

PAKISTAN

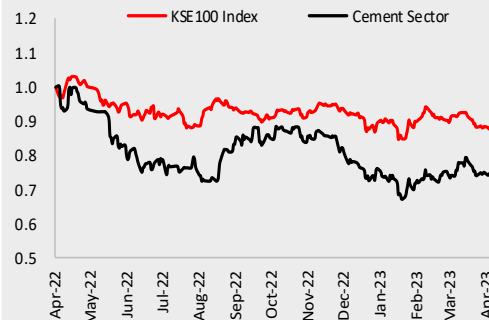


Pakistan cement industry demand in Mar'23 (mn tons)

Industry	Mar'23	YoY	MoM	9MFY23	YoY
Domestic	3.36	-28.7%	-6.5%	30.56	-15.4%
North	2.72	-29.3%	-7.8%	25.05	-16.3%
South	0.64	-26.1%	-0.7%	5.52	-10.9%
Export	0.44	48.5%	-2.6%	3.04	-34.6%
North	0.10	24.6%	55.2%	0.78	14.6%
South	0.34	57.4%	-12.3%	2.26	-43.1%
Total	3.79	-24.2%	-6.1%	33.60	-17.6%
North	2.82	-28.2%	-6.4%	25.83	-15.6%
South	0.97	-9.5%	-5.0%	7.77	-23.4%

Source: APCMA, Foundation Research, April 2023

Historical performance of cement sector vs KSE-100 Index



Source: Bloomberg, Foundation Research, April 2023

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Construction and Material Dispatches affected by economic downturn

Event

▪ Pakistan cement industry dispatches declined by 24.2% YoY to 3.79mn tons in Mar'23. We attribute decline in cement dispatches to (1) economic slowdown amid all time high interest rate, (2) poor consumer confidence, (3) slowdown in construction activity due to higher taxes on real estate sector, (4) lower exports due to unrealistic 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 24.2% YoY in Mar'23:** Pakistan cement dispatches declined by 24.2% YoY in Mar'23 to 3.79mn ton. On regional basis, north region dispatches declined by 28.2% YoY. In north region, domestic dispatches declined 29.3% YoY, while exports increased by 24.6% YoY to 10K tons due to uptick of construction activity in Afghanistan. However, we don't foresee North exports returning to pre US exit levels given economic challenges being faced by Afghanistan. Moreover, south region dispatches declined by 9.5% YoY in Mar'23 on the back of 26.1% YoY decline in domestic dispatches. To highlight, domestic dispatches from the south region decreased due to low income level amid record flood and high cement prices.

▪ Similarly, on sequential basis dispatches decreased 6.1% MoM due to (1) record high domestic prices, (2) monetary tightening and (3) lower public sector spending. In north/south region dispatches were down by 6.4/5.0% MoM in Mar'23.

▪ **Utilization levels drop to low of seven months:** Cement industry capacity utilization declined by 29.0ppt YoY to 57.5% in Mar'23 with local weight of 88.4%. Furthermore, regional comparison shows that utilization level in north region went down 34.8ppt YoY in Mar'23 to 53.7% with local weight of 96.4%. Moreover, utilization level in south region went down by 7.6ppt YoY in Mar'23 to 72.7% with local weight of 65.3%. To highlight, average industry utilization level in 9MFY23 is 60.1%. Moreover, new capacity additions of ~3.6mn ton till Jun'24 would outpace growth and utilization levels may drop further from these levels.

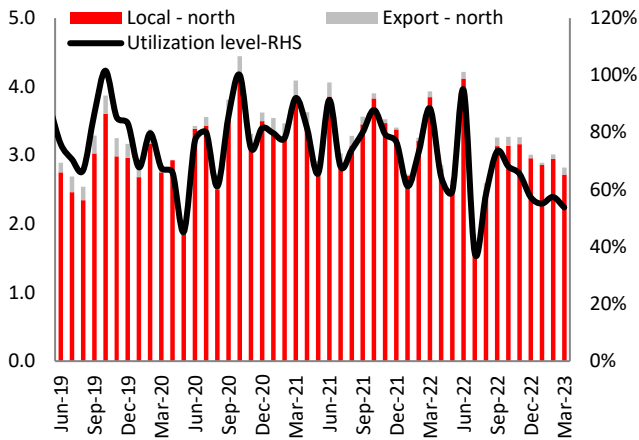
▪ **Multiple price hikes allowed to pass on the impact of increase in fuel and inflation cost:** Domestic average cement prices in north/south region increased by 33.9/35.1% YoY in Mar'23 (up by 2.5/3.2% MoM). This has allowed the cement sector to pass on the impact of (1) increase in FED, (2) higher coal prices due to supply chain constraints amid Russia-Ukraine war, (3) increase in alternate fuel cost (FO, Diesel and RLNG), (4) higher other overhead cost due to inflation, and (5) rupee depreciation of ~36.1% YoY in Mar'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.

