

PAKISTAN

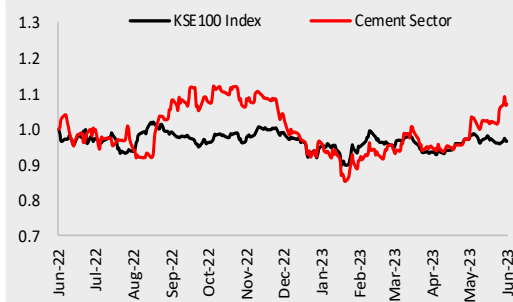


Pakistan cement industry demand in May'23 (mn tons)

Industry	May'23	YoY	MoM	11MFY23	YoY
Domestic	3.43	9.0%	35.6%	36.53	-14.4%
North	2.77	7.6%	31.2%	29.93	-15.3%
South	0.66	15.4%	57.5%	6.60	-10.0%
Export	0.53	210.1%	26.7%	3.99	-19.8%
North	0.11	53.8%	32.3%	0.97	19.7%
South	0.42	324.0%	25.3%	3.02	-27.5%
Total	3.97	19.4%	34.4%	40.52	-14.9%
North	2.88	8.8%	31.3%	30.90	-14.5%
South	1.09	60.8%	43.3%	9.62	-16.3%

Source: APCMA, Foundation Research, June 2023

Historical performance of cement sector vs KSE-100 Index



Source: Bloomberg, Foundation Research, June 2023

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Monday, June 5, 2023

Construction and Material Dispatches surprised on the upside

Event

▪ Pakistan cement industry dispatches increased by 19.4% YoY to 3.97mn tons in May'23. We attribute incline in cement dispatches to (1) uptick in construction activity in flood affected areas, (2) higher farmer income and (3) higher US\$-Rs parity applicable to remittances.

Impact

▪ **Cement offtake inclined by 19.4% YoY in May'23:** Pakistan cement dispatches rose by 19.4% YoY in May'23 to 3.97mn ton. On regional basis, North region dispatches increased by 8.8% YoY. In North region, domestic dispatches increased by 7.6% YoY and exports increased by 53.8% YoY to 111K 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 60.8% YoY in May'23 on the back of 324.0% YoY increase in exports as coal prices declined. To highlight, domestic dispatches from the South region increased by 15.4% YoY due to flood rehabilitation and high farmer income given wheat harvesting.

▪ Similarly, on sequential basis dispatches increased 34.4% MoM due to (1) higher farmer income on the back of better commodity prices and (2) better exchange rates applicable to remittances. In North/South region dispatches were increased by 31.3/43.3% MoM in May'23. During 11MFY23, dispatches declined by 14.9% YoY to 40.5mn tones as domestic/export dispatches were down by 14.4/19.8% YoY in May'23. On regional basis, North/South local dispatches fell by 15.3/10.0% YoY in 11MFY23. In North region, export dispatches rose by 19.7% to 1mn tons. However, South export declined by 27.5% YoY in 11MFY23.

▪ **Capacity addition decreased utilization level:** Cement industry capacity utilization declined by 0.7ppt YoY to 56.7% in May'23 with local weight of 86.6%. Furthermore, regional comparison shows that utilization level in North region went down by 8.6ppt YoY in May'23 to 50.9% with local weight of 96.1%. Moreover, utilization level in South region went up by 30.7ppt YoY in May'23 to 81.1% with local weight of 61.2%. To highlight, average industry utilization level in 11MFY23 is 58.2%. Moreover, new capacity additions of ~5.8mn ton till Jun'24 would restrict further increase in utilization levels.

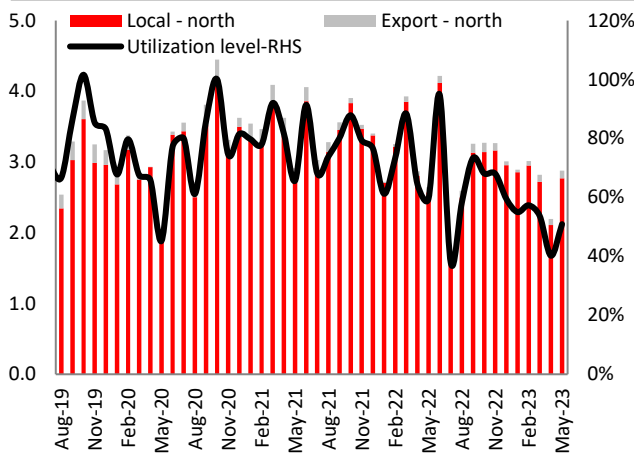
▪ **Declining coal prices to trigger exports:** Coal prices plunged ~78.5% from their peak of US\$460.2/ton to US\$98.8/ton, a low of two years. Decline in coal prices along with falling freight charges would rejuvenate cement exports from South. The same is reflected in 327% YoY increase in cement exports to 0.4 mn tons during May'23 from South.

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) steep Rs depreciation, (3) uncertainty over pricing discipline as new capacities achieve COD and (4) increase in other overheads cost due to inflation. However, easing of coal prices would provide support to sectors profitability.

