

PAKISTAN

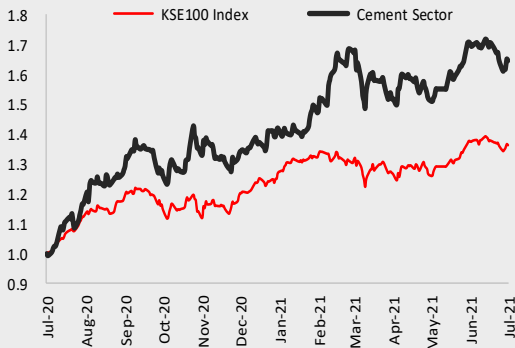


Pakistan cement industry demand in Jun'21 (mn tons)

Industry	Jun'21	YoY	MoM	FY21	YoY
Domestic	4.7	21.7%	45.9%	48.1	20.4%
North	3.9	14.0%	42.2%	40.6	18.3%
South	0.8	79.4%	66.0%	7.5	33.4%
Export	0.5	-31.1%	-27.3%	9.3	18.4%
North	0.2	337.9%	-1.0%	2.6	29.9%
South	0.3	-54.0%	-37.2%	6.7	14.6%
Total	5.2	12.7%	32.0%	57.4	20.1%
North	4.1	18.4%	39.2%	43.1	18.9%
South	1.2	-3.6%	11.6%	14.3	23.8%

Source: APCMA, Foundation Research, July 2021

Cement sector and KSE-100 relative price performance



Source: APCMA, Bloomberg, Foundation Research, Jul 2021

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Construction and Material Dispatches hit record high in FY21

Event

▪ Pakistan cement industry dispatches increased by 20.1% YoY to 57.4mn tons in FY21. We attribute growth in dispatches to (1) construction package announced by the Gov't to reduce the economic impact of COVID outbreak, (2) strong demand from private sector given increased liquidity amid lower borrowing cost, (3) disbursement of subsidy under NPHP and (4) decade highest cement exports. Furthermore, in Jun'21 cement dispatches increased by 12.7/32.0% MoM/YoY due to aforementioned factors.

Impact

▪ **Gov't incentives and increased liquidity uplifted cement demand in FY21:** Pakistan cement dispatches increased by 20.1% YoY in FY21. South based players outperformed the industry by delivering 23.8% YoY growth in FY21 due to strong rebound in domestic demand, while north region dispatches increased by 18.9% YoY in FY21. To highlight, contribution of north region in overall dispatches declined by 0.7ppt YoY to 75.2% in FY21 due to strong demand in south domestic/export market.

▪ **Total cement domestic/export dispatches increased by 20.4/18.4% YoY in FY21.** Moreover, in north region increase of 18.3% YoY in domestic dispatches during FY21 remained lower than industry, while exports in north region outperformed the industry by delivering 29.9% YoY growth in FY21. However, in south region domestic dispatches increased by 33.4% YoY in FY21 (higher than industry). While south region exports posted growth of 14.6% YoY which is lower than industry in FY21 given strong domestic demand and ports congestion caused by higher food imports and diminishing competitiveness on the back of strengthening of Pak Rupee.

▪ **Higher utilization levels to support pricing power:** Cement industry capacity utilization increased to 82.7% (up 8.0ppt YoY) with local dispatches weight of 83.8% in FY21. Region wise comparison shows utilization level in north increased by 6.7ppt YoY to 80.9% with local dispatches weight of 94.1% during the year. While, in south region utilization level increased by 12.4ppt YoY to 88.6% with local dispatches weight of 52.8% in FY21.

▪ We attribute, higher utilization levels to (1) construction package announced by the Gov't (2) increased demand from private sector given rebound in economic activity and (3) disbursement of subsidy under Naya Pakistan Housing Program at subsidized interest rates. To highlight, consumer house finance reached to highest level of Rs97.8bn in Pakistan history, up 18.1% YoY in May'21.