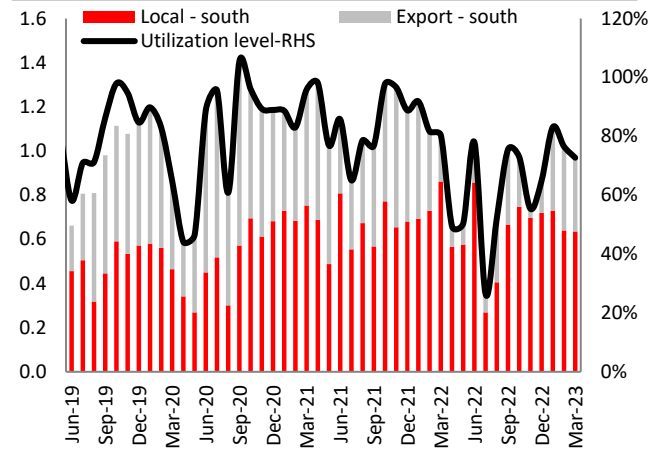
▪ Moreover, cement demand growth is expected to remain restricted due to reducing consumer buying power along with dampened consumer confidence on the back of recent rounds of Rupee depreciation followed by monetary tightening and lower fiscal spending.

Fig 1: North utilization ↓ by 34.8% YoY to 53.7% (mn) tons



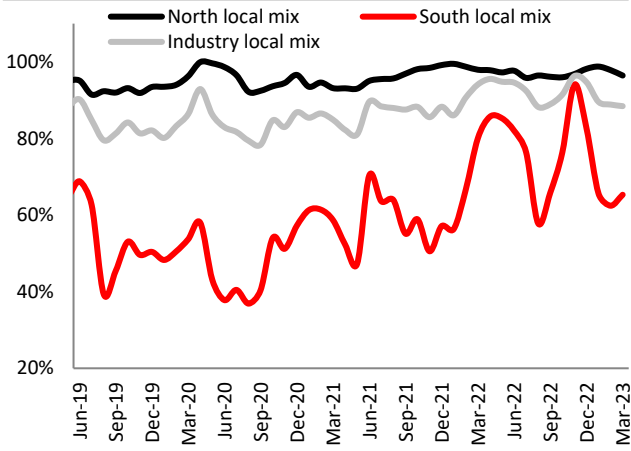
Source: APCMA, Foundation Research, April 2023

Fig 2: South utilization ↓ by 7.6% YoY to 72.7% (mn) tons



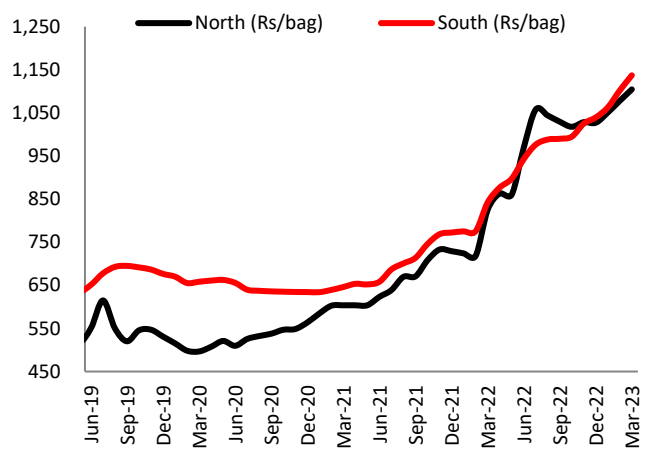
Source: APCMA, Foundation Research, April 2023

Fig 3: Industry local mix declined to 88.4% in Mar'23



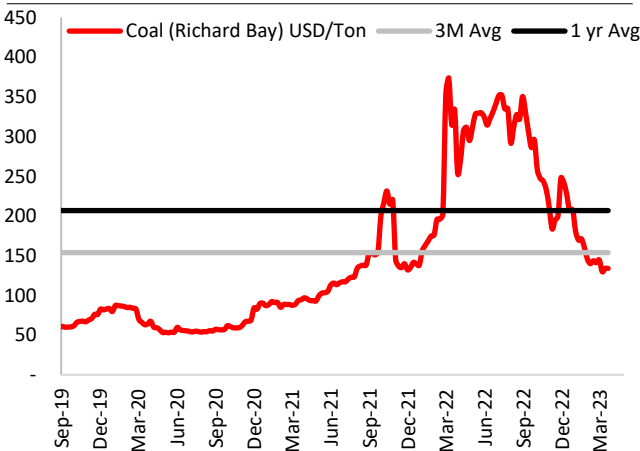
Source: APCMA, Foundation Research, April 2023

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



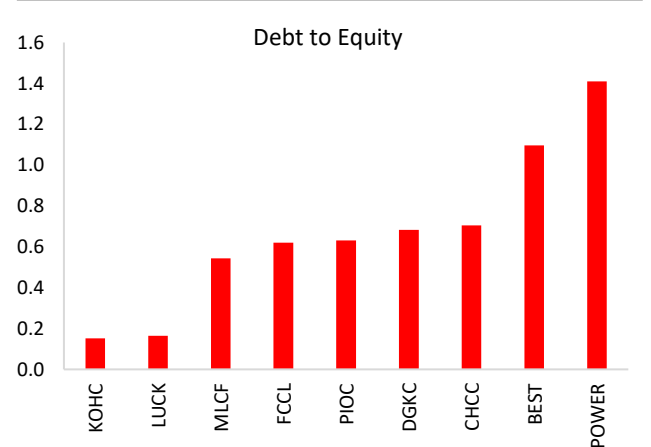
Source: PBS, Foundation Research, April 2023

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



Source: SBP, Foundation Research, April 2023

Fig 6: Monetary tightening to increase finance cost



Source: Bloomberg, Foundation Research, April 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.