

**PAKISTAN**

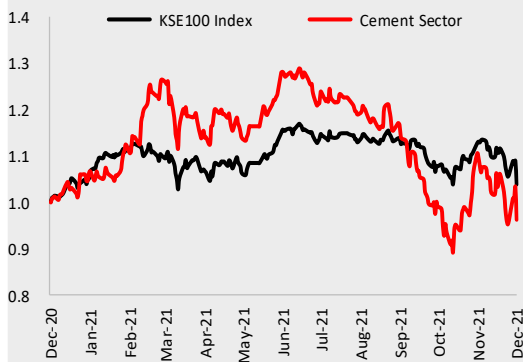


Pakistan cement industry demand in Nov'21 (mn tons)

Industry	Nov'21	YoY	MoM	5MFY22	YoY
<b>Domestic</b>	4.1	10.2%	-10.4%	20.0	2.8%
North	3.5	10.9%	-9.4%	16.8	0.2%
South	0.7	6.8%	-15.1%	3.2	19.4%
<b>Export</b>	0.7	-9.2%	13.7%	2.9	-34.9%
North	0.1	-69.7%	-25.0%	0.5	-52.5%
South	0.6	9.6%	19.0%	2.3	-29.1%
<b>Total</b>	4.8	6.9%	-7.6%	22.9	-4.1%
North	3.5	6.4%	-9.7%	17.3	-3.0%
South	1.3	8.2%	-1.1%	5.6	-7.3%

Source: APCMA, Foundation Research, December 2021

Cement sector and KSE-100 relative price performance



Source: Bloomberg, Foundation Research, December 2021

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# Construction and Material

## Decline in exports restricted dispatches growth

### Event

■ Pakistan cement industry dispatches increased by 6.9% YoY to 4.8mn tons in Nov'21. We attribute, increase 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) increased investment in real estate market by overseas Pakistani's through RDA. Furthermore, on sequential basis dispatches declined by 7.6% MoM due to increase in domestic cement prices to historical high levels, in our view.

### Impact

■ **Decline in North region exports restricted overall growth in dispatches:** Pakistan cement dispatches increased/decreased by 6.9/7.6% YoY/MoM in Nov'21. On regional basis, north region dispatches increased/decreased by 6.4/9.7% YoY/MoM in Nov'21. In north region, domestic dispatches increased by 10.9% YoY in Nov'21, while exports declined by 69.7% YoY in Nov'21. Furthermore, in South region dispatches increased/decreased by 8.2/1.1% YoY/MoM in Nov'21. Growth in South region dispatches is due to 6.8/9.6% YoY increase in domestic/export dispatches in Nov'21.

■ To highlight, significant decline in north region exports is attributable to slowdown in demand from Afghanistan. Furthermore, on sequential basis domestic dispatches declined by 9.4/15.1% MoM in North/South region, decline in dispatches is due to seasonal effect.

■ **Utilization remained elevated given higher domestic demand:** Pakistan cement industry capacity utilization increased/decreased by 5.4/6.8ppt YoY/MoM to 83.3% in Nov'21. Furthermore, region wise comparison shows utilization level in North increased/decreased by 4.8/8.6% YoY/MoM in Nov'21 to 79.3% with local weight of 98.4% in Nov'21 (up 3.9ppt YoY). Moreover, utilization level in south region increased/decreased by 7.3/1.1ppt YoY to 96.7% with local weight of 50.6% in Nov'21 (down by 0.7/8.4% YoY/MoM).

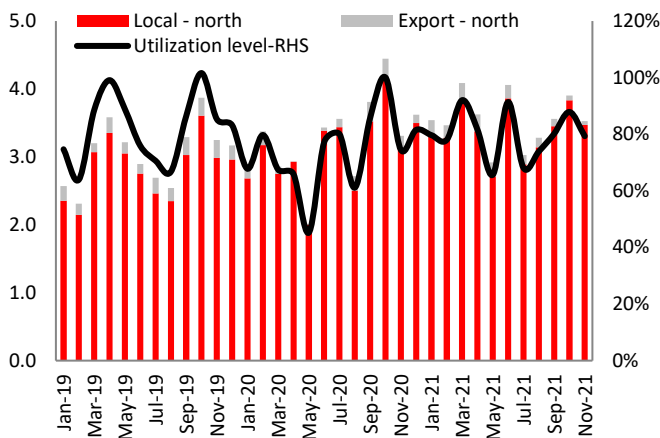
■ Furthermore, mix of local demand in total dispatches increased by 2.6ppt YoY to 85.6% in Nov'21 due to rebound in domestic demand.

■ **Multiple price hikes allowed to pass on the major impact of higher input cost:** Domestic avg. cement prices increased by 33.6/21.1% YoY to in North/South region in Nov'21. Increase in domestic prices is attributable to (1) avg 114% YoY increase in coal prices in Nov'21 amid strong demand from China/India due to winter season and lower inventory levels, (2) increase in furnace oil prices and gas supply issues, (3) higher overheads cost and (4) rupee depreciation. Furthermore, going forward cement prices are expected to normalize given decline in international coal prices.

