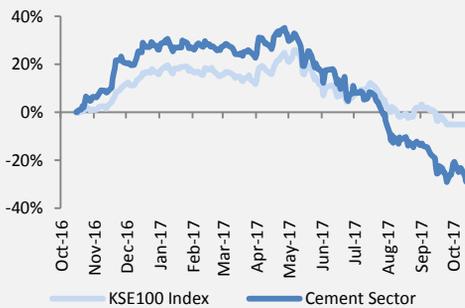


Sector Performance

	1M	3M	12M
Absolute %	(4.5)	(32.4)	(26.7)
Relative to KSE %	(1.5)	(17.0)	(21.7)

Cement Sector vs. KSE100



- As per the latest numbers released by APCMA, cement dispatches for Oct'17 clocked in at 4.2mn MT vs. 3.5mn MT in Oct'16, up by 20%YoY/32%MoM. We accredit the healthy growth in total dispatches to the fast paced construction activity in the election year.
- On a cumulative basis, strong volumetric growth of 23%YoY in local dispatches has been driving the cement sector, recording a capacity utilization of 93% in 4MFY17 vs. 82% in SPLY.
- CHCC has outshined in cement universe, exhibiting a remarkable growth of 116%YoY/30%MoM owing to the commencement of its new line of 1.3mn MT in Jan'17.
- With the winter season ahead, local volumetric growth may remain relatively slow due to slower paced construction activity, mainly in North. However, in the long run we expect cement demand to remain upbeat backed by the prospective initiation of civil work on dams, upgradation of Gwadar city and rapid progress on mega-housing projects.

Local demand drives the cement sector: As per the latest numbers released by APCMA, cement dispatches for Oct'17 clocked in at 4.2mn MT vs. 3.5mn MT in Oct'16, up by 20%YoY/32%MoM. Healthy growth in total dispatches is accredited to fast paced construction activity in the election year where capacity utilization has been recorded at 108% vs. 89% in SPLY. In this regard, local dispatches have continued to exhibit a remarkable growth of 26%YoY/35%MoM where exports have down by 15%YoY and increased by 10%MoM. On a cumulative basis, strong volumetric growth of 23%YoY in local dispatches has been driving the cement sector, recording a capacity utilization of 93% in 4MFY17 vs. 82% in SPLY.

Cement dispatches for Oct'17

	Oct'17	Oct'16	YoY	Sep'17	MoM
Local	3.8	3.0	26%	2.8	35%
Export	0.4	0.5	-15%	0.4	10%
Total	4.2	3.5	20%	3.2	32%

Source: APCMA, BIPL Research

CHCC leads the cement pack: As per market sources, CHCC has outshined in cement universe, exhibiting a remarkable growth of 116%YoY/30%MoM owing to the commencement of its new line of 1.3mn MT in Jan'17. Additionally, ACPL and LUCK have recorded a growth of 35%YoY and 25%YoY, respectively. However KOHC and MLCF have been laggards for this month, witnessing a growth of 8%YoY and 19%YoY, respectively.

Winter is coming; relatively slower growth: With the winter season ahead, local volumetric growth may remain relatively slow due to slower paced construction activity, mainly in North due to fog. However, in the long run, we expect cement demand to remain upbeat backed by the prospective initiation of civil work on Dasu dam and Suki Kinari, upgradation of Gwadar city and rapid progress on mega-housing projects.

However, decline in cement prices remain a major concern: Despite strong volumetric growth in cement sector, cement prices in North have witnessed a decreasing trend where prices have declined by 8% from PKR559/bag on Jul 06, 2017 to PKR512/bag till Nov 02, 2017, however prices in South have remained stable. We believe that northern players have decreased the prices to enhance their market share, however recovery in prices in 2HFY18 may be on the cards owing to strong local volumetric growth. However, in South, we believe that with the upcoming capacity addition of 5.5mn MT in 2HFY18, prices in South may come under pressure. Therefore, we recommend a cautious approach owing to uncertainty in prices.

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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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