

Daily Call

Cement Previews

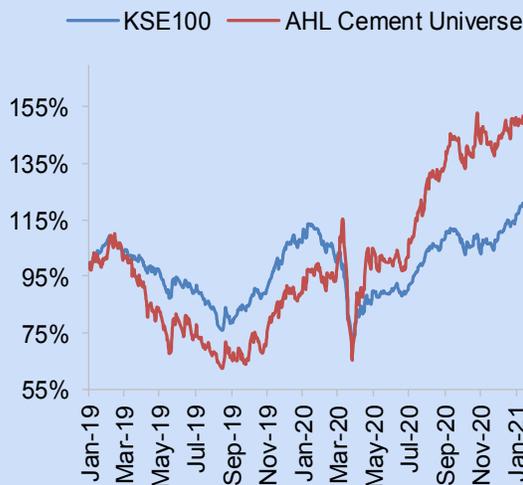
Cements

AHL Cement Universe

Cements	TP*	Upside	Stance
LUCK	947.6	37.2%	Buy
MLCF	49.2	14.4%	Buy
ACPL	187.3	21.5%	Buy
DGKC	144.3	30.1%	Buy
KOHC	228.9	7.3%	Hold
FCCL	30.1	39.5%	Buy

*Dec-21

Performance



Source: PSX

Surge in offtake points at strong demand momentum

While economic conditions tailspinned in earlier part of 2020 amid outbreak of the novel Coronavirus, prompt action by the government (implementation of a lockdown together with disbursement of emergency funds to counter the pandemic) quickly revived the economy. The momentum has continued and in particular, the cement sector has posted a strong rebound. This was primarily owed to a package for the construction industry, work on colony construction of high-level dams as well as the low interest rate environment, which has translated to a healthy 16% jump in cement offtake during 1HFY21 to 28.6mn tons. This was aided by an identical surge in local dispatches to 23.6mn tons while exports observed a similar growth (+15% YoY to 5.0mn tons) in Jul-Dec'20. We also highlight the QoQ upturn in total offtake by 11% to an all-time high of 15.0mn tons, given local dispatches went up by 18% to 12.8mn tons (surprising as the winter season has historically been slower). Albeit, exports pulled down by 17% QoQ to 2.3mn tons amid manufacturers' preference to cater to high-margin local sales, second wave of COVID-19 globally together with congestion at the ports (priority given to import of sugar and wheat as opposed to clinker exports so as to contain inflationary pressure).

Exhibit: Cement Dispatches - Region Wise

(000) tons	Dec-20	Nov-20	MoM	Dec-19	YoY	1HFY21	1HFY20	YoY
North	3,594	3,312	9%	3,172	13%	21,429	18,827	14%
Local	3,471	3,129	11%	2,965	17%	20,219	17,407	16%
Exports	123	182	-32%	207	-41%	1,210	1,420	-15%
South	1,193	1,197	0%	1,135	5%	7,188	5,924	21%
Local	683	613	11%	572	19%	3,381	2,967	14%
Exports	510	584	-13%	563	-9%	3,806	2,957	29%
Total Local	4,154	3,743	11%	3,536	17%	23,601	20,373	16%
Total Exports	633	766	-17%	770	-18%	5,016	4,377	15%
Grand Total	4,787	4,509	6%	4,306	11%	28,617	24,751	16%

Source: AHL Research

2QFY21: AHL Cement universe earnings to surge by a stunning 3x YoY / 2x QoQ

Although coal prices witnessed a slight uptick during 2QFY21 to USD 60/ton (lagged effect) from USD 50/ton in the last quarter, we believe cost pressures will remain contained amid i) benefits of large scale economies with all players posting improvement in offtake on a QoQ / YoY basis and, ii) price hike in North towards the end of the quarter. Effectively, we eye higher margins in 2QFY21 vis-à-vis last quarter and SPLY.

LUCK: EPS growth of 3x YoY expected in 2QFY21

Lucky Cement Limited (LUCK) is forecast to post earnings of PKR 3,100 (EPS: PKR 9.59) in 2QFY21, up by 3x as compared to PKR 3.03/share in SPLY and PKR 6.89/share in 1QFY21. We cite growth in dispatches to 2.6mn tons during the quarter, coupled with improved retention prices (both local and export) to aid margins (at 29% vis-à-vis 15% SPLY). Consolidated earnings of the company are estimated at PKR 5,250mn (EPS: PKR 16.23).

