

PAKISTAN



FSL cement universe 4QFY22 earning preview (Rs mn)

Company	4QFY22	YoY	QoQ	FY22	YoY
KOHC	2.9	-39%	-64%	26.0	49%
LUCK*	2.7	-64%	-84%	37.7	-14%
CHCC	1.6	-69%	-71%	19.2	17%
PIOC	0.9	-70%	-58%	8.1	-7%
DGKC	0.5	-74%	-84%	8.8	3%
FCCL	0.4	-29%	-50%	3.4	35%
ACPL*	0.1	-94%	-98%	8.6	8%

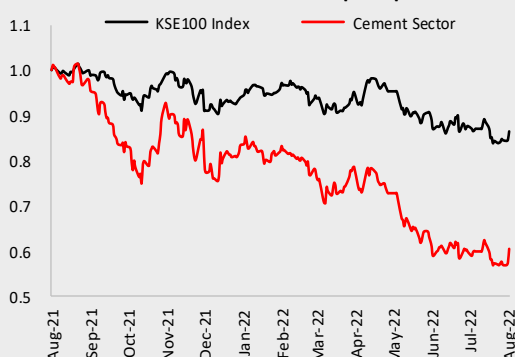
Dividend expectations (Rs/sh)

KOHC	-
LUCK	5.0
CHCC	2.0
PIOC	-
DGKC	-
FCCL	-
ACPL	-

Source: Company accounts, FSL Research, August 2022

*un-consolidated earnings

Cement sector and KSE-100 relative price performance



Source: Bloomberg, Foundation Research, August 2022

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Pakistan Cement

Profitability to decline by 59% YoY in 4QFY22

Event

▪ FSL cement universe profitability is expected to decline by 59/76% YoY/QoQ in 4QFY22. We attribute decline in profitability to (1) imposition of 10% super tax in FY23 budget on company's taxable income earned during FY22, (2) 5/75% YoY decline in universe dispatches in domestic/exports market, (3) higher fuel/energy cost due to increase in international coal prices and (4) increase in finance cost given multiple policy rate hikes by SBP. To highlight, excluding the impact of super tax FSL cement universe profitability would have increased/decreased by 16/32% YoY/QoQ in 4QFY22.

Impact

▪ **Revenue to increase despite decline in volumes:** Higher retention prices in domestic market (up 59% YoY in 4QFY22) would allow universe revenue to increase by 33% YoY in 4QFY22. Increase in revenue is limited as universe volumes declined by 18% YoY due to 5/75% YoY decline in domestic/export dispatches in 4QFY22. Furthermore, among other heads (1) finance cost is expected to increase by 60% YoY in 4QFY22 due to higher interest rates and (2) universe effective tax rate will clock at 75.2% in 4QFY22 due to super tax.

▪ **Higher fuel/energy cost put margins under pressure:** FSL universe gross margins are expected to decline by 2.9/2.3ppts YoY/QoQ to 20.3% in 4QFY22 due to avg 202% YoY increase in international coal prices amid rupee depreciation of 20.7% YoY in 4QFY22. Coal prices increased due to supply chain constraints amidst the Russia-Ukraine war and lower inventory levels in China/India. Furthermore, energy cost increased due to rise in alternate fuel cost (FO, Diesel and RLNG) and higher overhead cost due to inflation.

▪ **LUCK/FCCL/KOHC/CHCC gross margins are expected to remain above 20%:** LUCK is expected to post EPS of Rs2.7 in 4QFY22 (down 64/84% YoY/QoQ). Decline in LUCK profitability is attributable to lower dispatches (14.5/14.4% YoY/QoQ) and higher effective tax rate. To highlight, we expect LUCK to resume dividend payout with Rs5.0/sh in 4QFY22. FCCL/KOHC/CHCC profitability is expected to decline by 29/39/69% YoY to 0.4/2.9/1.6/sh in 4QFY22. Furthermore, FCCL/KOHC/CHCC dispatches are expected to decline by 16/8/13% YoY in 4QFY22. Apart from aforementioned factors, 36% YoY increase in finance cost due to higher debt of CHCC has further dented profitability.

▪ **DGKC/ACPL/PIOC margins to remain below average:** We expect DGKC/ACPL/PIOC dispatches to decline by 28/46/5% YoY in 4QFY22, that would result in companies profitability of Rs0.5/0.1/0.9/sh. Significant decline in DGKC/ACPL profitability would be due to 89/95% YoY decline in exports in 4QFY22 on the back of higher international coal prices and non-availability of Afghan coal in the south region. To highlight, support to DGKC would come from dividend income of its portfolio companies.