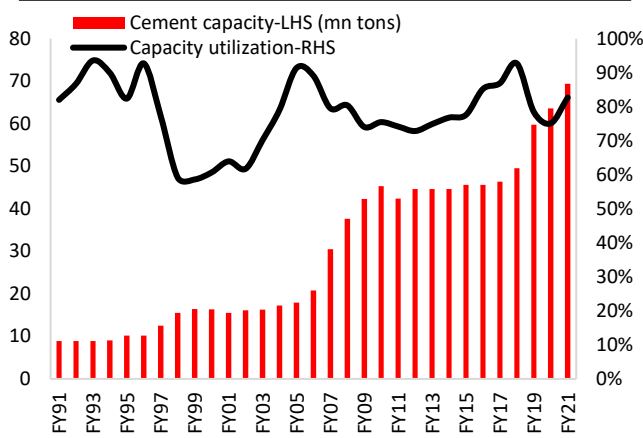
▪ **Strong demand allowed to timely pass on the impact of surge in coal prices:** Average retail cement prices in north/south market increased/decreased Rs43/32/bag (up/down by 8.2/4.7ppt) YoY in FY21. While, impact of higher coal prices was only ~Rs14/bag as coal price increased by avg US\$13.9/ton (up 21% YoY) during FY21.

▪ Recently, coal prices hit ~10 year high and reached to US\$115/ton (up by 44% from FY21 average) at the end of Jun'21. To pass on the impact of recent surge in coal prices cement companies increased their prices in north/south market by ~Rs29/16bag in Jun'21.

Outlook

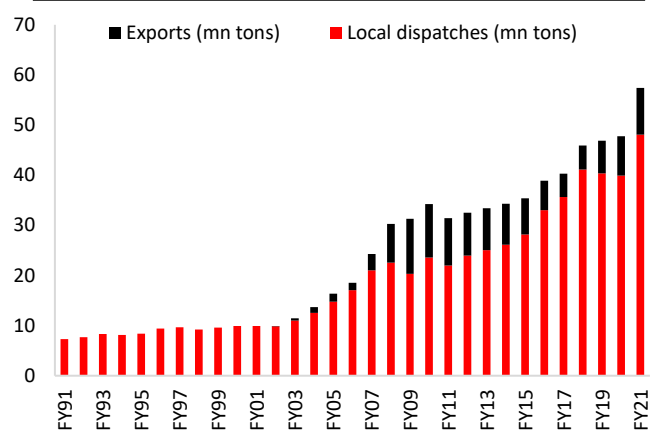
▪ Better utilization levels given higher cement demand would allow gradual increase in cement prices in FY22/23, in our view. However, recent surge in commodity prices along with increase in financing cost would hurt the profitability of the cement sector.

Fig 1: Record cement offtake in FY21 (mn tons)...



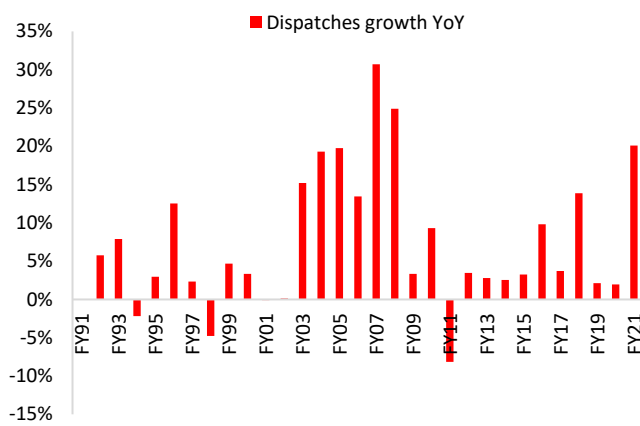
Source: APCMA, Foundation Research, July 2021

Fig 2:highest cement exports in decade (mn tons)



