

PAKISTAN



FSL cement universe 1QFY22 earning preview (Rs mn)

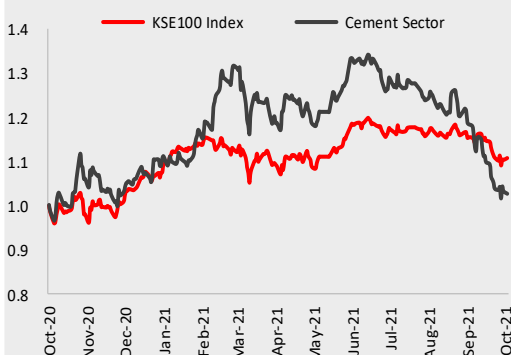
	1QFY22E	1QFY21	YoY	QoQ
Net Sales	58,704	49,958	18%	-1%
Gross Profits	12,349	9,537	29%	-10%
Operating cost	3,651	3,951	-8%	-6%
Other Income	2,291	852	169%	54%
Finance cost	1,980	2,005	-1%	7%
PBT	9,009	4,433	103%	-5%
Tax	2,634	968	172%	1%
PAT	6,375	3,466	84%	-8%

	1QFY22E	1QFY21	YoY	QoQ
LUCK*	8.0	6.9	17%	9%
CHCC	4.2	1.6	161%	-18%
KOHC	4.0	2.5	57%	-18%
PIOC	2.4	(0.2)	na	-18%
DGKC	1.6	(0.8)	na	-18%
FCCL	0.6	0.5	25%	1%
ACPL*	0.3	0.9	-71%	-76%

Source: Company accounts, FSL Research, October 2021

*un-consolidated earnings

Cement sector and KSE-100 relative price performance



Source: Bloomberg, Foundation Research, October 2021

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Foundation Securities (Pvt) Ltd
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Construction and Material

Profitability to increase by 84% YoY in 1QFY22

Event

▪ FSL cement universe profitability is expected to increase by 84% YoY in 1QFY22. We attribute increase in profitability to better cement retention prices in domestic market amid stable demand. However, exports witnessed significant decline in both regions during 1QFY22. Furthermore, on sequential basis profitability is expected to decline by 8% QoQ in 1QFY22 due to higher fuel/power cost.

Impact

▪ **Better retention prices to uplift profitability:** FSL cement universe retention prices in domestic market increased by ~38/12% YoY/QoQ in 1QFY22 that allowed revenue to increase/decrease by 18%/1% YoY/QoQ in 1QFY22. Furthermore, universe dispatches declined by ~12.0%/11% YoY/QoQ in 1QFY22 due to ~46%/26% YoY/QoQ decline in exports whereas domestic dispatches increase/decrease 0%/7% YoY/QoQ basis. Moreover, FSL cement universe gross margins are expected to increase/decrease by 1.9ppt/2.2ppt YoY/QoQ in 1QFY22 due to better cement retention prices in domestic market.

▪ **Higher fuel cost restricted upside in profitability:** Average coal prices increased by 148/34% YoY/QoQ in 1QFY22 due to (1) lower inventory in China/India, (2) freezing of coal export licenses in Indonesia and (3) supply chain issues post COVID outbreak and inclement weather. Cement companies remained unable to fully pass on the impact of higher fuel/power cost on sequential basis due to weak demand.

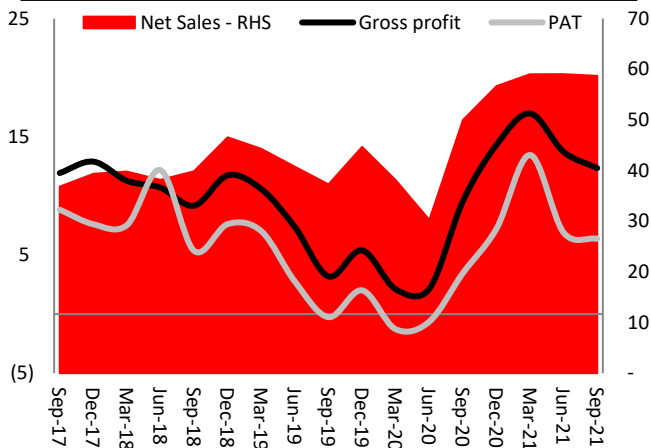
▪ **CHCC/PIOC/DGKC outperformed the universe:** CHCC is expected to post EPS of Rs4.2 in 1QFY22 (up/down 161/18% YoY/QoQ) as compared to profit of Rs1.6/sh in 1QFY21. Increase in earnings is attributable to 3% YoY increase in dispatches amid ~37% YoY increase in cement retention prices. PIOC and DGKC are expected to report profitability of Rs2.4/sh and Rs1.6/sh as compared to losses in 1QFY21. To highlight, PIOC/DGKC dispatches increased/decreased by ~6/26% YoY in 1QFY22. However, further increase in DGKC profitability would come from better cement retention prices and dividend income from portfolio companies.

▪ **LUCK and FCCL would witness sequential increase in profitability:** LUCK/FCCL are expected to post sequential increase in profitability in 1QFY22 as compared to sequential decline in FSL universe profitability. LUCK's profitability would increase due to better net cash position of the company and dividend income from portfolio companies. Furthermore, LUCK/FCCL dispatches are expected to decrease/increase by 7/22% YoY in 1QFY22. Moreover, KOHC profitability would increase by 57% YoY in 1QFY22 due to 41% YoY higher retention prices. To highlight, ACPL would post ~71% YoY decline in profitability in 1QFY22 due to ~62% YoY decline in exports given higher freight charges and decline in export realized prices.

