

## PAKISTAN

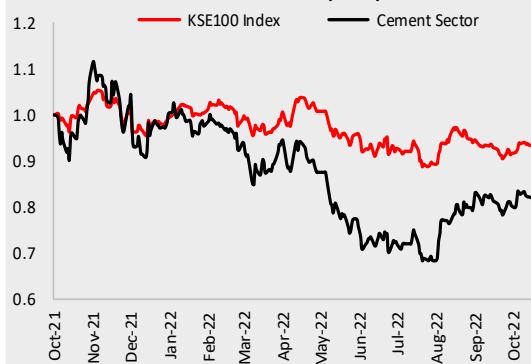


## Pakistan cement industry demand in Oct'22 (mn tons)

Industry	Oct'22	YoY	MoM	4MFY23	YoY
<b>Domestic</b>	3.89	-15.6%	2.3%	12.47	-21.5%
North	3.14	-18.0%	0.2%	10.38	-22.0%
South	0.75	-3.2%	12.1%	2.09	-18.7%
<b>Export</b>	0.36	-40.8%	-23.3%	1.38	-36.2%
North	0.13	78.1%	3.6%	0.42	-9.0%
South	0.23	-57.0%	-33.2%	0.96	-43.7%
<b>Total</b>	4.25	-18.5%	-0.6%	13.85	-23.2%
North	3.27	-16.2%	0.3%	10.80	-21.6%
South	0.98	-25.3%	-3.4%	3.04	-28.6%

Source: APCMA, Foundation Research, Nov 2022

## Cement sector and KSE-100 relative price performance



Source: Bloomberg, Foundation Research, November 2022

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# Construction and Material

## Lackluster construction activity amid record high prices restricted dispatches growth

## Event

■ Pakistan cement industry dispatches declined by 18.5% YoY to 4.2mn tons in Oct'22. We attribute decline in dispatches to (1) uncertain economic outlook amid high interest rate environment, (2) slowdown in construction activity post floods, (3) lower exports due to unviable retention prices for exports amidst higher international coal prices, (4) decline in demand from private sector due to record high cement retail prices and increase in cost of other construction materials i.e. steel and sanitary ware, and (5) lower public sector development spending due to limited fiscal space amid political uncertainty.

## Impact

■ **Cement offtake declined by 18.5% YoY in Oct' 22:** Pakistan cement dispatches declined by 18.5% YoY in Oct'22 to 4.2mn ton. On regional basis, north region dispatches declined by 16.2% YoY. Whereas, in north region, domestic dispatches declined 18% YoY, while exports increased by 78.1% YoY due to uptick of economic activity in Afghanistan given facilitation of barter trade by Gov't. Moreover, south region dispatches declined by 25.3% YoY in Oct'22 on the back of 3.2/57.0% YoY decline in domestic/export dispatches. To highlight, despite significant rupee depreciation, south region exports fell due to unviable export prices being offered amid higher fuel and power costs.

■ Likewise, on sequential basis dispatches declined 0.6% MoM. However, the numbers are still lower than last two year average dispatches due to (1) record high domestic prices, (2) higher interest rates and (3) lower public spending. In north/south region dispatches inclined/declined by 0.3/3.4% MoM in Oct'22.

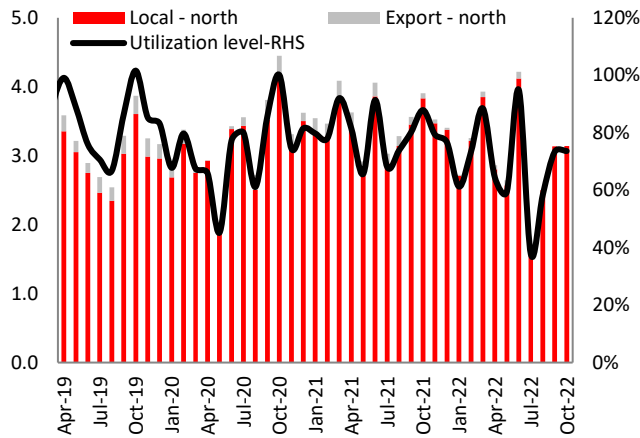
■ **Utilization levels declined to 73.5% in October:** Cement industry capacity utilization declined by 16.7/0.4ppt YoY/MoM to 73.5% in Oct'22 with local weight of 91.5%. Furthermore, regional comparison shows that utilization level in north region went down/up 14.3/0.2ppt YoY/MoM in Oct'22 to 73.6% with local weight of 96.0%. Moreover, utilization level in south region went down by 24.8/2.6ppt YoY/MoM to 73.0% with local weight of 76% in Oct'22. To highlight, average industry utilization levels in 4MFY23 are 59.9%, well below historical averages (down by 9.9/16.3% 4QFY22/FY22).

■ **Underutilization and higher fuel/power costs will keep cement prices high:** Domestic average cement prices in north/south region increased by 43.7/33.4% YoY in Oct'22 (down/up by 1.1/0.5% MoM). But the increase was insufficient to cover (1) average 11.9% YoY increase in international coal prices in Oct'22 due to supply chain constraints amid Russia-Ukraine war and 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 22.1% YoY in Oct'22.

