

PAKISTAN

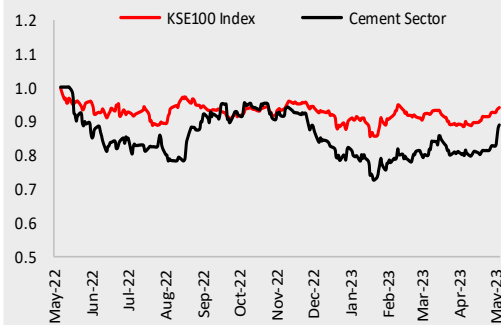


Pakistan cement industry demand in Apr'23 (mn tons)

Industry	Apr'23	YoY	MoM	10MFY23	YoY
Domestic	2.53	-25.1%	-24.6%	33.10	-16.2%
North	2.11	-24.8%	-22.5%	27.16	-17.1%
South	0.42	-26.5%	-33.7%	5.94	-12.2%
Export	0.42	168.6%	-4.0%	3.46	-28.0%
North	0.08	35.9%	-16.1%	0.86	16.3%
South	0.34	255.5%	-0.5%	2.59	-36.1%
Total	2.95	-16.5%	-22.2%	36.55	-17.5%
North	2.19	-23.5%	-22.2%	28.02	-16.3%
South	0.76	13.4%	-22.2%	8.53	-21.2%

Source: APCMA, Foundation Research, May 2023

Historical performance of cement sector vs KSE-100 Index



Source: Bloomberg, Foundation Research, May 2023

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Construction and Material Dispatches restricted by economic slowdown

Event

- Pakistan cement industry dispatches declined by 16.5% YoY to 2.95mn tons in Apr'23. We attribute decline in cement dispatches to (1) economic slowdown amid all time high interest rate, (2) poor consumer confidence, (3) deceleration in construction activity due to tax hikes in property sector, (4) decrease in private sector demand due to floods and lower purchasing power and (5) limited fiscal space amid political/economic uncertainty reducing public sector development spending.

Impact

- **Cement offtake declined by 16.5% YoY in Apr'23:** Pakistan cement dispatches declined by 16.5% YoY in Apr'23 to 2.95mn ton. On regional basis, North region dispatches declined by 23.5% YoY. In North region, domestic dispatches declined 24.8% YoY, while exports increased by 35.9% YoY to 84K 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 inclined by 13.4% YoY in Apr'23 on the back of 255.5% YoY increase in exports as coal prices cool down. To highlight, domestic dispatches from the south region decreased by 26.5% YoY due to low income level amid record floods and high cement prices.

- Similarly, on sequential basis dispatches decreased 22.2% MoM due to (1) record high domestic prices, (2) monetary tightening and (3) declining public sector spending. In north/south region dispatches were down by 22.2/22.2% MoM in Apr'23.

- **Utilization levels drops to low of nine months:** Cement industry capacity utilization declined by 17.7ppt YoY to 43.4% in Apr'23 with local weight of 85.7%. Furthermore, regional comparison shows that utilization level in north region went down 24.3ppt YoY in Apr'23 to 40.2% with local weight of 96.2%. Moreover, utilization level in south region went up by 7.0ppt YoY in Apr'23 to 56.6% with local weight of 55.6%. To highlight, average industry utilization level in 10MFY23 is 58.2%. Moreover, new capacity additions of ~1.3mn ton till Jun'24 in south would restrict utilization levels to increase from these levels.

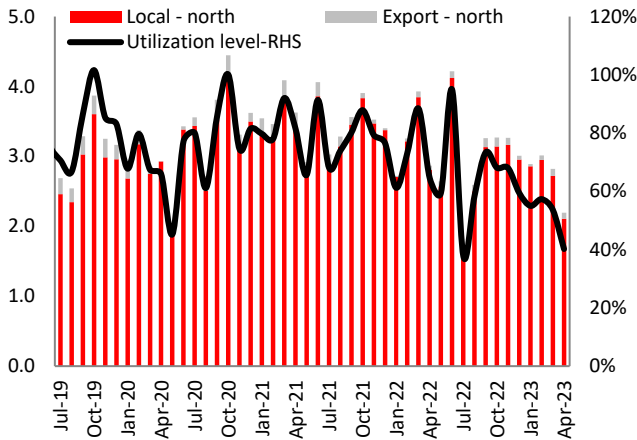
- **Multiple price hikes allowed passing on the impact of increase in fuel and inflation cost:** Domestic average cement prices in north/south region increased by 27.7/29.9% YoY in Apr'23 (down/up by 0.2/0.2% MoM). This has allowed the cement sector to pass on the impact of (1) increase in FED, (2) higher 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 ~35.2% YoY in Apr'23.

Outlook

- Cement sector, near term profitability is expected to remain under pressure given (1) higher finance cost due to all time high interest rates, (2) rupee depreciation, (3) uncertainty over pricing discipline as new capacities achieve COD and (4) increase in other overheads cost due to inflation. However, ease in coal prices would provide support to sectors profitability.

