

CEMENT SECTOR – AN OVERVIEW



September 2019

CEMENT INDUSTRY | SECTOR OUTLINE

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CEMENT INDUSTRY | NORTH REGION

As at Jun-19

Sr. #	Cement Players	Operational Capacity (tons per annum)	Market Share
1	Bestway Cement	10,325,250	22.7%
2	Maple Leaf Cement	5,670,000	12.5%
3	Cherat Cement	4,536,500	10.0%
4	D.G.Khan Cement	4,221,000	9.3%
5	Lucky Cement	4,101,000	9.0%
6	Fauji Cement	3,433,500	7.6%
7	Askari Cement	2,677,500	5.9%
8	Kohat Cement	2,677,500	5.9%
9	Gharibwal Cement	2,110,500	4.6%
10	Pioneer Cement	2,030,250	4.5%
11	Flying Cement	1,197,000	2.6%
12	Dewan Hattar	1,134,000	2.5%
13	Fecto Cement	819,000	1.8%
14	Dandot Cement	504,000	1.1%
	Total	45,437,000	100%

- 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 Jun-19, North region has installed capacity of 45.4mln tpa – 76% of total country's operational capacity. 14 cement players affiliated with distinct sponsoring groups are operating in northern region
- Demand dynamics for local dispatches remained subdued during FY19 – despatches down by 4.72%
- Export avenues feasible for north players are Afghanistan and India. Demand from both avenues remained subdued (down by 18.06% in FY19)

Source: APCMA

CEMENT INDUSTRY | SOUTH REGION

As at Jun-19

Sr. #	Cement Players	Operational Capacity (tons per annum)	Market Share
1	Lucky Cement	4,900,000	35%
2	D.G.Khan Cement - Hub	2,898,000	21%
3	Attock Cement	2,995,500	21%
4	Dewan Cement	1,764,000	13%
5	Power Cement	945,000	7%
6	Thatta Cement	488,250	3%
	Total	13,990,750	100%

- As at Jun-19, installed cement capacity in south constitutes to 13.9mln tpa – 23.5% of country's total cement capacity
- Lesser competitive environment as compare to north region on account of lesser number of industry players
- Greater number of export markets are available for south players given geographical proximity to sea
- Export markets available are Bangladesh, Sri Lanka, Oman and South Africa

CEMENT INDUSTRY | EXPANSIONS NORTH

As at Jun-19

Sr.#	Cement Players	Cement (Existing) (mln tpa)	Announced Expansions (mln tpa)	Post Expansion Capacities (mln tpa)	Market Share Post Expansion	Expected CoD
1	Bestway Cement	10.3	-	10.3	19%	-
2	Lucky Cement	4.1	2.6	6.7	13%	Jan-20
3	Maple Leaf	5.6	-	5.6	11%	-
4	Kohat Cement	2.7	2.3	5.0	9%	Oct-19
5	Cherat Cement	4.5	-	4.5	9%	-
6	D.G.Khan Cement	4.2	-	4.2	8%	-
7	Pioneer Cement	2.0	2.2	4.2	8%	Dec-19
8	Fauji Cement	3.4	-	3.4	6%	-
9	Askari Cement	2.7	-	2.7	5%	-
10	Gharibwal Cement	2.1	-	2.1	4%	-
11	Flying Cement	1.2	0.6	1.8	3%	Mar-21
12	Dewan Hattar	1.1	-	1.1	2%	-
13	Fecto Cement	0.8	-	0.8	2%	-
14	Dandot Cement	0.5	-	0.5	1%	-
	Total	45.4	7.7	53.1	100%	

- Industry announced expansions in FY16 when government's prerogative for infrastructural development was strong and clear.
- In north, as of Jun-19, Maple, Cherat (line-III) and Bestway Cement (Farooqia site) have commissioned new capacities lately
- Lucky, Kohat, Pioneer and Flying Cement's expansions are underway. Majority of cement capacity of 7.7mln tpa is expected to commission in north region in CY19 and early CY20
- Going forward, intense competition in north region is expected when expanding players will began complete utilization of new lines. If current demand slowdown prevails, north market will take time to absorb volumes from new expansions

Source: APCMA, PSX Notices, Companies' financials

CEMENT INDUSTRY | EXPANSIONS SOUTH

As at Jun-19

Sr.#	Cement Players	Cement (Existing) (mln tpa)	Announced Expansions (mln tpa)	Post Expansion Capacities (mln tpa)	Market Share Post Expansion	Expected CoD
1	Lucky Cement	4.9	-	4.9	30%	-
2	D.G.Khan Cement -Hub	2.9	-	2.9	18%	-
3	Attock Cement	3.0	-	3.0	18%	-
4	Dewan Cement	1.8	-	1.8	11%	-
5	Power Cement	0.9	2.3	3.2	20%	Jan-21
6	Thatta Cement	0.5	-	0.5	3%	-
	Total	14.0	2.3	16.3	100%	

