

# CEMENT SECTOR – AN OVERVIEW



# CEMENT INDUSTRY | SECTOR OUTLINE

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# CEMENT INDUSTRY | NORTH REGION

As at Mar-19

Sr. #	Cement Players	Operational Capacity (tons per annum)	Market Share
1	Bestway Cement	9,852,750	23.3%
2	Cherat Cement	4,536,500	10.7%
3	D.G.Khan Cement	4,221,000	10.0%
4	Lucky Cement	3,786,000	8.9%
5	Fauji Cement	3,433,500	8.1%
6	Maple Leaf Cement	3,370,500	8.0%
7	Askari Cement	2,677,500	6.3%
8	Kohat Cement	2,677,500	6.3%
9	Gharibwal Cement	2,110,500	5.0%
10	Pioneer Cement	2,030,250	4.8%
11	Flying Cement	1,197,000	2.8%
12	Dewan Hattar	1,134,000	2.7%
13	Fecto Cement	819,000	1.9%
14	Dandot Cement	504,000	1.2%
	<b>Total</b>	<b>42,350,000</b>	<b>100%</b>

- Pakistan's Cement industry is divided in two regions; North and South. North comprises of KPK, AJ&K, northern areas of Punjab and some areas of Baluchistan. South region comprise of Sindh and Southern Baluchistan
- As at Mar-19, North region has installed capacity of 42.3mln tpa – 75% of total country's operational capacity
- 14 cement players affiliated with distinct sponsoring groups are operating in northern region
- Export avenues feasible for north players are Afghanistan and India; lesser reliance on exports as demand from local market remained healthy in last few years; demand was largely stagnant in 1HFY19

# CEMENT INDUSTRY | SOUTH REGION

As at Mar-19

Sr. #	Cement Players	Operational Capacity (tons per annum)	Market Share
1	Lucky Cement	4,900,000	35%
2	D.G.Khan Cement - Hub	2,898,000	21%
3	Attock Cement	2,995,500	21%
4	Dewan Cement	1,764,000	13%
5	Power Cement	945,000	7%
6	Thatta Cement	488,250	3%
	<b>Total</b>	<b>13,990,750</b>	<b>100%</b>

- As at Mar-19, installed cement capacity in south constitutes to 13.9mln tpa - ~25% of country's total cement capacity
- Lesser competitive environment as compare to north region on account of lesser number of industry players
- Greater number of export markets are available for south players given geographical proximity to sea
- Export markets available are Bangladesh, Sri Lanka, Oman and South Africa

# CEMENT INDUSTRY | EXPANSIONS NORTH

As at Mar-19

Sr.#	Cement Players	Cement (Existing) (mln tpa)	Announced Expansions (mln tpa)	Post Expansion Capacities (mln tpa)	Market Share Post Expansion	Expected CoD
1	Bestway Cement	9.9	-	9.9	19%	-
2	Lucky Cement	3.8	2.6	6.4	12%	Jan-20
3	Maple Leaf	3.4	2.2	5.6	11%	Jul-19
4	Kohat Cement	2.7	2.3	5.0	10%	Sep-18
5	Cherat Cement	4.5	-	4.5	9%	-
6	D.G.Khan Cement	4.2	-	4.2	8%	-
7	Pioneer	2.0	2.2	4.2	8%	Aug-19
8	Fauji Cement	3.4	-	3.4	7%	-
9	Askari Cement	2.7	-	2.7	5%	-
10	Gharibwal Cement	2.1	-	2.1	4%	-
11	Flying Cement	1.2	0.6	1.8	3%	Mar-21
12	Dewan Hattar	1.1	-	1.1	2%	-
13	Fecto Cement	0.8	-	0.8	2%	-
14	Dandot Cement	0.5	-	0.5	1%	-
	<b>Total</b>	<b>42.4</b>	<b>9.9</b>	<b>52.3</b>	<b>100%</b>	

- Industry announced expansions in FY16 when government's prerogative for infrastructural development was strong and clear.
- In north, as of Mar-19, Cherat (line-III) and Bestway Cement (Farooqia site) have commissioned new capacities lately
- Lucky, Maple Leaf, Kohat, Pioneer and Flying Cement's expansions are underway. Majority of cement capacity of 9.9mln tpa is expected to commission in north region in CY19
- Going forward, competition is likely to get intense in north region when expanding players will began complete utilization of new lines. If current demand slowdown prevails, north market will take time to absorb volumes from new expansions

# CEMENT INDUSTRY | EXPANSIONS SOUTH

As at Mar-19

Sr.#	Cement Players	Cement (Existing) (mln tpa)	Announced Expansions (mln tpa)	Post Expansion Capacities (mln tpa)	Market Share Post Expansion	Expected CoD
1	Lucky Cement	4.9	-	4.9	30%	-
2	D.G.Khan Cement -Hub	2.9	-	2.9	18%	-
3	Attock Cement	3.0	-	3.0	18%	-
4	Dewan Cement	1.8	-	1.8	11%	-
5	Power Cement	0.9	2.3	3.2	20%	Jan-21
6	Thatta Cement	0.5	-	0.5	3%	-
	<b>Total</b>	<b>14.0</b>	<b>2.3</b>	<b>16.3</b>	<b>100%</b>	

- In South, Attock and Lucky Cement commissioned brown-field expansions of 1.3 and 1.1 mln tpa respectively in recent past
- DG Khan cement entered in South market by commissioning green field manufacturing facility located at Hub Baluchistan of 2.9mln tpa
- Expanded capacity challenge had not been intense for South players as volumes were catered by sizable increase in exports
- Power Cement's capacity expansion of 2.3mln tpa is expected to commence till Jan-21
- Going forward, south region's dynamics are correlated with longevity of export window available