Outlook

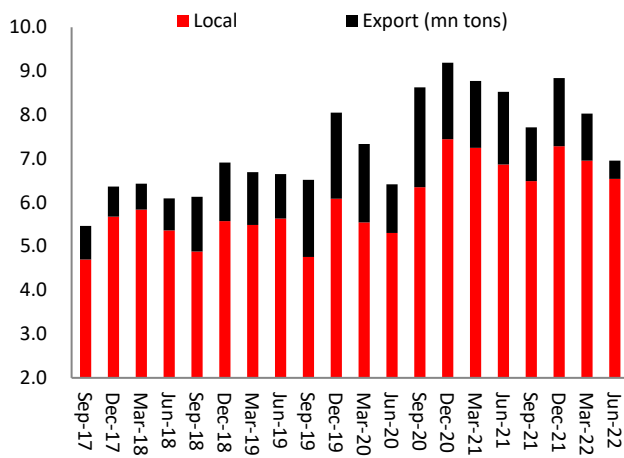
▪ Cement sector, near term profitability is expected to remain under pressure given sector's inability to completely pass on the impact of rise in fuel cost and inflationary pressures due to slowdown in demand amid economic consolidation. Furthermore, demand from NPHP may decline in future due to restrictions imposed by SBP on new approvals and IMF conditions over subsidy. However, aforementioned factors are already incorporated in current market prices, thus we have positive stance on the sector with LUCK, FCCL, KOHC as our top picks.

Fig 1: 4QFY22E FSL Cement Universe key Financial Highlights (Rs mn)

	4QFY22	4QFY21	YoY	QoQ	FY22	FY21	YoY
Net Sales	78,626	59,036	33%	5%	288,400	224,646	28%
Cost of Sales	62,667	45,314	38%	8%	222,767	170,099	31%
Gross Profit	15,959	13,722	16%	-6%	65,633	54,547	20%
Administrative expenses	1,103	967	14%	3%	4,349	3,730	17%
S&D expenses	1,851	2,152	-14%	-26%	8,915	9,844	-9%
Other operating charges	890	754	18%	-10%	3,929	2,892	36%
Other Income	2,133	1,488	43%	-60%	12,351	9,331	32%
EBIT	14,248	11,338	26%	-20%	60,791	47,412	28%
Financial charges	2,952	1,850	60%	29%	9,134	7,580	21%
PBT	11,296	9,488	19%	-27%	51,657	39,832	30%
Taxation	8,495	2,595	227%	129%	18,991	8,790	116%
PAT	2,801	6,892	-59%	-76%	32,666	31,042	5%
GP Margins	20.3%	23.2%			22.8%	24.3%	
EBIT Margins	18.1%	19.2%			21.1%	21.1%	
NP Margins	3.6%	11.7%			11.3%	13.8%	

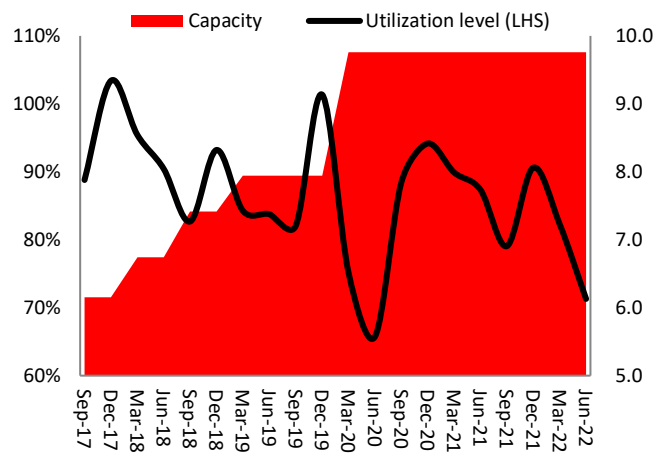
Source: Company Accounts, Foundation Research, August 2022

Fig 02: FSL universe dispatches ↓ in Q'4 (mn tons)



