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Cement: Higher retention prices to pave the way for improved profitability

January 27, 2023

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Cement retention prices to support higher profitability

With result season around the corner, we present result previews of Akseer cement universe. We expect profitability of our sample companies to increase by 15% YoY to PKR 12.5bn during 2QFY23.

- **Higher cement Prices in 2Q to boost profitability**
  - During the 2QFY23, average cement price increased to PKR 1,038/bag, up 42% YoY as compared to PKR 731/bag in SPLY. This is mainly on account of local cement player passing on the increased cost pressure (mainly coal prices) to consumers. This translated into higher retention prices resulting in improved profitability.
- **Diversified coal mix to help sustain gross margins**
  - We expect our sample companies' gross margins to remain stagnant despite YoY increase in input cost, thanks to efficient management of coal inventory and higher retention prices.
  - Currently, Afghan coal is available at PKR 50,000/ton, whereas local coal ranges from PKR 27,000 to 40,000. Recently many North players have added approximately 35% of the local coal in their coal mix which restricted the contraction in gross margins.
- **However, dispatches continue to decline**
  - During 2Q, the local cement dispatches dipped by 11% YoY on the back of economic turmoil accompanied with slowdown in construction activity. We expect the ongoing crises to continue and the local dispatches to decrease by 13% YoY in FY23.

Akseer Cement Universe- Financial Estimates

	2QFY22	2QFY23E	YoY	1HFY22	1HFY23E	YoY
Net Sales	89,290	120,034	34%	164,726	213,724	30%
Cost of Sales	67,952	90,959	34%	124,192	160,022	29%
Gross Profit	**21,338**	**29,076**	**36%**	**40,533**	**53,702**	**32%**
Gross Margins	24%	24%	0%	25%	25%	1%
PBT	14,794	18,906	28%	29,353	36,118	23%
PAT	**10,886**	**12,521**	**15%**	**21,522**	**24,584**	**14%**
Finance Cost	2,384	5,402	127%	4,788	9,947	108%
Net Margins	**12%**	**10%**	**-2%**	**13%**	**12%**	**-2%**

Akseer Cement Universe - EPS

	1QFY23	2QFY22	2QFY23E	QoQ	YoY	1HFY22	1HFY23E	YoY
ACPL	1.54	2.27	2.66	73%	17%	4.69	4.20	-11%
CHCC	7.63	6.06	7.18	-6%	19%	12.20	14.82	21%
DGKC	0.89	2.90	2.47	178%	-15%	4.97	3.36	-32%
FCCL	0.94	0.60	0.83	-13%	38%	1.46	1.77	21%
KOHC	8.88	7.90	9.50	7%	20%	14.86	18.38	24%
LUCK	11.91	7.70	10.15	-15%	32%	17.86	22.07	24%
PIOC	2.58	2.92	3.30	28%	13%	5.03	5.88	17%
MLCF	1.28	1.75	1.49	16%	-15%	2.57	2.78	8%

Attock Cement Pakistan Limited (ACPL)

- ACPL is expected to post an EPS of PKR 2.93 for 2QFY23, up 29%. This will take 1HFY23 EPS to PKR 4.46, down 5% YoY.
- We expect ACPL's local venture to post an EPS of PKR 1.70 during 2Q, whereas its Iraqi venture will likely post an EPS of PKR 1.23.
- ACPL's topline is expected to improve by 22% to PKR 9.0bn in 2Q. This is mainly fueled by an increase of 98% in retention prices.
- The company's gross margin is likely to contract by 3ppts to 15% mainly on account of increase in coal prices.
- We expect finance cost to go up by 1.82x on the back of higher interest rates, coupled with an increase in short-term borrowings.
- On sequential basis, the company's earnings are likely to increase by 91% QoQ supported by improved profitability of the local venture.
- We have a 'Buy' recommendation on ACPL. Our Dec-23 PT of PKR 85/share provides a upside of 46% along with a dividend yield of 5.2%.

