



Cement Sector Profits -26% YoY in 2QFY18

Sector witnesses fourth consecutive fall in earnings

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5.5 years low margin takes hit on profitability

Pakistan Cement Sector: Financial Highlights

Rsmn	2QFY18	2QFY17	YoY	QoQ	1HFY18	1HFY17	YoY
Sales	69,498	70,956	-2%	8%	134,049	129,261	4%
Cost of Sales	47,396	42,607	11%	9%	91,039	76,862	18%
Gross profit	22,102	28,349	-22%	6%	43,010	52,399	-18%
Administrative Expenses	1,973	1,850	7%	10%	3,759	3,559	6%
Selling & Distribution Expenses	2,039	2,108	-3%	14%	3,825	4,214	-9%
Other Operating Expenses	1,498	2,070	-28%	19%	2,758	3,594	-23%
Other Income	2,397	2,246	7%	53%	3,967	4,099	-3%
Profit from Operations	18,989	24,567	-23%	8%	36,635	45,130	-19%
Finance Cost	838	642	31%	18%	1,550	1,332	16%
Profit/(Loss) before Tax	18,152	23,925	-24%	7%	35,084	43,798	-20%
Taxation	5,322	6,594	-19%	67%	8,509	12,350	-31%
Profit/(Loss) after Tax	12,830	17,331	-26%	-7%	26,575	31,448	-15%

Source: Company Accounts, Topline Research

- Pakistan cement manufacturers posted profitability decline of 26% YoY during 2QFY18 mainly due to lower margins vs. growth of 9% YoY in 2QFY17. This was the fourth consecutive year-on-year fall in earnings and the second steepest in last four quarters (in 4QFY17, profits fell 30% YoY owing to lower sales).
- On pretax basis, profits declined by 24% during the outgoing quarter. Our analysis is based on a sample of 15 listed cement producers (out of a total of 18) which represents 99.7% of total cement companies' market capitalization.

5.5 years low margin takes hit on profitability

- While total dispatches during 2QFY18 grew by 8% YoY, sector revenues contracted by 2%, mainly on the back of lower net retention prices, down 8-10%, we estimate. Pricing pressure was noticeable in North region where cement producers were offering discount of up to Rs30/bag (prices were hovering at Rs470-500/bag).
- We mention here that given pressure on margins, North based manufacturers have unanimously raised prices by Rs10/bag effective from 1st Mar 2018. Please see our note, titled 'North prices are up Rs10/bag' issued yesterday.
- However, local dispatches depicted strong performance with YoY growth of 12% in 2QFY18 thanks to increase in demand from construction and infrastructure projects ahead of General Elections. To note, industry dispatches have so far remained encouraging as total sales in 8MFY18 are up 13% with robust local growth of 17%.
- Gross margins in 2QFY18 contracted by 8ppts to ~32%, lowest in last 22 quarters (down 60bps on sequential basis). This was due to higher input costs (coal prices averaged ~US\$87/ton, up 34% YoY with a quarter lag) and lower local net retention prices.
- Sector's financial charges grew by 18% YoY. We attribute this to rise in producers' debt levels as borrowings have increased to fund upcoming expansions.
- During 1HFY18, 16% YoY higher local dispatches led to 4% growth in sales though pretax profits (down 20%) were marred by 8.5ppts decline in gross margins to 32% (for reasons mentioned above). However, lower effective tax rate, down 4ppts to 24%, restricted decline in net earnings to 15%.

Company wise profit analysis

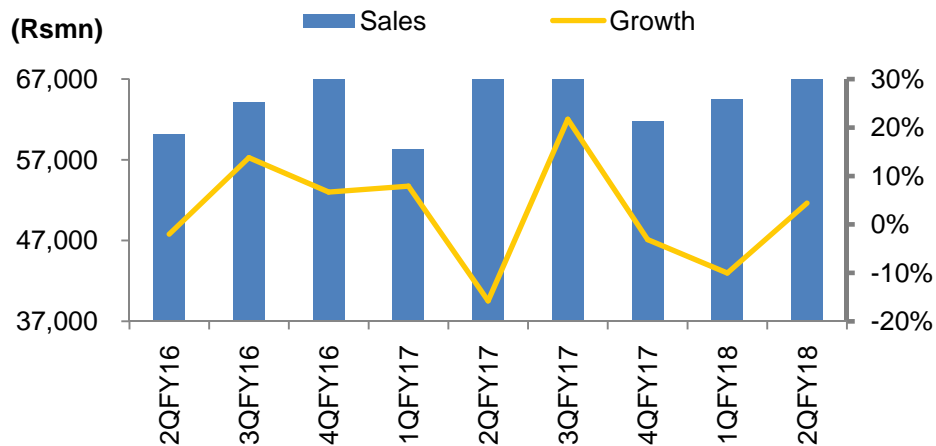
Pakistan Cement Sector: Profits								
Company	Ticker	2QFY18	2QFY17	YoY	QoQ	1HFY18	1HFY17	YoY
Lucky Cement	LUCK	3,530	3,800	-7%	17%	6,547	7,037	-7%
Bestway Cement	BWCL	3,198	3,903	-18%	7%	6,194	7,105	-13%
Maple Leaf Cement	MLCF	924	1,471	-37%	-12%	1,973	2,694	-27%
DG Khan Cement	DGKC	896	2,598	-65%	-68%	3,734	4,506	-17%
Fauji Cement	FCCL	824	694	19%	85%	1,268	1,303	-3%
Cherat Cement	CHCC	743	621	20%	23%	1,350	1,025	32%
Kohat Cement	KOHC	741	1,198	-38%	-18%	1,644	2,190	-25%
Attock Cement	ACPL	548	687	-20%	-9%	1,153	1,378	-16%
Gharibwal Cement	GWLC	451	668	-33%	49%	753	1,112	-32%
Pioneer Cement	PIOC	320	799	-60%	-23%	737	1,502	-51%
Dewan Cement	DCL	304	208	46%	24%	550	476	15%
Power Cement	POWER	113	132	-14%	33%	198	242	-18%
Fecto Cement	FECTC	100	251	-60%	-22%	228	450	-49%
Thatta Cement	THCCL	96	283	-66%	8%	184	390	-53%
Flying Cement	FLYNG	42	18	135%	95%	63	38	66%
Total		12,830	17,331	-26%	-7%	26,575	31,448	-15%

