

Infrastructure - Cement Sector

March 2020

Cement Sector –

Correlation with Economy

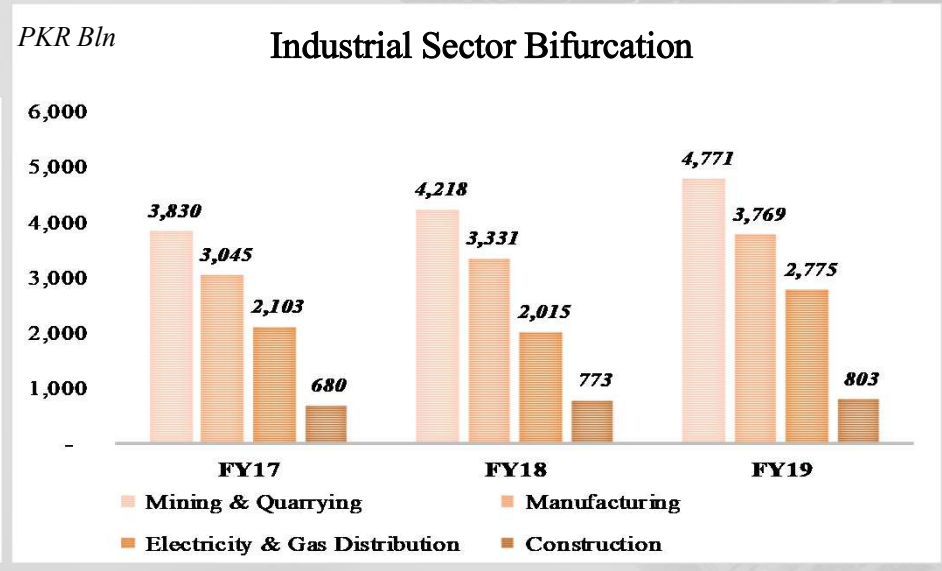
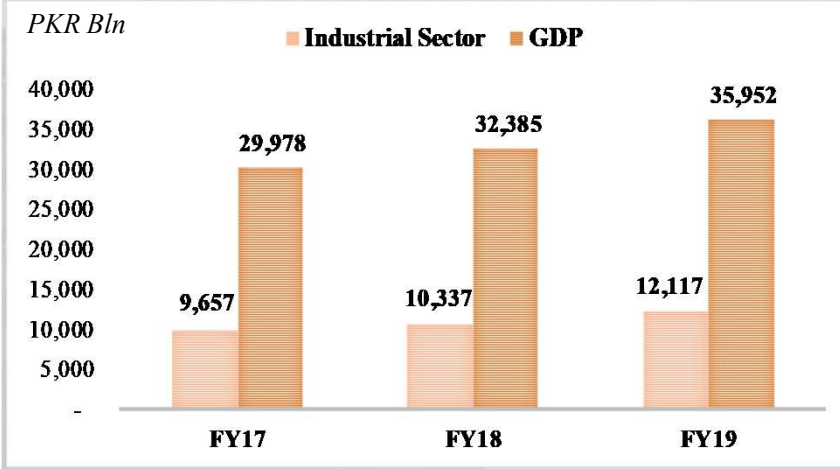
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GDP Contributors & Large Scale Manufacturing (LSM)

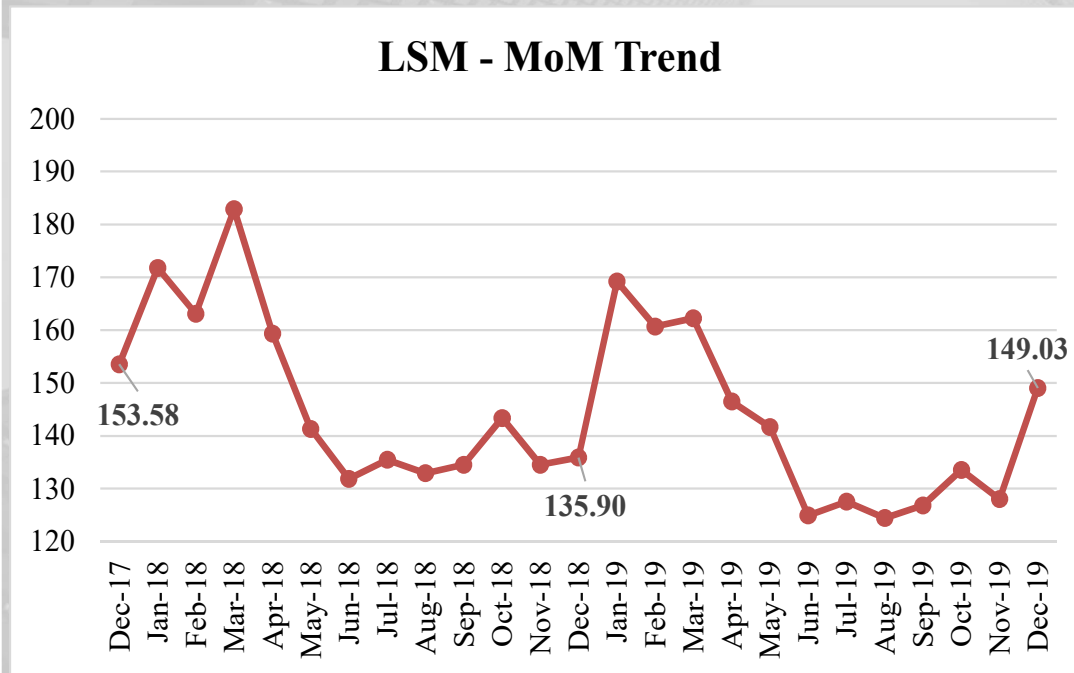


GDP at Constant Basic Price is PKR 13.5trln whilst at current basic price PKR 35.9trln



Source: SBP Statistical supplement

Large Scale Manufacturing (LSM) – MoM Trend Analysis



Analysis of MoM QIM trend suggests after sizable spike in Jan-19, QIM remained subdued till July-19.