Financial Estimates (PKR Mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HY23E	YoY
Net Sales	7,397	9,034	22%	13,130	15,644	19%
Cost of Sales	6,059	7,672	27%	10,754	13,243	23%
Gross Profit	**1,338**	**1,362**	**2%**	**2,376**	**2,400**	**1%**
Selling & Admin. Exp	695	499	-28%	1,252	1,122	-10%
Other Income	223	31	-86%	269	113	-58%
Other Charges	45	40	-11%	68	51	-25%
Finance cost	82	232	182%	128	387	202%
Profit before tax	**742**	**622**	**-16%**	**1,196**	**952**	**-20%**
Taxation	373	110	-70%	454	165	-64%
Net Income	**369**	**512**	**39%**	**742**	**787**	**6%**
NCI	57	110	94%	98	174	78%
Attributable to parent	**312**	**402**	**29%**	**645**	**614**	**-5%**
EPS	2.27	2.93	**29%**	4.69	4.46	**-5%**
Key Ratios:						
Gross Margin	18%	16%		18%	15%	
Operating Margin	9%	6%		9%	8%	
Pre-tax margin	10%	5%		9%	6%	
Net Margin	5%	4%		6%	5%	

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Cherat Cement Company limited (CHCC)

- CHCC is expected to report an EPS of PKR 7.2 for 2QFY23, up 19% YoY. This will take CHCC's 1HFY23 earning to PKR 14.8/share, up 21% YoY.
- The company's net sales are expected to increase by 34% YoY, despite a 9% YoY decline in dispatches. The expected increase in sales is mainly due to 47% YoY higher retention prices during 2Q.
- The finance cost of the company is also likely to increase by 72% YoY to PKR 518mn on the back of higher interest rates during the quarter.
- CHCC's effective tax rate is expected to remain at 32% during 2Q compared to 28% in SPLY, restricting the bottomline growth.
- On a sequential basis, earnings are likely to decline by 6% QoQ due to gross margin contraction by 4ppt to 28%. This is mainly due to CHCC's higher reliance on national grid instead of gas.
- We have a 'Buy' recommendation on CHCC. Our Dec-23 PT of PKR 140/share provides a upside of 37%.

Financial Estimates (PKR Mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HY23E	YoY
Net Sales	7,618	10,216	34%	14,779	19,266	30%
Cost of Sales	5,539	7,379	33%	10,621	13,533	27%
Gross Profit	**2,079**	**2,838**	**37%**	**4,158**	**5,733**	**38%**
Selling & Admin. Exp	214	249	16%	411	485	18%
Other Income	132	101	-24%	289	156	-46%
Other Charges	71	119	67%	205	221	8%
Finance cost	301	518	72%	600	999	66%
Profit before tax	**1,624**	**2,053**	**26%**	**3,231**	**4,184**	**29%**
Taxation	447	657	47%	861	1,305	52%
Net Income	**1,177**	**1,396**	**19%**	**2,370**	**2,878**	**21%**
EPS	6.06	7.18	19%	12.20	14.82	21%
Key Ratios:						
Gross Margin	27%	28%		28%	30%	
Operating Margin	24%	25%		25%	27%	
Pre-tax margin	21%	20%		22%	22%	
Net Margin	15%	14%		16%	15%	

D.G Khan Cement (DGKC)

- D.G Khan cement is expected to announce an unconsolidated earning of PKR 2.47/share for 2QFY23, down 15%YoY. This will take the company's 1HFY23 earnings to PKR 3.36/share, down 32% YoY.
- Net revenue of the company is anticipated to reach PKR 18.4bn, up 13% YoY in 2Q. Higher revenue can be attributed to a 30% YoY surge in cement retention prices.
- Despite escalating coal prices along with mounting energy cost, the company is likely to improve its gross margins to 18.1% in 2Q vs 17.0% in SPLY. This is mainly on account of efficient coal inventory management.
- Selling and Admin expenses are likely to decline by 37%, largely due to a decline in exports.
- Finance cost of the company is likely to increase by 117% YoY to PKR 1.7bn during 2Q due to increase in the interest rates along with higher short term borrowings.
- On sequential basis the company's earnings will likely increase by 1.78x due to improvement in gross margins by 3ppt.
- We have a 'Buy' recommendation on DGKC. Our Dec-23 PT of PKR 63/share provides a upside of 43%.

