

PAKISTAN

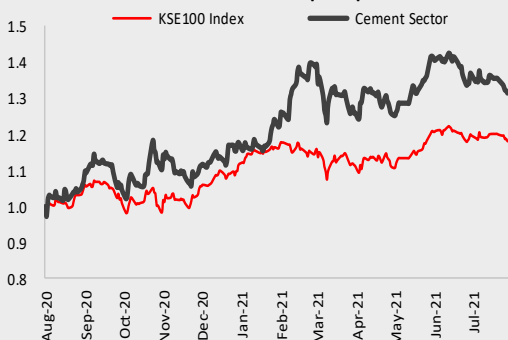


Pakistan cement industry demand in Jul'21 (mn tons)

Industry	Jul'21	YoY	MoM	FY21	YoY
Domestic	3.4	-12.8%	-26.2%	48.1	20.4%
North	2.9	-15.8%	-25.1%	40.6	18.3%
South	0.6	7.0%	-31.5%	7.5	33.4%
Export	0.5	-48.8%	-16.6%	9.3	18.4%
North	0.1	10.3%	-32.7%	2.6	29.9%
South	0.3	-58.4%	-7.0%	6.7	14.6%
Total	3.9	-19.4%	-25.2%	57.4	20.1%
North	3.0	-14.9%	-25.4%	43.1	18.9%
South	0.9	-31.9%	-24.2%	14.3	23.8%

Source: APCMA, Foundation Research, August 2021

Cement sector and KSE-100 relative price performance



Source: APCMA, Bloomberg, Foundation Research, August 2021

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Wednesday, August 4, 2021

Construction and Material

Eid holidays and monsoon restricted dispatches in Jul'21

Event

▪ Pakistan cement industry dispatches declined by 19.4/25.2% YoY/MoM in Jul'21 to 3.9mn tons. Local dispatches declined 12.8% YoY due to slowdown in construction activities given lower labour availability due to Eid holidays and more than usual rainfall during the month. Moreover, exports witnessed substantial decline of 48.8% YoY on the back of higher freight charges.

Impact

▪ **Dispatches made 11 months low due to slowdown in construction activities:** Pakistan cement dispatches declined by 19.4/25.2% YoY/MoM in Jul'21. Decline in northern region dispatches remained limited to 14.9% YoY in Jul'21 due to higher exports, while south region dispatches declined by 31.9% YoY due to 58.4% YoY decline in exports in Jul'21. To highlight, contribution of north region in overall dispatches increased by 4.1ppt YoY to 77.6% in Jul'21.

▪ **Total domestic dispatches declined by 12.8/26.2% YoY/MoM and exports declined by 48.8/16.6% YoY/MoM in Jul'21** due to aforementioned reasons. Furthermore, in domestic market north/south region dispatches decreased/increased by 15.8/7.0% YoY in Jul'21 and north/south region exports increased/decreased by 10.3/58.4% YoY in Jul'21.

▪ **Industry utilization falls below 70% in both regions:** Pakistan cement industry capacity utilization clocked in at 67.4% (down 16.2% YoY) with local weight of 88.4% in Jul'21. Furthermore, on sequential basis industry capacity utilization declined by 22.7% MoM in Jul'21 due to Eid holidays and more than normal monsoon rainfall. To highlight, cement demand is expected to rebound in upcoming months due to favorable Gov't policies and consistent increase in consumer housing finance (up 29.9% YoY to Rs103.6bn in Jun'21) due to lower interest rates.

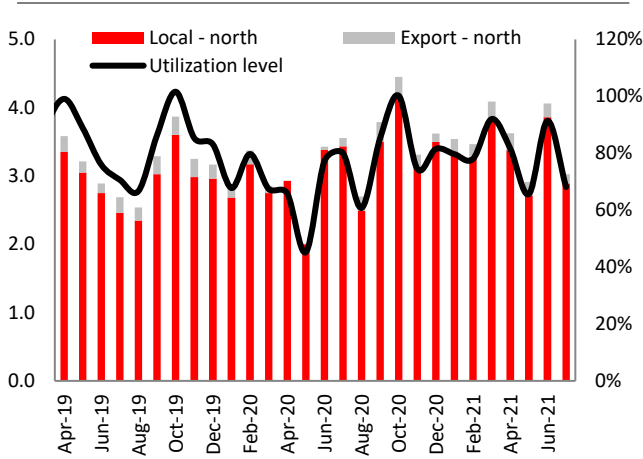
▪ Furthermore, region wise comparison shows utilization level in north declined by 11.9/23.2% YoY/MoM to 68.1% with local weight of 95.5% in Jul'21. While, in south region utilization level declined by 30.5/20.8% YoY/MoM to 65.0% with local weight of 63.6% in Jul'21.

▪ **Profitability to come under pressure as energy cost increased due to commodity boom:** Coal prices hit ~13 year high and increased to US\$133/ton due to commodities boom triggered by demand supply imbalance and supply chain issues post outbreak of COVID. Approximately more than half of the impact of higher input cost has already been passed on to the consumers in north market as retail prices in the region increased by 21.6% YoY to Rs638/bag in Jul'21. However, expectation of more than normal rainfall in the ongoing monsoon season along with pressure on exports due to elevated sea freight charges would make an uphill task for the cement manufacturers to further increase the prices in the near term.

