Foundation Securities
A Fauji Foundation Group Company
REP-095

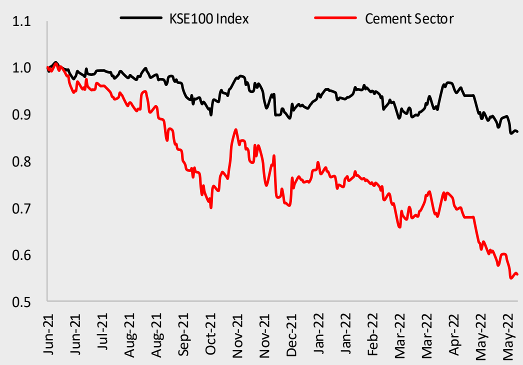
PAKISTAN

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

Industry	May'22	YoY	MoM	11MFY22	YoY
Domestic	3.1	-1.7%	-6.5%	42.7	-1.8%
North	2.6	-5.3%	-8.2%	35.3	-3.9%
South	0.6	18.3%	1.7%	7.4	9.7%
Export	0.2	-77.0%	9.8%	5.0	-43.2%
North	0.1	-64.4%	16.9%	0.8	-65.5%
South	0.1	-81.7%	5.1%	4.2	-35.0%
Total	3.3	-15.9%	-5.8%	47.7	-8.8%
North	2.6	-9.4%	-7.7%	36.1	-7.6%
South	0.7	-34.4%	2.2%	11.5	-12.1%

Source: APCMA, Foundation Research, June 2022

Cement sector and KSE-100 relative price performance



Source: Bloomberg, Foundation Research, June 2022

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Construction and Material

Cement dispatches declined to two year low in May’22

Event

▪ Pakistan cement industry dispatches declined by 15.9% YoY to 3.32mn tons in May’22. We attribute decline in dispatches to (1) slowdown in economic activity (2) decline in demand from private sector amid multiple price hikes due to higher fuel/energy cost and rising interest rates, (3) decline in exports of north region given lower economic activity in Afghanistan and (4) unviable retention price levels in the export market amid exuberant coal prices. Moreover, on sequential basis dispatches declined by 6.5% MoM due to lower domestic dispatches in north region.

Impact

▪ **Slowdown and high cement prices impacted demand:** Pakistan cement dispatches decreased by 15.9/5.8% YoY/MoM in May’22. On regional basis, north region dispatches decreased by 9.4/7.7% YoY/MoM in May’22. Whereas, in north region, domestic dispatches declined 5.3/8.2% YoY/MoM in May’22, while exports declined by 64.4% YoY due to slowdown of economic activity in Afghanistan. Moreover, south region sales decreased by 34.4% YoY in May’22, this drop is due to 81.7% YoY decline in export dispatches. This decline is due to unviable retention price levels in the export market amid exuberant coal prices.

▪ To highlight, domestic dispatches went down/up by 8.2/1.7% MoM in north/south region in May’22. This can be attributed to a drop in construction-related activity due to political unrest and rising borrowing costs.

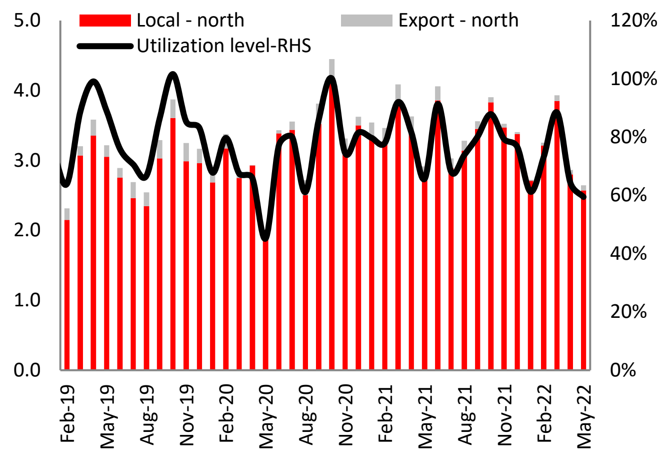
▪ **Utilization levels fell due to decline in dispatches:** Pakistan cement industry capacity utilization decreased by 10.9/3.5ppt YoY/MoM to 57.4% in May’22. Furthermore, regional comparison demonstrates that utilization level in north region went down by 6.2/4.9% YoY/MoM in May’22 to 59.5% with local weight of 97.3%. Moreover, utilization level in south region went down/up by 26.4/1.1ppt YoY to 50.4% with local weight of 85.3% in May’22. Moreover, mix of local demand in total dispatches in north/south regions increased by 4.2/38ppt YoY to 97.3/85.3% in May’22 due to decline in exports in both regions.

▪ **Price hikes not sufficient to cover cost pressures:** Domestic average cement prices increased significantly by 43/38% YoY in north/south region in May’22. However, this increase is insufficient to cover (1) average 211% YoY increase in coal prices in May’22 due to supply chain constraints amidst the Ukraine War and lower inventory levels in China/India, (2) increase in fuel cost, (3) higher overheads charge due to inflation, (4) rising freight costs and (5) significant rupee deprecation (avg rupee depreciation of 22% YoY in May’22).

