

**Pakistan**



# Construction and Material Dispatches taking toll of economic slowdown

## Event

▪ Pakistan cement industry dispatches declined by 7.1% YoY to 4.0mn tons in Feb’23. We attribute decline in cement dispatches to (1) economic slowdown amid high interest rate, (2) dampening consumer confidence, (3) slowdown in construction activity due to higher taxes on real estate sector, (4) lower exports due to impractical retention prices, (5) decrease in private sector demand due to floods and lower purchasing power and (6) lower public sector development spending due to limited fiscal space amid political/economic uncertainty.

## Impact

▪ **Cement offtake declined by 7.1% YoY in Feb’23:** Pakistan cement dispatches declined by 7.1% YoY in Feb’23 to 4.0mn ton. On regional basis, north region dispatches declined by 7.4% YoY. Whereas in north region, domestic dispatches declined 8.2% YoY, while exports increased by 58.2% YoY to 64 k tons due to uptick of construction activity in Afghanistan. However, we don’t foresee North exports to return to Pre US exit levels given economic challenges being faced by Afghanistan. Moreover, south region dispatches declined by 6.1% YoY in Feb’23 on the back of 12.0% YoY decline in domestic dispatches. To highlight, domestic dispatches from the south region decreased due to low income level amid record flood and high price.

▪ Similarly, on sequential basis dispatches increased 0.8% MoM. However, the numbers are still lower than last three year average dispatches due to (1) record high domestic prices, (2) monetary tightening and (3) lower public sector spending. In north/south region dispatches up/down by 4.2/7.9% MoM in Feb’23.

▪ **Utilization levels at 61.3% in February:** Cement industry capacity utilization declined by 13.9 YoY to 61.3% in Feb’23 with local weight of 88.9%. Furthermore, regional comparison shows that utilization level in north region went down 15.8ppt YoY in Feb’23 to 57.4% with local weight of 97.9%. Moreover, utilization level in south region went down 5.0ppt YoY in Feb’23 to 76.6% with local weight of 62.4%. To highlight, average industry utilization levels in 8MFY23 is 59.9%. Moreover, new capacity additions of ~8 mn ton till Jun’24 would outpace growth and utilization levels may hover around 60%.

▪ **Multiple price hikes allowed to pass on the impact of increase in fuel and inflation cost:** Domestic average cement prices in north/south region increased by 50.2/42.2% YoY in Feb’23 (up by 2.6/3.7% MoM). This has allowed the cement sector to pass on the impact of (1) higher coal prices due to supply chain constraints amid Russia-Ukraine war, (2) increase in alternate fuel cost (FO, Diesel and RLNG), (3) higher other overhead cost due to inflation, and (4) rupee depreciation of 32.1% YoY in Feb’23.

## Outlook

▪ Cement sector, near term profitability is expected to remain under pressure given (1) elevated fuel/energy cost due to higher coal prices, (2) higher finance cost due to all time high 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.

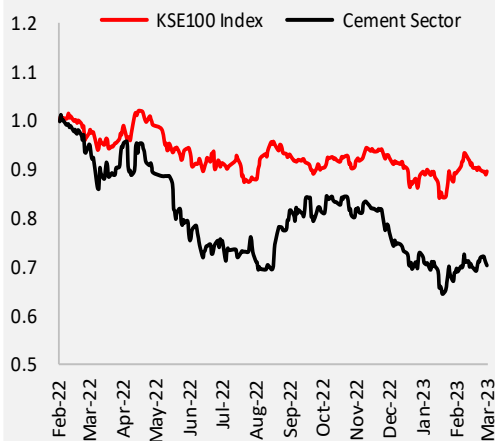
▪ Moreover, cement demand growth is expected to remain restricted due to reducing consumer buying power along with dampened consumer confidence on the bank of recent rounds of Rupee Depreciation followed by monetary tightening and lower fiscal spending.

