

PAKISTAN



FSL cement universe 1QFY23 earning preview (Rs mn)

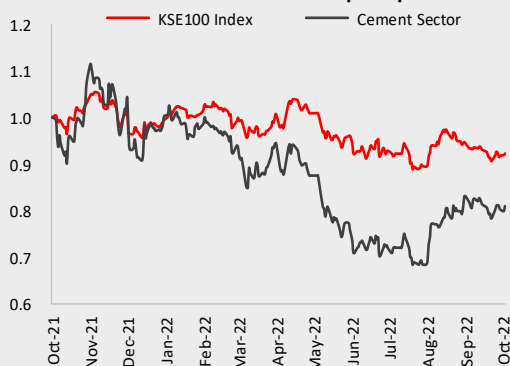
Company	1QFY23E	1QFY22	YoY	QoQ
LUCK*	12.4	10.2	22%	1%
KOHC	6.9	7.0	0%	253%
CHCC	6.5	6.1	6%	23%
PIOC	3.0	2.1	44%	na
ACPL*	1.9	2.0	-6%	na
DGKC	1.6	2.1	-21%	na
FCCL**	0.7	na	na	na

Source: Company accounts, FSL Research, October 2022

*un-consolidated earnings

**comparable not available due to merger

Cement sector and KSE-100 relative price performance



Source: Bloomberg, Foundation Research, October 2022

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Pakistan Cement

Sector profitability to jump despite lower offtake in 1QFY23

Event

▪ FSL cement universe profitability (EX FCCL) is expected to increase by 10/102% YoY/QoQ in 1QFY23. We attribute increase in profitability to (1) better retention prices due to multiple hikes by the companies in order to pass on the impact of higher input cost and (2) increased reliance on Afghan/domestic coal in 1QFY23. To highlight, higher finance cost and lower offtake has restricted further upside in earnings. Among individual companies PIOC/LUCK/CHCC profitability is expected to increase by 44/22/6% YoY in 1QFY23, while DGKC/ACPL profitability is expected to decline by 21/6% in 1QFY23.

Impact

▪ **Higher retention prices to uplift revenue despite lower volumes:** FSL cement universe retention prices in domestic market increased by ~66/17% YoY/QoQ in 1QFY23 that resulted in 20% YoY higher revenue. To highlight, growth in revenue remain restricted due to ~31% YoY decline in universe volumes as domestic/export dispatches declined by 29/40% YoY in 1QFY23. Furthermore, among other heads (1) finance cost is expected to increase by 74% YoY in 1QFY23 due to higher interest rates and (2) effective tax rate would clock in at 32.4% in 1QFY23 due to imposition of super tax in FY23 budget.

▪ **Margins to remain on higher side due to increased reliance on Afghan/domestic coal:** FSL universe gross margins are expected to increase by 1.9ppt YoY to 27.3% in 1QFY23 due to avg 66% YoY increase in retention prices in domestic market and increased reliance (~60-70%) on Afghan/domestic coal. To highlight, 133/4% YoY increase in international coal prices due to supply chain constraints amidst the Russia-Ukraine war and lower inventory levels at import destinations has forced domestic cement players towards use of Afghan/domestic coal that was available at ~25/45% discount to international prices with an option to pay in PKR for Afghan coal.

▪ **LUCK/PIOC/CHCC expected to witness higher growth compared with peers:** LUCK is expected to post EPS of Rs12.4 in 1QFY23 (up 22/1% YoY/QoQ). Increase in LUCK profitability is attributable to better retention prices and efficient use of fuel in 1QFY23. PIOC/CHCC profitability is expected to increase by 44/6% YoY in 1QFY23 to Rs3.0/6.5/sh in 1QFY23, while KOHC profitability is expected to remain flat at Rs6.9/sh in 1QFY23 due to lower volumes. To highlight, we expect FCCL to post EPS of Rs0.7/sh (diluted) in 1QFY23.

▪ **DGKC/ACPL profitability to remain in pressure due to lower exports:** We expect DGKC/ACPL profitability to decline by 21/6% YoY in 1QFY23 to Rs1.6/1.9/sh. Significant decline in DGKC/ACPL profitability would be due to 33/61% YoY decline in exports in 1QFY23 on the back of higher international coal prices and restricted supply of Afghan coal in the south region. To highlight, 87/23% YoY/QoQ expected increase in DGKC finance cost would further restrict company profitability in 1QFY23.

Outlook

▪ Cement sector, near term profitability is expected to remain under pressure given slowdown in demand given economic consolidation and floods amid sector's inability to completely pass on the impact of rise in fuel/energy cost. Furthermore, demand from NPHP would decline in future due to restrictions imposed by SBP. However, aforementioned factors are already incorporated in current market prices, thus we have positive stance on the sector.

