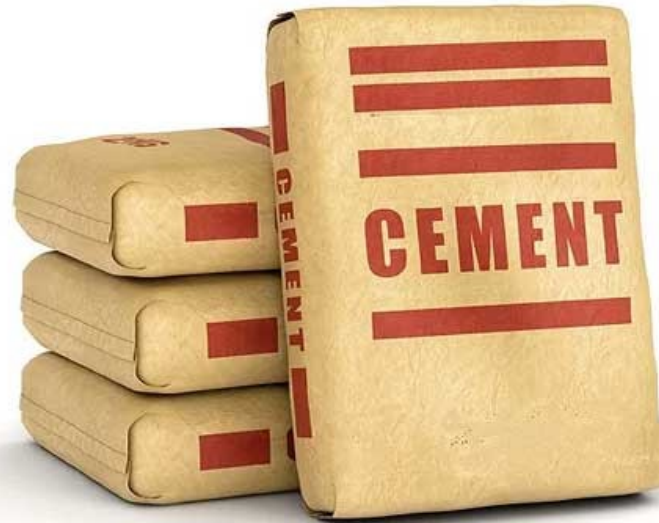


## Flash Note

### Cement Sector

#### *Sector's Earnings Down by 38% YoY in 1QFY19*

November 05, 2018



### **Cement Sector**

#### ***Sector's Earnings Down by 38% YoY in 1QFY19***

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## Industry Dispatches (mn)

	1QFY19	1QFY18	YoY%	4QFY18	QoQ%
Local	9.02	9.06	0%	9.83	-8%
Export	1.79	1.29	39%	1.3	38%
Total	10.81	10.35	4%	11.14	-3%

Source: APCMA &amp; WE Research

- Cement Industry's profitability declined by 38% YoY during 1QFY19, clocking at PKR 8,148 million as opposed to PKR 13,207 million SPLY. We have consolidated financial results of 11 companies which represent 95% of total industry's market capitalization.
- Erosion in profits attributed to higher cost of production amid elevated coal prices coupled with widened PKR-USD parity, surge in distribution cost and increased finance cost during the quarter under review.

Income Statement (PKR mn)	1QFY19	1QFY18	YoY	4QFY18	QoQ
Turnover - Net	61,216	59,480	3%	61,344	0%
Cost of Sales	46,325	39,737	17%	44,952	3%
Gross Profit	14,891	19,743	-25%	16,392	-9%
Distribution Cost	2,564	1,727	48%	2,407	7%
Admin Expense	1,366	1,576	-13%	1,728	-21%
Operating Profit	10,961	16,439	-33%	12,257	-11%
Other Expenses	816	1,330	-39%	2,877	-72%
Other Income	1,307	1,161	12%	2,271	-42%
Finance Cost	1,625	590	176%	912	78%
PBT	10,125	16,186	-37%	10,826	-6%
Tax	1,977	2,979	-34%	(5,697)	-135%
PAT	8,148	13,207	-38%	16,523	-51%
Gross Margin	24.3%	33.2%		26.7%	
Operating Profit	17.9%	27.6%		20.0%	
Net Profit Margin	13.3%	22.2%		26.9%	

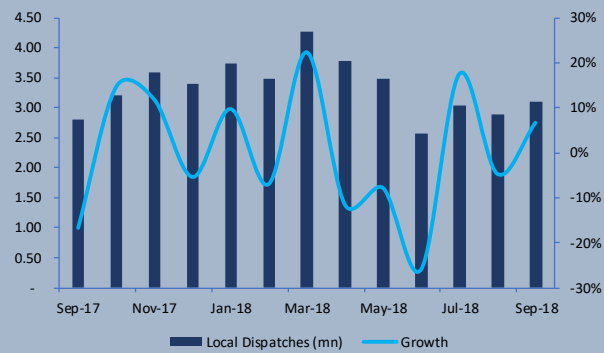
Source: Companies Accounts &amp; WE Research

# Flash Note

## Cement Sector

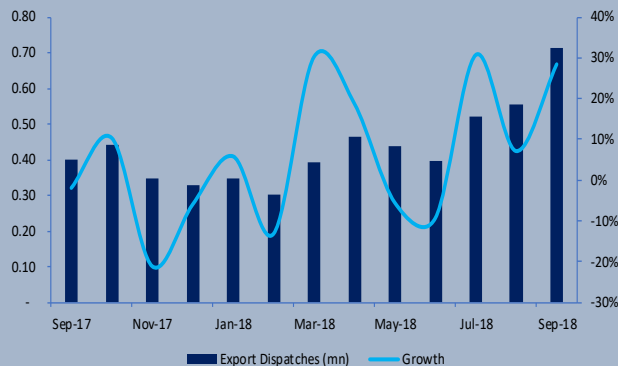
### Sector's Earnings Down by 38% YoY in 1QFY19

