

## Cement: Dispatches decline on prolonged fog

Cement dispatches declined by 14.8% YoY to 3.4mn tons in Jan-24 due to a contraction in local sales. We attribute the decline in dispatches to i) subdued construction demand due to prolong and dense fog, ii) augmented costs emanating from the axle load regime, iii) slow-down in south based exports growth owing to higher freight charges due to the Red Sea tensions and iv) a halt in projects on the back of lower public spending and higher interest rates. Going forward, we expect a slight recovery in the cement dispatches given pickup in exports.

### Escalating costs and severe weather drive fall in dispatches

Overall cement dispatches declined by 14.8% YoY in Jan-24 on account of i) lower construction activity during winters particularly in the northern region which experienced prolonged period of fog, ii) mounting inland transportation costs driven by axle load implementation and iii) higher freight, handling and shipping charges for export consignments. Moreover, Northern/Southern dispatches exhibited a decline of 15.8%/12.1% YoY to 2.4/1.0mn tons during the month.

### Cement Exports fall for a 3<sup>rd</sup> consecutive month

Cement exports fell by 14.9% sequentially in Jan-24 to 0.45mn tons on the back of diminishing margins caused by higher coal prices. Exports in the Northern region witnessed a fall of 35.7% MoM in Jan-24, which is mainly attributable to the closure of Pak-Afghan border for 11 days and weather disruptions. Southern exports dropped by 11.4% MoM, primarily driven by higher coal prices amid elevated freight charges on the back of Red Sea disruptions. To highlight, North/South exports witnessed an increase of 33.7%/113.1% YoY in 7MFY24.

### Subdued demand causes North based players to absorb axle load impact

In Jan-24, the average cement prices in the North fell by 2.3% MoM. To recall, the axle load regime implementation on 15-Nov-2023 drove up the average cement prices in the North by 6.5% MoM reaching an all-time high of PKR 1,274/bag in Dec-23. However, prices have started easing and currently stand at an average of PKR 1,230/bag. Of note, prices in the Southern region remained flattish during this period. We believe ease in In't coal prices on weak demand from China and structural decline in coal use would help to mitigate the impact of axle load regime.

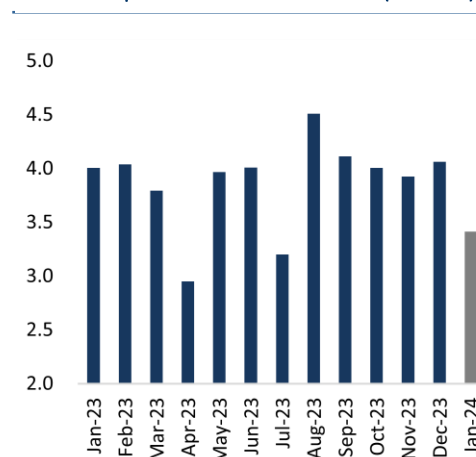
### Capacity utilization drops below 50% in Jan-24

The overall industry capacity utilization stood at 49.8% in Jan-24, declining by 17.5% YoY. Furthermore, regional comparison shows that utilization in the Northern region was lower, standing at 44.6% (down 18.9% YoY), as opposed to a 71.4% (down 12.0% YoY) capacity utilization in the southern region. The decline in both regions is primarily due to a slowdown in the construction industry and a halt in public projects on the back of limited fiscal space. Northern region depicted a greater contraction due to harsher weather conditions.

### Cement exports poised to stage sector rebound

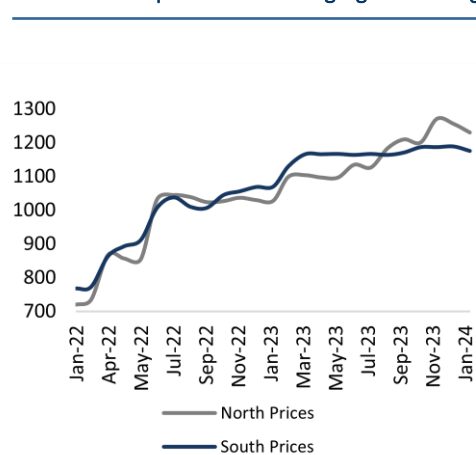
We anticipate a slight recovery in the cement sector, primarily driven by an increase in export volumes complemented with lower coal prices and reduction in sea freights. However, local cement dispatches are likely to remain subdued mainly due to lower PSDP spending and tight financing conditions on account of higher for longer interest rates. We emphasize that in the long run, resolving Red Sea disruptions will alleviate concerns regarding cement exports. However, in the short-term elevated freight costs will remain a key challenge for the sector.

Cement dispatches hit a 6-month low (mn tons)



Source: APCMA, PBS, Akseer Research

North cement prices are showing signs of easing



Source: PBS, Akseer Research

### Pakistan Cement Dispatches (mn tons)

	Jan-23	Dec-23	Jan-24	MoM %	YoY %	7MFY23	7MFY24	YoY %
<b>North</b>	<b>2.9</b>	<b>3.0</b>	<b>2.4</b>	<b>-19.2%</b>	<b>-15.8%</b>	<b>20.0</b>	<b>20.0</b>	<b>-0.1%</b>
Local	2.9	2.9	2.4	-18.7%	-16.5%	19.4	19.2	-1.1%
Exports	0.4	0.1	0.1	-35.7%	38.8%	0.6	0.8	33.7%
<b>South</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>	<b>-6.8%</b>	<b>-12.1%</b>	<b>5.8</b>	<b>7.3</b>	<b>26.6%</b>
Local	0.7	0.6	0.6	-3.4%	-20.4%	4.2	4.0	-4.7%
Exports	0.4	0.4	0.4	-11.4%	3.9%	1.5	3.3	113.1%
<b>Total</b>	<b>4.0</b>	<b>4.1</b>	<b>3.4</b>	<b>-16.0%</b>	<b>-14.8%</b>	<b>25.8</b>	<b>27.3</b>	<b>5.9%</b>
Local	3.6	3.5	3	-16.1%	-17.3%	23.6	23.2	-1.8%
Exports	0.4	0.5	0.4	-14.9%	6.8%	2.2	4.1	90.5%

Source: APCMA, Akseer Research

Zohaib Samad  
[zohaib.samad@akseerresearch.com](mailto:zohaib.samad@akseerresearch.com)

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**Contact Details****Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8,  
off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: [info@akseerresearch.com](mailto:info@akseerresearch.com)

**Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)**

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,  
KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: [info@alfa-akseer.com](mailto:info@alfa-akseer.com)