- In South, Attock and Lucky Cement commissioned brown-field expansions of 1.3 and 1.1 mln tpa respectively in recent past
- DG Khan cement entered in South market by commissioning green field manufacturing facility located at Hub Baluchistan of 2.9mln tpa
- Expanded capacity challenge had not been intense for South region players as volumes were catered by sizable increase in exports
- Power Cement's capacity expansion of 2.3mln tpa is expected to commence till Jan-21
- Going forward, south region's dynamics are correlated with longevity of export window available

Source: APCMA, PSX Notices, Companies' financials

CEMENT INDUSTRY | RATED UNIVERSE

Sr#	Rated Universe	PACRA	VIS
1	Bestway Cement	AA-	
2	D.G. Khan Cement	AA-	
3	Attock Cement Pakistan		A+
4	Cherat Cement Company	A (+ve)	
5	Kohat Cement Company	A	
6	Pioneer Cement	A	
7	Askari Cement	A	A
8	Gharibwal Cement	A-	
9	Fecto Cement	A-	
10	Power Cement		A-
11	Flying Cement	A-	
Capacity rated (%age)		63%	8%
Total Rated capacity		71%	

❑ ~63% of operational cement capacity is being rated by PACRA while ~8% by JCR-VIS; total rated cement capacity equates to ~71%

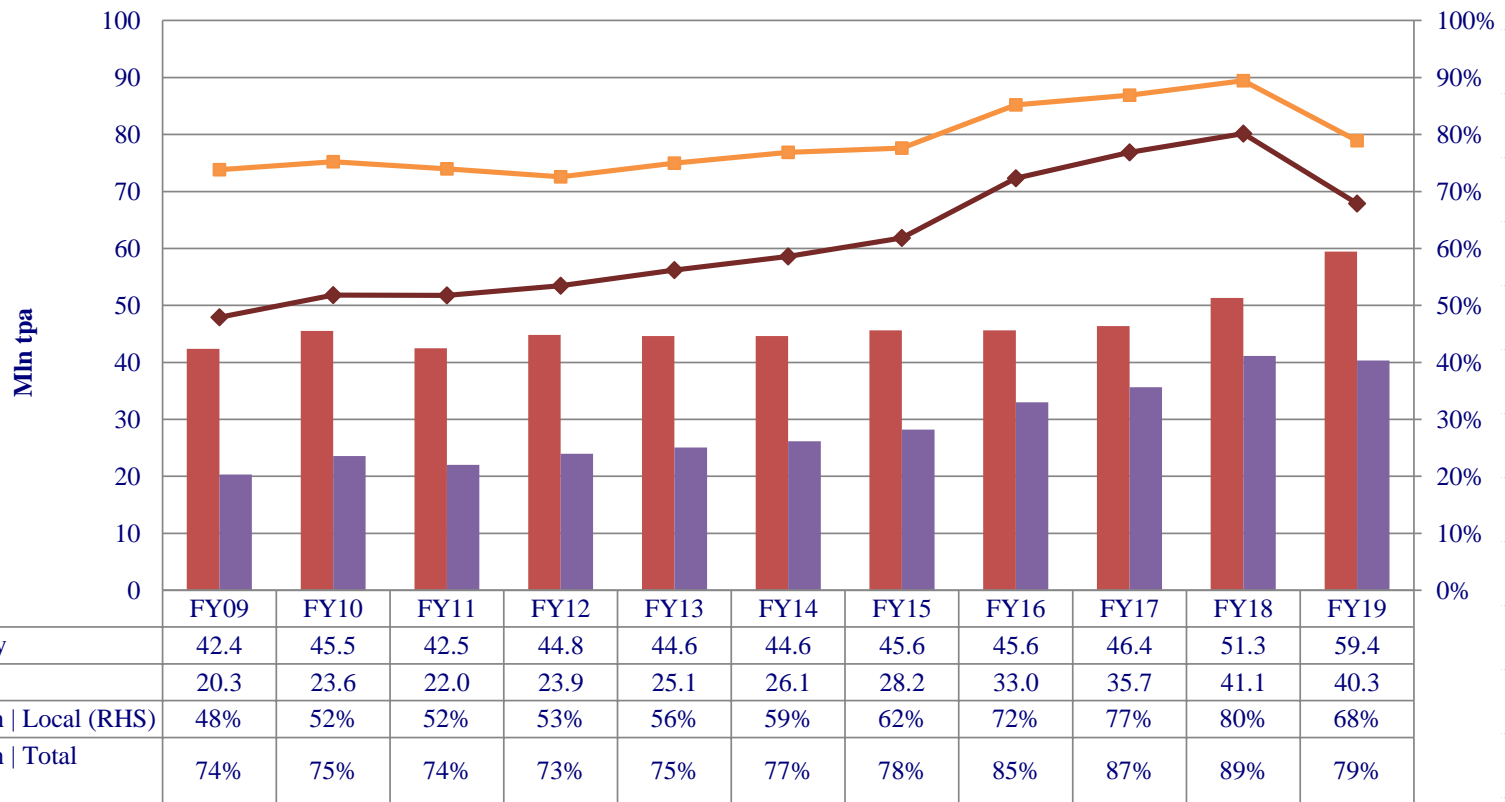
❑ Bestway and DG Khan Cement secures highest rating at 'AA-' within industry