### Outlook

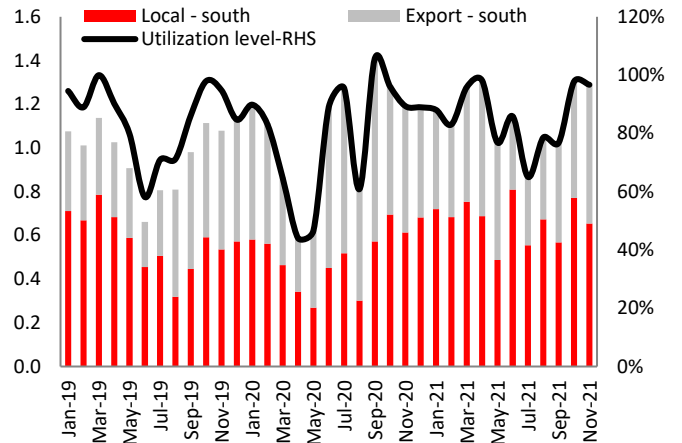
■ We have positive stance on the sector with LUCK, DGKC, CHCC, KOHC, FCCL and PIOC as our top pick. Furthermore, companies would benefit from (1) increase in consumer housing finance (up 54.0% YoY to Rs126.3bn in Oct'21) (2) increased demand from public sector infrastructure projects as we come closer to election year and (3) disbursement of subsidy under NPHP. However, cement demand may come under pressure given Gov't decision to cut PSDP spending in upcoming mini budget along with more than expected monetary tightening.

**Fig 1: Utilization ↓ sequentially to 83% (mn tons)**



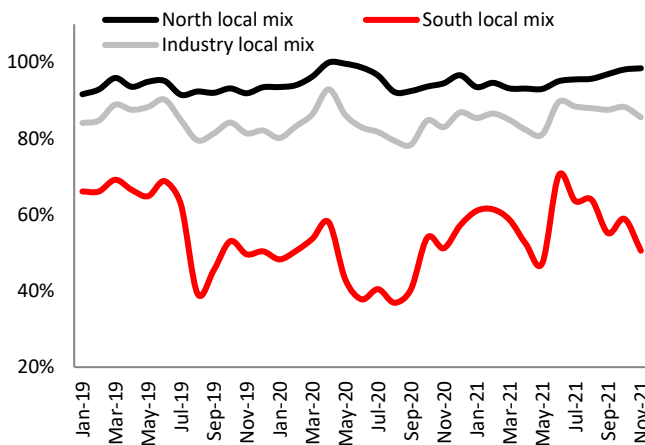
Source: APCMA, Foundation Research, Dec 2021

**Fig 2: Exports recovering in South region (mn tons)**



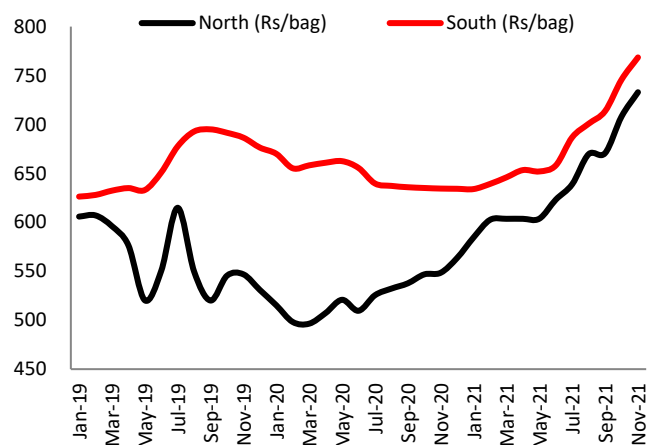
Source: APCMA, Foundation Research, Dec 2021

**Fig 3: North local mix at 17 months high of 98.4%**



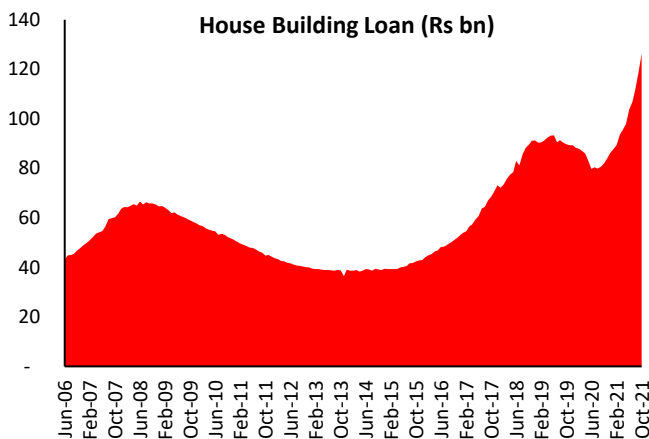
Source: APCMA, Foundation Research, Dec 2021

**Fig 4: Cement prices reached all time high (Rs/bag)**



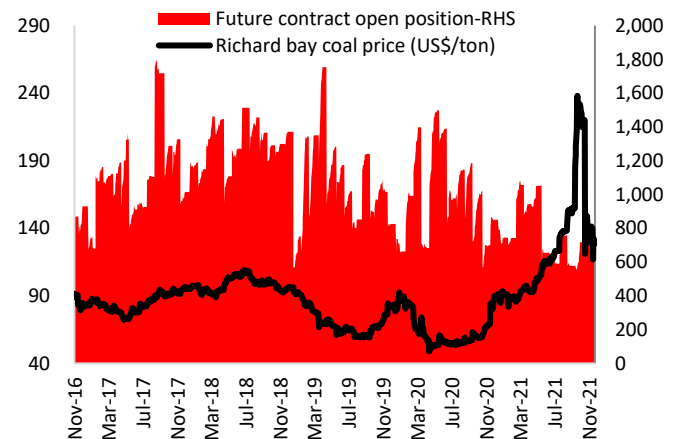
Source: PBS, Foundation Research, Dec 2021

**Fig 5: Housing finance ↑ to Rs126.3bn in Oct'21**



Source: SBP, Foundation Research, Dec 2021

**Fig 6: Coal price declining from its peak**



Source: Bloomberg, Foundation Research, Dec 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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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.