

PAKISTAN

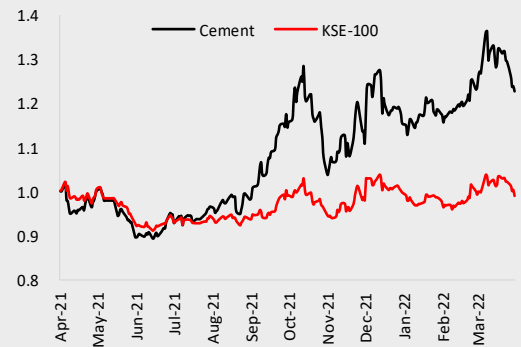


Pakistan cement industry demand in Mar'22 (mn tons)

Industry	Mar'22	YoY	MoM	9MFY22	YoY
Domestic	4.7	4.1%	20.1%	36.2	-0.1%
North	3.9	1.1%	19.8%	29.9	-2.4%
South	0.9	19.1%	21.2%	6.2	12.4%
Export	0.3	-63.6%	-27.2%	4.6	-34.9%
North	0.1	-71.3%	97.0%	0.7	-64.4%
South	0.2	-59.5%	-41.1%	4.0	-24.2%
Total	5.0	-6.2%	15.7%	40.8	-5.8%
North	3.9	-3.9%	20.8%	30.6	-6.0%
South	1.1	-13.4%	0.7%	10.2	-5.3%

Source: APCMA, Foundation Research, April 2022

Cement sector and KSE-100 relative price performance



Source: Bloomberg, Foundation Research, April 2022

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Foundation Securities (Pvt) Ltd
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Construction and Material

Highest ever domestic monthly dispatches witnessed in South region

Event

▪ Pakistan cement industry dispatches declined by 6.2% YoY to 5.04mn tons in Mar 22. We attribute decline in dispatches to 1) slowdown of growth in private sector demand amid multiple price hikes due to higher fuel/energy cost and 2) decline in exports of north region given lower economic activity in Afghanistan and (3) restricted south region exports due to unviable retention prices in export market given higher coal prices. Moreover, on sequential basis dispatches increased by 15.7% MoM due to higher domestic dispatches in both markets and recovery in north region exports.

Impact

▪ **Sequential Increase in dispatches due to demand recovery:** Pakistan cement dispatches decreased/increased by 6.2/15.7% YoY/MoM in Mar'22. On regional basis, north region dispatches decreased/increased by 3.9/20.8% YoY/MoM in Mar'22. Furthermore, in north region, domestic dispatches increased 1.1% YoY in Mar'22, while exports declined by 71.2% YoY due to slowdown of economic activity in Afghanistan. Moreover, south region sales decreased/increased by 13.4/0.7% YoY/MoM in Mar'22, decline in south region is due to 59.5% YoY decline in exports.

▪ To highlight, domestic dispatches increased by 1.1/19.1% YoY in north/south region in Mar'22. This can be accredited to recovery in construction related activities post winter. Furthermore, south region witnessed highest ever domestic dispatches of 0.9mn tons in Mar'22.

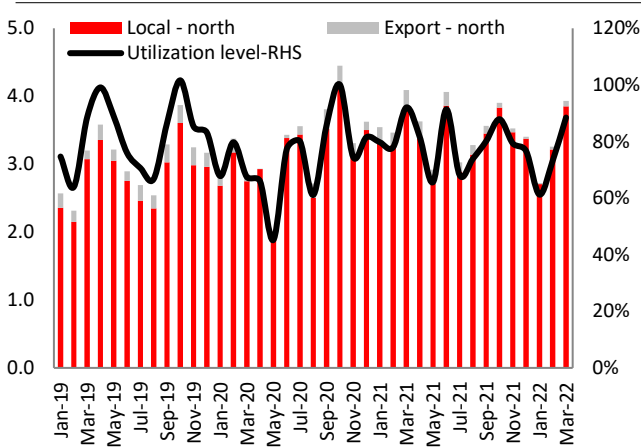
▪ **Utilization levels remained restricted due to lower exports:** Pakistan cement industry capacity utilization decreased/increased by 5.7/11.8ppt YoY/MoM to 87.2% in Mar'22. Furthermore, regional comparison demonstrates utilization level in north went down/up by 3.6/15.2% YoY/MoM in Mar'22 to 88.5% with local weight of 97.9% in Mar'22 (up 4.8ppt YoY). Moreover, utilization level in south went down/up by 12.8/0.5ppt YoY to 83% with local weight of 80.7% in Mar'22 (up by 22/13.7ppt YoY/MoM). Furthermore, mix of local demand in total dispatches in north/south increased by 9.2/3.4ppt YoY to 94.1% in Mar'22 due to rebound in domestic demand.

▪ **Multiple price hikes allowed to pass on the major effect of higher input cost:** Domestic avg. cement prices increased by 36.6/30.3% YoY to in north/south region in Mar'22. Increase in domestic prices is attributable to (1) avg 282% YoY increase in coal prices in Mar'22 due to demand supply imbalance amid Russia invasion of Ukraine and lower inventory levels in China/India, (2) increase in furnace oil prices and gas supply issues, (3) higher overheads cost and (4) significant rupee depreciation (avg exchange rate down 15% YoY in Mar'22). Furthermore, going forward cement prices are expected to remain elevated given surge in international coal prices due to supply chain disruptions amid Russia-Ukraine crisis.