❑ Remaining 10 players enjoy rating within 'A' category

❑ Six Cement players are currently unrated

Sr #	Un-Rated Universe
1	Lucky Cement
2	Maple Leaf Cement Factory Limited
3	Fauji Cement
4	Dewan Cement
5	Dandot Cement
6	Thatta Cement

Cement Industry | Local & Total Utilization



YoY Growth in Local Despatches Actual Figures											
FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
7%	-10%	16%	-7%	9%	5%	4%	8%	17%	8%	15%	-2%

- During FY19, total production capacity stood at 59.4mln tpa. Local despatches inched down by 2%. This is attributable to slow down in domestic cement demand as large scale infrastructure projects were delayed in last few months. Utilization level (local) declined to 68% due to aforementioned reasons and increase in base capacity.
- Demand in south region remained better compared to north due to projects like Bahria Town, DHA society and some infrastructural projects

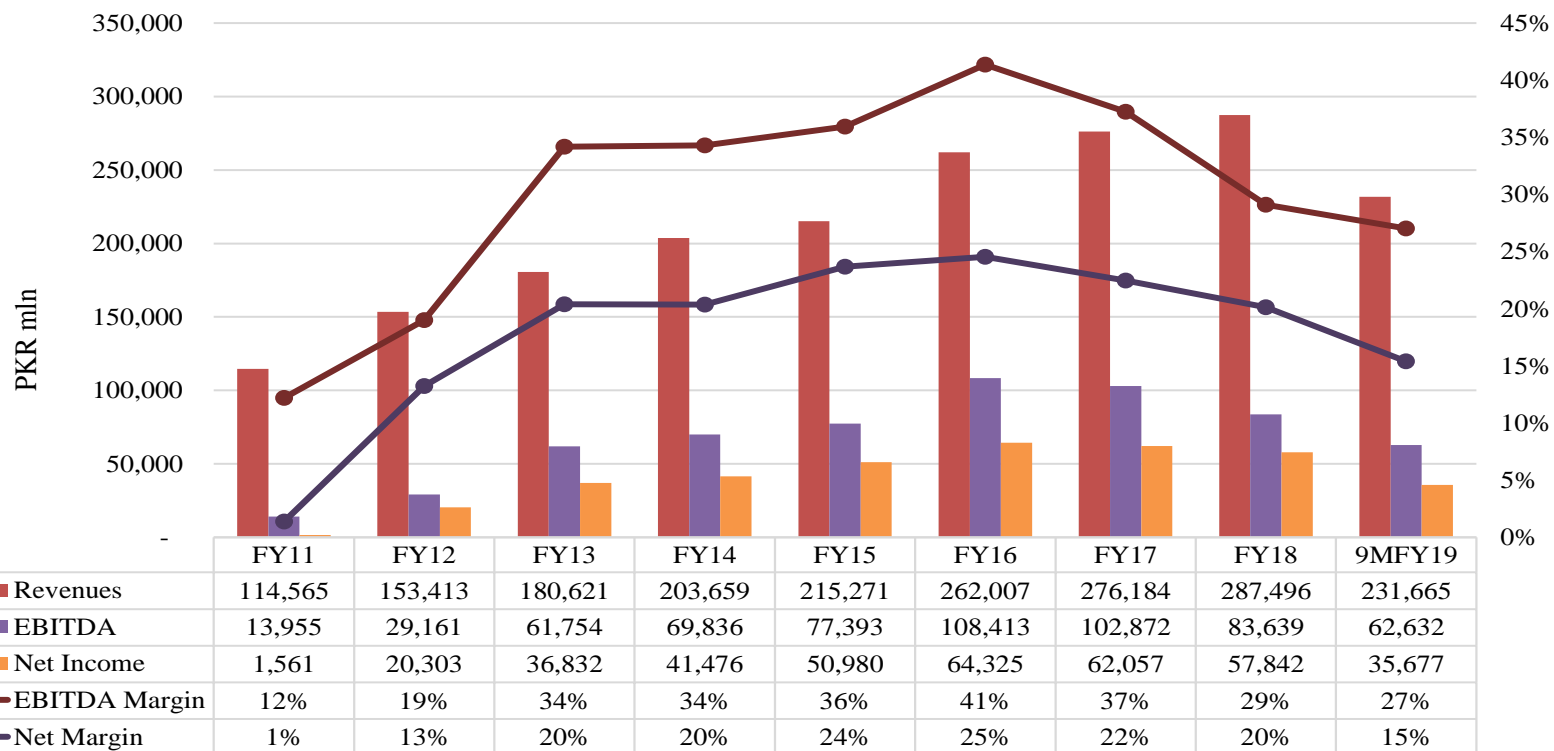
Cement Industry | Historical Export Analysis

Year	Afghanistan (Via Land)	India (Via Sea & Land)	Other Countries (Via Sea)	Clinker	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	38%

