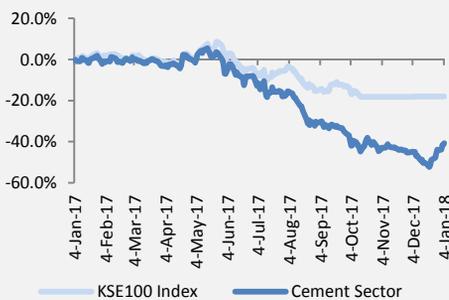


### Sector Performance

	1M	3M	12M
Absolute %	7.2	2.2	(40.7)
Relative to KSE %	7.2	3.6	(22.6)

### Cement Sector vs. KSE100



- As per the latest numbers released by APCMA, cement dispatches for Dec'17 clocked in at 3.7mn MT vs. 3.6mn MT in Dec'16, up by 5%YoY. However, the dispatches have decreased by 5%MoM due to slower construction activity and restricted mobility in winter due to fog.
- As per market sources, company wise analysis suggests that CHCC has been outperforming in the ongoing FY18.
- As per our channel checks, retail price in Islamabad and Pindi has decreased to PKR480/bag due to the ongoing price competition.
- Also, some of the expansions in North are delayed due to environmental concerns raised by Environmental Protection Agency (EPA), thereby reducing the risk of price competition in the long run.
- With the beginning of winter season, local volumetric growth is expected to remain relatively sluggish in North due to fog. However, our outlook on cement demand remains promising in the ongoing FY18 due to fast paced construction activity in election year.

**Local demand drives the cement sector:** As per the latest numbers released by APCMA, cement dispatches for Dec'17 clocked in at 3.7mn MT vs. 3.6mn MT in Dec'16, up by 5%YoY. However, the dispatches have decreased by 5%MoM on due to slower construction activity and restricted mobility in winter due to fog. In this regard, local dispatches have exhibited single digit growth of 7%YoY for the first time in FY18 whereas exports have continued to decrease by 11%YoY. On a cumulative basis, total dispatches for 1HFY18 have clocked in at 22.2mn MT vs. 19.8mn MT in SPLY, up by 12%YoY, owing to robust demand (17%YoY) in local dispatches. Consequently, cement sector has recorded a capacity utilization of 95% in 1HFY18 vs. 88% in SPLY.

**CHCC doubles cement volumes in 1HFY18:** As per market sources, company wise analysis suggests that CHCC has been outperforming in the ongoing FY18, recording a growth of 103%YoY in 1HFY18 due to the commencement of new line in Jan'17. Moreover, PIOC and DGKC have depicted a volumetric growth of 17%YoY and 12%YoY, respectively in 1HFY18. However KOHC and LUCK have remained laggards for this month, witnessing a growth of 4%YoY and 5%YoY, respectively.

**Some challenges persist in North region:** As per our channel checks, retail price in upper North region (Islamabad and Pindi), has decreased to PKR480/bag despite healthy growth of 18%YoY in local cement dispatches in North for 1HFY18 due to the ongoing price competition. Moreover, some of the expansions in North are delayed due to environmental concerns raised by Environmental Protection Agency (EPA). Recall, EPA has put a halt on capacity enhancement of MLCF. Also, as per our channel checks, EPA has also issued a notice to PIOC to stop the civil work on its brownfield expansion. Therefore, with the delay in expansions in North, we foresee lower risk of price competition in the long run.

**Relatively slower demand due to winter season:** With the beginning of winter season, local volumetric growth is expected to remain relatively sluggish in North owing to slower mobility and construction activity due to fog. However, our outlook on cement demand remains promising in the long run on the back of initiation of infrastructural projects in the ongoing election year.

**Valuation:** Our top pick in the sector is KOHC where its DCF based TP stands at PKR173/sh, offering a total return of 27% from the last closing price.

### Cement dispatches for Dec'17

	Dec'17	Dec'16	YoY	Nov'17	MoM
<b>Local</b>	<b>3.40</b>	<b>3.19</b>	<b>7%</b>	<b>3.55</b>	<b>-5%</b>
North	2.82	2.63	7%	2.97	-5%
South	0.58	0.56	5%	0.58	-6%
<b>Export</b>	<b>0.33</b>	<b>0.37</b>	<b>-11%</b>	<b>0.34</b>	<b>-6%</b>
North	0.23	0.26	-9%	0.29	-16%
South	0.09	0.11	-16%	0.07	36%
<b>Total</b>	<b>3.73</b>	<b>3.55</b>	<b>5%</b>	<b>3.89</b>	<b>-5%</b>

Source: APCMA, BIPLS Research

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The rating system

Rating	Definition
Buy	Total stock return $\geq$ 15%
Hold	$0\% \leq$ Total stock return $<$ 15%
Sell	Total stock return $<$ 0%

\* Total stock return = capital gains + dividend yield

## Valuation Methodology

To arrive at our period end target prices, BIPL Securities uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
  - Relative Valuation (P/E, P/B, P/S etc.)
  - Equity & Asset return based methodologies (EVA, Residual Income etc.)
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