## Outlook

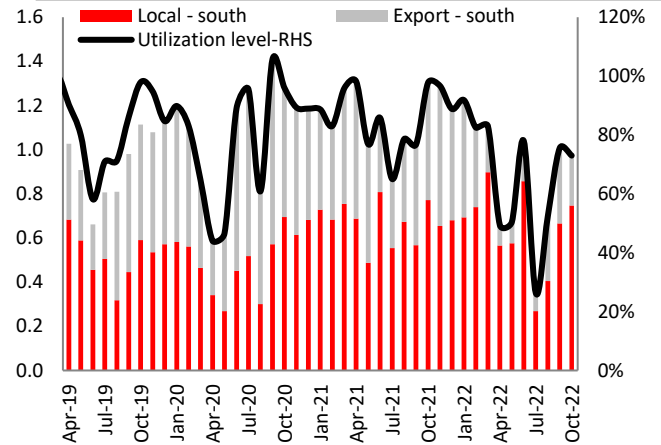
■ Cement sector, near term profitability is expected to remain under pressure given sector's inability to completely pass on the impact of rise in fuel/energy cost amid slowdown in domestic demand due to economic consolidation and floods. Furthermore, demand from Naya Pakistan Housing Program would decline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

**Fig 1: North utilization ↓ by 14.3% YoY to 73.6% (mn) tons**



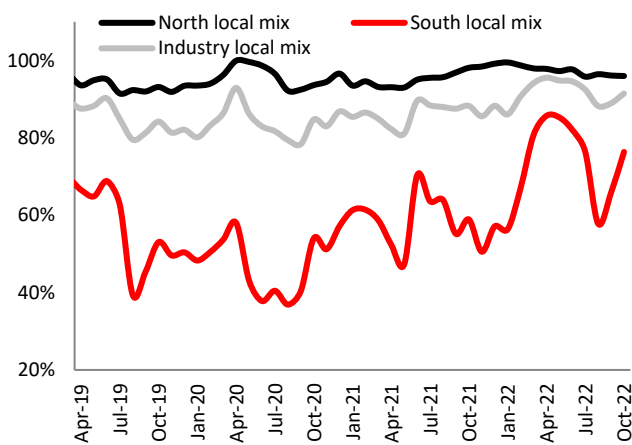
Source: APCMA, Foundation Research, Nov 2022

**Fig 2: South utilization ↓ by 24.8% YoY to 73.0% (mn) tons**



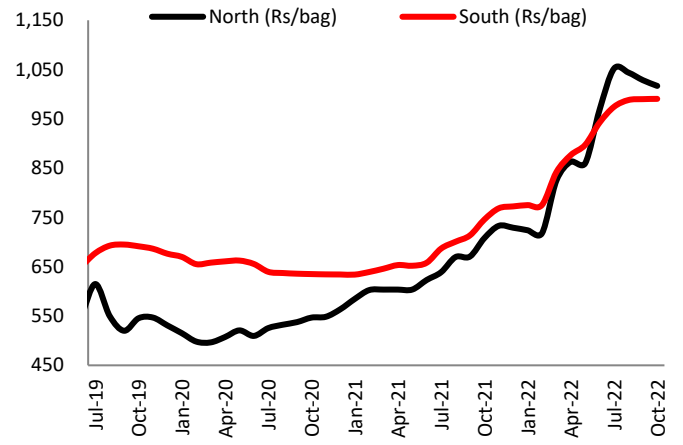
Source: APCMA, Foundation Research, Nov 2022

**Fig 3: Industry local mix inclined to 91.5% in Oct'22**



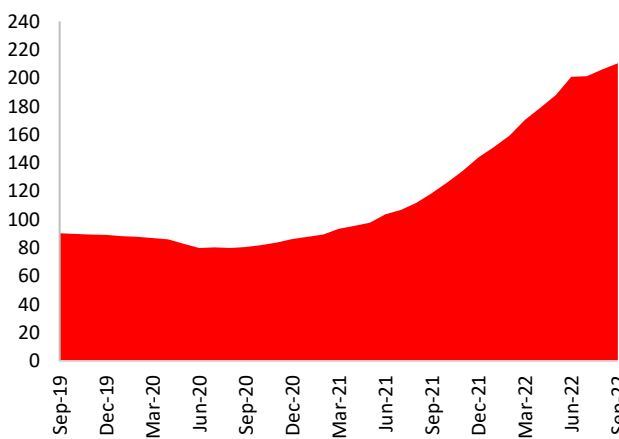
Source: APCMA, Foundation Research, Nov 2022

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



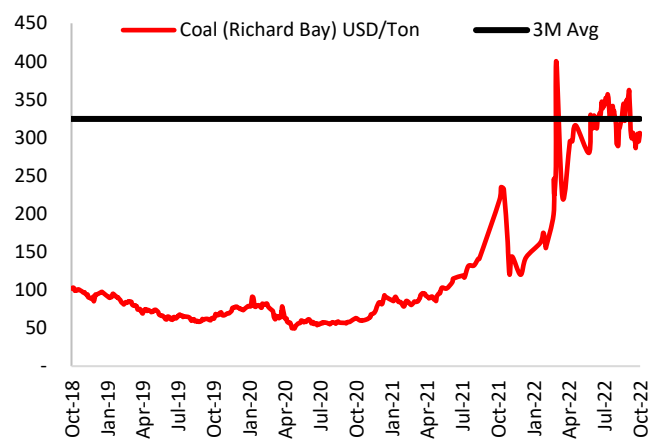
Source: PBS, Foundation Research, Nov 2022

**Fig 5: House Building financing was Rs210bn in Sep'22**



Source: SBP, Foundation Research, Nov 2022

**Fig 6: Coal price still above historical avg (USD/ton)**



Source: Bloomberg, Foundation Research, Nov 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	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.