- During FY19, country's cement and clinker exports witnessed sizable growth of 38% mainly attributable to uptick in clinker and cement exports via sea
- Country's cement dispatches via sea witnessed a surge by 14% YoY
- Trend in exports shifted as window is created in Bangladesh market as exports from Vietnam shifted to China
- Exporting clinker gives savings from Packaging Plant and Cement bags – as both are not needed in exporting clinker in bulk

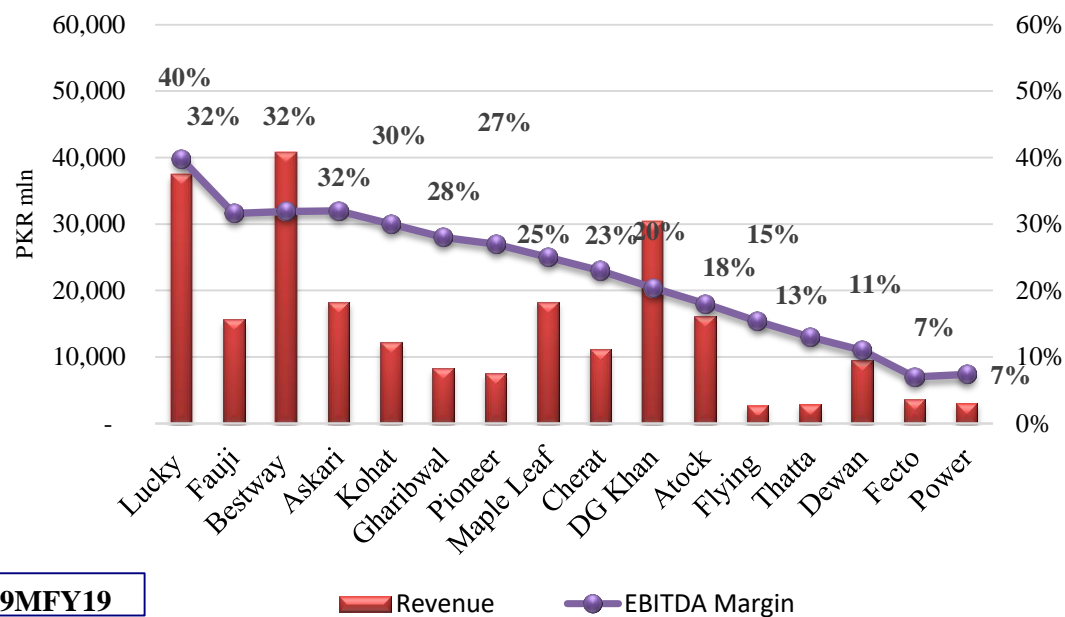
Source: APCMA

Cement Industry | Performance Trend



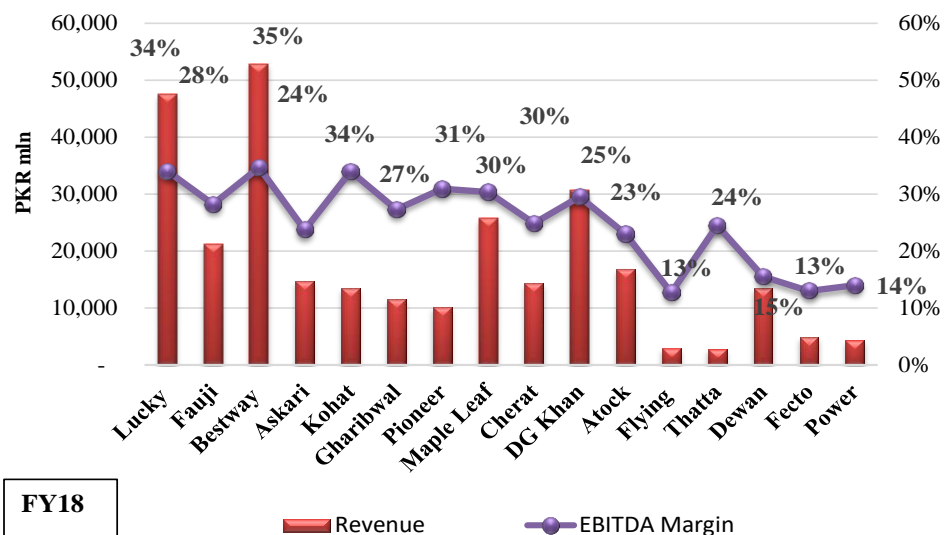
- During 9MFY19, revenues witnessed marginal downward trend (when considered YoY) primarily due to fluctuation in cement prices and increased federal excise duty. During FY19, volumetric analysis reveals local industry dispatches declined by 2% (FY19: 40.3, FY18: 41.1).

