

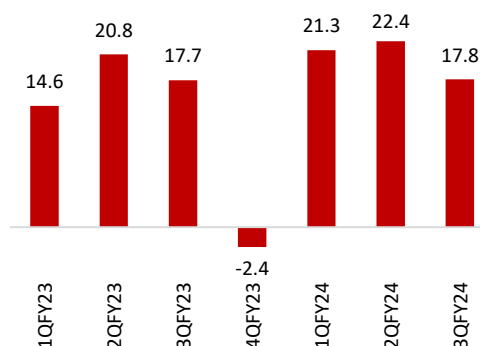
Pakistan Cement Sector

Thursday, May 2, 2024

Sector reported quarterly profit of PkR 17.8bn in 3QFY24, flat YoY and down 20% QoQ

- Pakistan's listed cement sector reported earnings of PkR 17.8bn, flat YoY in 3QFY24 while 20% down QoQ. This earnings decline is primarily due to lower dispatches.
- Sector sales plunged by 2% YoY and 11% QoQ to PkR 158.4bn in 3QFY24, owing to 10% YoY and 11% QoQ decline in total cement dispatches.
- Local dispatches declined by 13% YoY and 9% QoQ to 9.1mn tons in 3QFY24. While, export up by 11% and down by 24% QoQ to 1.4mn tons.
- Gross margins of the sector expanded by 3.2ppts to clock in at 26.8% in 3QFY24 vs 23.6% in 3QFY23 led by lower coal prices and higher retention prices. However, QoQ gross margins witnessed slight decline from 27.5% in 2QFY24 due to lower cement dispatches leading to lower fixed cost absorption.
- During 3QFY24, cement players in the southern region mostly relied on Richards Bay coal, while those in the northern region used a combination of Afghan and local coal.
- RB/Afghan/Darra/Quetta coal is down by 23/12/13/23% YoY and 8/3/10/3% QoQ respectively in 3QFY24.
- Selling and distribution costs were up by 49% YoY to PkR 6.8bn in 3QFY24 owing to the implementation of axle load regulations and the inflationary environment. However, same expense declined by 8% QoQ due to lower volumetric sales.
- Other income of the sector was up by 64% YoY to PkR 6.0bn in 3QFY24, amid higher dividend and interest income. Of the PkR 6.0bn sector's other income in 3QFY24, 48% (PkR 2.8bn) was contributed by Lucky Cement (LUCK).
- Cement sector reported EBITDA of PkR 41.3bn, up 8% YoY and down 13% QoQ in 3QFY24. EBITDA margin of the sector remained at 26.1% in 3QFY24 vs 23.7% in 3QFY23 and 26.6% in 2QFY24.
- Finance cost of the sector clocked in at PkR 10.5bn in 3QFY24, up 30% YoY due to higher interest rates and borrowings of the sector.
- Sector reported effective tax rate of 36.5% in 3QFY24 vs 30.6% in 3QFY23 and 34.3% in 2QFY24.
- In 9MFY24, profitability increased by 15.8% YoY to PkR 61.5bn, owing to higher retention prices and other income.

Pakistan Cement Sector Profitability (PKR Bn)



Source: Company Accounts, BMA Research

Cement Sector Financial Highlights

PkR mn	3QFY24	YoY	QoQ	9MFY24	YoY
Sales	158,414	-2%	-11%	507,206	12%
Cost of Sales	115,980	-6%	-10%	368,259	9%
Gross Profit	42,433	11%	-14%	138,942	24%
Administrative Expenses	3,146	6%	-7%	9,671	14%
Selling & Distribution Expenses	6,853	49%	-8%	20,488	82%
Other Operating Expenses	1,599	-21%	-39%	6,770	0%
Other Income	6,007	64%	-9%	18,096	91%
Profit from Operations	36,842	15%	-13%	120,109	27%
Finance Cost	10,493	30%	9%	30,845	45%
Profit before Tax	26,861	10%	-19%	92,675	26%
Taxation	9,817	32%	-13%	33,469	47%
Profit after Tax	17,835	1%	-20%	61,514	16%

Source: Company Accounts, BMA Research

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LUCK, BWCL and KOHC major contributor in profitability

- Major contributors to the profitability of the cement sector in 3QFY24 were Lucky Cement (LUCK), followed by Bestway Cement (BWCL) and Kohat Cement (KOHC).
- LUCK contributes 28% to the total cement sector profitability. LUCK reported profits of PkR 4.9bn up 23% YoY due to surge in sales (+10% YoY) and other income (84% YoY) in 3QFY24.
- LUCK's other income clocked in at PkR 2.8bn, 84% YoY, primarily driven by dividends received from its subsidiaries/associates of PkR 1.5bn, including dividend of PkR 1.4bn from Lucky Core Industries.
- BWCL's profitability remained flat YoY in 3QFY24 despite reporting better gross margins. The flattish profitability is attributed to lower volumetric sales. BWCL contributes 20% to the total cement sector profitability in 3QFY24.
- KOHC earnings in 3QFY24 clocked in at PkR 2.0bn, up 27% YoY due to improved gross margin and 99% jump in other income. Company reported gross margins of 30% in 3QFY24 as compared to 22% in 3QFY23 mainly due to lower coal prices and higher retention prices. KOHC contributes 12% to the total cement sector profitability in 3QFY24.
- All companies in the sector reported profitability except for Dewan Cement (DCL) and Power cement (POWER), which reported a loss of PkR 259mn and PkR 717mn in 3QFY24.
- Outlook:** We expect gross margins to remain firm due to strong pricing power, lower coal prices and expected demand recovery going forward.
- We maintain our over-weight stance on cement sector where LUCK, FCCL and MLCF are our top picks.

Company Wise Profitability

Company	3QFY24	YoY	QoQ	9MFY24	YoY
Lucky Cement	4,938	23%	-27%	18,648	68%
Bestway Cement	3,537	-1%	-5%	10,320	-11%
Kohat Cement	2,058	27%	-7%	6,511	21%
Fauji Cement	1,769	-6%	-33%	7,043	1%
Maple Leaf Cement	1,505	-20%	-33%	5,374	-13%
Cherat Cement	1,244	-2%	-33%	4,645	8%
Pioneer Cement	1,202	27%	-29%	3,828	41%
DG Khan Cement	1,180	0%	199%	2,235	6%
Gharibwal Cement	558	1%	101%	1,244	-26%
Thatta Cement	530	509%	430%	774	1073%
Attock Cement	178	-64%	-64%	2,219	110%
Flying Cement	81	-8%	-1%	252	11%
Fecto Cement	31	343%	-65%	209	NM
Dewan Cement	(259)	NM	NM	(601)	NM
Power Cement	(717)	NM	NM	(1,187)	NM
Total	17,835	1%	-20%	61,514	16%

Source: Company Accounts, BMA Research

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Old rating system

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)