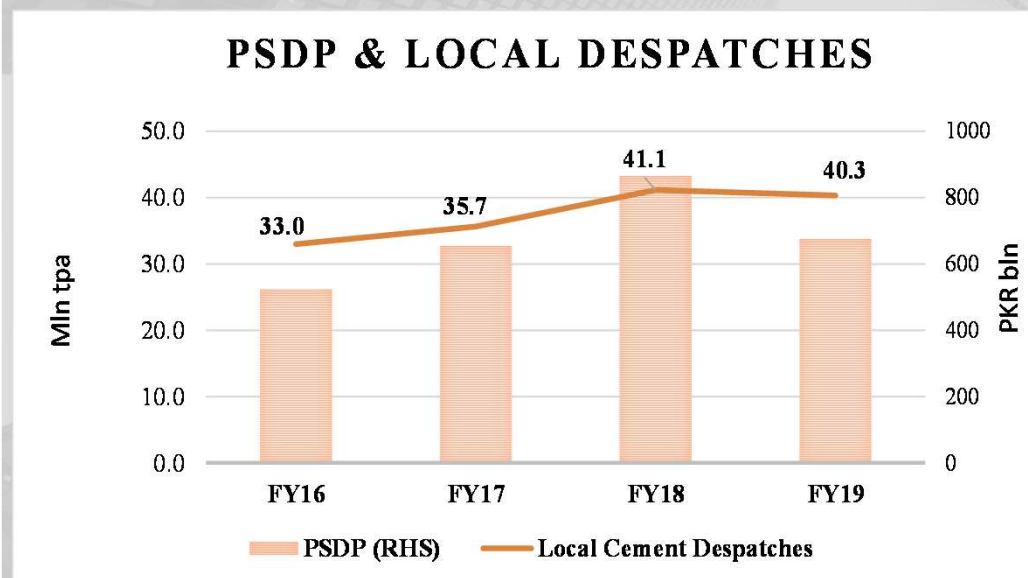
QIM picked pace afterwards where sizable growth was seen in Dec-19 attributable to following:

Manufacturing Sector	Percentage growth in Dec-19
Food, Beverages & Tobacco	42%
Paper & Board	33%
Leather Products	16%
Wood Products	14%

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Source: Pakistan Bureau of Statistics - Industry

Coorelation – PSDP and Local Despatches



Year	PSDP	Federal	Provincial
FY16	524	700	814
FY17	655	800	875
FY18	866	1,001	1,112
FY19	675	675	585

Public Sector Development Expenditure have strong correlation with local cement despatches.

According to revised release strategy for PSDP funds of FY20 (PKR 702bln), 20% for 1Q, 30% each for 2Q & 3Q while 20% will be released in 4Q.

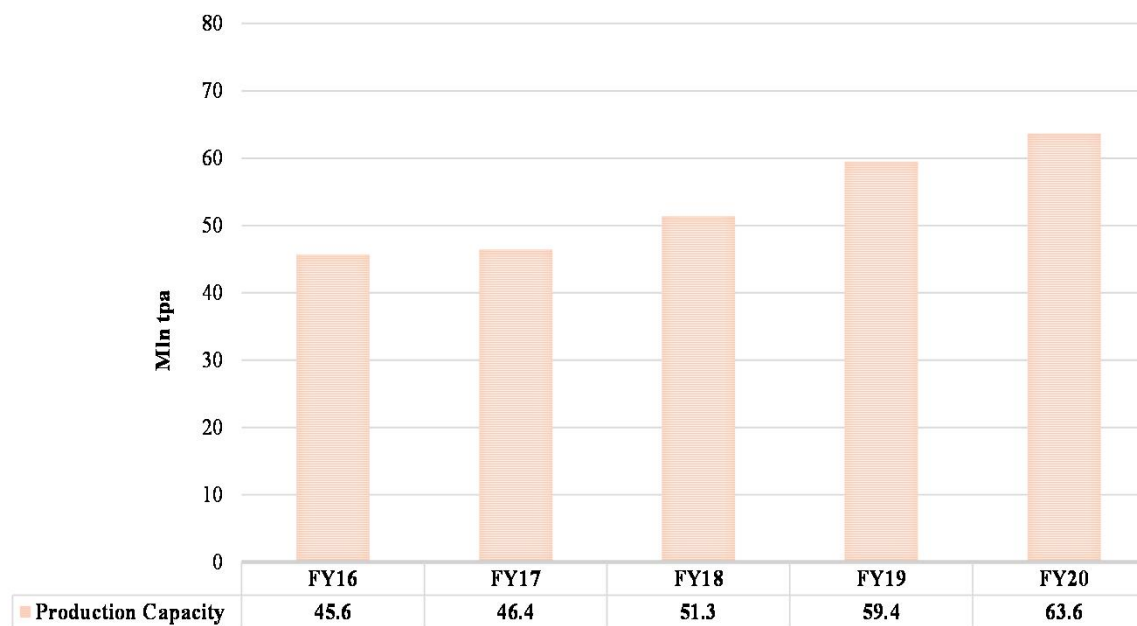
Cement Sector Expansion – Phase II

Majority cement players announced expansions in FY15 & FY16 following previous government's strong prerogative for infrastructural development

Almost all expansions have achieved CoD up till Mar-20

Production capacity reached 63.6mln tpa cement capacity as against 45.6mln tpa in FY16 (18mln tpa)

First phase of expansion ended in FY12 (starting from FY07) where industry added 14mln tpa. Industry faced severe expanded capacity challenge back then too.