Cement Industry | EBITDA Margin

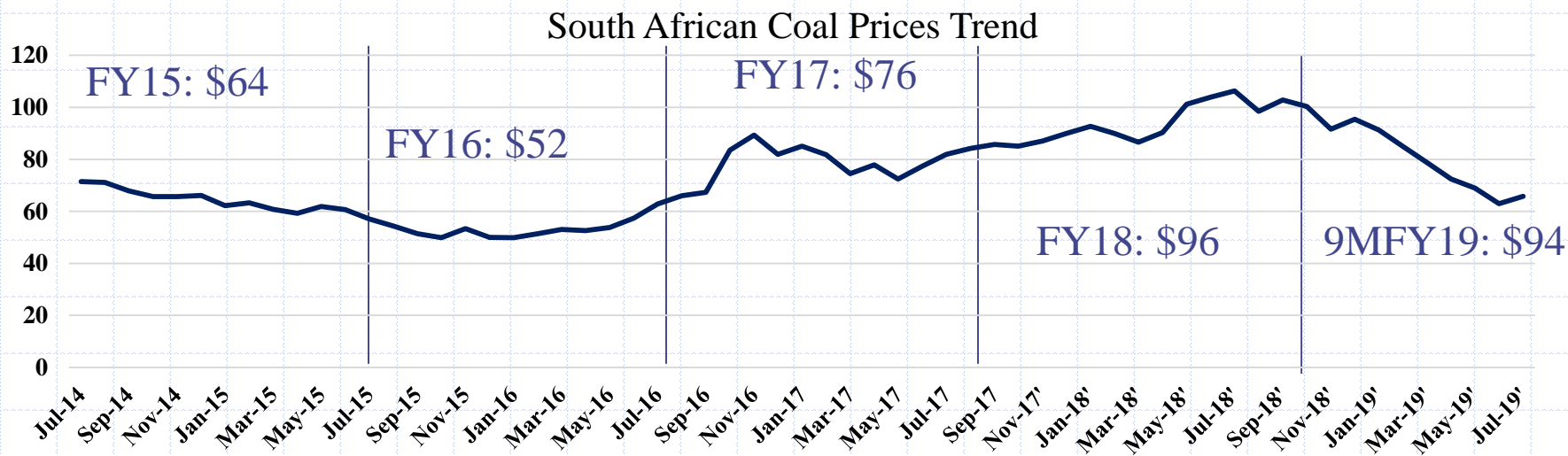


EBITDA margins witnessed declining trend for majority players attributable to fluctuating cement prices and currency devaluation whereby effect of decrease in coal prices is nullified

Variations in EBITDA margins are attributable to several reasons including Price differential in export and local dispatches, cement and clinker and usage of local coal by some players



Cement Industry | Fuel Component | Coal Price Trend



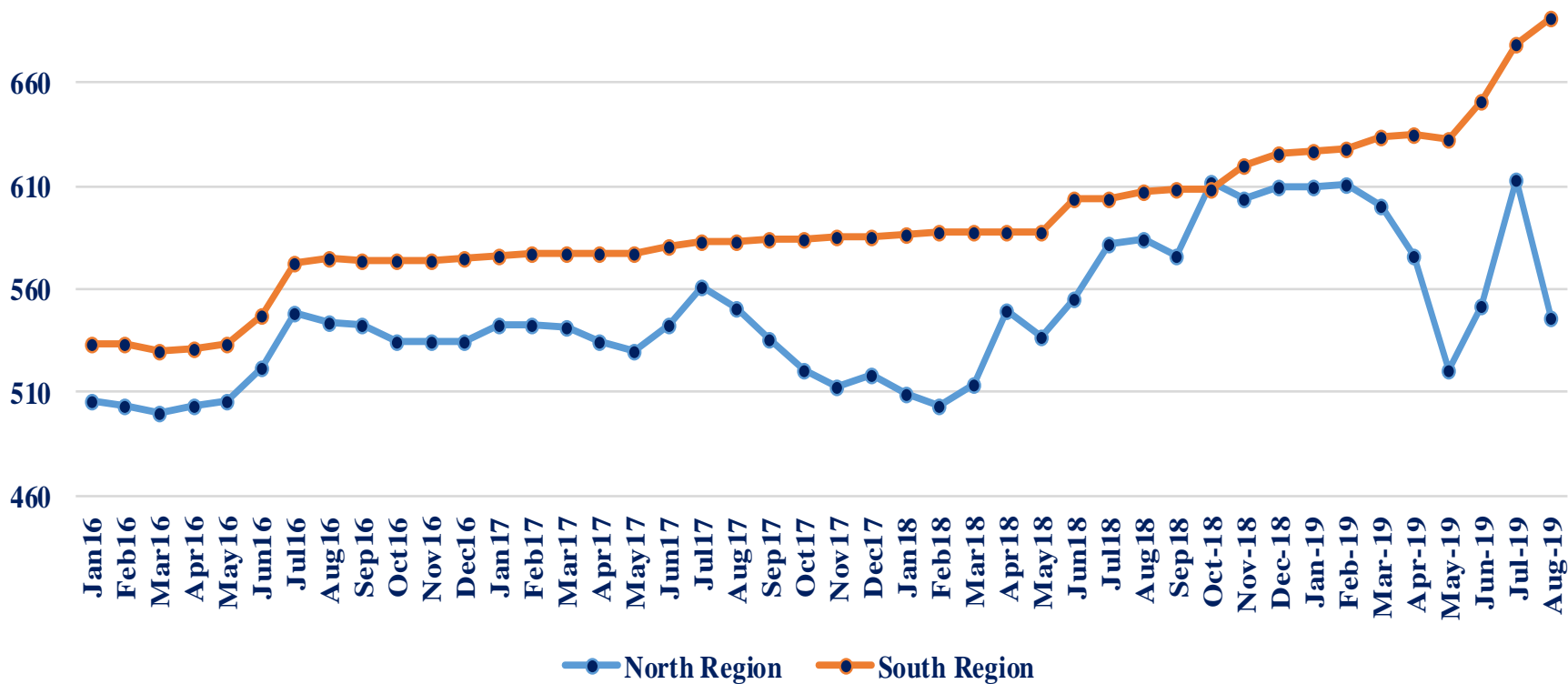
South African and Indonesian coal is imported by majority Pakistani cement players to be used as major fuel component; Better K-Cal value and lower Sulphur content leads to easy handling of coal

