

**PAKISTAN**

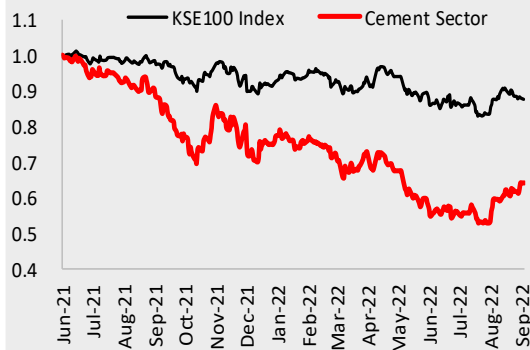


Pakistan cement industry demand in Sep'22 (mn tons)

Industry	Sep'22	YoY	MoM	1QFY23	YoY
<b>Domestic</b>	3.8	-5.4%	30.8%	8.59	-23.9%
North	3.1	-9.2%	25.4%	7.24	-23.6%
South	0.7	17.5%	64.6%	1.34	-25.3%
<b>Export</b>	0.5	-17.3%	21.9%	1.01	-34.4%
North	0.1	14.7%	37.6%	0.29	-25.5%
South	0.3	-25.0%	17.1%	0.72	-37.4%
<b>Total</b>	4.3	-6.9%	29.8%	9.60	-25.2%
North	3.3	-8.4%	25.8%	7.53	-23.7%
South	1.0	-1.6%	44.6%	2.07	-30.1%

Source: APCMA, Foundation Research, Oct 2022

Cement sector and KSE-100 relative price performance



Source: Bloomberg, Foundation Research, October 2022

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# Construction and Material

## Higher prices and floods restricted dispatches growth in Sep'22

**Event**

■ Pakistan cement industry dispatches declined by 6.9% YoY to 4.3mn tons in Sep'22. We attribute decline in dispatches to (1) slowdown in construction activity amid heavy monsoon rainfall followed by record floods, (2) lower exports due to unviable retention prices for exports amidst increase in international coal prices, (3) decline in demand from private sector due to record high cement retail prices given increase in cost of other construction materials and (4) lower public sector development spending due to fiscal constraints amid political uncertainty.

**Impact**

■ **Cement offtake declined 6.9% YoY in Sep 22:** Pakistan cement dispatches declined by 6.9% YoY in Sep'22 to 4.3mn ton. On regional basis, north region dispatches declined by 8.4% YoY. Whereas, in north region, domestic dispatches declined 9.2% YoY, while exports increased by 14.7% YoY due to uptick of economic activity in Afghanistan given facilitation in barter trade by Gov't. Moreover, south region dispatches declined by 1.6% YoY in Sep'22 on the back of 25.0% YoY decline in exports, whereas domestic dispatches increased by 17.5% in Sep'22. To highlight, despite significant rupee depreciation, south region exports fell due to unviable export prices being offered amid soaring coal and electricity prices.

■ Moreover, on sequential basis dispatches went up 29.8% MoM, mainly due to low base effect. However, the numbers are still lower than last two year average dispatches due to (1) heavy monsoon rains, (2) record high domestic price, (3) higher interest rates and (4) lower public spending. In north/south region dispatches inclined by 25.8/44.6% MoM in Sep'22.

