



Pakistan cement sales +13% YoY in FY18 Industry Utilization at 2.5 Decade High!

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Second highest domestic growth in last 8 years!

Cement Sales: Jun 2018				
	Jun-18E	Jun-17A	YoY	MoM
(in 000 tons)				
Local				
North	2,036	1,897	7%	-28%
South	417	485	-14%	-38%
(N+S)	2,453	2,382	3%	-30%
Export				
North	192	217	-11%	-10%
South	188	128	47%	-10%
(N+S)	380	345	10%	-10%
Total	2,833	2,727	4%	-27%

Source: APCMA, Topline Research

Cement Sales: FY18			
	FY18E	FY17A	YoY
(in 000 tons)			
Local			
North	33,662	29,141	16%
South	7,139	6,511	10%
(N+S)	40,802	35,652	14%
Exports			
North	3,026	2,970	2%
South	1,678	1,694	-1%
(N+S)	4,704	4,664	1%
Total	45,505	40,315	13%

Source: APCMA, Topline Research

- **Cement sales in FY18:** Pakistan's cement industry ended FY18 on an ecstatic note with expected ~13% YoY growth in cement sales, as per our channel checks. The support was largely due to robust growth in local dispatches fueled by both Public and Private spending as well as recovery in exports post Feb 2018.
- Growth in local and export dispatches fared better than our start of the year expectations thanks to higher infrastructure demand from CPEC related projects, real estate construction activities across Pakistan and increase in exports from LUCK and ACPL's new cement lines that came online in 2HFY18. Moreover, due to expected increase in competition in South region owing to upcoming capacities, players are tapping into new export markets that also supported export growth, we believe.
- Industry utilization in FY18 is likely to reach at around 95% (including LUCK and ACPL's new capacity) vs. 87% in FY17. The utilization this year will be a 2.5 decade high. The highest utilization of 92.7% previously was recorded in FY96.

Second highest domestic growth in last 8 years!

- To highlight, Pakistan's construction sector reported 9% YoY growth in FY18 which is in line with last 5-year (FY13-17) average growth, as per provisional figures released by Pakistan Economic Survey FY18. This was on the back of economic recovery and booming real estate sector. Also note that, credit to construction sector as of May 2018 stood at Rs156bn, up 21% YoY.
- After being in the doldrums in 1HFY18 (witnessing average 16% YoY decline), exports recovered in the second half, recording stellar average growth of 37% YoY thanks to higher exports from LUCK and ACPL's new cement lines in the South region as well rupee devaluation. Consequently, exports are likely to see marginal growth in FY18.
- **Jun 2017 dispatches:** Dispatches during the month of Jun 2018 are expected to remain dull, up 4% YoY due to weak domestic consumption which is expected to post around 3% YoY growth while on monthly basis, local consumption is expected to decline by 30%. We attribute this to 1) Ramadan effect and 2) Eid holidays.
- **Pricing remains a concern:** Despite outstanding domestic consumption, cement sector remained under pressure on the back of upcoming capacities and rising input cost. The sector has shed 42% in FY18YTD and 9.8% in 2018CYTD.
- We believe that the producers' ability to pass on any hike in input cost (higher coal prices and rising transportation cost due to increase in international oil prices) going forward will depend on the local demand growth. Since Pakistan is gearing up for a second democratic transition later this month and no party is expected to grab a clear majority, cement consumption in FY19 may not see the same trend as was witnessed in FY18.

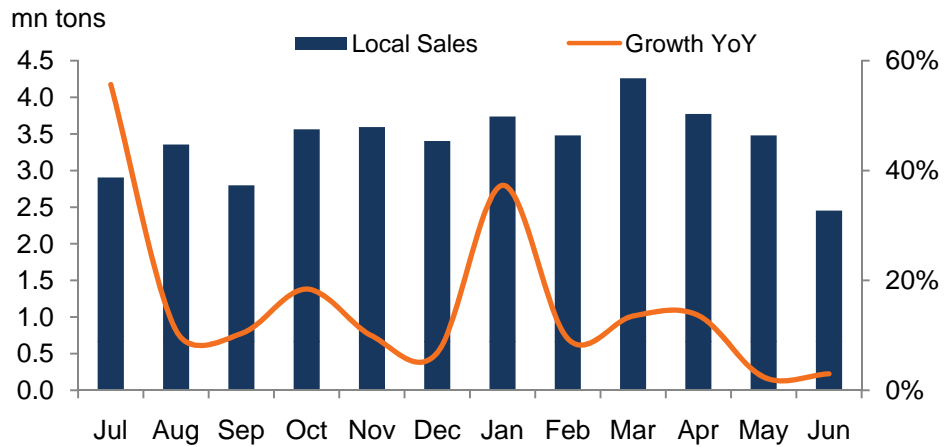
Second highest domestic growth in last 8 years!