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

Few players have shifted on local coal and reaping cost efficiencies – evident in their margins

Cement Industry | Per 50 KG Bag Price Trend

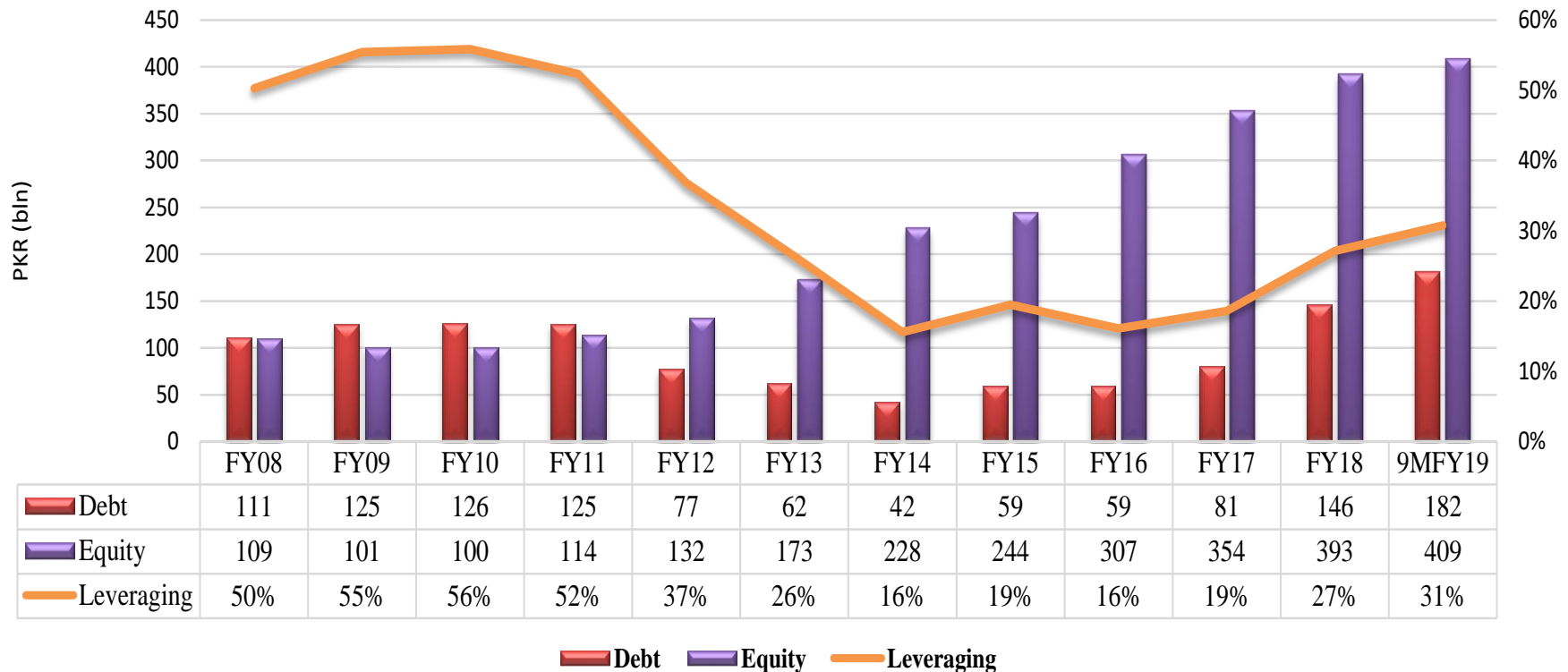
Cement | Monthly Price Trend



- 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 cement players and 76% of country's operational cement capacity. Greater competition leads to lower price than south
- South region's average cement prices behaves maturely as sustainable price hikes are observed and followed by industry players

Cement Industry | Capital Structure

Cement Sector | Capital Structure



Analysis of last one decade reveals that cement industry's equity base have increased manifolds. Hence, leveraging in second phase of expansion (majority player's debt is loaded) is much lower than first phase (2008). Nevertheless, surged interest rate requires prudent management of financial affairs