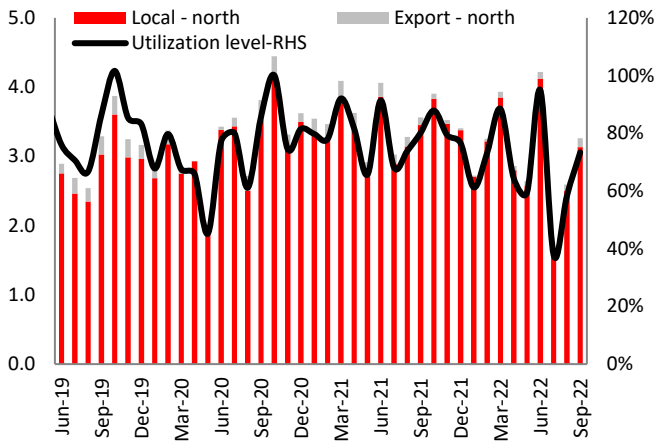
■ **Utilization levels declined to 73.9% in Sep'22:** Cement industry capacity utilization ↓/↑ by 5.50/17.0ppt YoY/MoM to 73.9% in Sep'22 with local weight of 88.9%. Furthermore, regional comparison shows that utilization level in north region went down/up 6.80/15.0ppt YoY/MoM in Sep'22 to 73.4% with local weight of 96.1%. Moreover, utilization level in south region went down/up by 1.2/23.3ppt YoY/MoM to 75.6% with local weight of 65.8% in Sep'22. To highlight, industry utilization levels in 1QFY23 are 55.3%, well below historical averages (↓ 14.5/20.90% 4QFY22/FY22).

■ **Domestic prices are being driven up by high energy costs and underutilization:** Domestic avg cement prices in north/south region increased by 43.6/32.8% YoY in Sep'22 (↓/↑ 1.1/0.1% MoM). But this increase in price was not sufficient to cover (1) average 112.6/6.3% YoY/MoM increase in international coal prices in Sep'22 due to supply chain constraints amid the Russia-Ukraine war given start of winter season inventory buying at major import destinations, (2) increase in alternate fuel cost (FO, Diesel and RLNG), (3) higher other overhead cost due to inflation, and (4) rupee depreciation of 4.5/27.1% MoM/YoY in Sep'22.

**Outlook**

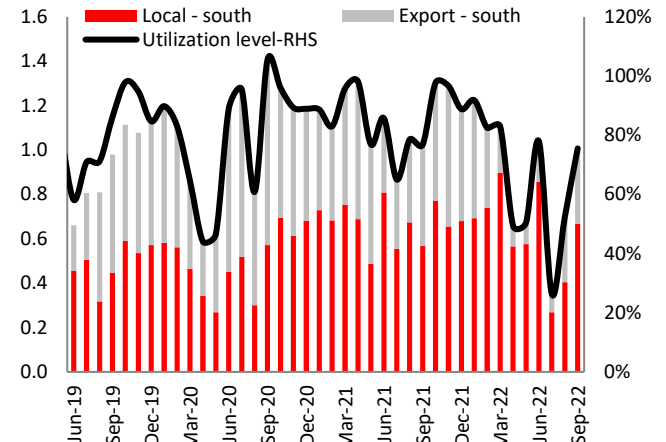
■ Cement sector, near term profitability is expected to remain under pressure given sector's inability to completely pass on the impact of rise in fuel/energy cost amid slowdown in demand due to economic consolidation and floods. Furthermore, demand from NPHP would decline in future due to restrictions imposed by SBP on new approvals and IMF conditions over subsidy.

**Fig 1: North utilization ↓ by 6.80% YoY to 73.4% (mn) tons**



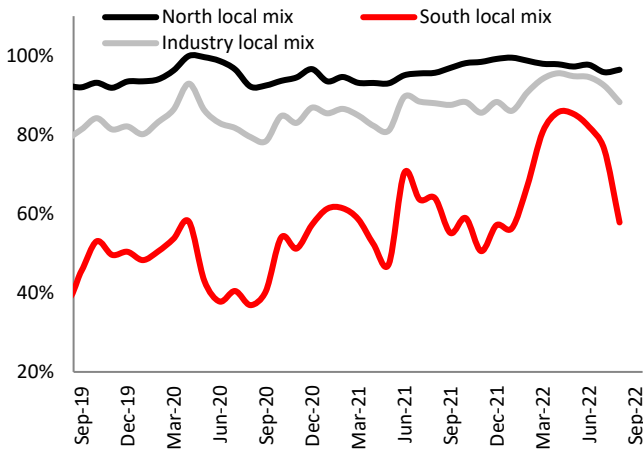
Source: APCMA, Foundation Research, Oct 2022