Outlook

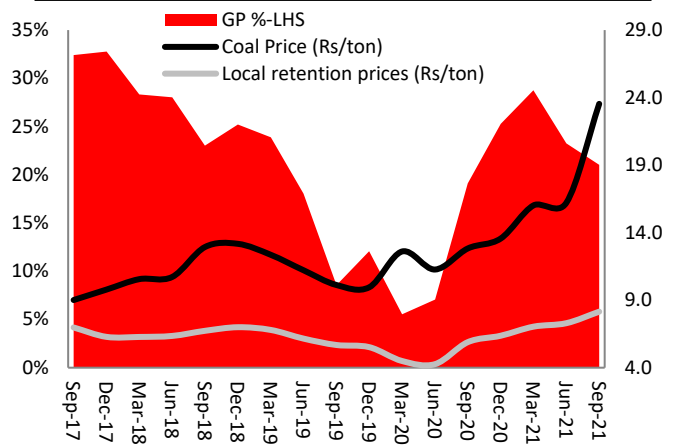
▪ We have positive stance on the sector with LUCK, DGKC, CHCC, KOHC, FCCL and PIOC as our top pick. Furthermore, near term profitability of FSL cement universe is expected to remain under pressure given company's inability to completely pass on the impact of rising fuel/power costs. However companies would benefit from (1) favorable Gov't policies (2) continuous increase in consumer housing finance and (3) increased demand from public sector due to early disbursement of PSDP.

Fig 01: Profitability to decline sequentially (Rs bn)...



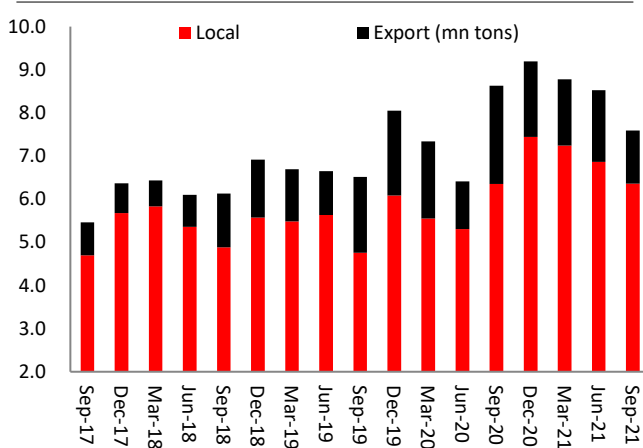
Source: Company acc, FSL Research, October 2021

Fig 02: ...due to higher energy cost (Rs 000)



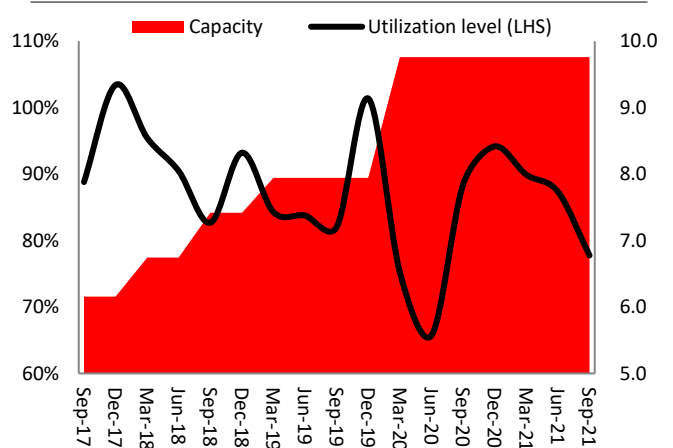
Source: Company acc, FSL Research, October 2021

Fig 03: ...as dispatches growth slows down (mn tons)



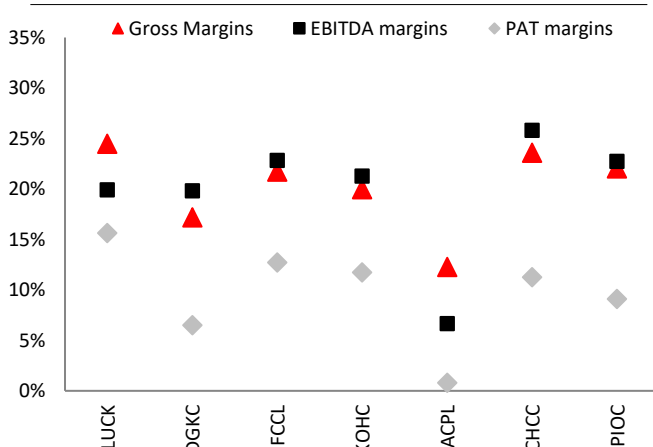
Source: Company acc, FSL Research, October 2021

Fig 04: Utilization level falls below 80% (mn tons)



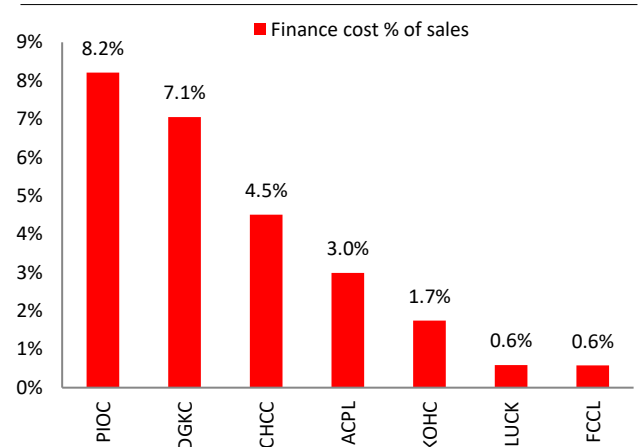
Source: Company acc, FSL Research, October 2021

Fig 05: LUCK best in margin comparison....



Source: Company acc, FSL Research, October 2021

Fig 06: PIOC/DGKC highly sensitive to interest rate



Source: Company acc, FSL Research, October 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.