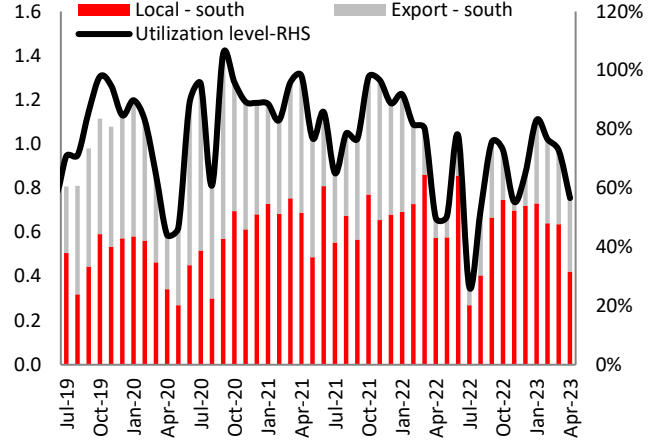
- Moreover, cement demand growth is expected to remain limited due to weaker consumer purchasing power and lower consumer confidence due to tighter monetary policy and reduced budget spending following recent rupee depreciation.

Fig 1: North utilization ↓ by 24% YoY to 40% (mn) tons



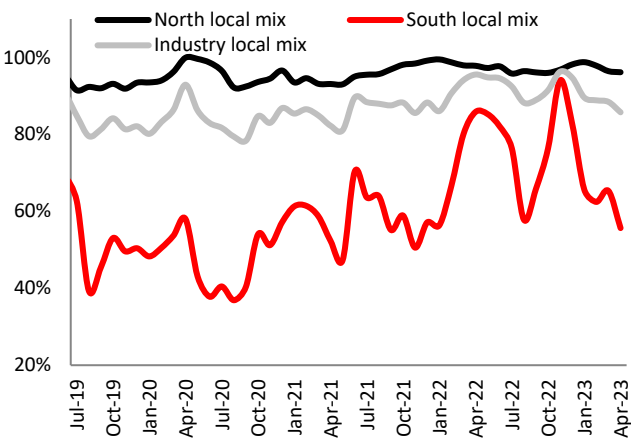
Source: APCMA, Foundation Research, May 2023

Fig 2: South utilization ↑ by 7% YoY to 57% (mn) tons



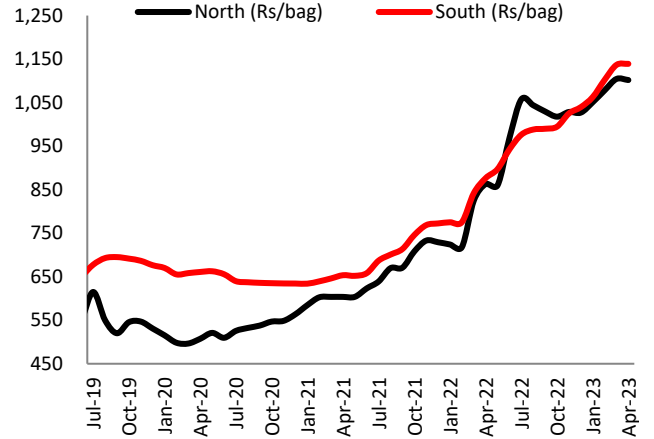
Source: APCMA, Foundation Research, May 2023

Fig 3: Industry local mix declined to 85.7% in Apr'23



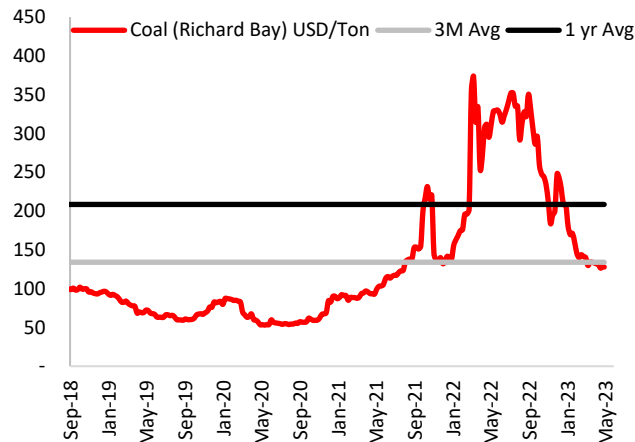
Source: APCMA, Foundation Research, May 2023

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



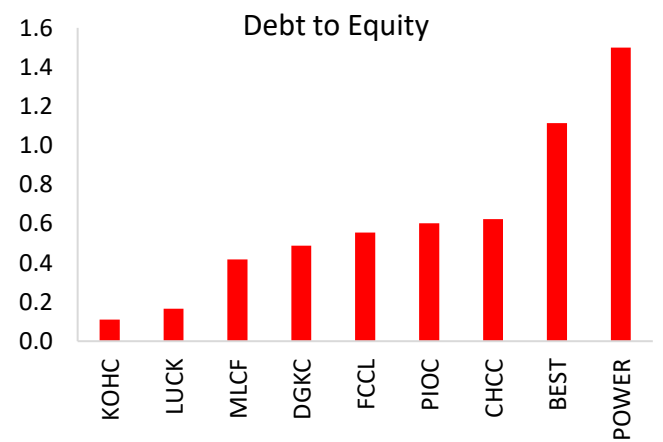
Source: PBS, Foundation Research, May2023

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



Source: SBP, Foundation Research, May 2023

Fig 6: Monetary tightening to increase finance cost



Source: Bloomberg, Foundation Research, May 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.
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Expected return <-10%	Underperform.