**Fig 2: South utilization ↓ by 1.2% YoY to 75.6% (mn) tons**



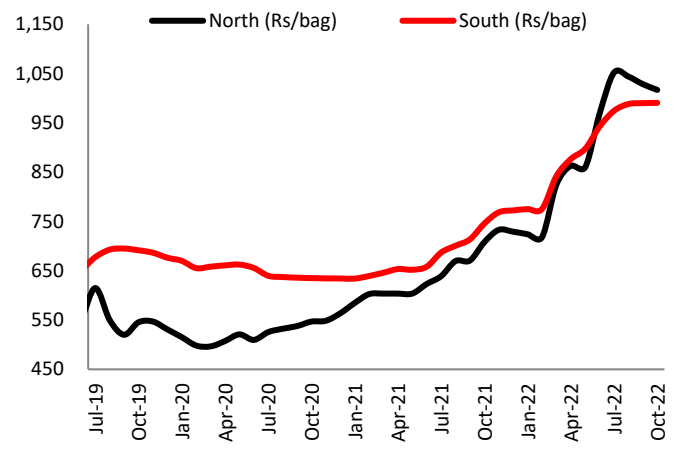
Source: APCMA, Foundation Research, Oct 2022

**Fig 3: Industry local mix inclined to 88.9% in Sep'22**



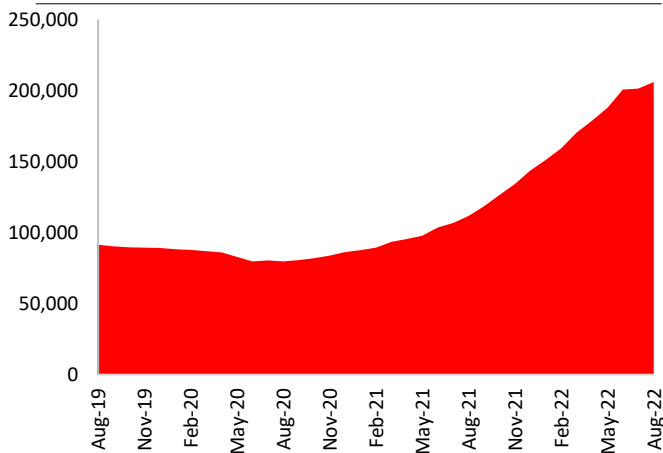
Source: APCMA, Foundation Research, Oct 2022

**Fig 4: Cement prices remained high (Rs/bag)**



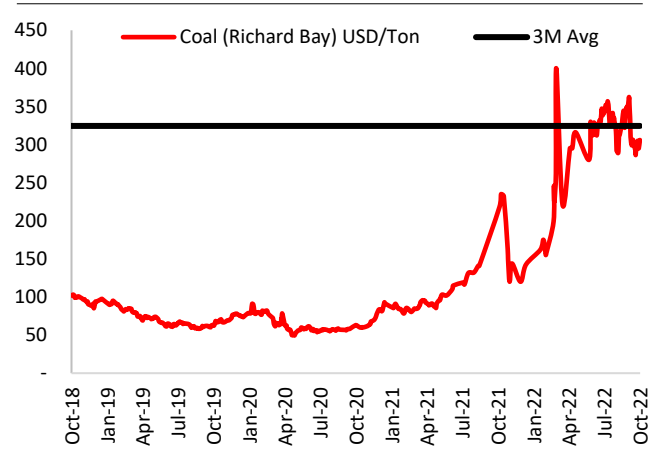
Source: PBS, Foundation Research, Oct 2022

**Fig 5: House Building financing come at Rs206bn in Aug22**



Source: SBP, Foundation Research, Oct 2022

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



Source: Bloomberg, Foundation Research, Oct 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
Dep	Depreciation

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