

Cements: Spiraling coal prices to decline net earnings 10% QoQ in 1QFY22

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Prices as of 20th October, 2021

Price hikes to support topline growth of 4% QoQ

- We present 1QFY22 result preview of Akseer cement universe. We expect overall profitability of the companies under our coverage to decline by 10% QoQ during the quarter primarily on the back of sluggish cement dispatches, higher coal costs and deterrence in fully passing on the cost despite increasing local prices.
- For YoY, however, the net earnings are likely to grow by 59% YoY due to
 - Low base effect as PIOC and DGKC reported losses in 1QFY21.
 - Low interest rates, supporting the high leveraged companies in terms of contained finance cost.
- Amongst our universe players, ACPL is likely to outshine with 75% QoQ jump in the bottomline on the back of surge in profits from Iraq operations whereas DGKC will be a laggard with 65% QoQ decline in the profitability.
- Industry's local dispatches grew by 4.2% YoY on the back of improved economic conditions post lockdowns, however, exports witnessed negative growth of 43.5% YoY due to unfavorable contribution margins and higher freight costs. This led to overall industry dispatches declining 6% YoY and QoQ.
- Cement prices, based on country average, witnessed an uptrend and rose by 17% YoY during 1QFY22 where prices in North region increased by 25% YoY while south region saw an increase of 11% YoY.
- Better retention prices will likely result in topline to grow by 23%/4% YoY/QoQ for our coverage companies to PKR 73.3bn. On QoQ basis, KOHC's net sales are likely to surge by 12% QoQ while DGKC will be on the other end of the scale with 4% QoQ decline.

Sector Performance	
Market Cap (PKR bn)	564.8
Weightage in KSE-100 Index	8.65%
Sector Performance - CYTD	-9.4%
Sector Performance- FYTD	50.5%

EPS Estimates (PKR)					
	1QFY21	1QFY22E	YoY	4QFY21	QoQ
ACPL*	3.37	3.67	9%	2.10	75%
DGKC	(0.80)	0.71	NM	1.99	-65%
FCCL	0.50	0.59	17%	0.62	-6%
MLCF*	0.51	0.69	36%	0.89	-23%
LUCK	6.89	9.27	35%	7.37	26%
CHCC	1.59	3.18	100%	5.06	-37%
KOHC	2.52	3.96	57%	4.81	-18%
PIOC	(0.17)	2.25	NM	3.00	-25%

• **Consolidated**

Source: Akseer Research

Spiraling coal prices to decline net earnings 10% QoQ

- Coal prices have been on the rising trend in the last 12 months, reaching a record high of USD 238/ton lately (1QFY22 average of USD 140/ton, up 2.5x YoY).
- Buoyant demand from Mainland China and other economies post COVID-19 lockdown restrictions coupled with supply side bottlenecks from major coal exporting countries have led to the spike in coal prices.
- For our cement universe, we have taken 1QFY22 average coal price of USD 124/ton (up 121% YoY/ 19% QoQ) 7% PKR devaluation versus USD, considering that cement players had rationed the inventory at lower levels for the quarter. Recent hike in freight also added to landed cost for the coal.
- Resultantly, gross margins are likely to settle at 19% during 1QFY22, down 2%/15% YoY/QoQ. MLCF will sustain the highest gross margins of 22% (though down 5% QoQ) due to cost efficiencies and relatively cheaper coal inventory. Lowest margins within our universe are likely to be reported by DGKC, at 11.2% (down 7% QoQ)
- We have revised down our prices target (TP) after incorporating latest coal prices, demand outlook and cement bag prices.
- LUCK, MLCF, KOHC and ACPL remain our top picks at current levels.

Cement Universe Preview					
	1QFY21	1QFY22E	YoY	4QFY21	QoQ
Net Sales	59,564	73,304	23%	70,147	4%
Gross Margins	20%	19%	-2%	23%	-15%
Net Margins	8%	10%	2%	12%	-4%

June-22 Price Target (PT)					
	Revised PT	Previous PT	Change	LDCP	Upside
ACPL*	192	230	-17%	137	40%
DGKC	164	181	-9%	79	108%
FCCL	23	28	-18%	17	35%
MLCF*	65	71	-9%	33	97%
LUCK	1,003	1,265	-21%	680	47%
CHCC	177	190	-7%	130	36%
KOHC	241	290	-17%	166	45%
PIOC	150	170	-12%	80	87%

*Consolidated

Source: Akseer Research

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