



Pakistan Cement

Cement Expansions in Punjab hit snag

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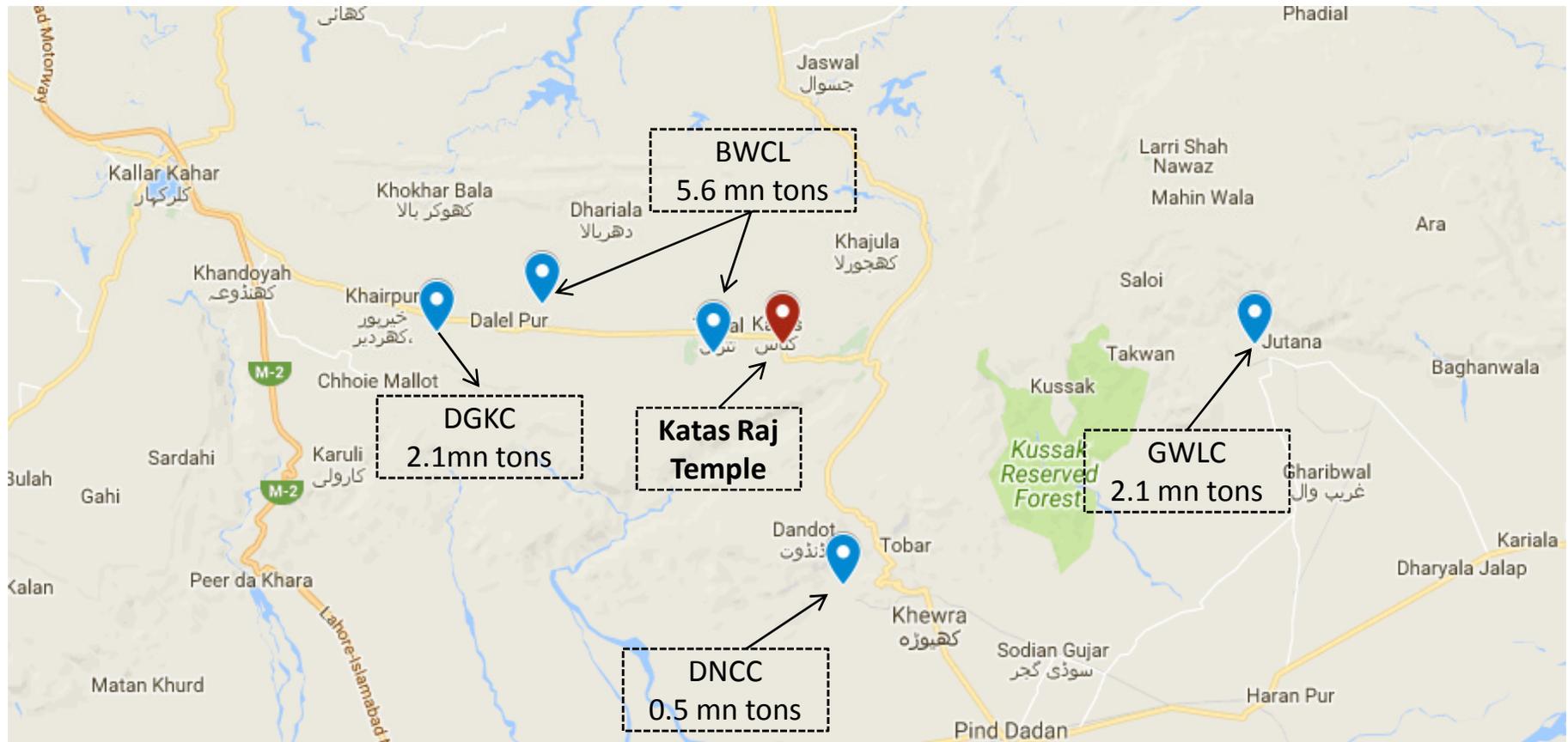
No Expansion in Punjab Without Court's Approval

- The Supreme Court (SC) of Pakistan in Nov 2017 took a suo moto notice based on media reports that the Katas Raj pond (situated in Kallar Kahar, Punjab) is drying out due to consumption of underground water by nearby cement factories. In this regard, SC has held multiple hearings (Case No. 25598-G/2017 - In the matter of drying out of the Shiri Katas Raj Temple), which is on going and to this end has served notices to Bestway Cement (BWCL) 1&2, DG Khan Cement (DGKC) Chakwal line and Dandot cement (DNCC).
- A quick overview of the region suggest that these cement factories are situated within 20km radius of Katas Raj temple, with BWCL's one line being the closest (within ~3KM). In one of its Dec 2017 hearings, SC ordered BWCL to fill up the Katas Raj temple's pond within a week.
- As per the latest hearing held on 19 Jan, 2018, SC directed that for the time being no further expansion of the cement plants shall be made without approval of the court.
- Punjab Govt. has also approved an amendment in Punjab Industries (Control on Establishment and Enlargement) Ordinance, 1963, whereby construction of cement plants in Punjab have been moved to Schedule 'C' instead of existing schedule 'A'. As per this amendment, Govt. approval would be necessary before expansion of existing as well as installation of new cement plants.
- In this regard, notices are being issued to owners of all the cement plants who are undergoing expansion in the Punjab region and are required to file their replies to explain their current positioning with regards to new or existing expansion before the next hearing date (30 Jan, 2018).

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- As per our initial impression and discussion with industry players, the above order affects cement expansions (Greenfield and Brownfield) in Punjab region only. Companies that are doing expansion include Maple Leaf Cement (MLCF), Gharibwal Cement (GWLC) and Pioneer Cement (PIOC) with cumulative capacity of 6.7mn tons per annum or 17% of existing capacities in North.
- In our Maple Leaf Cement (MLCF) note, dated Jan 18, 2018 titled, 'Almost there to recommence construction on new-line', we stated that MLCF has been ordered by the Court to halt its construction work of Brownfield line until the issuance of a survey report (criteria for the delineation of negative and positive areas for the installation of new or enhanced existing cement plant), carried out by Mines & Minerals department of Punjab.
- We believe that the recommencement of construction work and new expansion by any cement producer have been halted in Punjab, until further instruction by SC. This will be dependent upon the result of the survey report (identifying Positive and Negative Zones for environmental purposes), to be issued by Punjab Government.
- If robust demand (local sales up 16% in 6MFY18; total sales up 11% while capacity utilization over 90%) continues and expansion projects are delayed (current on-paper expansions lying in the negative zone might not see the day), upward revision in cement prices in North (producers are selling at Rs20-30/bag discount) cannot be ruled out as input costs have also gone up (FOB coal prices up 18% YoY to US\$91/ton), we believe.

Cement Factories Within 20KM Radius of Katas Raj Temple



Source: ACPMA, Google Maps, Topline Research

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