

PAKISTAN

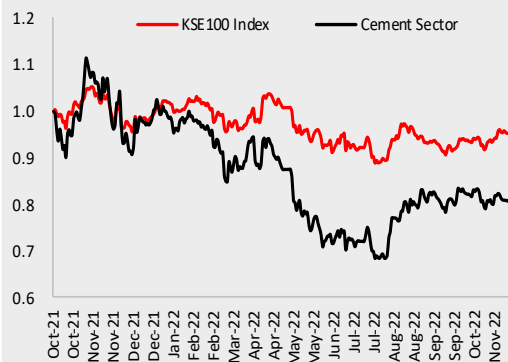


Pakistan cement industry demand in Nov'22 (mn tons)

Industry	Nov'22	YoY	MoM	5MFY23	YoY
Domestic	3.86	-6.4%	-0.7%	16.33	-18.4%
North	3.16	-8.8%	0.7%	13.55	-19.3%
South	0.70	6.6%	-6.5%	2.79	-13.5%
Export	0.15	-78.8%	-59.2%	1.52	-46.6%
North	0.10	88.0%	-20.8%	0.52	1.4%
South	0.04	-93.1%	-81.0%	1.00	-57.2%
Total	4.01	-16.8%	-5.7%	17.86	-21.9%
North	3.27	-7.3%	-0.1%	14.07	-18.7%
South	0.74	-42.7%	-24.1%	3.79	-31.9%

Source: APCMA, Foundation Research, Dec 2022

Cement sector and KSE-100 relative price performance



Source: Bloomberg, Foundation Research, December 2022

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Foundation Securities (Pvt) Ltd
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Construction and Material

Dispatches remained restricted due to record high prices

Event

▪ Pakistan cement industry dispatches declined by 16.8% YoY to 4.0mn tons in Nov'22. We attribute decline in cement dispatches to (1) economic slowdown amid high interest rate environment, (2) slowdown in construction activity due to higher taxes on real estate sector, (3) lower exports due to unviable retention prices, (4) decline in demand from private sector given record high cement prices, and (6) lower public sector development spending due to limited fiscal space amid political/economic uncertainty.

Impact

▪ **Cement offtake declined by 16.8% YoY in Nov'22:** Pakistan cement dispatches declined by 16.8% YoY in Nov'22 to 4.0mn ton. On regional basis, north region dispatches declined by 7.3% YoY. Whereas in north region, domestic dispatches declined 8.8% YoY, while exports increased by 88.0% YoY due to uptick of construction activity in Afghanistan. Moreover, south region dispatches declined by 42.7% YoY in Nov'22 on the back of 93.1% YoY decline in export dispatches. To reiterate, exports from the south region decreased due to unviable export prices being offered amid higher fuel and power costs despite significant depreciation of the currency.

▪ Similarly, on sequential basis dispatches declined 5.7% 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 sector spending. In north/south region dispatches declined by 0.1/24.1% MoM in Nov'22.

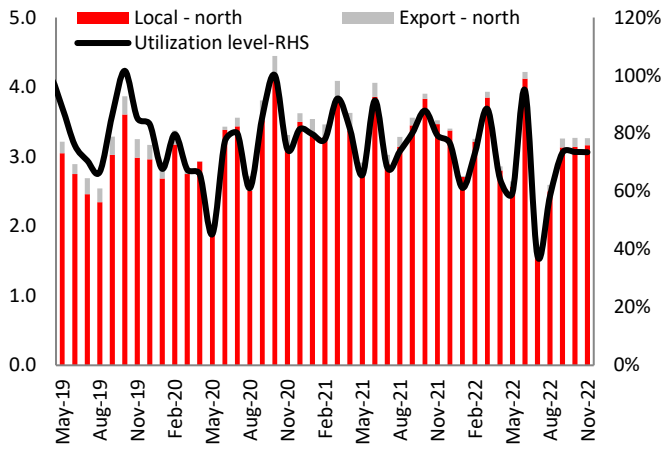
▪ **Utilization levels declined to 69.3% in November:** Cement industry capacity utilization declined by 14.0/4.2ppt YoY/MoM to 69.3% in Nov'22 with local weight of 96.3%. Furthermore, regional comparison shows that utilization level in north region went down 5.8/0.1ppt YoY/MoM in Nov'22 to 73.5% with local weight of 96.8%. Moreover, utilization level in south region went down 41.3/17.6ppt YoY/MoM in Nov'22 to 55.4% with local weight of 94.1%. To highlight, average industry utilization levels in 5MFY23 are 61.8%, well below historical averages (down by 8.0/14.4% compared to 4QFY22/FY22). Moreover, new capacity additions of ~10.8 mn ton in FY23 will likely outpace demand growth and utilization levels may hover around 55-60%.

▪ **High fuel/power costs and underutilization will keep up cement prices at current levels:** Domestic average cement prices in north/south region increased by 40.3/33.4% YoY in Nov'22 (up by 1.1/3.1% MoM). However, profitability margins growth remained restricted due to (1) average 46.4% YoY increase in international coal prices in Nov'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 Nov'22.