Outlook

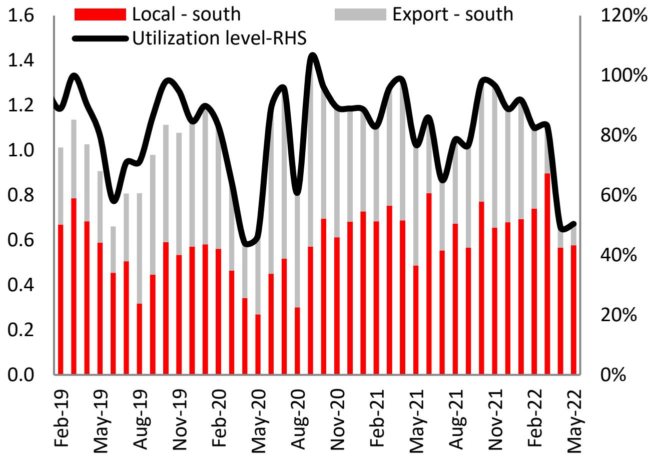
▪ Cement sector, near term profitability is expected to remain under pressure given sector’s inability to completely pass on the impact of rise in fuel cost and inflationary pressures given slowdown in demand amid economic consolidation. Furthermore, demand from NPHP may decline in future due to limited 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 and LUCK, FCCL, KOHC are our top picks.

Fig 1: Utilization level ↓ to 59.5% in north (mn tons)



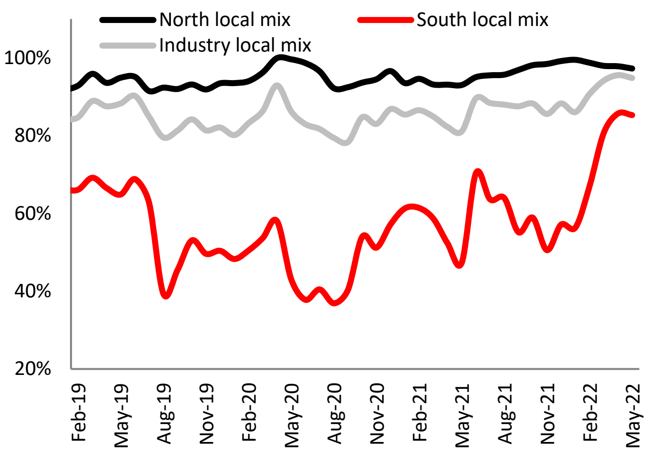
Source: APCMA, Foundation Research, June 2022

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



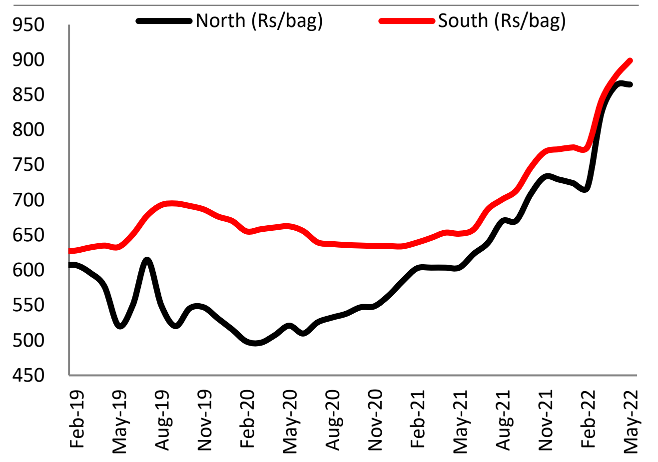
Source: APCMA, Foundation Research, June 2022

Fig 3: North local mix at 97.3%



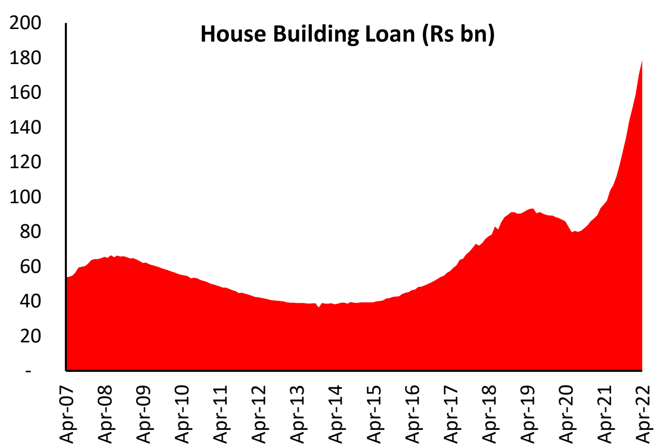
Source: APCMA, Foundation Research, June 2022

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



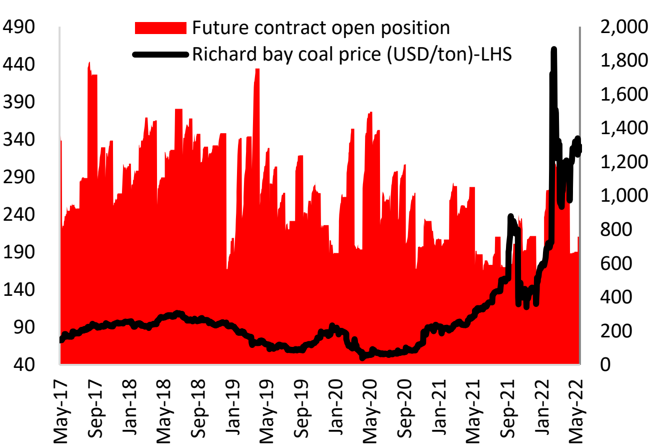
Source: PBS, Foundation Research, June 2022

Fig 5: Housing finance ↑ to Rs178.8bn in Apr'22



Source: SBP, Foundation Research, June 2022

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



Source: Bloomberg, Foundation Research, June 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

Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.