Cement Sector – Performance

Sr. No.	Contents
1.	Market Share (Overall, North & South Region)
2.	Capacity Utilization (Local & Total)
3.	Export Analysis
4.	Sector - Performance
5.	Sector - Leveraging
6.	Coal Prices Trend
7.	Cement Prices Trend (Delta in both regions)



Sr. No.	Cement Players	Sponsors	Installed Cement Capacity (Mln tpa)	Overall Market share
1.	Lucky Cement	Yunus Brothers Group – Tabbas	11,710,000	16.8%
2.	Bestway Cement	Bestway Group – Zameer Choudrey	10,325,250	14.8%
3.	DG Khan Cement	Nishat Group – Mian Mansha	7,119,000	10.2%
4.	Maple Leaf Cement	Kohinoor Maple Leaf Group – Saiggols	5,670,000	8.1%
5.	Kohat Cement Company	ANS Capital – Aizaz Sheikh and Family	5,017,500	7.2%
6.	Cherat Cement Company	Ghulam Faruque Group	4,536,000	6.5%
7.	Pioneer Cement Limited	Mega Conglomerate – Habibullah Khan	4,550,250	6.5%
8.	Fauji Cement Company	Fauji Foundation Group	3,433,500	4.9%
9.	Power Cement Limited	Arif Habib Group	3,370,500	4.8%
10.	Attock Cement Pakistan	Pharaon Group	2,995,500	4.3%
11.	Dewan Cement	Yousuf Dewan Companies	2,898,000	4.2%
12.	Askari Cement	Fauji Foundation Group	2,804,000	4.0%
13.	Gharibwal Cement	Gharibwal Group	2,110,500	3.0%
14.	Flying Cement	Flying Group of Industries	1,197,000	1.7%
15.	Fecto Cement	Fecto Group – Yasin Fecto	819,000	1.2%
16.	Thatta Cement	State Cement Corporation of Pakistan (Pvt.)	577,080	0.8%
17.	Dandot Cement	DWP Group – Farooq Naseem	504,000	0.7%
		Total	69,636,580	

Source: APCMA

Cement Sector – North Region

Sr. No	Cement Players	Installed Cement Capacity (tpa)	Market Share
1.	Bestway Cement	10,325,250	19.2%
2.	Lucky Cement	6,810,000	12.7%
3.	Maple Leaf Cement	5,670,000	10.6%
4.	Kohat Cement Company	5,017,500	9.3%
5.	Cherat Cement Company	4,536,000	8.4%
6.	DG Khan Cement	4,221,000	7.9%
7.	Pioneer Cement	4,550,250	8.5%
8.	Fauji Cement	3,433,500	6.4%
9.	Askari Cement	2,804,000	5.2%
10.	Gharibwal Cement	2,110,500	3.9%
11.	Flying Cement	1,197,000	3.3%
12.	Dewan Cement	1,134,000	2.1%
13.	Fecto Cement	819,000	1.5%
14.	Dandot Cement	504,000	0.9%
	Total	53,722,500	

Pakistan's Cement industry is divided in two regions; North and South. North comprises of KPK, AJ&K and Punjab. South region comprise of Sindh and Baluchistan.

As at Jan-20, North region has installed capacity of 53.7mln tpa (45.4mln tpa as at Jun-19) – 76% of total country's operational capacity. 14 cement players affiliated with distinct sponsoring groups are operating in northern region

Source: APCMA

Cement Sector – South Region

Sr. No	Cement Players	Installed Cement Capacity	Market Share
1.	Lucky Cement	4,900,000	29.1%
2.	Power Cement	3,370,500	22.0%
3.	Attock Cement	2,995,500	17.8%
4.	DG Khan Cement	2,898,000	17.2%
5.	Dewan Cement	1,764,000	10.5%
6.	Thatta Cement	577,080	3.4%
	Total	16,834,600	

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As at Jan-20, installed cement capacity in south constitutes to 16.8mln tpa (13.9mln tpa as at end-Jun19) – 23.5% of country's total cement capacity

Lesser competitive environment as compare to north region on account of lesser number of industry players

Export markets available are Bangladesh, Sri Lanka, Oman and South Africa attributable to geographical proximity to sea

