

# Pakistan Cements

## Burgeoning construction costs hampers cement dispatches

Cement offtakes remained weak in 7MFY23 to clocked in at 25.76mn tons, down by 18% amid burgeoning cost of construction, higher interest rates, low PSDP utilization and political uncertainty. To note, PSDP and private investments remains a key demand drivers for construction sector. In 7MFY23, actual PSDP spending clocked in at PKR203.1bn vs. authorized amount of PKR371.8bn. The decline is due to ongoing political & social turmoil in the country which was further exacerbated by narrow fiscal space. Going forward, PSDP allocation and utilization are expected to remain muted due to acute fiscal space amid rising cost of debt servicing.

### Cement prices hovering near its peak

Cement demand has shown significant decline in 7MFY23 amid slowdown in spending of both public and private sector. Government spending has remain muted in recent months due to ongoing political tug of war and tight fiscal space. While, private sector spending has also recorded massive slowdown due to rising cost of construction, making the projects unviable. Despite that, cement prices witnessed an increase of ~67% to PKR1,100-1,120/bag, since Jun'21. The increase is mainly due to higher raw material prices on the back of upward rally in coal prices coupled with inflationary pressure. Moreover, recent increase in FED and GST on cement bags has further escalated the prices by PKR50/bag on 16'Feb'23.

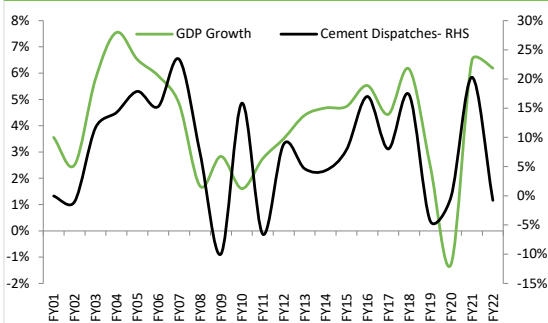
### PSDP continues its downward Slide

In FY23, allocated budget for PSDP was PKR727bn, but only PKR371bn has been authorized in 7MFY23, with actual expenditure amounting to PKR203bn. Due to low PSDP spending, demand for construction material remained depressed as they are highly correlated with PSDP spending. Cement sector is facing the burnt of this slowdown as reflected in 18% decline in dispatches during first 7 months of FY23. Offtakes are expected to remain muted in next 2 months due to Ramzan season as evident from past trends. The worries of the sector has further exacerbated by commissioning of new capacities. To note, ~11.52MT capacity has been added FY23TD, taking industry's total capacity to ~84mn tons.

### Rising cost of construction to dent private sector spending

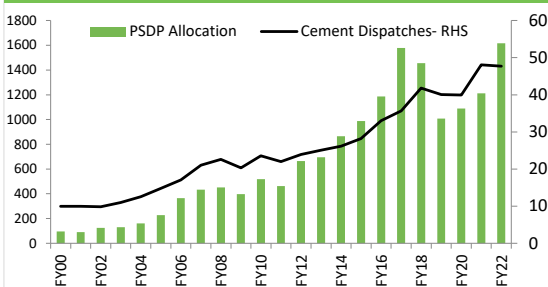
Pakistan has heavily relied on private sector as their primary producer of goods and services. However, due to economic upheaval led by elevated inflation, skyrocketing interest rates, PKR devaluation and political uncertainty, private sector spending has significantly reduced, resulting in construction cost overruns. Moreover, as steel industry is undergoing raw material shortages amid import restrictions, these factors may only serve to further contract cement demand since construction industry is closely interconnected. We believe due to aforementioned reasons, cement offtake will decline by 15% in FY23 to clocked in at 44.9mn tons compared to SPLY.

GDP growth vs. Cement dispatches (YoY Change)



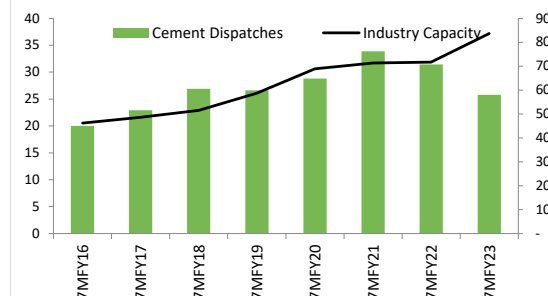
Source: Zakheera, Insight Research

PSDP allocation (PKRbn) vs. cement dispatches (mn tons)



Source: Zakheera, Insight Research

Cement dispatches (mn tons) vs. Industry Capacity (mn tons)



Source: Company accounts, APCMA, Insight Research

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<b>TP</b>	Target Price	<b>DCF</b>	Discounted Cash Flows	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DDM</b>	Dividend Discount Model
<b>SOTP</b>	Sum of the Parts	<b>P/E</b>	Price to Earnings ratio	<b>P/Bv</b>	Price to Book ratio
<b>P/S</b>	Price to Sales	<b>EVA</b>	Economic Valued Added	<b>BVPS</b>	Book Value per Share
<b>EPS</b>	Earnings per Share	<b>DPS</b>	Dividend per Share	<b>DY</b>	Dividend Yield
<b>ROE</b>	Return on Equity	<b>ROA</b>	Return on Assets	<b>CAGR</b>	Compounded Annual Growth Rate

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