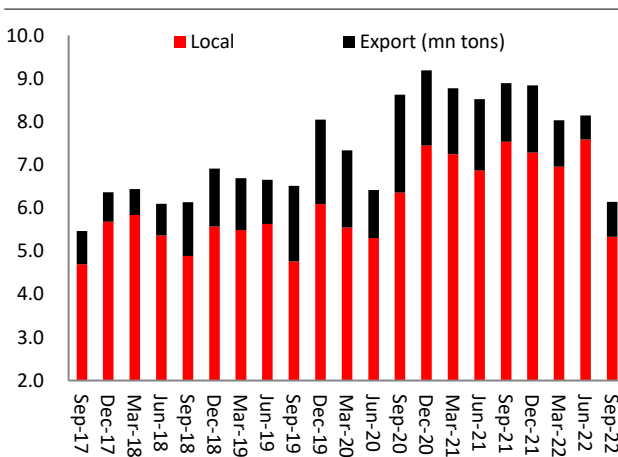
Fig 1: 1QFY23E FSL Cement Universe key Financial Highlights (Rs mn)

	1QFY23	1QFY22	YoY	QoQ
Net Sales	62,979	52,657	20%	-10%
Cost of Sales	45,786	39,299	17%	-9%
Gross Profit	17,193	13,358	29%	-11%
Administrative expenses	1,017	874	16%	3%
S&D expenses	1,858	1,807	3%	9%
Other operating charges	926	945	-2%	-43%
Other Income	2,156	2,303	-6%	-11%
EBIT	15,549	12,036	29%	-11%
Financial charges	3,246	1,865	74%	22%
PBT	12,303	10,171	21%	-17%
Taxation	3,987	2,637	51%	-63%
PAT	8,315	7,534	10%	102%
GP Margins	27.3%	25.4%		
EBIT Margins	24.7%	22.9%		
NP Margins	13.2%	14.3%		

Source: Company Accounts, Foundation Research, October 2022

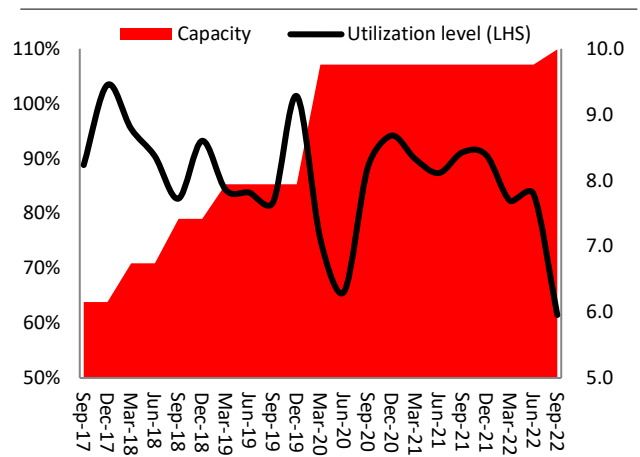
*Ex-FCCL due to non-availability of ACL pre-merger accounts

Fig 02: FSL universe dispatches ↓ in Q'1 (mn tons)



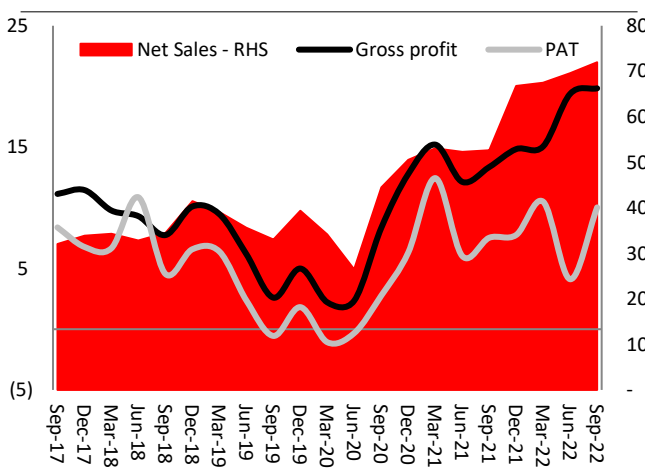
Source: Company acc, FSL Research, October 2022

Fig 03: ...utilization also falls to 61% in Q'1 (mn tons)



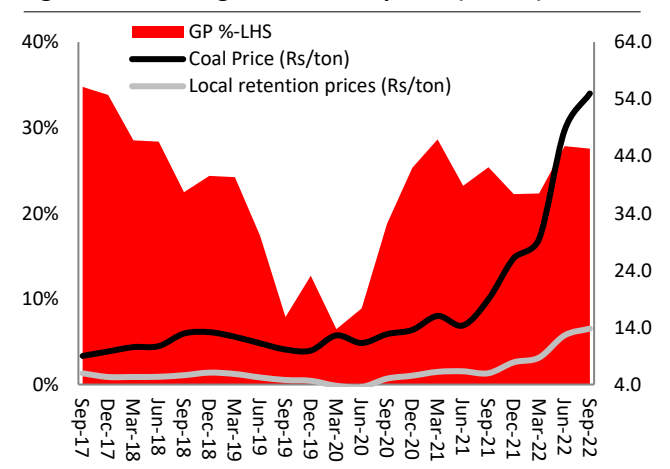
Source: Company acc, FSL Research, October 2022

Fig 04: Profitability to ↑ in 1QFY23 (Rs bn)...



Source: Company acc, FSL Research, October 2022

Fig 05: ...due to higher retention prices (Rs 000)



Source: Company acc, FSL Research, October 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

Important disclosures:

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Recommendations definitions

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