

# Cements: 2QFY22 earnings to decline 6% QoQ, but still rise 11% YoY

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## Higher dispatches and price hikes to support topline growth of 24% QoQ

- We expect 2QFY22 earnings of Akseer's cement universe to decline by 6% QoQ as higher coal prices are expected to trim margins. However, 2Q earnings will likely be up 11% on YoY basis. Higher local cement retention prices are likely to have partially offset the impact of a sharp increase in coal prices in 2QFY22.
- Total cement dispatches grew by 14% QoQ to 14.6mn tons during 2QFY22 and will likely lend support to earnings. Industry's local dispatches grew by 13% QoQ to 12.8mn tons, while exports also grew 19% QoQ to 1.9mn tons due to normalization of sea freight at the end of 2Q.
- Average Cement prices witnessed an uptrend and rose by 10% QoQ during 2QFY22 to PKR 731/bag. Cement prices in North and South region rose by a similar quantum and averaged PKR 723/bag and PKR 745/bag, respectively.
- Higher dispatches and increased retention prices will likely result in topline growth of 31% YoY and 24% QoQ for Akseer's cement universe to PKR 86.1bn in 2QFY22. On QoQ basis, DGKC's and PIOC's net sales are likely to surge by 46% QoQ and 37% QoQ due to higher dispatches growth.
- In terms of profitability, MLCF is likely to outshine with an expected 24% QoQ jump in the bottom-line due to improved cost efficiencies post addition of another Waste Heat Recovery Plant (WHR) during 2QFY22.

Cement Universe Preview					
(PKR mn)	2QFY22E	YoY	QoQ	1HFY22E	YoY
Net Sales	86,073	31%	24%	155,561	26%
Gross Profit	19,419	17%	10%	37,095	35%
Gross Margin	23%	-3%	-3%	24%	1%
Profit Before Tax	12,803	24%	-3%	25,945	68%
Profit After Tax	9,185	11%	-6%	18,916	54%

EPS Estimates (PKR)					
	2QFY22E	YoY	QoQ	1HFY22E	YoY
ACPL	2.12	-32%	7%	4.09	3%
DGKC	2.50	-5%	20%	4.57	150%
FCCL	0.92	39%	-7%	1.90	64%
MLCF*	0.95	-3%	24%	1.71	16%
LUCK**	7.71	8%	-24%	17.86	27%
CHCC	5.49	30%	-10%	11.63	100%
KOHC	6.93	44%	0%	13.89	90%
PIOC	2.40	-16%	13%	4.51	69%

\* Consolidated \*\* Actual

Source: Akseer Research

## A sharp increase in coal prices to trim gross margins to 23% during 2QFY22, down 3% QoQ

- Coal prices have been on the rising trend in the last 12 months and remained highly volatile during 2QFY22. Coal touched a record high of USD 238/ton and subsequently declined to USD 121/ton during 2QFY22.
- We expect cement companies to have procured coal at an average price of USD 125/ton, considering that cement players had managed to build inventory at lower levels for the quarter along with higher usage of local and Afghan coal which is 25-30% cheaper than benchmark Richard bay coal prices.
- Resultantly, gross margins are likely to settle at 23% during 2QFY22, down 3% on YoY/QoQ basis. CHCC will likely lead with gross margins of 28% due to cost efficiencies and relatively higher usage of Afghan and local coal. DGKC will likely post the lowest gross margins of 17.5%.
- Going forward, we believe cement manufacturers would have to increase cement prices by further PKR 15-20/ bag in order to maintain current gross margins if coal prices continue to remain elevated.
- FCCL, LUCK and MLCF remain our top picks at current levels.

Dec-22 Price Target (PT)		
	Price Target (PKR)	Upside
ACPL	175	29%
DGKC	135	69%
FCCL	28	55%
MLCF	55	58%
LUCK	1,100	61%
CHCC	220	53%
KOHC	270	50%
PIOC	152	75%

Source: Akseer Research

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