Outlook

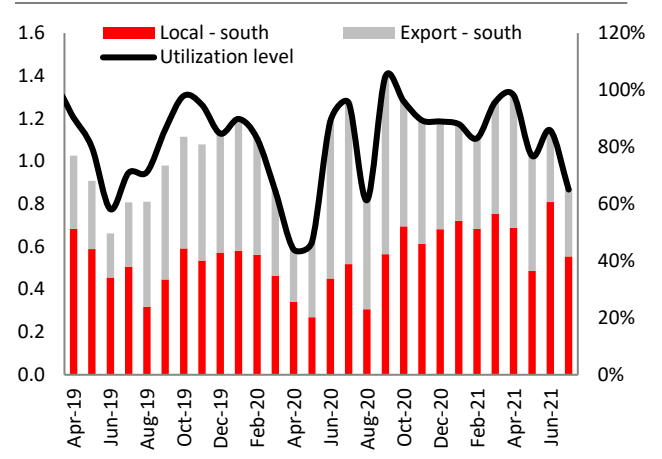
▪ Better utilization level given higher cement demand would allow gradual increase in cement prices in FY22/23, in our view. Moreover, lower finance cost due to reduced interest rate would also support sector's profitability. We are positive on the sector with LUCK, DGKC and FCCL as our top picks.

Fig 1: Utilization ↓ to 67.4% in Jul'21 (mn tons)



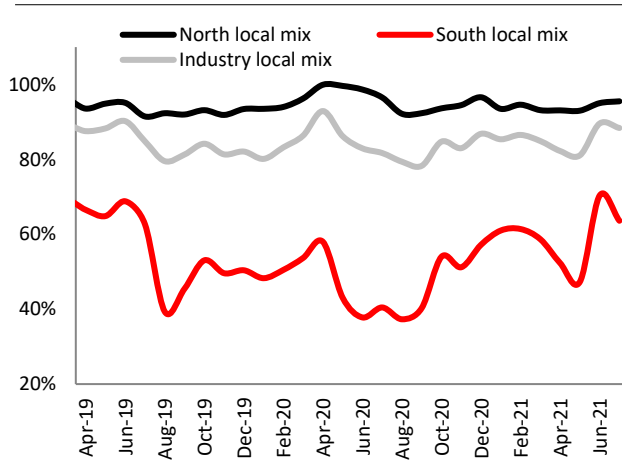
Source: APCMA, Foundation Research, August 2021

Fig 2: Exports ↓ significantly in Jul'21 (mn tons)



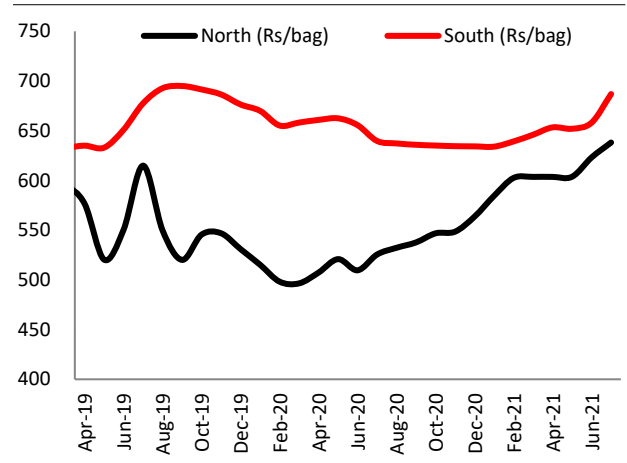
Source: APCMA, Foundation Research, August 2021

Fig 3: North continues having over 90% local mix



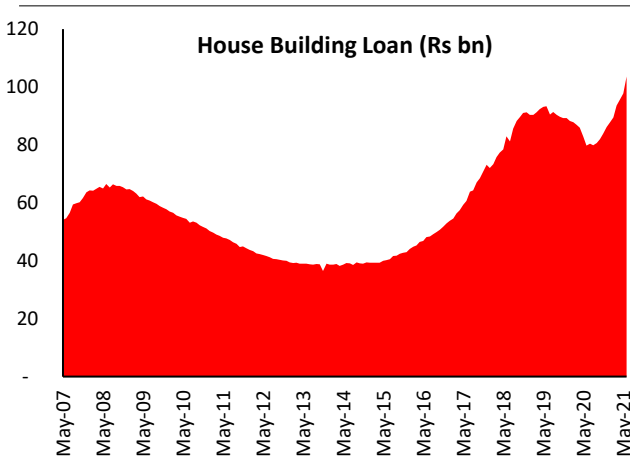
Source: APCMA, Foundation Research, August 2021

Fig 4: Prices to further increase given ↑ energy cost



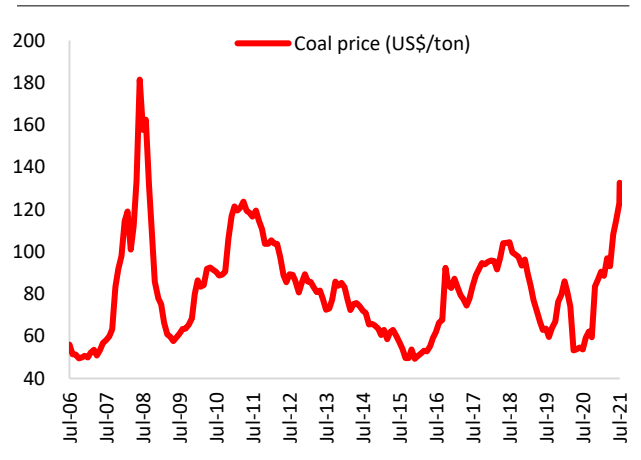
Source: APCMA, Foundation Research, August 2021

Fig 5: Housing finance reached to all time high



Source: SBP, Foundation Research, August 2021

Fig 6: Increased demand from china ↑ coal price



Source: Bloomberg, Foundation Research, August 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.