricted profitability decline to 24%. Effective tax rate was lower as some players like LUCK and CHCC availed tax benefit for setting up a manufacturing unit while Shariah compliance also provided tax relief to LUCK.
- During 9MFY18, revenues grew by 4% while profits were down 18% as margins contracted by 8.6ppts to 31%.

Company wise profit analysis

Pakistan Cement Sector: Profits

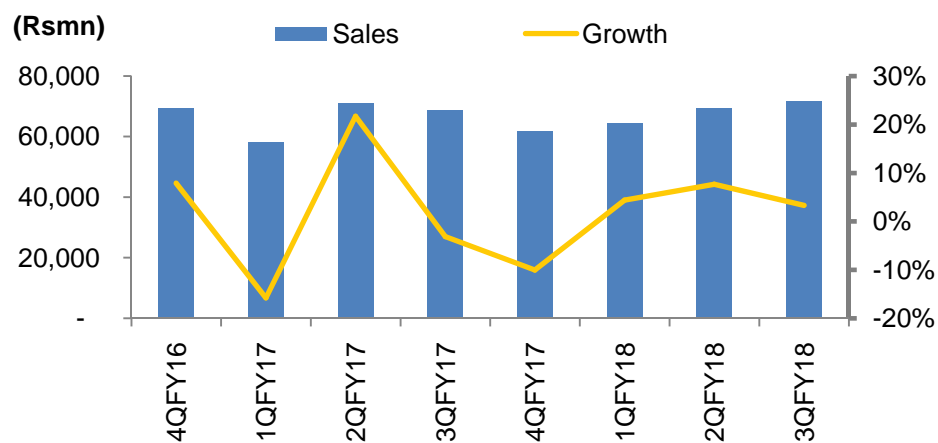
Company	Ticker	3QFY18	3QFY17	YoY	QoQ	9MFY18	9MFY17	YoY
Lucky Cement	LUCK	3,255	3,384	-4%	-8%	9,802	10,422	-6%
Bestway Cement	BWCL	2,517	3,463	-27%	-21%	8,712	10,568	-18%
DG Khan Cement	DGKC	1,236	1,948	-37%	38%	4,970	6,454	-23%
Maple Leaf Cement	MLCF	881	1,358	-35%	-5%	2,854	4,052	-30%
Fauji Cement	FCCL	854	669	28%	4%	2,122	1,972	8%
Attock Cement	ACPL	674	860	-22%	23%	1,827	2,238	-18%
Kohat Cement	KOHC	652	931	-30%	-12%	2,296	3,121	-26%
Cherat Cement	CHCC	446	542	-18%	-40%	1,795	1,567	15%
Dewan Cement	DCL	426	487	-13%	40%	976	964	1%
Pioneer Cement	PIOC	412	898	-54%	29%	1,149	2,399	-52%
Gharibwal Cement	GWLC	248	589	-58%	-45%	1,000	1,701	-41%
Thatta Cement	THCCL	124	160	-23%	29%	308	550	-44%
Fecto Cement	FECTC	102	158	-35%	2%	330	607	-46%
Power Cement	POWER	58	82	-29%	-49%	256	324	-21%
Flying Cement	FLYNG	33	75	-56%	-21%	96	113	-15%
Total		11,916	15,604	-24%	-7%	38,491	47,052	-18%

Source: Company Accounts, Topline Research

- On company wise basis, FCCL was the only company that reported profitability growth of 28% YoY in 3QFY18, primarily on the back of improved margins as a result of re-commissioning of its damaged line.
- Though prices have recently strengthened in North, manufacturers will have to pass on the increase in FED to alleviate further pressure on margins. To recall, the Govt. in its recent FY19 Budget raised FED on cement by 20%, creating a need for producers to increase prices by Rs15/bag, we estimate.