Outlook

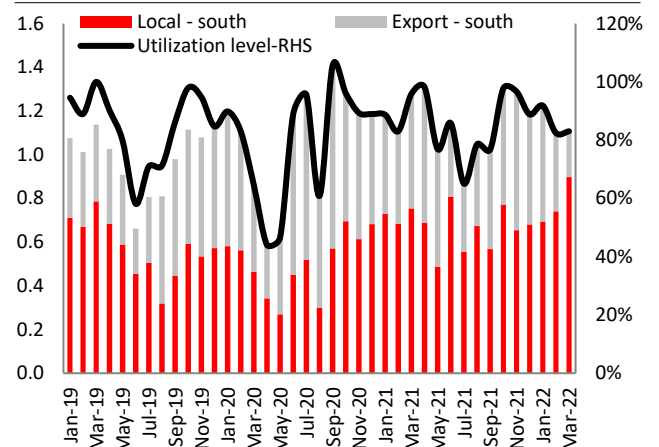
▪ Cement sector, near term profitability is expected to remain under pressure given sector's inability to completely pass on the impact of rise in fuel cost and inflationary pressures given slowdown in demand amid economic consolidation. Furthermore, demand from NPHP may decline in future due to limited fiscal space and conditions of IMF program. However, aforementioned factors are already incorporated in current market prices, thus we have positive stance on the sector.

Fig 1: Utilization level ↑ to 88% in north (mn tons)



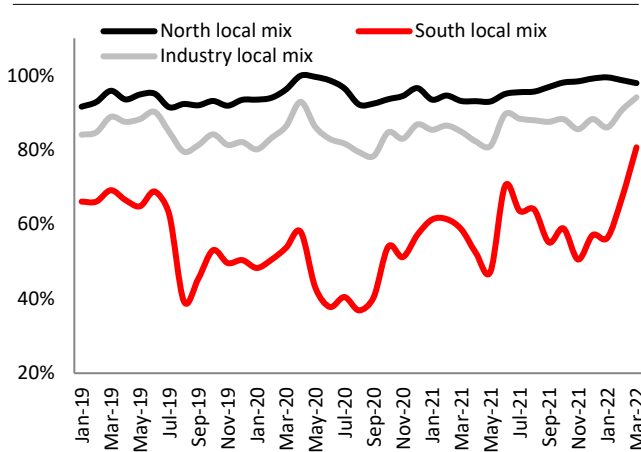
Source: APCMA, Foundation Research, April 2022

Fig 2: South utilization remained on ↓ side (mn tons)



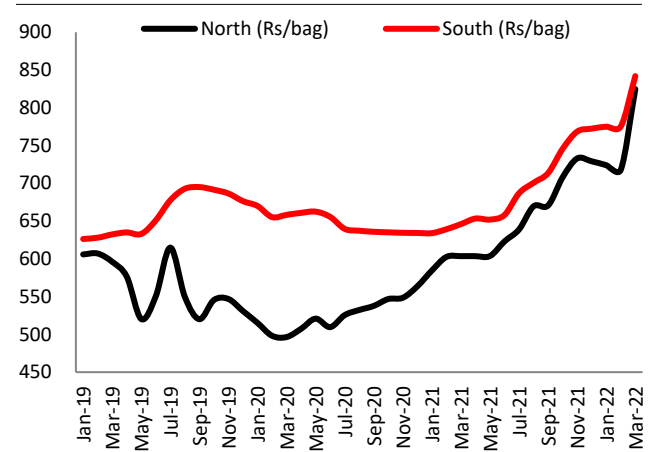
Source: APCMA, Foundation Research, April 2022

Fig 3: North local mix at 97.9%



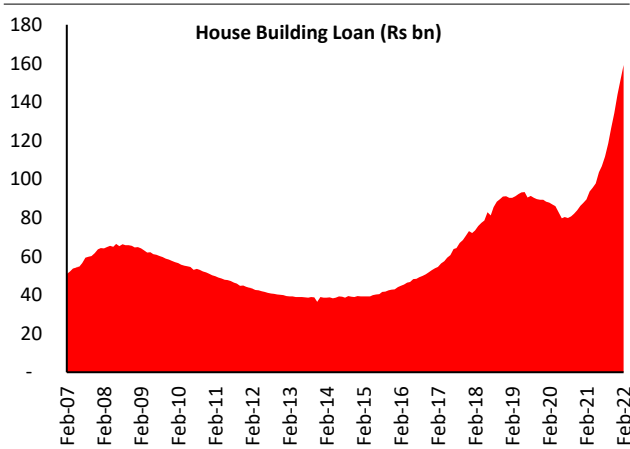
Source: APCMA, Foundation Research, April 2022

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



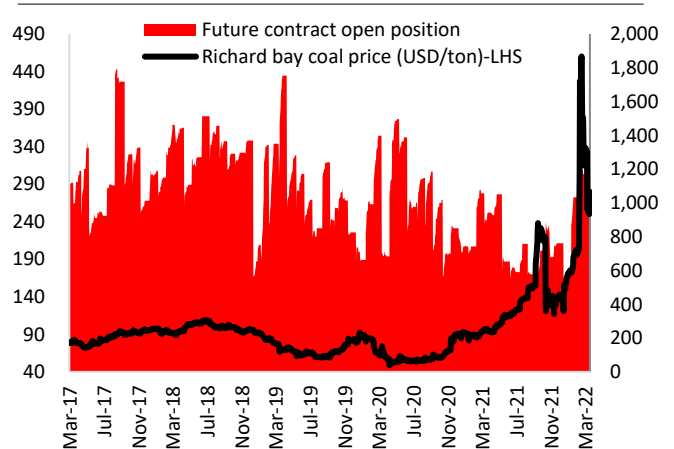
Source: PBS, Foundation Research, April 2022

Fig 5: Housing finance ↑ to Rs159.1bn in Feb'22



Source: SBP, Foundation Research, April 2022

Fig 6: Coal price to remain elevated (USD/ton)



Source: Bloomberg, Foundation Research, April 2022

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.