

Cements: Lower dispatches and volatile coal prices to weigh on cement sector earnings during 3QFY22

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Lower dispatches to trim down sector's profitability

- We present result previews of Akseer's Cement universe for 3QFY22, wherein earnings of our universe to decline by 7% QoQ to PKR 10.4bn. Decline in earnings can be attributable to lower cement dispatches along with commodity supercycle caused by various international factors.
- Total Cement dispatches remained dull during the current quarter clocking in at 13.36mn, down 9% QoQ. Local dispatches in the northern region declined by 8% QoQ while South region posted an uptick of 11% QoQ. On the other hand, exports observed a significant decline of 32% QoQ to 1.25mn.
- On the pricing front, average domestic cement prices observed an uptick by 6% QoQ to PKR 772/bag. The north and south region observed similar levels of price increase of 6% QoQ to PKR 766 and PKR 787 per bag, respectively. The price increase is largely to pass on the rising coal cost.
- Despite slowdown in cement dispatches, topline of our universe is expected to grow by 1% QoQ to PKR 87.9bn during 3QFY22.

Cement Universe Preview

(PKR mn)	3QFY22E	YoY	QoQ	9MFY22E	YoY
Net Sales	87,916	32%	1%	244,668	28%
Gross Profit	19,838	2%	-6%	58,598	25%
Gross Margin	23%	-6%	-2%	24%	-1%
Finance Cost	2952	41%	25%	7524	11%
Profit Before Tax	13,887	-25%	-10%	42,528	25%
Profit After Tax	10,422	-28%	-7%	31,308	16%

EPS Estimates (PKR)

	3QFY22E	YoY	QoQ	9MFY22E	YoY
ACPL	1.77	-41%	-58%	7.97	14%
DGKC	1.97	-58%	-32%	6.94	7%
FCCL	0.90	23%	-16%	2.95	56%
MLCF*	1.36	40%	-22%	3.87	49%
LUCK	10.24	-54%	33%	28.09	-22%
CHCC	5.44	-3%	-10%	17.64	54%
KOHC	7.37	40%	-7%	22.22	76%
PIOC	3.22	6%	10%	8.26	45%

* Consolidated

Source: Akseer Research

Rising commodity prices impairing cement margins

- Coal prices have been on the rising trend in the last 15 months and remained highly volatile during 3QFY22. Coal touched a record high of USD 441/ton and subsequently declined to USD 252/ton during 3QFY22.
- We expect cement companies to have procured coal at an average price of USD 130-160/ton, considering that cement players had managed to build inventory at lower levels for the quarter along with higher usage of local and Afghan coal which is 25-30% cheaper than benchmark Richard bay coal prices.
- Resultantly, gross margins are likely to observe a downtick of 2% QoQ and settle at 23% during 3QFY22.
- Since cement sector is one of the leverage listed sector, higher interest rates will likely increase financial charges our universe by 25% QoQ to PKR 2.9bn during 3QFY22.

Richard Bay Average Coal Price



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