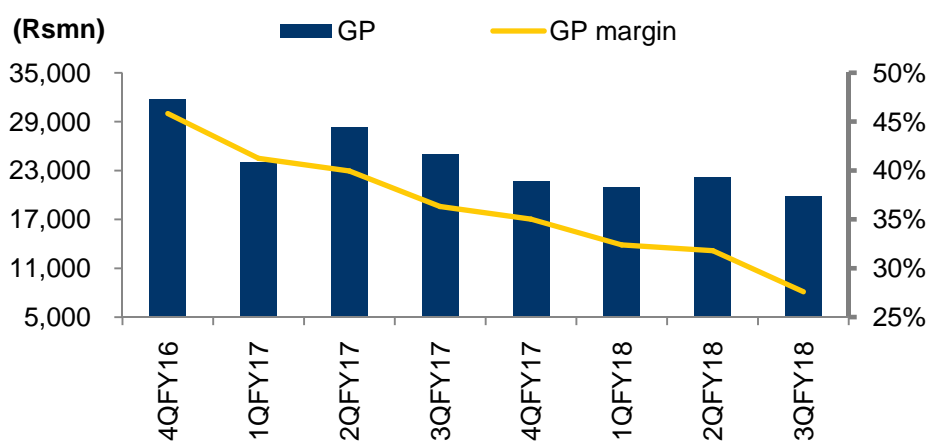
Quarterly analysis at a glance

Sample Companies: Sales



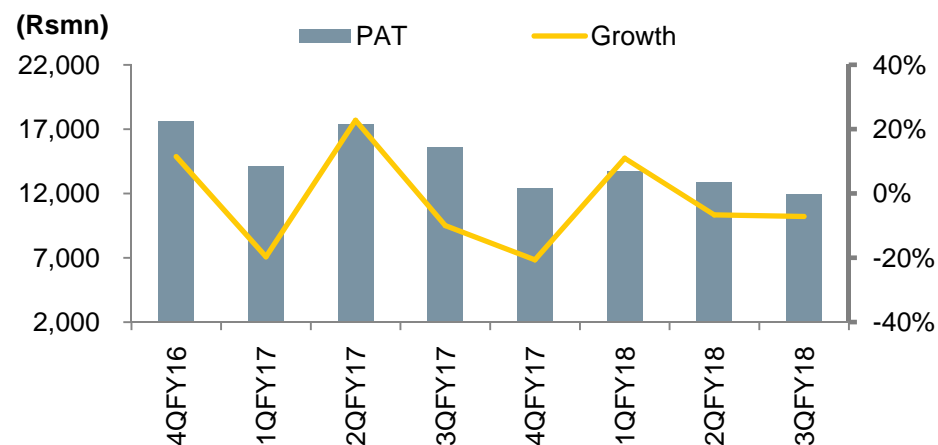
Source: Company Accounts, PSX, Topline Research

Sample Companies: Gross profit and gross margin



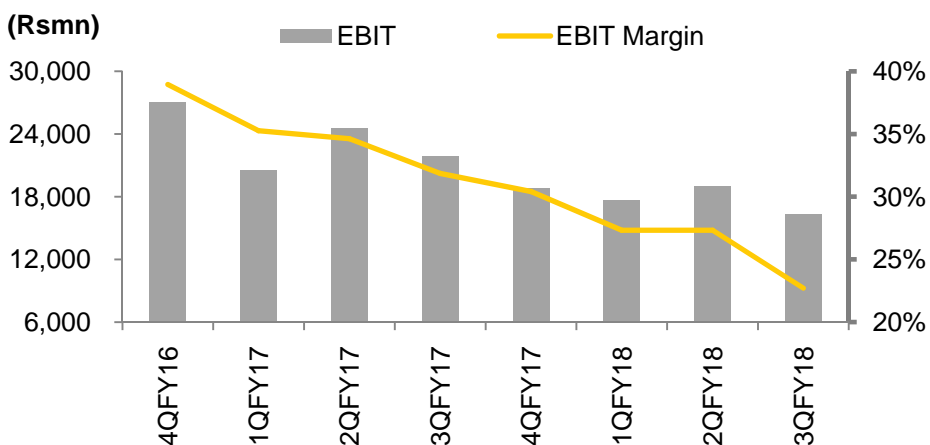
Source: Company Accounts, PSX, Topline Research

Sample Companies: Profitability



Source: Company Accounts, PSX, Topline Research

Sample Companies: EBIT and EBIT margin



Source: Company Accounts, PSX, Topline Research

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