- Moreover, with DGKC's upcoming capacity in the South region, we may see some pressure on local pricing unless the producers are able to sell their excess capacity to international markets, we believe.
- While prices came down in the North region post Aug 2017 (going as low as Rs496/bag on average), they started to recover post Mar 2018 as producers raised prices to pass on higher coal cost and Federal Excise Duty (FED). North prices averaged Rs529/bag in FY18 vs. Rs534/bag in FY17, as per data available at Pakistan Bureau of Statistics (PBS).
- Free-On-Board (FOB) Richards Bay coal prices on the other hand increased by 20% YoY to US\$93.6/ton and now hovering at around US\$104.25/ton. If coal prices remain at this level, manufacturers may find it difficult to pass on the cost owing to upcoming cement capacities.
- Our top picks in the sector are DG Khan Cement (DGKC), Lucky Cement (LUCK), and MLCF (Maple Leaf Cement).

Cement Industry: Volumetric Sales numbers					
(mn tons)	FY14A	FY15A	FY16A	FY17A	FY18E
Local sales	26.1	28.3	33.0	35.7	40.8
Growth	4.3%	8.2%	16.6%	8.1%	14%
Export sales	8.1	7.2	5.9	4.7	4.7
Growth	-2.9%	-11.7%	-18.2%	-20.6%	0.9%
Total sales	34.3	35.5	38.9	40.3	45.5
Growth	2.5%	3.5%	9.6%	3.7%	12.9%
Industry Utilization	75%	78%	85%	87%	95%

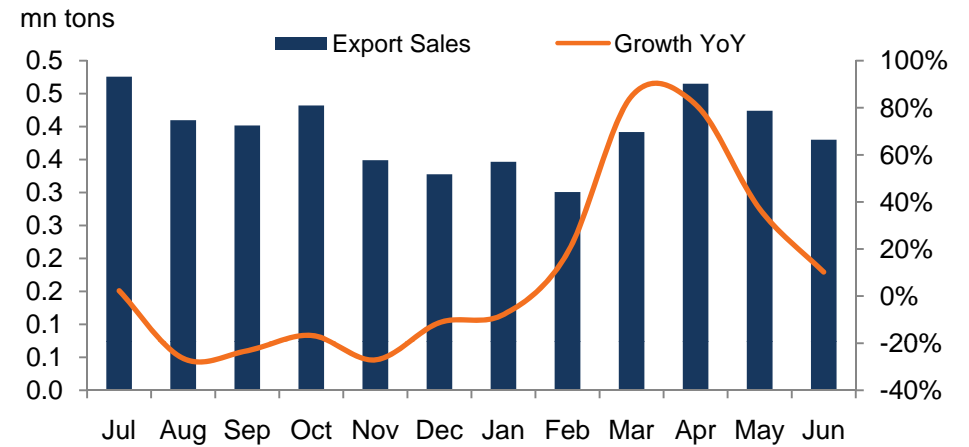
Source: APCMA, Topline Research

Cement: FY18 Local Dispatches



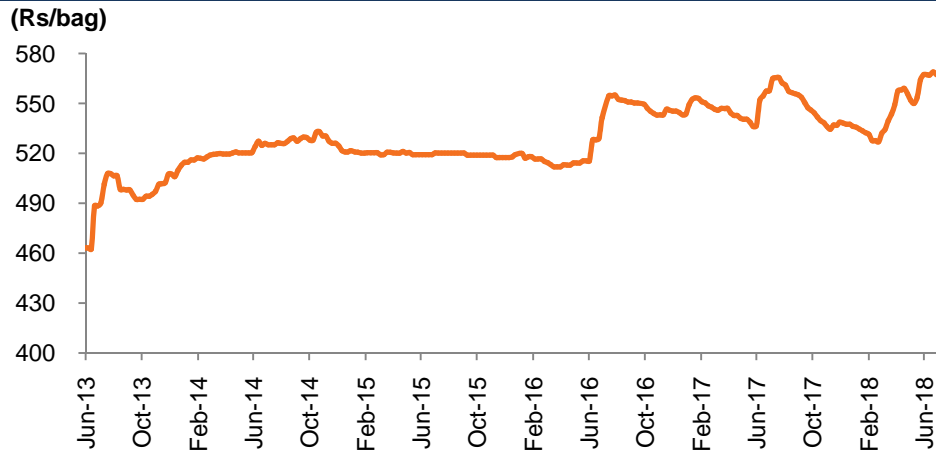
Source: APCMA, Topline Research

Cement: FY18 Export Dispatches



Source: APCMA, Topline Research

Cement: Average Cement Price



Source: Pakistan Bureau of Statistics

Cement: Coal Prices (Richards Bay Index)



Source: Bloomberg

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