Pakistan cement industry demand in Feb’23 (mn tons)

Industry	Feb’23	YoY	MoM	8MFY23	YoY
<b>Domestic</b>	3.59	-8.9%	0.1%	27.20	-13.4%
North	2.95	-8.2%	3.2%	22.33	-14.4%
South	0.64	-12.0%	-12.3%	4.88	-8.4%
<b>Export</b>	0.45	11.0%	7.6%	2.60	-40.3%
North	0.06	58.2%	83.8%	0.68	13.2%
South	0.39	5.7%	0.6%	1.92	-48.8%
<b>Total</b>	4.04	-7.1%	0.8%	29.80	-16.7%
North	3.01	-7.4%	4.2%	23.01	-13.8%
South	1.03	-6.1%	-7.9%	6.80	-25.1%

Source: APCMA, Foundation Research, March 2023

Cement Sector and KSE-100 relative price performance



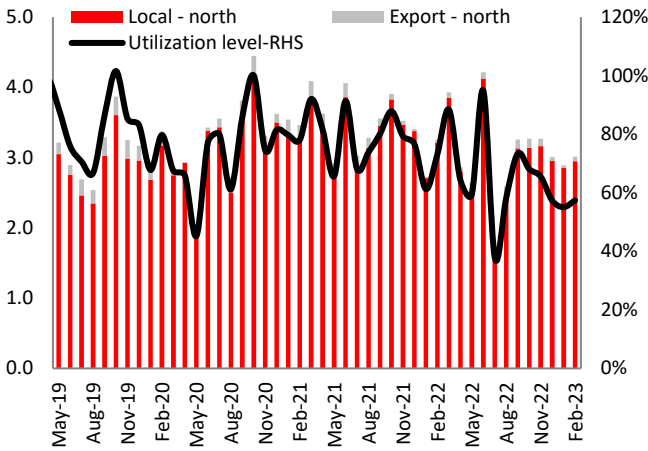
Source: Bloomberg, Foundation Research, March 2023

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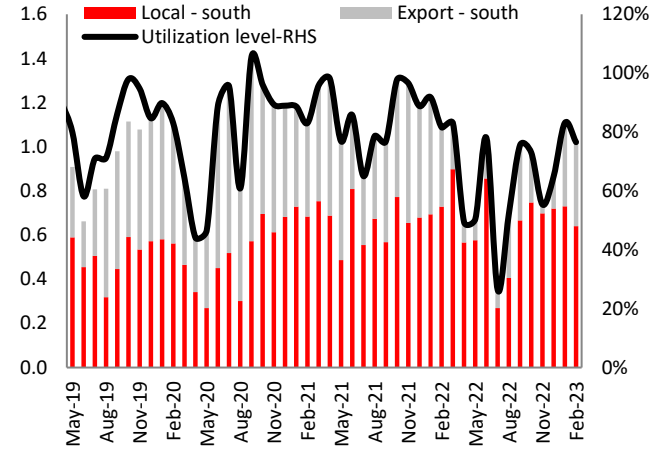
Foundation Securities (Pvt) Ltd  
Monday, March 06, 2023

**Fig 1: North utilization ↓ by 15.8% YoY to 57.4% (mn) tons**



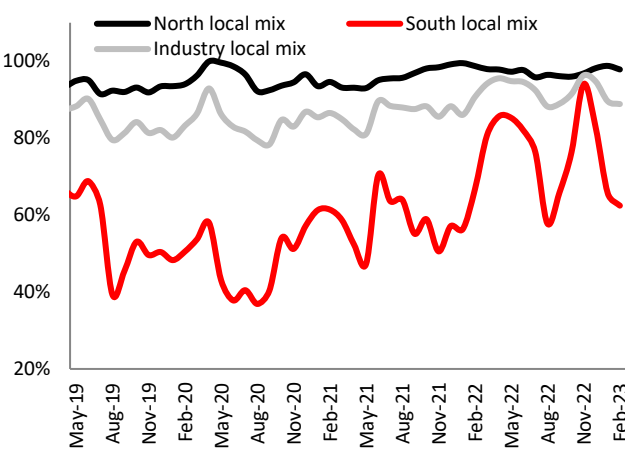
Source: APCMA, Foundation Research, March 2023