#### Local Dispatches & Growth Rate



Source: APCMA & WE Research

#### Export Dispatches & Growth Rate



Source: APCMA & WE Research

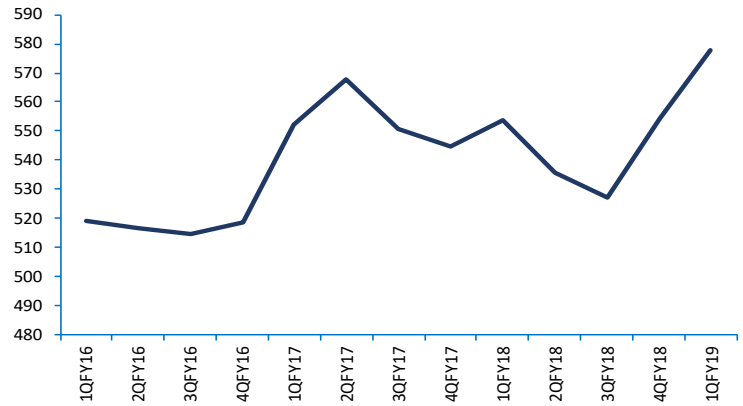
- As per the data compiled by APCMA, industry dispatches grew by 4%YoY during 1QFY19 to record at 10.8 million vs 10.3 million SPLY wherein, local dispatches registered a flat growth while exports surged by 39% YoY clocking at 1.79 million against 1.29 million on the back the rupee depreciation (18% YoY) in 1QFY19.
- Company's top line registered a growth of 3%YoY to clock in at PKR 61,216 million whereas industry dispatches witnessed 4% YoY growth. Gross margin shrank by 8.9ppts to 24.3% during the quarter on the back of 17% surge in cost of production amid elevated coal prices (32% YoY) and widened PKR- USD Parity (18% YoY) during quarter under review.
- During 1QFY19, distribution cost elevated by a considerable 48% YoY on account of rise in export dispatches (39%YoY) amid rupee devaluation. Moreover, finance cost significantly up by 2.75x YoY on the back of upcoming expansion coupled with higher interest rates. The hefty rise in finance cost primarily observed in DGKC, followed by ACPL, PIOC, MLCF and BWCL.
- Industry posted the effective tax rate of 19.5% during the period under review wherein, LUCK reported 14% followed by ACPL (17%), DGKC and MLCF reported 20% each.
- **Outlook:** Going forward, we expect marginally favorable outlook in upcoming quarters on the back of expected foreign inflows from friendly countries (KSA, UAE and China) which will bring stability in exchange rate parity, recent downturn in international coal prices will allow normalization of cost of production. Moreover, better outlook is backed by housing schemes initiated by government wherein 5 million houses will be constructed in first phase of the programme. Our top picks are LUCK, PIOC and FCCL.



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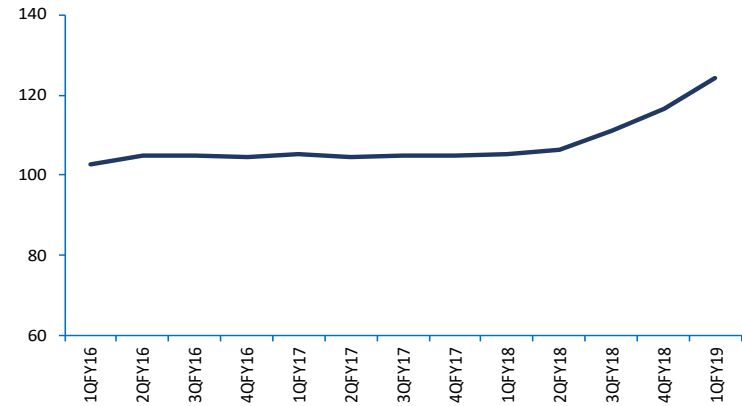
### Cement Average Price

Source: PBS & WE Research



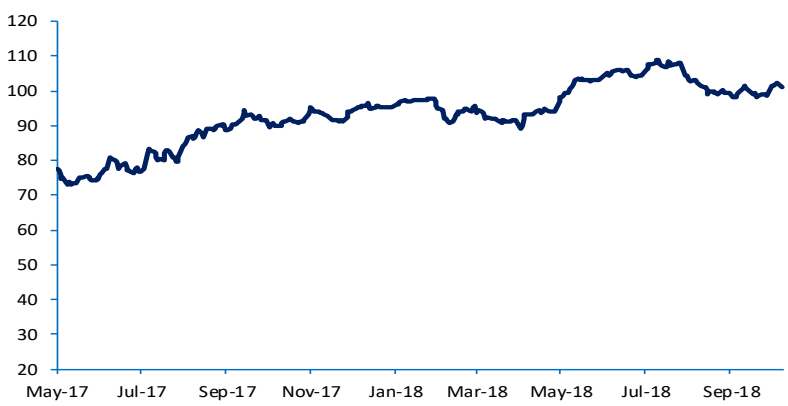
### Average Exchange Rate

Source: SBP



### Coal Price

Source: Bloomberg & WE Research



### Analyst Certificate:

The Research Report is prepared by the research analyst at WE Financial Services Ltd. It includes analysis and views of our research team that precisely reflects the personal views and opinions of the analysts about the subject security(ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security(ies). The views expressed in this report are unbiased and independent opinions of the Research Analyst which accurately reflect his/her personal views about all of the subject companies/securities and no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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### Stock Ratings

WE Financial Services Ltd. uses three rating categories, depending upon return form current market price, with Target period as December 2018 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Potential to target price	
Buy Upside	More than +10% from last closing price
HOLD	In between -10% and +10% from last closing price
SELL	Less than -10% from last closing price

### Equity Valuation Methodology

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

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

### Risks

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

- Market Risk
- Interest Rate Risk
- Exchange rate risk

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