Source: APCMA

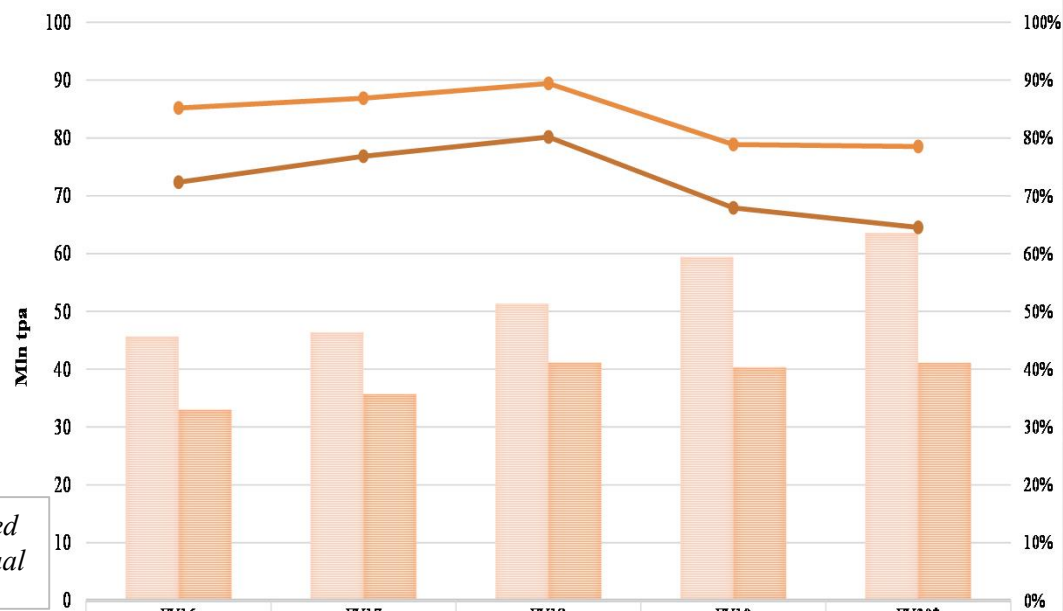
Cement Sector – Production Capacity and Local Utilization

During FY20, production capacity expanded to 63.6mln tpa.

Expanded capacity challenge witnessed (especially in north region) amid cut in PSDP in FY20. Hence, capacity utilization went down to 65% (annualised on basis of actual 8M)

Total capacity utilization remained intact as exports witnessed commendable uptick

Capacity Utilization local and total witnessed all year low at 48% and 74% in FY09 when industry witnessed expanded capacity amid muted local demand



FY20 annualised on basis of actual 8M

	FY16	FY17	FY18	FY19	FY20*
Production Capacity	45.6	46.4	51.3	59.4	63.6
Local Despatches	33.0	35.7	41.1	40.3	41.1
Capacity Utilization Local (RHS)	72%	77%	80%	68%	65%
Capacity Utilization Total (RHS)	85%	87%	89%	79%	79%

Cement Sector – Export Analysis

Since FY19, country's cement and clinker exports witnessed sizable growth mainly attributable to uptick in clinker and cement exports via sea

Trend in exports shifted as window is created in Bangladesh market as exports from Vietnam shifted to China

Exporting clinker give savings from costs of cement grinding mill, Packaging Plant and Cement bags

Significant double digit growth is seen in FY19 whilst same is expected in FY20 (annualised on basis of actual 8M)

Year	Afghanistan (Via Land)	India (Via Sea & Land)	Other Countries (Via Sea)	Clinker	As at Mar-20	
					Total	Growth YoY
FY05	1.41	-	0.16		1.57	
FY06	1.41	-	0.09		1.51	-4%
FY07	1.73	-	1.11	0.39	3.23	114%
FY08	2.78	0.79	3.05	1.11	7.72	139%
FY09	3.15	0.63	6.06	0.91	10.75	39%
FY10	4.02	0.72	5.63	0.28	10.65	-1%
FY11	4.73	0.59	3.91	0.20	9.43	-11%
FY12	4.72	0.61	3.25	-	8.57	-9%
FY13	4.40	0.48	3.49	-	8.37	-2%
FY14	3.66	0.68	3.80	-	8.14	-3%
FY15	2.87	0.70	3.63	-	7.20	-12%
FY16	2.44	0.99	2.44	-	5.87	-18%
FY17	1.72	1.25	1.69	-	4.66	-21%
FY18	1.82	1.21	1.71	-	4.75	2%
FY19	1.72	0.72	1.95	2.15	6.54	40%
FY20 (8M)	1.74	-	1.30	2.90	5.94	
<i>Annualised</i>					8.91	36%

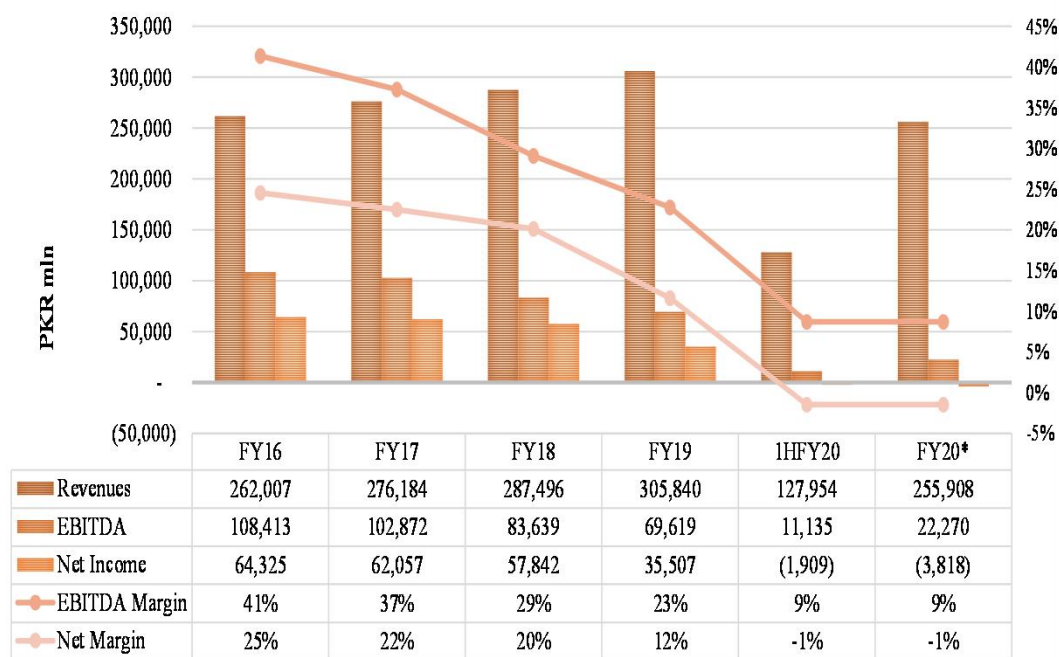
Cement Sector – Revenue & Margins Analysis