Source: Company Accounts, Topline Research

- On company wise basis, FLYNG reported highest earnings growth of 135% YoY in 2QFY18, followed by 46% growth in DCL. Both FLYNG and DCL had strong profitability growth due to increase in their 'other income', up 4.5x and 2.1x, respectively.
- Going forward, we believe that recovery in North cement prices as mentioned above should provide some respite to producers' margins.

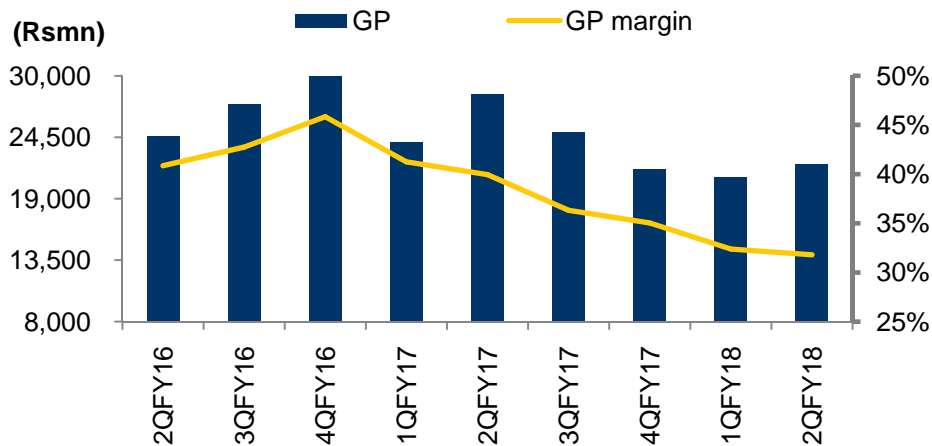
Quarterly analysis at a glance

Sample Companies: Sales



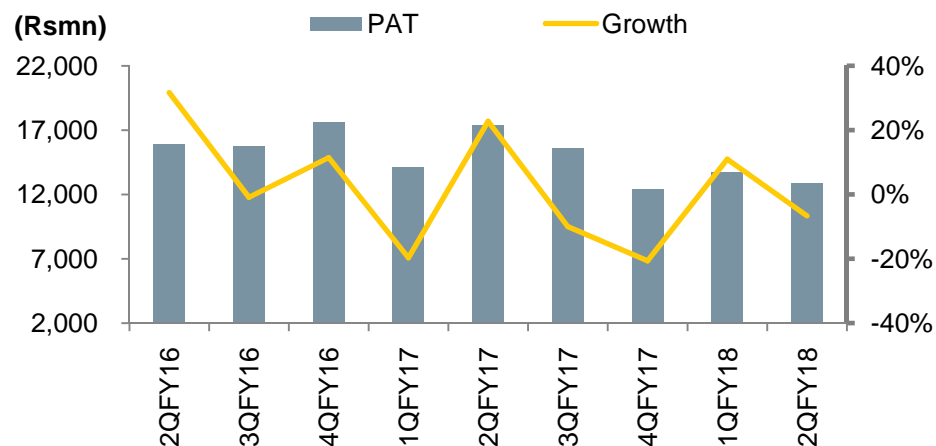
Source: Company Accounts, PSX, Topline Research

Sample Companies: Gross profit and gross margin



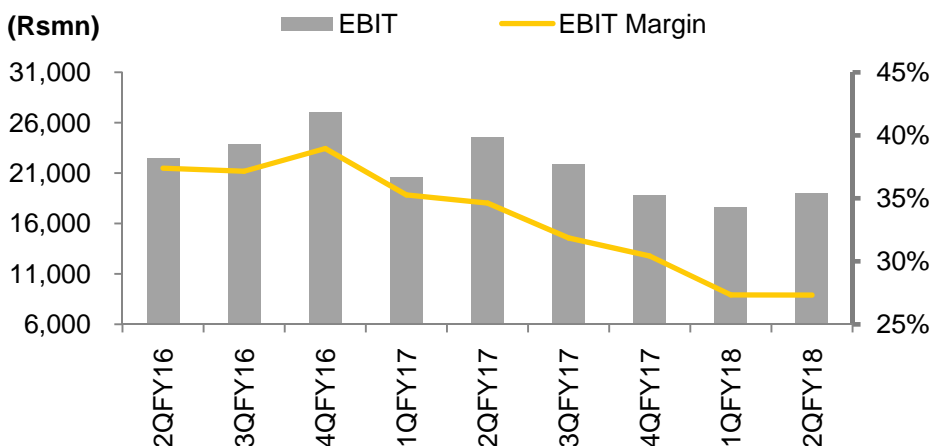
Source: Company Accounts, PSX, Topline Research

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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