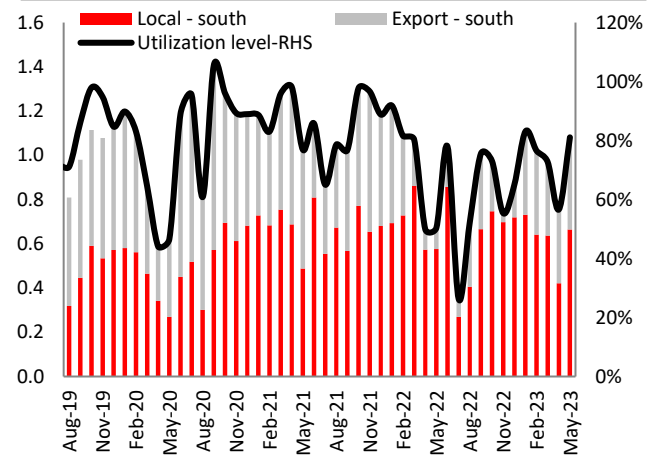
▪ Moreover, cement demand growth is expected to remain limited due to weaker consumer purchasing power and lower consumer confidence due to tighter monetary policy amid economic slowdown.

Fig 1: North utilization ↓ by 9% YoY to 51% (mn) tons



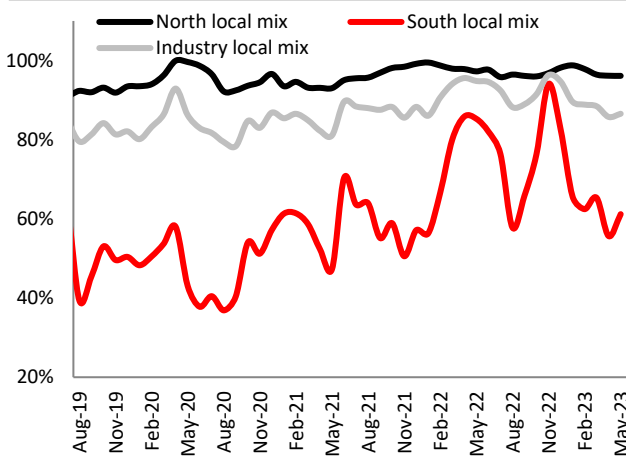
Source: APCMA, Foundation Research, June 2023

Fig 2: South utilization ↑ by 31% YoY to 81% (mn) tons



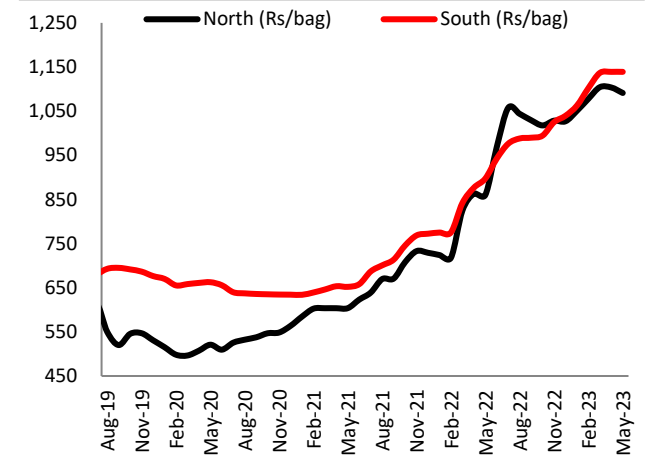
Source: APCMA, Foundation Research, June 2023

Fig 3: Industry local mix declined to 86.6% in May'23



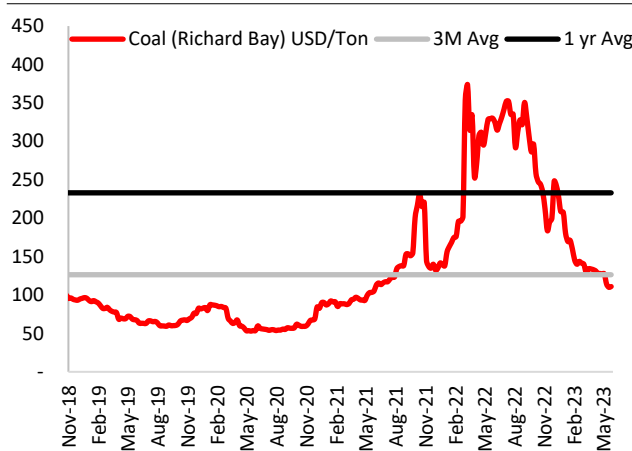
Source: APCMA, Foundation Research, June 2023

Fig 4: Cement prices plateauing (Rs/bag)



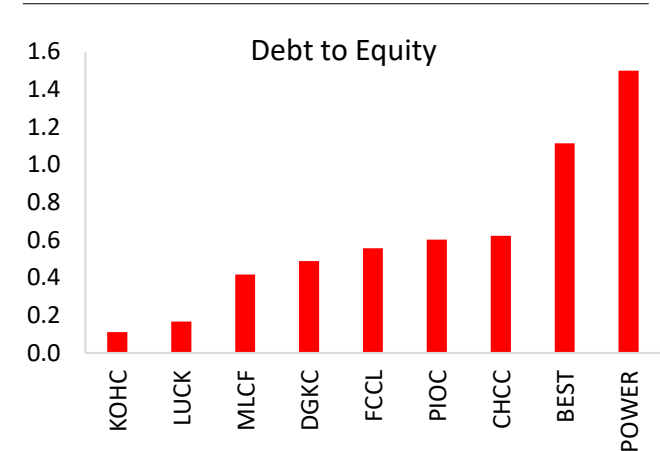
Source: PBS, Foundation Research, June 2023

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



Source: SBP, Foundation Research, June 2023

Fig 6: Monetary tightening to increase finance cost



Source: Bloomberg, Foundation Research, Jun 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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Recommendations definitions

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