

Cement Sector Update

Pakistan Research

Cement: Dispatches grow on higher exports

Cement dispatches increased by 3.9% YoY to 3.4mn tons in Mar-24 due to a surge in exports. We attribute the increase in exports to a moderation in sea freight charges and lower coal prices. However, a slight decline was recorded in domestic sales due to i) subdued construction demand, ii) augmented costs emanating from the axle load regime, iii) a halt in projects on the back of lower public spending and iv) higher interest rates. Going forward, we expect the growth in export dispatches to support the ongoing recovery.

Local dispatches continued to remain suppressed

Local cement dispatches declined for the seventh consecutive month by 0.6% YoY in Mar-24 on account of i) slowdown in construction activities due to higher input costs, ii) mounting inland transportation costs driven by the axle load implementation, iii) lower public sector spending and iv) monetary tightening. Notably, during the month local south based dispatches declined by 6.5% YoY to 0.59mn tons, while dispatches in the Northern region recorded a modest growth of 0.8% to 2.74mn tons. However, the Northern/Southern dispatches exhibited an increase of 17.3%/13.1% MoM to 2.74/0.59mn tons in Mar-24. We attribute the sequential increase to the weather induced decline leading to a low base last month.

Cement exports rebound on a MoM basis

Cement exports recorded its first sequential uptick in Mar-24 after reporting a decline over the last four months due to (i) a fall in sea freight charges and (ii) lower coal prices. Cement exports clocked in at 0.61mn ton in Mar-24, up by 38%/53% YoY/MoM. Exports from the Northern and Southern regions recorded an increase of 24.1% YoY and 42.2% YoY in Mar-24, respectively.

Baltic Dry Index dropped 18.9% MTD and 27.9% from its peak during the month. Moreover, Coal prices averaged USD 96.6 per ton in 3QFY24 (down 35.1%/16.7% YoY/QoQ).

Capacity utilization improved on increased exports

The overall industry capacity utilization increased to 56.4% in Mar-24, up 0.9% YoY. Notably, capacity utilization increased 9.5% MoM due to a 20.9% uptick in dispatches. Regional comparison indicates that the utilization in the Southern region was higher at 79.0% (up 7.1% YoY) on better exports mix, versus 51.0% utilization (down 0.5% YoY) in the Northern region.

Lower dispatches to impact profitability on a sequential basis

Sector profitability is expected to edge lower in 3QFY24 due to a decline of 11.6% QoQ to 10.6mn tons in cement dispatches during 3QFY24. Despite lower volumes, we expect a 16.7% drop in coal prices with fairly stable cement prices to support margins during 3QFY24 as compared to the previous quarter.

Cement exports to support sector rebound

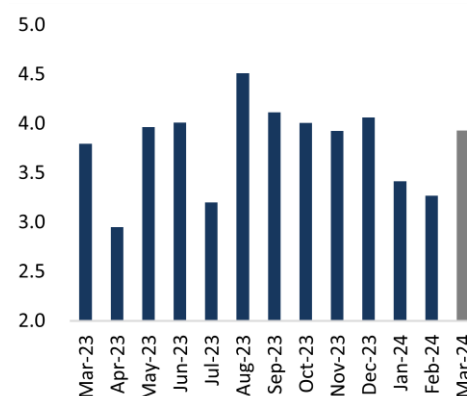
We anticipate a slight recovery in the cement sector, primarily driven by an increase in export volumes complemented with lower coal prices and a reduction in sea freight. However, local cement dispatches are likely to remain subdued mainly due to lower PSDP spending and tight financing conditions. We believe, elevated freight costs due to the implementation of Axle Load will remain a key challenge for the sector in the short-term whereas the resolution of red sea disruptions would be important for cement exports to fully realize its value.

Pakistan Cement Dispatches (mn tons)

	Mar-23	Feb-24	Mar-24	MoM %	YoY %	9MFY23	9MFY24	YoY %
North	2.82	2.43	2.87	17.8%	1.6%	25.83	25.28	-2.1%
Local	2.72	2.34	2.74	17.3%	0.8%	25.05	24.24	-3.2%
Exports	0.10	0.10	0.12	30.7%	24.1%	0.78	1.04	33.6%
South	0.97	0.83	1.07	30.1%	10.4%	7.77	9.22	18.7%
Local	0.64	0.53	0.59	13.1%	-6.5%	5.52	5.16	-6.4%
Exports	0.34	0.30	0.48	59.9%	42.2%	2.26	4.06	79.9%
Total	3.80	3.26	3.94	20.9%	3.9%	33.60	34.50	2.7%
Local	3.36	2.86	3.34	16.5%	-0.6%	30.56	29.40	-3.8%
Exports	0.44	0.40	0.61	52.8%	38.0%	3.04	5.10	68.0%

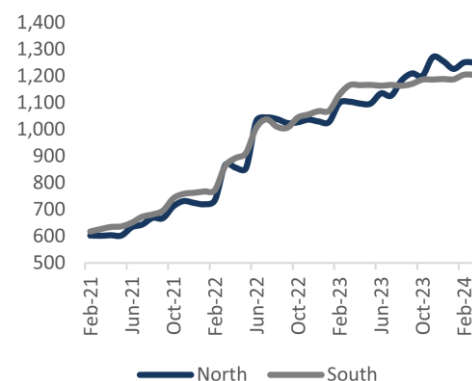
Source: APCMA, Akseer Research

Cement dispatches recover in Mar-24 (mn tons)



Source: APCMA, PBS, Akseer Research

Cement prices remain stable in 3QFY24 (PKR/bag)



Source: PBS, Akseer Research

Abdul Hannan

hannan.khan@akseerresearch.com

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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8,
off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfa-akseer.com