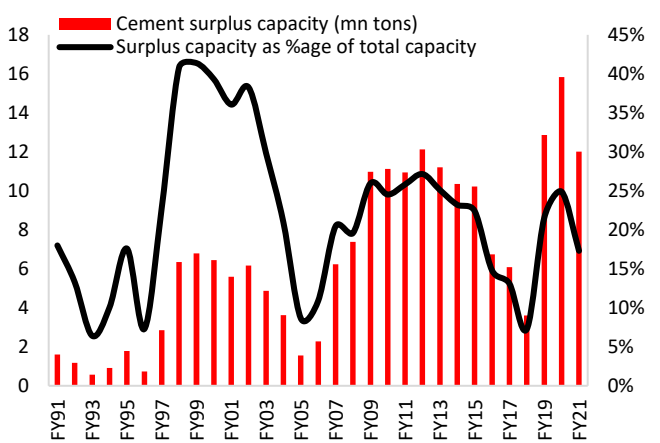
Source: APCMA, Foundation Research, July 2021

Fig 3: Highest annual cement growth after FY08



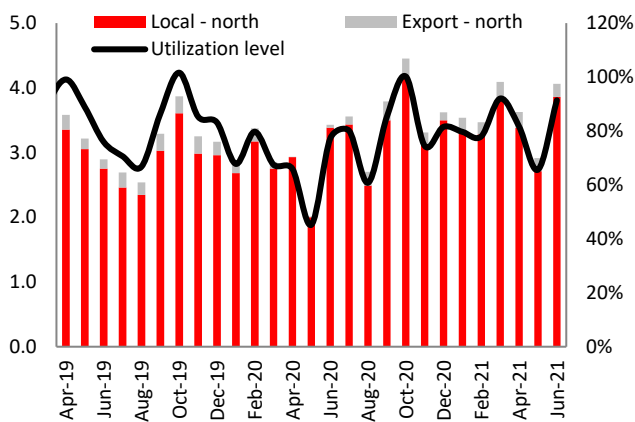
Source: APCMA, Foundation Research, July 2021

Fig 4: Surplus capacity on a declining trend



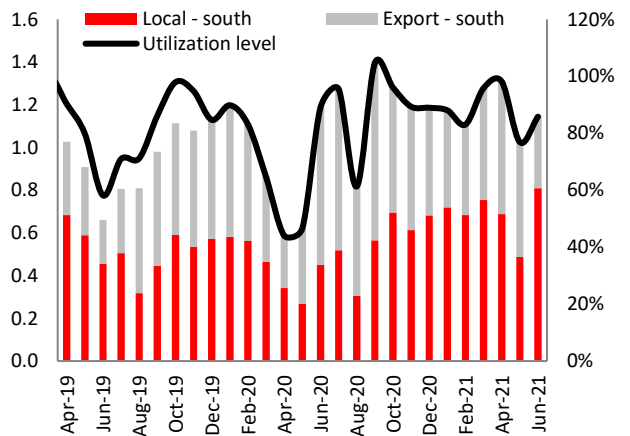
Source: APCMA, Foundation Research, July 2021

Fig 5: Utilization level recovered in north (mn tons)



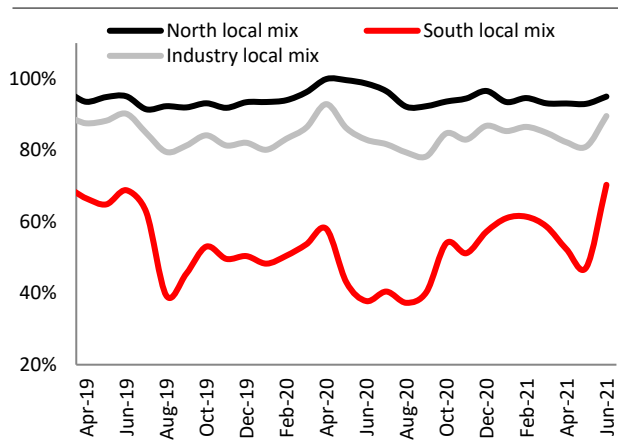
Source: APCMA, Foundation Research, July 2021