Sector's revenues and margins witnessed commendable growth since last four years ending FY19

Despite increase in volumes sector witnessed downtrend in 1HFY20; Annualised FY20* figure (based on actual performance of 8M) states significant reduction in revenues and margins

Double digit margins of sector have witnessed drastic reduction to stand at 9%. Previously were in double digit; highest margins recorded in FY16

However, it should be noted that 2H of each FY observes greater volumetric growth as harsh winter weather gets over.

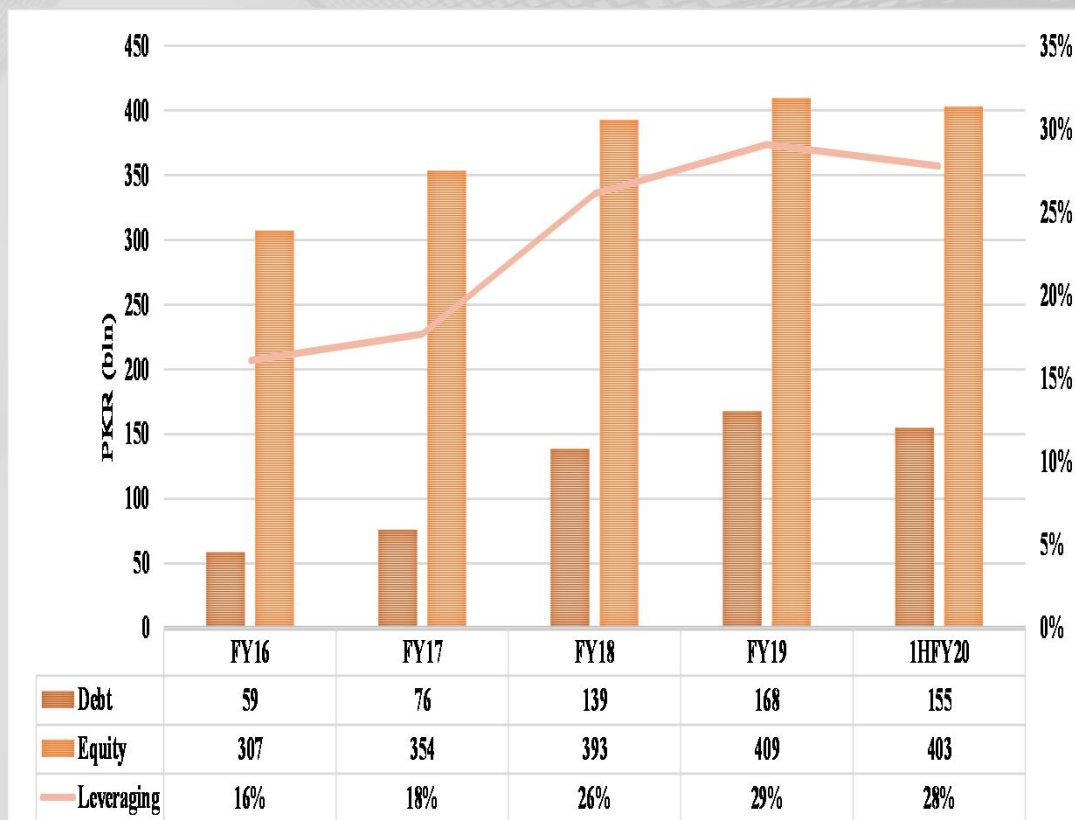


Cement Sector – Leveraging

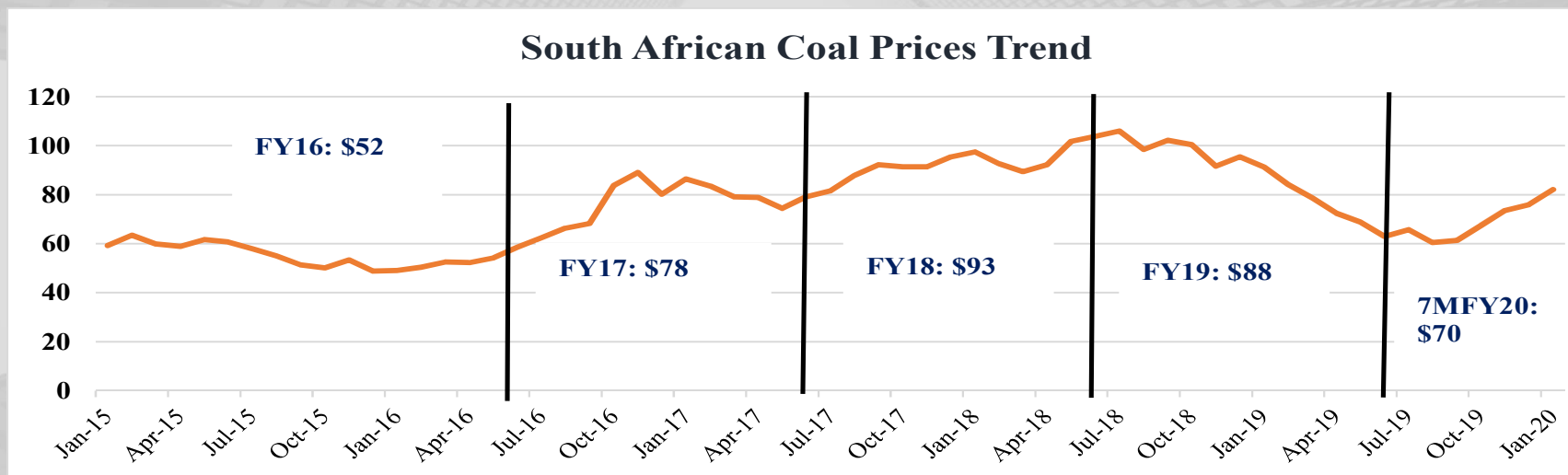
Cement Sector's leveraging reached 29% in FY19 attributable to debt driven expansions

Long term leveraging inched down to 28% in 1HFY20; After inclusion of short term borrowings the ratio surges to 55%. Sector's STBs stood at PKR 70bln as at end-Dec19 (end-Jun19: PKR 6bln)

