

# Capital Market Daily

## Sector Update – Cement

### Faded impact of low base

According to figures release by APCMA, cement dispatches for 1H FY12 have increased by 5% YoY to 15.40mnMT mainly on account of the low base that stemmed from flash floods last year. However, the low base effect tends to be a little damp on account of heavy monsoon during the said period. The growth in dispatches has mainly stemmed from local dispatches which increased by 8% YoY to 10.94mnMT; however, exports continue to display a declining trend to clock in at 4.46mnMT, down by 4% YoY.

On a standalone basis, local dispatches for Dec11 have increased by 14% YoY and 24% MoM respectively to 2.03mnMT. The growth stemmed mainly on account of local dispatches which went up by 14% YoY and 24% MoM respectively on the back of better reconstruction activities and government making inline PSDP disbursements of PKR 148bn. Exports have shown lopsided characteristics as they declined annually by 8% while growing on a sequential basis by 5% to 0.65mnMT for Dec11. The sequential upsurge in exports was primarily attributable to 7% higher dispatches of 0.36mnMT to Afghanistan.

Dispatches (mnMT)	6mo ending		%	1mo ending		%	1mo ending		%
	Dec10	Dec11		Dec10	Dec11		Nov11	Dec11	
North	8.44	8.95	▲ 6	1.48	1.67	▲ 13	1.36	1.67	▲ 22
South	1.67	2.00	▲ 19	0.31	0.37	▲ 20	0.28	0.37	▲ 31
<b>Local</b>	<b>10.11</b>	<b>10.94</b>	<b>▲ 8</b>	<b>1.79</b>	<b>2.03</b>	<b>▲ 14</b>	<b>1.64</b>	<b>2.03</b>	<b>▲ 24</b>
Export	4.63	4.46	▼ 4	0.71	0.65	▼ 8	0.62	0.65	▲ 5
<b>Total</b>	<b>14.74</b>	<b>15.40</b>	<b>▲ 5</b>	<b>2.49</b>	<b>2.68</b>	<b>▲ 7</b>	<b>2.26</b>	<b>2.68</b>	<b>▲ 19</b>

Source: APCMA

### Escaping the GIDC tide

GIDC and hawkish increase in gas tariffs have instigated woes from all sectors. Most cement manufacturers use coal-fired fuel systems for kilns; therefore, there is no significant impact from the hike to their profitability. But one slight concern emanates from the tariff increase and imposition of cess on industrial sector as it bears the umbrella of captive power plants possessed by cement companies like LUCK and DGKC. The rise of PKR 60.69/mmbtu (13.98%) coupled with the GIDC component of PKR 13/mmbtu (2.99%) has been transmitted to consumers. Resultantly, cement manufacturers increased prices by ~PKR 2.5/bag in order to maintain their margins. In absolute terms, GIDC component is not as significant as the tariff increase, but it demanded an increase in prices for the producers to be able to pass it on to the consumers.

### LUCK

With ~75% of fuel and power costs based on gas consumption and the rest through other channels like WHR and TDF systems, LUCK is expected to undergo a nominal increase of ~PKR 50/MT in its costs of production. Said that, LUCK's power costs would increase by PKR 320mn, translating into an after tax EPS impact of **PKR 0.32** for 2H FY12. With the recent increase in cement prices as of Jan 05'11, operating margins will likely remain unaffected.

### DGKC

DGKC possesses a 25MW captive power plant against that of LUCK's 153MW, which depicts a lesser impact on its bottomline. Moreover, its power costs from gas consumption constitute only ~10-15% of the total costs of production. Accordingly, DGKC's bottomline was expected to bear a brunt worth PKR 128mn, translating into an after tax EPS impact of **PKR 0.10** for 2H FY12.

### Firm retention, incoming earnings

Local retention is expected to increase by PKR 50/MT as the cement producers pass on the gas impact. Local dispatches have increased by 5% YoY to 5.76mnMT for 2Q FY12, which will allow cement producers to post strong earnings with the sticky retention rates. However, with the decline in export dispatches by 9% YoY to 2.12mnMT during 2Q FY12 and worsening USD/PKR parity will slightly suppress the respite from strong local retention. With the depreciating PKR environment, manufacturers will try to orient their dispatch mix more towards the exports hence alleviating the risk on pricing consensus.

In our cement universe, LUCK is currently trading at a forward PE multiple of 4.73x against our implied PE of 5.5x and 5.3x for FY12 and FY13 respectively, while offering 24% potential upside to our Jun12 TP of 97/share and we recommend **BUY** on the scrip.

Equities	Jan 12'12	% Δ
KSE100	10,909.12	▼ 0.20
Market Cap (PKR bn)	2,840.08	▼ 0.17
Volume (shares mn)	21.12	▼ 8.40
Value (PKR mn)	953.23	▼ 22.61

Fixed Income	Jan 12'12	Bp Δ
<b>T-bills</b>	<b>Bid</b>	<b>Bp Δ</b>
3 months	11.75%	▲ 2
6 months	11.79%	▼ 3
12 months	11.88%	▼ 3

PIBs	Bid	Bp Δ
2 yr	12.06%	▼ 9
5 yr	12.48%	▼ 8
9 yr	12.55%	▼ 7

KIBOR	Jan 12'12	Bp Δ
1 month	12.07%	▲ 3
3 months	11.88%	▼ 2
6 months	11.94%	▼ 1

Exchange Rate	Bid	Offer
PKR/USD	90.26	▼ 90.27

Crude Oil	USD/barrel	% Δ
OPEC basket	112.90	▼ 0.07
US light sweet (WTI)	99.10	▼ 1.75

### Major Events

Jan 25'12 T-bill Auction

### Board Meetings

Jan 13'12	Pak Tobacco Co.
Jan 13'12	Shadman Cotton
Jan 14'12	Latif Jute
Jan 16'12	Indus Dyeing and Mfg.
Jan 17'12	Pak. Int. Con. Ter.
Jan 26'12	Fauji Fert Bin
Feb 03'12	Unilever Foods
Feb 09'12	Unilever Pak. Ltd.
Feb 15'12	Kot Addu Power Co. Ltd.

### AGMs / EOGM

Feb 28'12	Fauji Fertilizer Co.
Mar 03'12	Lotte Pakistan PTA

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