Cement Industry | Liquidity Profile

Sr. #	Cement Players	PKR mln				times	
		EBITDA		Total Debt		Payback	
		FY18	9MFY19	FY18	9MFY19	FY18	9MFY19
1	Bestway Cement	18,345	13,015	22,152	14,098	1.2	0.5
2	Lucky Cement	16,185	14,939	-	11,036	0.0	0.4
3	DG Khan Cement	9,064	6,201	32,277	39,971	3.6	3.2
4	Fauji Cement	5,972	4,944	2,702	834	0.5	0.1
5	Askari Cement	3,499	3,301	10,862	10,829	3.1	1.6
6	Maple Leaf Cement	7,805	4,523	19,397	23,280	2.5	2.6
7	Attock Cement	3,957	2,847	6,050	6,134	1.5	1.1
8	Dewan Cement	2,088	1,098	5,961	2,762	2.9	1.3
9	Kohat Cement	4,567	3,671	430	5,781	0.1	0.8
10	Cherat Cement	3,579	2,548	16,064	20,046	4.5	3.9
11	Gharibwal Cement	3,135	2,272	4,288	3,391	1.4	0.7
12	Pioneer Cement	3,131	1,986	10,889	20,743	3.5	5.2
13	Flying Cement	369	407	3,515	2,196	9.5	2.7
14	Power Cement	590	226	10,853	20,012	18.4	44.3
15	Thatta Cement	696	389	684	445	1.0	0.6
16	Fecto Cement	656	265	18	37	0.0	0.1
Total		83,639	62,632	146,142	181,595		

Total debt involves long term finance - related current maturity and short term borrowings acquired by companies. Going forward, improvement in retention prices, passing on impact of FED remains vital to strengthen liquidity profile.

Cement Industry | Large Players Comparison

Market Share	Non-Rated				AA- (PACRA)				AA- (PACRA)				A+ (JCR)				A+ (PACRA)			
	Lucky				Bestway				DG Khan				Attock				Maple			
	9MFY19	FY18	FY17	FY16	9MFY19	FY18	FY17	FY16	9MFY19	FY18	FY17	FY16	9MFY19	FY18	FY17	FY16	9MFY19	FY18	FY17	FY16
Clinker Capacity (mln tons)	8.6	8.9	7.38	7.38	5.2	8.3	8.3	5.9		4.2	4.2	4.2	2.9	2.9	1.7	1.7		3.4	3.3	3.4
Utilization	100%	84%	93%	90%	100%	97%	98%	70%		107%	107%	87%	100%	86%	107%	108%		105%	99%	98%
Revenue	37,521	47,542	45,687	45,222	40,796	52,884	51,623	45,721	30,376	30,668	30,136	29,704	16,151	16,884	14,735	13,918	18,276	25,699	23,992	23,433
Operating Profit	8,277	13,870	18,573	18,632	10,604	15,265	18,569	17,507	3,470	7,217	10,314	11,146	2,131	3,483	4,569	4,230	2,786	5,556	7,586	8,176
EBITDA	14,939	16,185	19,784	21,224	13,015	18,345	21,640	20,776	6,201	9,064	11,758	12,770	2,847	3,957	4,907	4,441	4,523	7,805	9,574	10,042
Net Profit	9,998	12,197	13,692	12,944	9,538	13,158	13,293	11,880	2,625	8,838	7,975	8,790	1,376	4,400	3,034	2,890	1,151	3,632	4,777	4,885
Operating Margin	22%	29%	41%	41%	26%	29%	36%	38%	11%	24%	34%	38%	13%	21%	31%	30%	15%	22%	32%	35%
EBITDA Margin	40%	34%	43%	47%	32%	35%	42%	45%	20%	30%	39%	43%	18%	23%	33%	32%	25%	30%	40%	43%
Total Debt	2,100	-	-	-	14,098	22,152	14,888	18,940	39,971	32,277	21,615	7,002	6,134	6,050	3,485	8	23,280	19,397	6,723	2,999
Long Term	-	-	-	-	2,750	10,000	10,000	16,500	22,069	20,067	13,044	3,551	2,813	3,438	1,504	8	17,513	14,036	3,584	1,574
Short Term	2,100	-	-	-	11,348	12,152	4,888	2,440	17,902	12,210	8,571	3,451	3,322	2,613	1,981	-	5,767	5,360	3,138	1,425
Equity	92,069	86,367	79,785	69,323	58,331	53,310	47,769	41,983	75,907	77,134	74,869	65,783	15,333	14,873	11,948	10,447	30,473	29,911	23,708	21,337
Leveraging	2%	0%	0%	0%	19%	29%	24%	31%	34%	30%	22%	10%	29%	29%	23%	0%	43%	39%	22%	12%