Financial Estimates (PKR Mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HY23E	YoY
Net Sales	16,282	18,357	13%	27,434	31,942	16%
Cost of Sales	13,523	15,034	11%	22,576	26,547	18%
Gross Profit	**2,759**	**3,323**	**20%**	**4,858**	**5,395**	**11%**
Selling & Admin. Exp	877	555	-37%	1,380	1,099	-20%
Other Income	749	755	1%	1,292	1,416	10%
Other Charges	146	256	75%	372	272	-27%
Finance cost	802	1,741	117%	1,538	3,335	117%
Profit before tax	**1,683**	**1,525**	-9%	**2,861**	2,106	-26%
Taxation	414	442	7%	684	635	-7%
Net Income	**1,269**	**1,082**	**-15%**	**2,177**	**1,471**	**-32%**
EPS	2.90	2.47	-15%	4.97	3.36	-32%
Key Ratios:						
Gross Margin	17%	18%		18%	17%	
Operating Margin	12%	15%		13%	13%	
Pre-tax margin	10%	8%		11%	7%	
Net Margin	8%	6%		8%	5%	

Fauji Cement Company Limited (FCCL)

- FCCL is scheduled to announce its 2QFY23 financial result on 16th Feb 2023, where we expect the company to report an EPS of PKR 0.83, up 38% YoY compared to an EPS of PKR 0.60 in 2QFY22.
- Revenue is anticipated to reach PKR 18.4bn (up 1.2x YoY) largely due to 1) merger with Askari cement resulting in a volumetric growth of 40% YoY and 2) hike in local retention price by 46% YoY.
- Gross margins are expected to settle at 25% during 2Q, down 3ppt QoQ. The expected decline in gross margin is likely on the back of increase in energy cost and the company's higher reliance on grid compared to internal sources.
- We expect finance cost to increase by 1.6x YoY to PKR 0.5bn owing to interest rate hike and higher long term debt.
- We have a 'Buy' recommendation on FCCL. Our Dec-23 PT of PKR 15/share provides a upside of 23%.

Financial Estimates (PKR Mn)						
	2QFY22	2QFY23E	YoY	1HFY22	1HY23E	YoY
Net Sales	8,309	18,426	122%	19,886	33,126	67%
Cost of Sales	5,951	13,736	131%	14,098	24,223	72%
Gross Profit	**2,358**	**4,689**	**99%**	**5,789**	**8,903**	**54%**
Admin & Selling Expense	276	538	95%	682	985	44%
Other Income	35	195	459%	197	395	101%
Other Expense	154	176	14%	355	412	16%
Finance cost	31	528	1590%	251	943	276%
Profit before tax	**1,931**	**3,643**	**89%**	**4,697**	**6,958**	**48%**
Taxation	584	1,614	177%	1,246	2,615	110%
Net Income	**1,470**	**2,029**	**38%**	**3,574**	**4,343**	**22%**
EPS	0.60	0.83	**38%**	1.46	1.77	22%
Key Ratios:						
Gross Margin	28%	25%		29%	27%	
Operating Margin	25%	23%		26%	24%	
Pre-tax margin	23%	20%		24%	21%	
Net Margin	18%	11%		18%	13%	

Kohat Cement Company Limited (KOHC)

- KOHC is likely to post an EPS of PKR 9.50 in 2QFY23, up 20% YoY.
- Net sales are likely to reach PKR 11.3bn, despite the company's overall utilization declining to 66% from 73%. The increase in revenue is supported by surge in retention prices by 51% YoY.
- Despite a Decline in dispatches by 9%, KOHC selling and admin expenses would possibly increase by 27% on account of inflationary pressure.
- Although the company's profitability before tax rose by 28%, the bottom line of the company is likely to be restricted to 20% growth, due to the new tax regime. The effective tax rate for the quarter is likely to clock in at 33% compared to 29% SPLY.
- On sequential basis, the company's earning are likely to increase by 7% due to volumetric growth of 23% in dispatches.
- We have a 'Buy' recommendation on KOHC. Our Dec-23 PT of PKR 200/share provides a upside of 40%.