MLCF: Losses to Profit

Maple Leaf Cement Factory Limited (MLCF) is set to unveil its 2QFY21 financial result whereby we expect the company to post a bottom-line of PKR 1,081mn (EPS: PKR 0.98) against a loss of PKR 785mn (LPS: PKR 0.71) in SPLY. This turnaround is owed to margin accretion to 25% in the period under review vs. 6% in 2QFY20 primarily attributable to pricing improvement as dispatches are forecast to decline by 17% YoY to 1.3mn tons.

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Whereas on a QoQ basis margins may witness a hike of 527bps due to 10% uptick in offtake.

ACPL: King of South

Attock Cement Pakistan Limited (ACPL) is scheduled to announce its 2QFY21 financial result of 26th Jan'20 whereby we project company earnings to arrive at PKR 554mn (EPS: PKR 4.03) compared to PKR 405mn (EPS: PKR 2.95) in SPLY and PKR 119mn (EPS: PKR 0.87) in 1QFY21. Stunning growth in profitability is in lieu of a 3% YoY / 6% QoQ jump in dispatches to 0.94mn tons coupled with the company's premium pricing in the South market. This is expected to translate to margins of 25.8% during the quarter as opposed to 21.1% in SPLY and 18.6% in the last quarter.

DGKC: Topline growth to offset absent dividend income

D.G. Khan Cement Company Limited (DGKC) is forecast to post a profitability of PKR 647mn (EPS: PKR 1.48) in 2QFY21 against PKR 581mn (EPS: PKR 1.33) in SPLY and loss of 351mn (LPS: PKR 0.80) in the last quarter. With retention prices undergoing tremendous improvement, margins are set to climb up to 16.8% vs. 13.2% in 2QFY21. While a 30% jump in local dispatches on a QoQ basis is set to improve margins by 7% over last quarter.

KOHC: 67x YoY surge in earnings expected in 2QFY21

Kohat Cement Company Limited (KOHC) is projected to unveil earnings of PKR 643mn (EPS: PKR 3.20) during the outgoing quarter, depicting a jump of 67x YoY and 27% QoQ to PKR 10mn (EPS: PKR 0.05) and PKR 507mn (EPS: PKR 2.52) in SPLY and 1QFY21, respectively. Substantial improvement in retention prices as well as a 59% YoY / 8% QoQ jump in offtake to 0.98mn tons is likely to aid margins to 20.3% as opposed to 1.3% last year and 18.5% in 1QFY21.

FCCL: Earnings to grow by 5x YoY / 38% QoQ in 2QFY21

Fauji Cement Company Limited (FCCL) is expected to post earnings of PKR 960mn (EPS: PKR 0.70) in 2QFY21 vs. PKR 189mn (EPS: PKR 0.14) in SPLY and PKR 696mn (EPS: PKR 0.50) in 1QFY21. With nearly 20% jump in retention prices, margins are set to jump up by 19% YoY to 26%. While 11% QoQ growth in offtake to 0.92mn tons will push up margins by 461bps in 2QFY21 in contrast to 1QFY21.

Exhibit: Financial Highlights

EPS	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
MLCF*	1.49	(1.61)	n/m	0.98	(0.71)	n/m	0.51	95%
DGKC	0.68	(1.93)	n/m	1.48	1.33	11%	(0.80)	n/m
ACPL	4.90	5.55	-12%	4.03	2.95	37%	0.87	5x
LUCK	16.47	5.99	3x	9.59	3.03	3x	6.89	39%
FCCL	1.20	0.35	3x	0.70	0.14	5x	0.50	38%
KOHC	5.73	0.49	12x	3.20	0.05	67x	2.52	27%

Source: Company Financials, AHL Research

*Consolidated

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Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2021 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% from last closing of market price(s)

* Upside for Power Generation Companies (Ex. KEL) is upside plus dividend yield.

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- **Discounted Cash Flow (DCF)**
- **Dividend Discount Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

Risks

The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

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