Analysis of last one decade reveals that cement industry's equity base have increased manifold. Hence, leveraging in second phase of expansion (end-Jun10: 56%) is much lower than first phase (2008). Nevertheless, current surged interest rate has amplified the stress on financial matrix



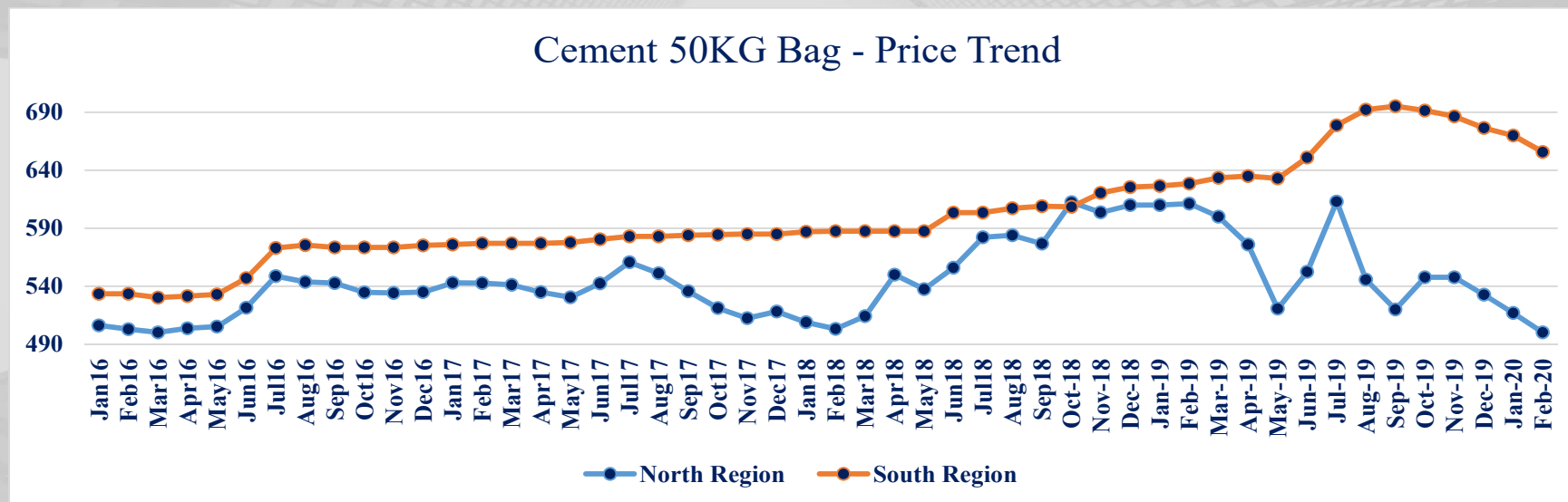
Coal Price Trend – Fuel for Cement



South African coal is imported by majority Pakistani cement players to be used as major fuel component; Better K-Cal value and lower Sulphur content leads to easy handling of South African coal

Coal prices are witnessing downward trend worldwide; Coal future contracts indicating same trend to continue in medium trend

Cement Prices – North & South Region Trend



Cement prices in north and south region behave distinctly attributable to dynamics of each region
 North region’s average cement price had been fluctuating as region hosts 76% of country’s operational cement capacity.