Financial Estimates (PKR Mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HY23E	YoY
Net Sales	8,211	11,250	37%	15,015	20,102	34%
Cost of Sales	5,729	7,983	39%	10,272	14,065	37%
Gross Profit	**2,482**	**3,267**	32%	**4,743**	**6,037**	**27%**
Selling & Admin. Expenses	125	159	27%	227	285	26%
Other Income	129	393	204%	208	760	265%
Other Charges	141	240	71%	267	430	61%
Finance expenses	118	413	251%	236	585	148%
Profit before tax	**2,228**	**2,847**	**28%**	**4,221**	**5,497**	**30%**
Taxation	642	940	46%	1,237	1,805	46%
Net Income	**1,586**	**1,908**	**20%**	**2,984**	**3,692**	**24%**
EPS	7.90	9.50	20%	14.86	18.38	24%
Key Ratios:						
Gross Margin	30%	29%		32%	30%	
Operating Margin	29%	28%		30%	29%	
Pre-tax margin	27%	25%		28%	27%	
Net Margin	19%	17%		20%	18%	

Maple Leaf Cement Factory (MLCF)

- MLCF is expected to report an EPS of PKR 1.49 for 2QFY23, registering a decline of 16% YoY. This will take 1HFY23 EPS to PKR 2.78, up 8% YoY.
- Net sales are expected to grow by 37% YoY to PKR 16.7bn in 2Q as compared to PKR 12.2bn during SPLY, on account of improved retention prices by 49% YoY.
- Despite Decline in dispatches by 9%, MLCF's selling and admin expenses would possibly increase by 61% YoY on account of inflationary pressure.
- The finance cost of the company is likely to increase by 70% YoY largely due to increase in long term financing along with upward revision in interest rates.
- On sequential basis, the gross margins are likely to subside to 26% compared to 29% 1QFY23. This is likely due to higher reliance on national grid.
- We have a 'Buy' recommendation on MLCF. Our Dec-23 PT of PKR 33/share provides a upside of 46%.

Financial Estimates (PKR Mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HY23E	YoY
Net Sales	12,226	16,723	37%	22,121	29,550	34%
Cost of Sales	8,337	12,403	49%	16,025	21,536	34%
Gross Profit	**3,889**	**4,320**	11%	**6,096**	**8,014**	31%
Selling & Admin. Expenses	611	984	61%	1,228	1,777	45%
Other Income	31	8	-74%	42	16	-63%
Other Charges	323	382	19%	502	765	52%
Finance expenses	365	620	70%	676	1,181	75%
Profit before tax	**2,620**	**2,341**	-11%	**3,732**	**4,307**	15%
Taxation	701	738	5%	974	1,326	36%
Net Income	**1,919**	**1,603**	-16%	**2,757**	**2,981**	**8%**
EPS	1.79	1.49	-16%	2.57	2.78	8%
Key Ratios:						
Gross Margin	32%	26%		28%	27%	
Operating Margin	27%	20%		22%	21%	
Pre-tax margin	21%	14%		17%	15%	
Net Margin	16%	10%		12%	10%	

Lucky Cement Limited (LUCK)