**Fig 2: South utilization ↓ by 5.0% YoY to 76.6% (mn) tons**



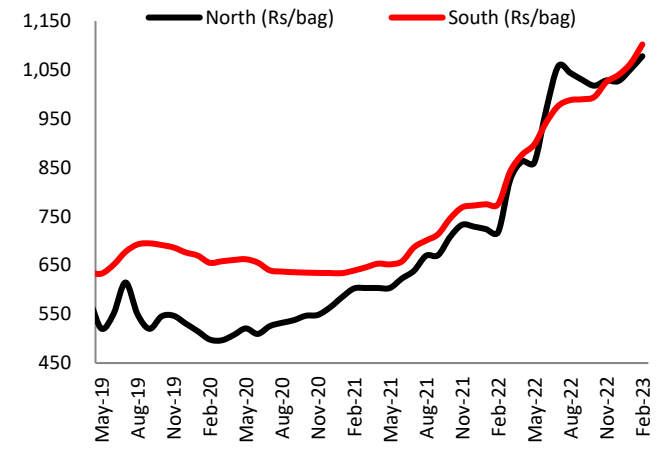
Source: APCMA, Foundation Research, March 2023

**Fig 3: Industry local mix declined to 88.9% in Feb'23**



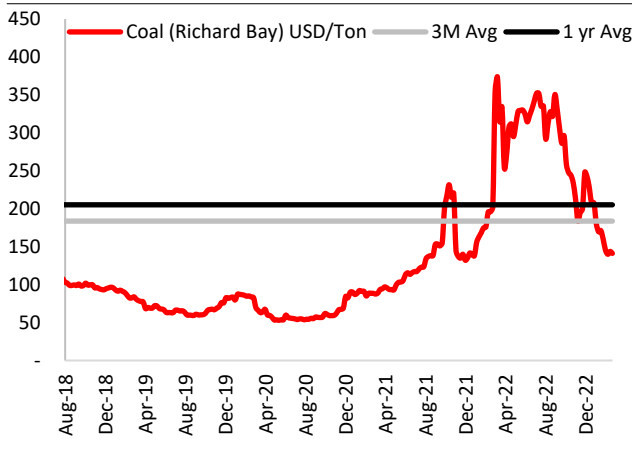
Source: APCMA, Foundation Research, March 2023

**Fig 4: Cement prices keep on rising (Rs/bag)**



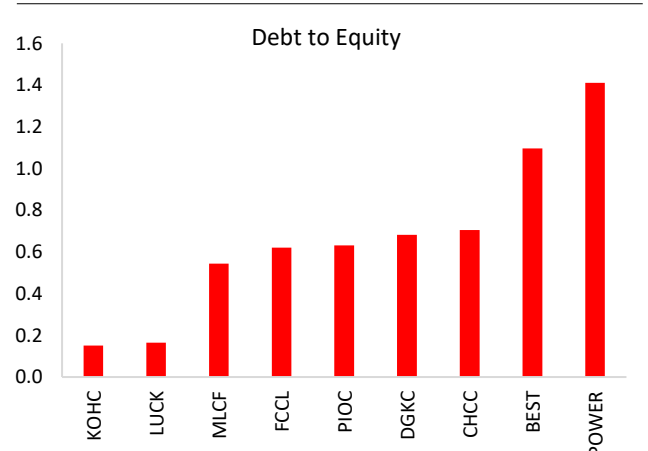
Source: PBS, Foundation Research, March 2023

**Fig 5: Coal prices continues to decline (USD/ton)**



Source: SBP, Foundation Research, March 2023

**Fig 6: Monetary tightening to increase finance cost**



Source: Bloomberg, Foundation Research, March 2023

**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.