Outlook

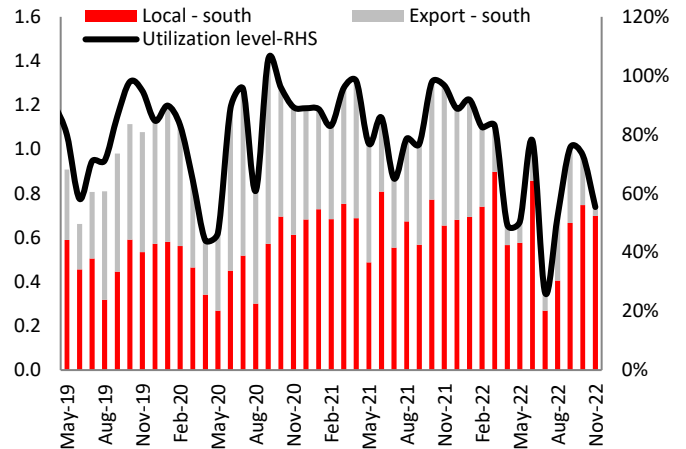
▪ Cement sector, near term profitability is expected to remain under pressure given (1) increase in fuel/energy cost due to higher coal prices, (2) 23 years higher interest rates, (3) continuous rupee depreciation, (4) uncertainty over pricing discipline as new capacities achieve COD and (5) increase in other overheads cost due to inflation. To highlight, aforementioned factors are already incorporated in current prices thus we maintain our "Outperform" stance on the sector.

Fig 1: North utilization ↓ by 5.8% YoY to 73.5% (mn) tons



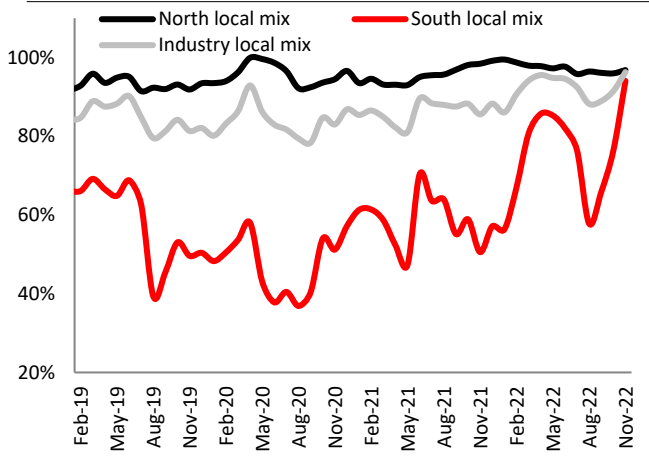
Source: APCMA, Foundation Research, Dec 2022

Fig 2: South utilization ↓ by 41.3% YoY to 55.4% (mn) tons



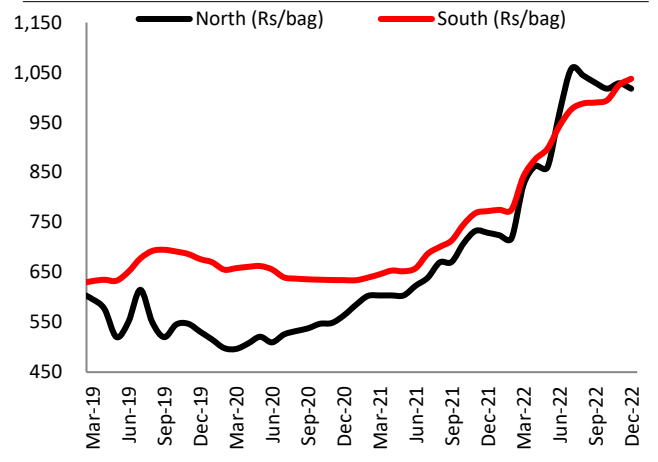
Source: APCMA, Foundation Research, Dec 2022

Fig 3: Industry local mix inclined to 96.3% in Nov'22



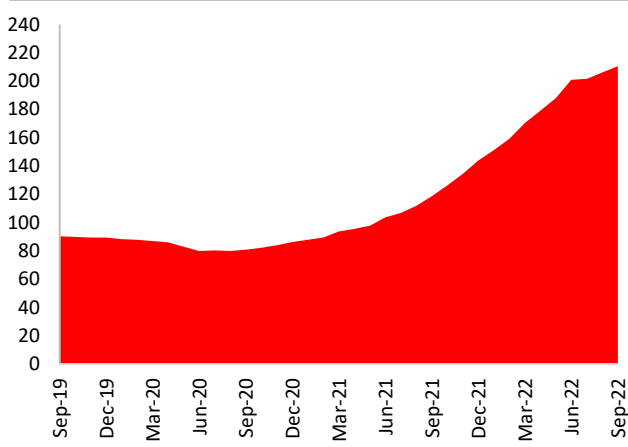
Source: APCMA, Foundation Research, Dec 2022

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



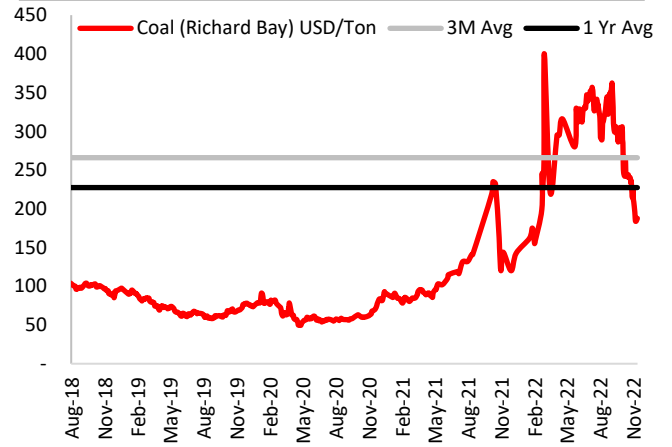
Source: PBS, Foundation Research, Dec 2022

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



Source: SBP, Foundation Research, Dec 2022

Fig 6: Coal prices continues to decline (USD/ton)



Source: Bloomberg, Foundation Research, Dec 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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Recommendations definitions

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