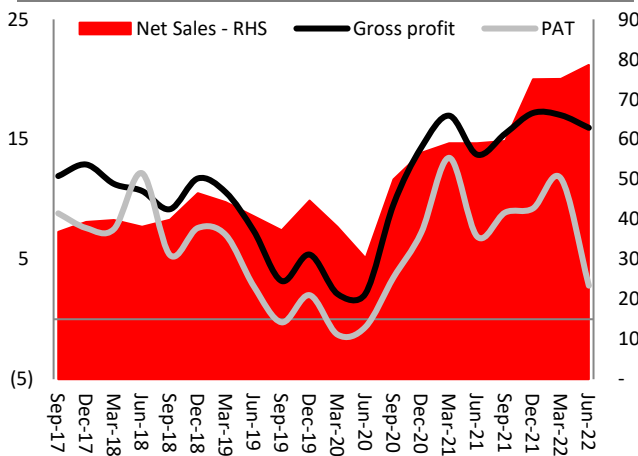
Source: Company acc, FSL Research, August 2022

Fig 03: ...utilization also falls to 71% in Q'4 (mn tons)



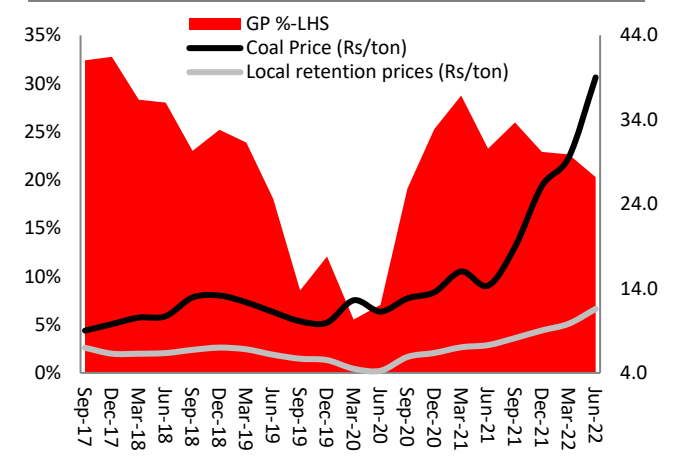
Source: Company acc, FSL Research, August 2022

Fig 04: Profitability to ↓ due to super tax (Rs bn)...



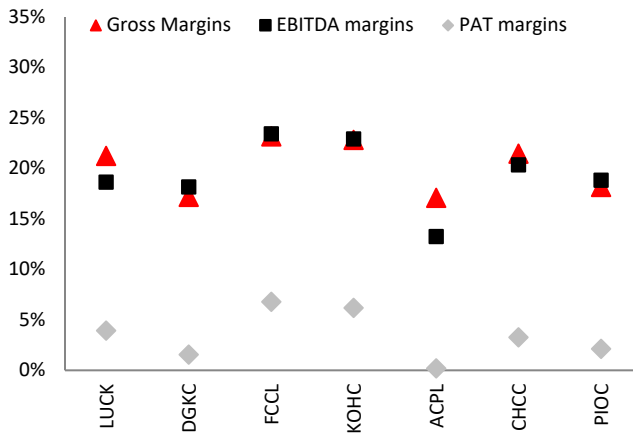
Source: Company acc, FSL Research, August 2022

Fig 05: ...and higher energy/fuel cost (Rs 000)



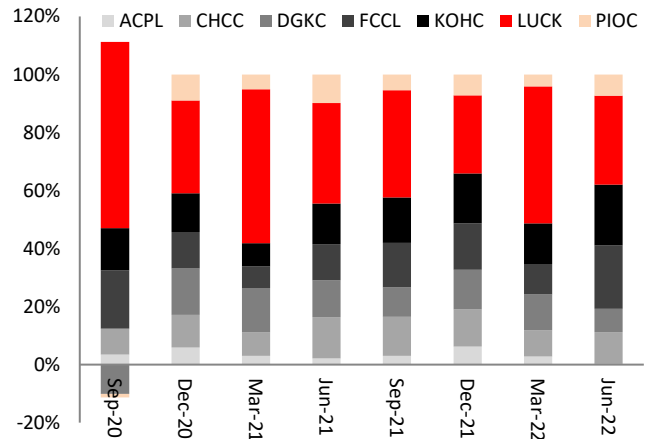
Source: Company acc, FSL Research, August 2022