South region’s average cement prices behaves maturely as sustainable price hikes are observed and followed

Source: Pakistan Bureau of Statistics

Cement Prices – North & South Region Trend

PKR

Region	Cities	Feb-20	Jan-20	Dec-19	Sep-19	Jun-19
North	Islamabad	500	510	520	540	560
	Rawalpindi	496	508	520	535	555
	Lahore	520	540	550	540	545
	Multan	485	510	540	470	550
South	Karachi	702	702	703	702	640
	Hyderabad	610	640	650	690	660

The price differential between north and south region has widened since Mar-19 (previous slide) attributable to expanded capacity challenge in the north region. More than 10mln tons were added in the last one year amid slow down in the infrastructural activity.

Delta of PKR 200 per 50KG cement bag exists between both regions.

Cement Sector – Comparison Sheets

Sr. No.	Contents
1.	Large Players
2.	Medium Players
3.	Small Players

Comparison Sheet – Large Players

Performance Indicators	AA+ (VIS)					AA- (PACRA)					AA- (PACRA)				
	Lucky					Bestway					DG Khan				
	1HFY20	1QFY20	FY19	FY18	FY17	1HFY20	1QFY20	FY19	FY18	FY17	1HFY20	1QFY20	FY19	FY18	FY17
Capacity (mln tons)	11.7	8.9	8.9	8.9	7.38	10.3	10.3	10.3	8.3	8.3	7.1	7.1	7.1	4.2	4.2
Utilization	66%	57%	85%	84%	93%	60%	50%	65%	97%	98%	82%	82%	95%	107%	107%
Revenue	21,211	9,629	48,021	47,542	45,687	19,873	9,305	53,602	52,884	51,623	20,888	9,069	40,517	30,668	30,136
Operating Profit	2,247	1,041	10,028	13,870	18,573	640	354	13,994	15,265	18,569	734	(623)	5,295	7,217	10,314
EBITDA	2,457	1,105	12,960	16,185	19,784	2,239	1,160	16,397	18,345	21,640	(727)	(168)	7,796	9,064	11,758
Net Profit	1,937	956	10,490	12,197	13,692	421	301	10,097	13,158	13,293	(847)	(1,428)	1,610	8,838	7,975
Operating Margin	11%	11%	21%	29%	41%	3%	4%	26%	29%	36%	4%	-7%	13%	24%	34%
EBITDA Margin	12%	11%	27%	34%	43%	11%	12%	31%	35%	42%	-3%	-2%	19%	30%	39%
Net Margin	9%	10%	22%	26%	30%	2%	3%	19%	25%	26%	-4%	-16%	4%	29%	26%
Total Debt	5,219	3,350	2,900	-	-	21,510	15,927	16,460	22,394	14,888	39,263	36,325	41,324	32,277	21,615
Long Term	-	-	-	-	-	2,826	5,785	5,625	5,500	10,000	14,953	14,842	15,985	20,067	13,044
Short Term	5,219	3,350	2,900	-	-	18,684	10,142	10,835	16,894	4,888	24,310	21,483	25,339	12,210	8,571
Equity	94,152	93,165	94,318	86,367	79,785	54,693	56,154	57,606	53,310	47,769	73,419	68,500	70,928	77,134	74,869
Leveraging	5%	3%	0%	0%	0%	28%	22%	22%	30%	24%	35%	35%	37%	30%	22%
Sales - mln.Tonns	3.20	1.40	6.80	7.66	6.85	3.40	1.67	7.74	7.58	8.33	2.95	1.30	5.60	4.81	4.42
Revenue/ Ton	6,629	6,878	7,062	6,209	6,667	5,845	5,572	6,925	6,977	6,197	7,081	6,976	7,235	6,376	6,814

Large Players: Above 10% overall market share

Source: Companies' Financials

Comparison Sheet – Medium Players

Performance Indicators	A (PACRA)			A (PACRA)			A (PACRA)			A (PACRA)			A+ (VIS)			Non-Rated		
	Kohat			Cherat			Askari			Pioneer			Attock			Maple		
	1HFY20	1QFY20	FY19	1HFY20	1QFY20	FY19	1HFY20	1QFY20	FY19	1HFY20	1QFY20	FY19	1HFY20	1QFY20	FY19	1HFY20	1QFY20	FY19
Capacity (mln tons)	2.7	2.7	2.7	4.3	4.3	3.3	2.7	2.7	2.7	2.0	2.0	2.0	2.9	2.9	2.9	3.6	3.6	3.6
Utilization	39%	0%	81%	67%	77%	71%	107%	85%	81%	69%	68%	63%	52%	104%	65%	79%	38%	98%
Revenue	6,021	2,994	15,646	9,512	4,481	15,863	7,311	3,356	16,124	4,148	1,871	9,734	10,611	4,968	20,781	16,182	7,147	26,006
Operating Profit	141	40	3,834	320	22	2,193	142	178	3,384	(174)	(41)	1,809	1,142	665	3,027	(197)	(538)	2,837
EBITDA	359	210	4,365	1,239	462	3,592	813	456	4,083	145	118	2,414	2,050	882	1,153	799	303	5,336
Net Profit	98	88	2,469	(560)	(339)	1,763	(376)	(98)	1,437	(112)	(185)	786	763	358	2,073	(1,767)	(1,305)	1,465
Operating Margin	2%	1%	25%	3%	1%	14%	2%	5%	21%	-4%	-2%	19%	11%	13%	15%	-1%	-8%	11%
EBITDA Margin	6%	7%	28%	13%	10%	23%	11%	14%	25%	4%	7%	25%	19%	18%	6%	5%	4%	21%
Nat Margin	2%	3%	16%	-6%	-8%	11%	-5%	-3%	9%	-3%	-10%	8%	7%	7%	10%	-11%	-18%	6%
Total Debt	6,901	6,206	5,647	19,195	19,684	20,603	10,891	10,466	10,490	24,872	23,166	21,452	6,374	6,576	6,867	14,953	18,106	18,314
Long Term	4,845	6,206	5,404	16,604	16,590	16,900	6,939	4,765	4,723	16,544	14,952	14,856	6,363	2,188	3,448	13,695	16,292	16,999
Short Term	2,056	-	243	2,591	3,094	3,703	3,952	5,701	5,767	8,328	8,214	6,596	12	4,388	3,419	6,588	7,325	5,330
Equity	19,268	19,761	19,673	11,178	11,375	11,756	17,065	17,343	17,441	13,210	13,136	13,321	16,312	15,907	16,099	33,723	29,149	30,515
Leveraging	26%	24%	22%	63%	63%	64%	39%	38%	38%	65%	64%	62%	28%	29%	30%	31%	38%	38%
Sales - mln.Tonns	1.20	0.38	2.39	1.78	0.83	2.49	1.05	0.46	2.40	0.77	0.35	1.45	0.90	0.42	2.21	2.85	1.37	3.64
Revenue/ Ton	5,018	7,879	6,546	5,344	5,399	6,371	6,963	7,343	6,718	5,387	5,346	6,713	11,752	11,749	9,395	5,671	5,221	7,148