Cement Industry | Medium Players Comparison

Market Share	A (PACRA)				A (PACRA)				A (PACRA)				A (PACRA)			
	Kohat				Cherat				Askari				Pioneer			
	9MFY19	FY18	FY17	FY16	9MFY19	FY18	FY17	FY16	9MFY19	FY18	FY17	FY16	9MFY19	FY18	FY17	FY16
Clinker Capacity (mln tons)	2.7	2.7	2.7	2.7	4.3	2.3	2.3	2.3	2.6	2.6	2.6	2.6	2.0	2.0	2.0	2.0
Utilization	-	72%	73%	73%	-	97%	66%	67%	-	82%	87%	76%	-	78%	78%	59%
Revenue	12,242	13,439	13,540	14,020	11,161	14,388	9,645	7,079	12,054	14,752	15,953	15,600	7,489	10,121	10,631	9,367
Operating Profit	3,176	4,025	5,535	6,209	1,542	2,557	2,708	2,208	2,491	2,521	4,588	4,929	1,381	2,546	4,250	3,837
EBITDA	3,671	4,567	6,033	6,638	2,548	3,579	3,349	2,350	3,301	3,499	5,534	5,731	1,986	3,131	4,769	4,314
Net Profit	2,171	2,980	3,545	4,408	2,250	2,132	1,957	1,405	1,605	1,720	2,694	2,983	825	1,644	2,918	2,519
Operating Margin	26%	30%	41%	44%	14%	18%	28%	31%	21%	17%	29%	32%	18%	25%	40%	41%
EBITDA Margin	30%	34%	45%	47%	23%	25%	35%	33%	27%	24%	35%	37%	27%	31%	45%	46%
Total Debt	5,781	430	917	1,593	20,046	16,064	6,401	4,231	10,829	10,862	8,185	7,384	20,742	10,330	2,307	645
Long Term	5,538	430	717	995	17,700	15,100	4,901	4,023	6,429	8,007	5,097	6,186	16,244	7,891	1,500	-
Short Term	243	-	200	598	2,346	964	1,500	208	4,400	2,855	3,088	1,199	4,499	2,440	807	645
Equity	19,735	17,977	15,306	13,770	12,757	11,174	10,462	9,140	17,641	16,153	11,660	12,008	13,530	13,629	12,248	10,670
Leveraging	23%	2%	6%	10%	61%	59%	38%	32%	38%	40%	41%	38%	61%	43%	16%	6%

Cement Industry | Small Players Comparison

Market Share	VIS 'A'				Not Rated				PACRA 'A'				PACRA 'A'				PACRA 'A'			
	Power				Thatta				Fecto				Flying				Gharibwal			
	9MFY19	FY18	FY17	FY16	9MFY19	FY18	FY17	FY16	9MFY19	FY18	FY17	FY16	9MFY19	FY18	FY17	FY16	9MFY19	FY18	FY17	FY16
Clinker Capacity (mln tons)	0.9	0.9	0.9	0.9	0.5	0.5	0.5	0.5	0.8	0.8	0.8	0.8	2.0	2.0	2.0	2.1	2.0	2.0	2.0	2.1
Utilization	-	73%	54%	57%	-	80%	101%	82%	-	90%	95%	86%	-	82%	85%	65%	-	82%	85%	65%
Revenue	3,051	4,343	4,481	4,144	2,897	2,843	3,657	2,846	3,620	4,903	5,131	5,032	2,650	2,910	2,470	2,476	8,276	11,484	11,223	10,522
Operating Profit	108	428	798	781	271	563	914	728	158	536	1,143	1,245	273	203	158	135	1,615	2,303	3,506	3,622
EBITDA	226	590	953	849	388	696	1,073	867	265	656	1,204	1,289	407	369	303	290	2,272	3,135	4,044	4,305
Net Profit	41	320	467	486	164	357	582	614	137	442	761	814	142	182	161	146	820	1,510	2,284	2,694
Operating Margin	4%	10%	18%	19%	9%	20%	25%	26%	4%	11%	22%	25%	10%	7%	6%	5%	20%	20%	31%	34%
EBITDA Margin	7%	14%	21%	20%	13%	24%	29%	30%	7%	13%	23%	26%	15%	13%	12%	12%	27%	27%	36%	41%
Total Debt	20,012	10,853	1,707	3,143	445	684	746	1,283	37	18	-	-	2,196	1,916	565	174	3,391	4,338	4,506	4,029
Long Term	15,929	9,820	599	2,434	146	320	552	1,259	37	18	-	-	1,763	1,210	484	64	3,391	4,038	4,506	4,029
Short Term	4,083	1,034	1,108	709	300	364	194	24	-	-	-	-	433	706	81	110	300	-	-	-
Equity	11,339	11,299	8,394	2,348	2,577	2,557	2,441	2,075	4,247	4,210	3,894	3,233	4,061	3,919	3,737	3,576	12,710	12,491	11,381	9,828
Leveraging	64%	49%	17%	57%	15%	21%	23%	38%	1%	0%	0%	0%	35%	33%	13%	5%	21%	26%	28%	29%

Cement Sector | Outlook

Short to Medium term outlook: **Negative**

Factors for outlook:

- Slow down in large infrastructural projects
- Industry players achieving major capacity expansions in upcoming months – especially in north region (7mln tons per annum) – which amid low demand may result in supply glut in upcoming year
- Trend in cement prices across north region; historically unsustainable in period of expansions coming online (recently prices have come down despite increase in cost)
- Players operating in north region not able to pass on increase in FED to consumers
- Hike in interest rate is burdening profitability of industry players

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