Fig 06: ACPL to witness lowest margins among peers



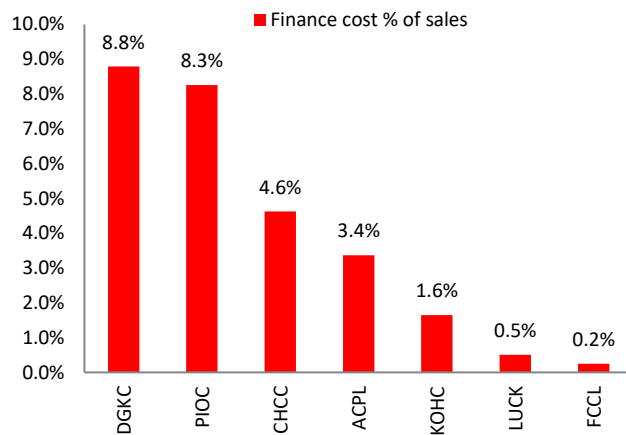
Source: Company acc, FSL Research, August 2022

Fig 07: LUCK to dominate universe profitability cont



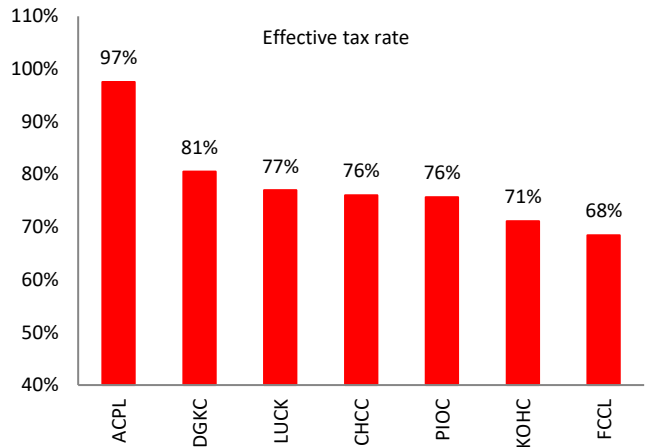
Source: Company acc, FSL Research, August 2022

Fig 08: leverage to put DGKC/PIOC/CHCC profit lower



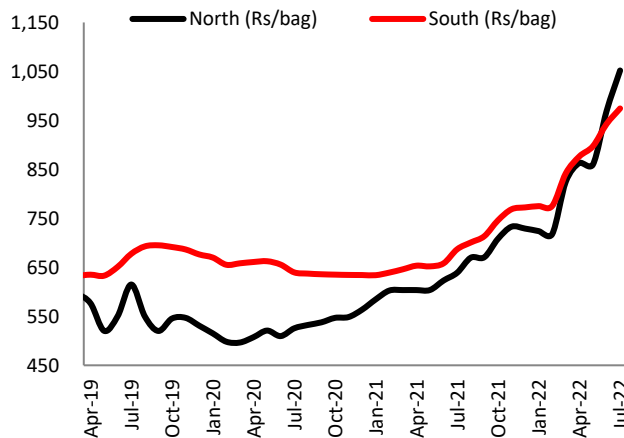
Source: Company acc, FSL Research, August 2022

Fig 09: ETR increased due to super tax imposition



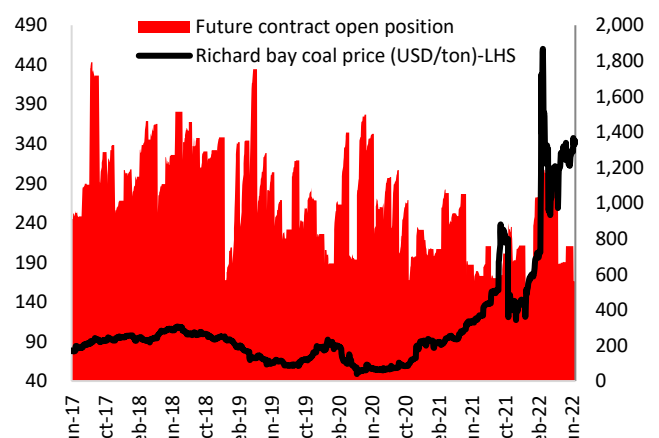
Source: Company acc, FSL Research, August 2022

Fig 10: North prices exceed South region in rare move



Source: PBS, FSL Research, August 2022

Fig 11: Coal prices stabilizing at higher rates



Source: Bloomberg, FSL Research, August 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
Cont	Contribution
ETR	Effective tax rate

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