

PAKISTAN

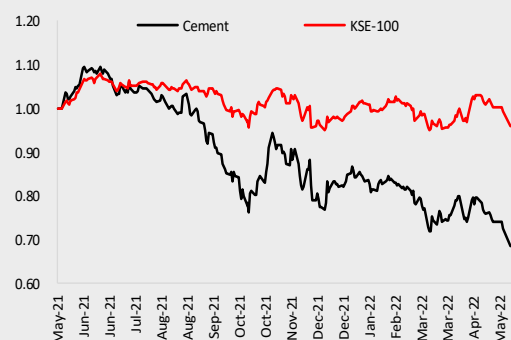


Pakistan cement industry demand in Apr'22 (mn tons)

Industry	Apr'22	YoY	MoM	10MFY22	YoY
Domestic	3.4	-17.2%	-29.1%	39.5	-1.8%
North	2.8	-17.1%	-27.3%	32.7	-3.8%
South	0.6	-17.7%	-36.9%	6.8	9.1%
Export	0.2	-82.1%	-47.0%	4.8	-40.1%
North	0.1	-75.2%	-23.1%	0.7	-65.6%
South	0.1	-84.9%	-55.9%	4.1	-30.7%
Total	3.5	-28.7%	-30.1%	44.3	-8.2%
North	2.9	-21.1%	-27.2%	33.5	-7.5%
South	0.7	-49.7%	-40.6%	10.9	-10.2%

Source: APCMA, Foundation Research, May 2022

Cement sector and KSE-100 relative price performance



Source: Bloomberg, Foundation Research, May 2022

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Construction and Material

Cement exports declined to historical low in Apr'22

Event

▪ Pakistan cement industry dispatches declined by 29% YoY to 3.5mn tons in Apr'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, (2) decline in exports of north region given lower economic activity in Afghanistan and (3) lower south region exports due to unviable retention prices in export market given higher coal prices. Moreover, on sequential basis dispatches declined by 30% MoM due to lower domestic dispatches in both markets as well as decline in exports of both regions.

Impact

▪ **Slowdown and record high cement prices impacted demand:** Pakistan cement dispatches decreased by 29/30% YoY/MoM in Apr'22. On regional basis, north region dispatches decreased by 21/27% YoY/MoM in Apr'22. Furthermore, in north region, domestic dispatches declined 17% YoY in Apr'22, while exports declined by 75% YoY due to slowdown of economic activity in Afghanistan. Moreover, south region sales decreased by 50/41% YoY/MoM in Apr'22, this drop is due to 18/85% YoY decline in domestic/export dispatches. Decline in south region exports is attributable to unviable retention prices in export market given higher coal prices.

▪ To highlight, domestic dispatches declined by 17/18% YoY in north/south region in Apr'22. This can be accredited to slowdown in construction related activities amid political uncertainty and rising interest rates.

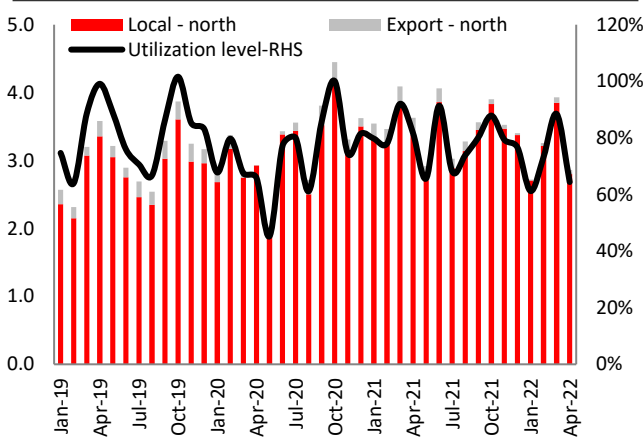
▪ **Utilization levels declined due to lower exports:** Pakistan cement industry capacity utilization decreased by 24.5/26.3ppt YoY/MoM to 61% in Apr'22. Furthermore, regional comparison demonstrates utilization level in north went down by 17/24% YoY/MoM in Apr'22 to 64% with local weight of 97.8% in Apr'22 (up 4.7ppt YoY). Moreover, utilization level in south went down by 49/34ppt YoY to 49% with local weight of 85.7% in Apr'22 (up by 33/5ppt YoY/MoM). Furthermore, mix of local demand in total dispatches in north/south increased by 4.7/33.4ppt YoY to 97.8/85.7% in Apr'22 due to decline in exports in both regions.

▪ **Multiple price hikes allowed passing on the major effect of surging input costs:** Domestic avg. cement prices increased by 43/34% YoY in north/south region in Apr'22. Increase in domestic prices is attributable to (1) avg 239% YoY increase in coal prices in Apr'22 due to demand supply imbalance amid Russian invasion of Ukraine and lower inventory levels in China/India, (2) increase in furnace oil prices and gas supply issues, (3) higher overheads cost due to inflation and (4) significant rupee depreciation (avg rupee depreciation of 20.4% YoY in Apr'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