- Lucky cement's board meeting is scheduled on 27th January to consider 2QFY23 financial results. We expect the company to report consolidated EPS of PKR 20.4, up 2% YoY, compared to an EPS of 20.09 in SPLY.
- On unconsolidated basis, the company is expected to post an EPS of PKR 10.15, up 32% YoY.
- The revenue of the cement venture is likely to increase by 23% YoY. This is largely due to the surge in retention prices.
- On the other hand, Lucky cement's production cost will likely increase by 15% YoY on account of higher cost of fuel and power.
- Lucky cement's gross margin is likely to stand at 28%, up 5ppt on account of effective coal management and improved retention prices.
- Lucky Cement is likely to report an effective tax rate of 32% compared to 24% SPLY, restricting the bottomline growth.
- We have a 'Buy' recommendation on LUCK. Our Dec-23 PT of PKR 620/share provides a upside of 53%.

Financial Estimates (PKR Mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HY23E	YoY
Net Sales	68,398	94,470	38%	123,380	185,102	50%
Cost of Sales	54,671	73,416	34%	97,991	145,917	49%
Gross Profit	**13,727**	**21,054**	53%	**25,388**	**39,185**	54%
Distri. & Admin. Exp.	4,764	4,709	-1%	8,607	8,899	3%
Other Income	2,402	3,213	34%	6,292	6,133	-3%
Other Charges	868	1,332	53%	1,643	2,505	52%
Finance Cost	574	7,375	1185%	914	13,859	1416%
Profit Before Tax	**9,922**	**10,851**	9%	**20,517**	**20,054**	-2%
Taxation	1,627	2,677	65%	3,361	4,947	47%
Net Income	**8,295**	**8,174**	-1%	**17,156**	**15,107**	-12%
NCI	1,799	1,576	-12%	4,007	3,059	-24%
Attributable to parent	**6,496**	**6,598**	2%	**13,149**	**12,048**	-8%
EPS	20.09	20.40	2%	40.66	37.26	-8%
<u>Key Ratios:</u>						
Gross Margin	20%	22%		21%	21%	
Operating Margin	13%	17%		14%	16%	
Pre-tax margin	15%	11%		17%	11%	
Net Margin	10%	7%		11%	7%	

Pioneer Cement Company (PIOC)

- PIOC is expected to announce an earning of PKR 3.30/share, up 13% YoY, for 2QFY23. This will take 1HFY23 earnings of the company to PKR 5.88/share.
- Net sales are anticipated to augment by 23% YoY to PKR 10.6bn during 2Q on account of improved retention prices by 54% YoY. This is despite the fact that company's overall utilization declined to 61% compared to 77% during SPLY.
- The company's cost of production is likely to swell up by 21% YoY, largely due to mounting energy and fuel prices.
- The finance cost of the company is likely to increase by 75% YoY due to increase in short term financing coupled higher interest rates.
- On a sequential basis, the gross margins are likely to dampen to 22% compared to 23% during 1QFY23 mainly due to higher reliance on national grid.
- We have a 'Buy' recommendation on PIOC. Our Dec-23 PT of PKR 75/share provides an upside of 38%.

Financial Estimates (PKR Mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HY23E	YoY
Net Sales	8,614	10,567	23%	14,811	18,889	28%
Cost of Sales	6,837	8,269	21%	11,572	14,681	27%
Gross Profit	**1,777**	**2,298**	**29%**	**3,240**	**4,208**	**30%**
Selling & Admin. Expenses	62	79	28%	126	145	16%
Other Income	9	11	21%	19	21	11%
Other Charges	83	94	14%	172	159	-8%
Finance expenses	593	1,034	75%	1,173	1,949	66%
Profit before tax	**1,049**	**1,102**	**5%**	**1,788**	**1,976**	**10%**
Taxation	386	353	-9%	645	641	-1%
Net Income	**663**	**749**	**13%**	**1,143**	**1,335**	**17%**
EPS	2.92	3.30	**13%**	5.03	5.88	17%
Key Ratios:						
Gross Margin	21%	22%		22%	22%	
Operating Margin	1%	1%		1%	1%	
Pre-tax margin	6%	4%		6%	4%	
Net Margin	8%	7%		8%	7%	

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Rating	Expected Total Return
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