Medium Players: Between (5% - 10%) overall market share

Source: Companies' Financials

Comparison Sheet – Small Players

Performance Indicators	A- (VIS)				Not Rated				A- (PACRA)				A- (PACRA)				A- (PACRA)			
	Power				Thatta				Fecto				Flying				Gharibwal			
	1HFY20	1QFY20	FY19	FY18	1HFY20	1QFY20	FY19	FY18	1HFY20	1QFY20	FY19	FY18	1HFY20	1QFY20	FY19	FY18	1HFY20	1QFY20	FY19	FY18
Capacity (mln tons)	3.4	0.9	0.9	0.9	0.5	0.5	0.5	0.5	0.8	0.8	0.8	0.8	1.2	1.2	1.2	1.2	2.1	2.1	2.1	2.1
Utilization	-	-	67%	73%	75%	67%	72%	80%	69%	70%	82%	90%	50%	38%	68%	138%	77%	77%	77%	78%
Revenue	1,253	583	3,858	4,343	1,155	398	3,468	2,843	1,915	898	4,740	4,903	1,180	422	3,271	2,910	5,166	2,210	11,356	11,484
Operating Profit	(320)	(166)	(256)	428	(29)	2	349	563	(378)	(84)	101	536	(260)	30	133	203	(122)	(102)	1,943	2,303
EBITDA	(425)	(142)	50	590	61	38	513	696	(318)	(54)	227	656	(176)	80	308	369	342	141	2,935	3,135
Net Profit	(366)	8	582	320	(52)	(12)	213	357	(299)	(53)	89	442	(293)	22	142	182	(245)	(235)	736	1,510
Operating Margin	-26%	-28%	-7%	10%	-3%	1%	10%	20%	-20%	-9%	2%	11%	-22%	7%	4%	7%	-2%	-5%	17%	20%
EBITDA Margin	-34%	-24%	1%	14%	5%	10%	15%	24%	-17%	-6%	5%	13%	-15%	19%	9%	13%	7%	6%	26%	27%
Total Debt	27,417	26,354	23,039	10,853	272	376	377	684	156	33	34	18	3,447	2,842	2,249	1,916	3,748	3,880	4,008	4,338
Long Term	19,372	19,416	17,959	9,820	3	3	4	320	30	33	34	18	1,875	1,766	565	1,210	2,613	2,660	2,909	4,038
Short Term	8,045	6,938	5,080	1,034	269	373	373	364	126	-	-	-	1,572	1,076	1,684	706	1,135	1,220	1,099	300
Equity	11,571	12,143	12,222	11,299	2,567	2,607	2,619	2,557	4,007	4,277	4,332	4,210	8,393	8,709	8,232	3,919	12,036	12,246	12,481	12,491
Leveraging	70%	68%	65%	49%	10%	1%	3%	21%	4%	1%	1%	0%	29%	27%	24%	33%	24%	24%	24%	26%
Sales - mln.Tonns	0.19	0.09	0.59	0.67	0.12	0.05	0.56	0.39	0.18	0.15	0.68	0.79	0.19	0.07	0.52	0.53	0.86	0.38	1.68	1.89
Revenue/ Ton	6,560	6,558	6,596	6,521	9,872	8,122	6,226	7,233	10,464	6,068	6,940	6,198	6,378	6,394	6,351	5,532	6,042	5,816	6,760	6,076

Small Players: Between 4% overall market share

Source: Companies' Financials

Cement Sector – Outlook

Short to Medium term outlook: Negative

Factors for outlook:

- PSDP funds for FY20 witnessed decline when compared YoY
- Expanded capacity challenge being faced by cement players as 18mln tpa added in operational cement capacity
- Trend in cement prices across north region; following volatility throughout last one year (prices have come down despite increase in manufacturing cost)
- Post management of Covid-19, pick up of local demand is likely to remain subdued, as distinct demand pattern is likely to evolve. In addition, the evolution of demand pattern will require strict monitoring on more regular basis. Recent curtailed key policy rate will provide breather; Separate Economic Package for construction sector to be announced by the government soon.

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