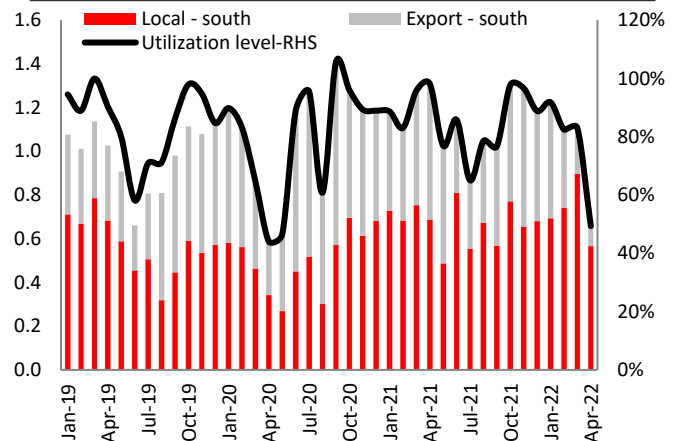
▪ Cement sector, near term profitability is expected to remain under pressure given sector's inability to completely pass on the impact of rise in fuel cost and inflationary pressures given slowdown in demand amid economic consolidation. Furthermore, demand from NPHP may decline in future due to limited 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 64.4% in north (mn tons)



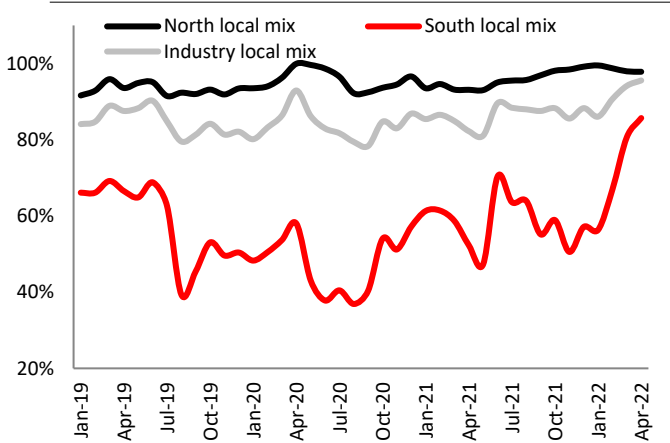
Source: APCMA, Foundation Research, May 2022

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



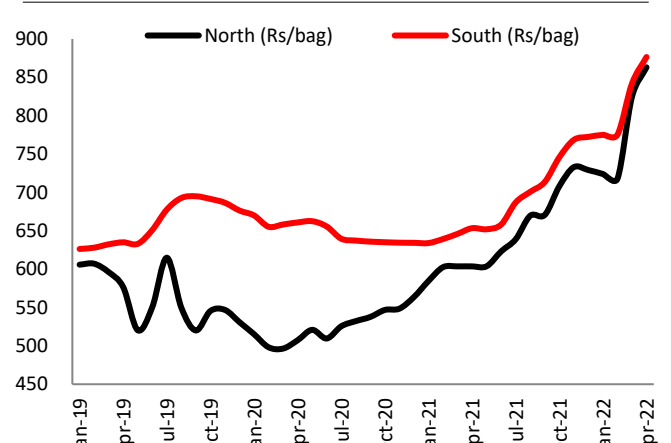
Source: APCMA, Foundation Research, May 2022

Fig 3: North local mix at 97.8%



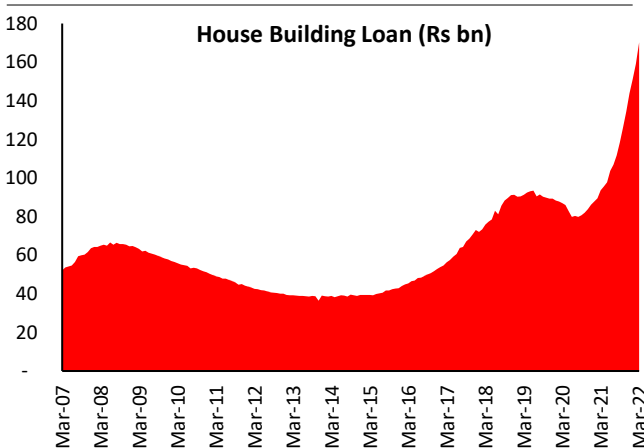
Source: APCMA, Foundation Research, May 2022

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



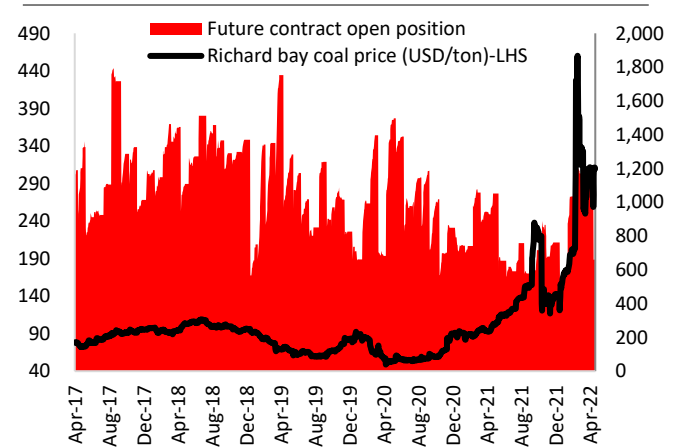
Source: PBS, Foundation Research, May 2022

Fig 5: Housing finance ↑ to Rs170.2bn in Mar'22



Source: SBP, Foundation Research, May 2022

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



Source: Bloomberg, Foundation Research, May 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.