Fig 6: Local demand ↑ in south market (mn tons)



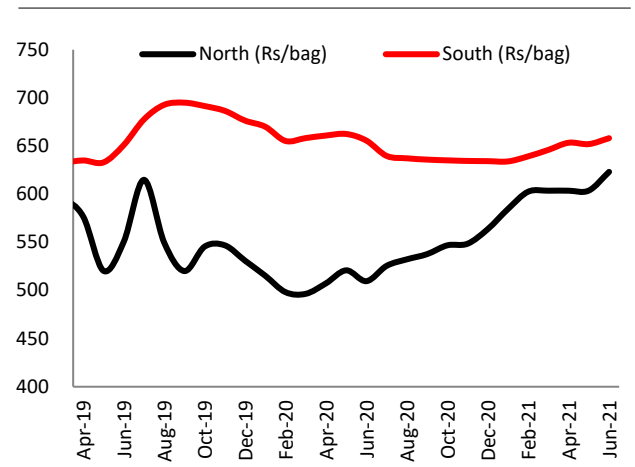
Source: APCMA, Foundation Research, July 2021

Fig 7: North continues having over 90% local mix



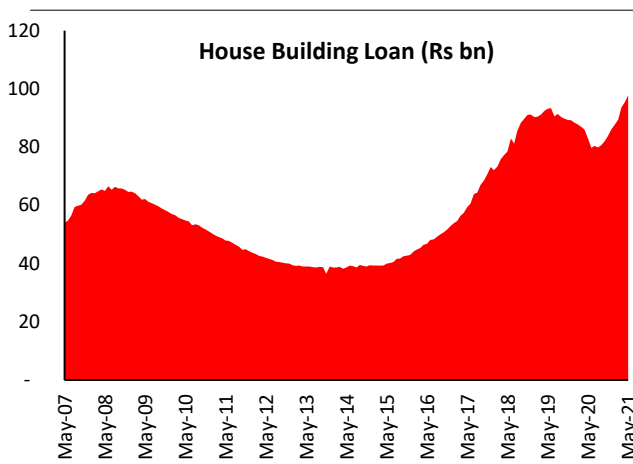
Source: APCMA, Foundation Research, July 2021

Fig 8: North cement prices (MRP) on a rising trend



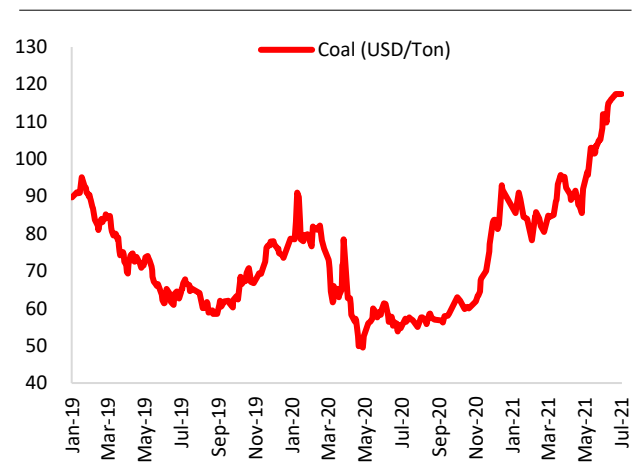
Source: PBS, Foundation Research, July 2021

Fig 9: Housing finance reached to all time high



Source: SBP, Foundation Research, July 2021

Fig 10: Increased demand from china ↑ coal price



Source: Bloomberg, Foundation Research, July 2021

Abbreviations

YoY	Year on Year
MoM	Month on Month
FY	Fiscal Year
FO	Furnace Oil
Mn	Million
FOB	Free On Board
MRP	Market Retail Price
NAB	National Accountability Bureau
SBP	State Bank of Pakistan
NPHP	Naya Pakistan Housing Program

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.