# CEMENT INDUSTRY | RATED UNIVERSE

Sr#	Rated Universe	PACRA	VIS
1	Bestway Cement	AA-	
2	D.G. Khan Cement	AA-	
3	Maple Leaf Cement Factory	A+	
4	Attock Cement Pakistan		A+
5	Cherat Cement Company	A (+ve)	
6	Kohat Cement Company	A	
7	Pioneer Cement	A	
8	Askari Cement	A	A
9	Gharibwal Cement	A-	
10	Fecto Cement	A-	
11	Power Cement		A-
12	Thatta Cement		A-
Capacity rated (%age)		63%	8%
Total Rated capacity		71%	

□ ~63% of operational cement capacity is being rated by PACRA while ~8% by JCR-VIS; total rated cement capacity equates to ~71%

□ Bestway and DG Khan Cement secures highest rating at 'AA-' within industry

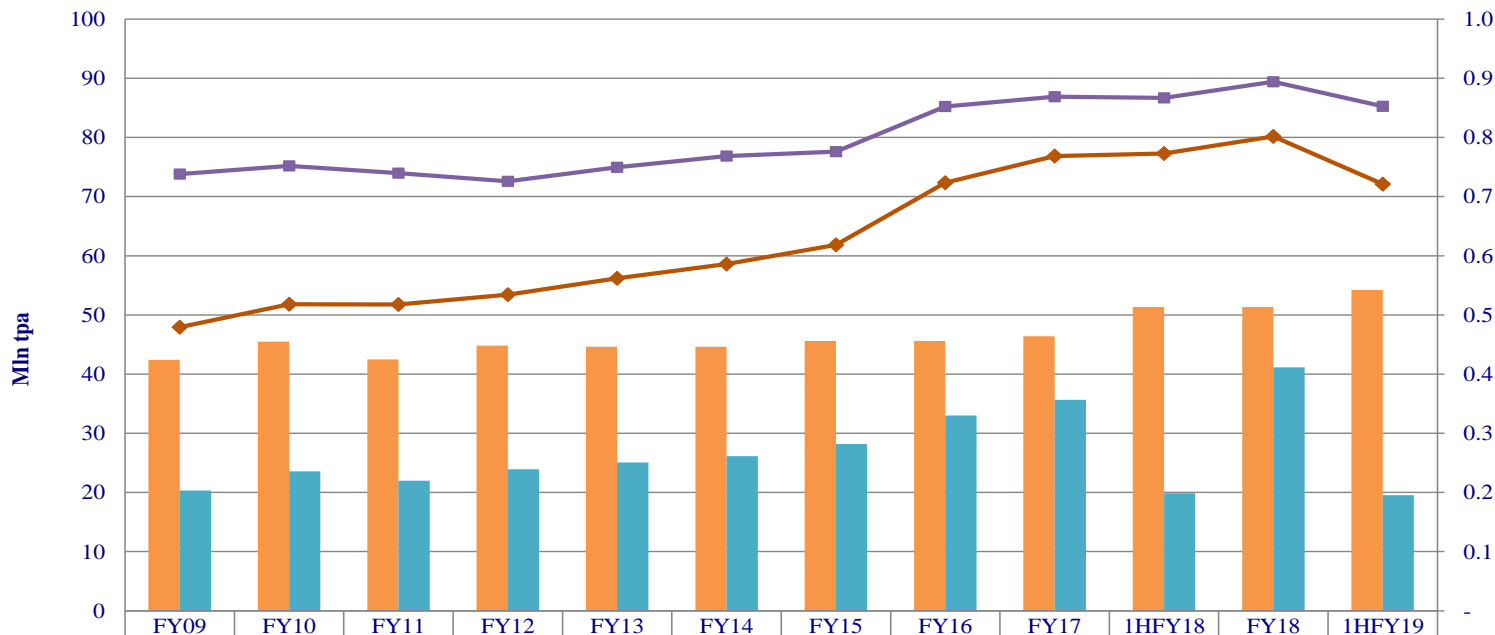
□ Remaining 10 players enjoy rating within 'A' category

□ Five Cement players are currently unrated

Sr #	Un-Rated Universe
1	Lucky Cement
2	Fauji Cement
3	Dewan Cement
4	Dandot Cement
5	Flying Cement



# Cement Industry | Local & Total Utilization



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	1HFY18	FY18	1HFY19
Production Capacity	42.4	45.5	42.5	44.8	44.6	44.6	45.6	45.6	46.4	51.3	51.3	54.2
Local Despatches	20.3	23.6	22.0	23.9	25.1	26.1	28.2	33.0	35.7	19.8	41.2	19.6
Total Despatches	31.3	34.2	31.4	32.5	33.4	34.3	35.4	38.9	40.3	22.2	45.9	23.1
Capacity Utilization   Local (RHS)	48%	52%	52%	53%	56%	59%	62%	72%	77%	77%	80%	72%
Capacity Utilization   Total (RHS)	74%	75%	74%	73%	75%	77%	78%	85%	87%	87%	89%	85%

YoY Growth in Local Despatches   Actual Figures											
FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	1HFY19
7%	-10%	16%	-7%	9%	5%	4%	8%	17%	8%	15%	-1%

- During 1HFY19, total production capacity touched 54.2mln tpa. Local dispatches inched down by 1%. This is attributable to slow down in domestic cement demand as large scale infrastructure projects were delayed in last few months. Utilization level (local) declined to 72% due to aforementioned reason and increase in installed capacity.

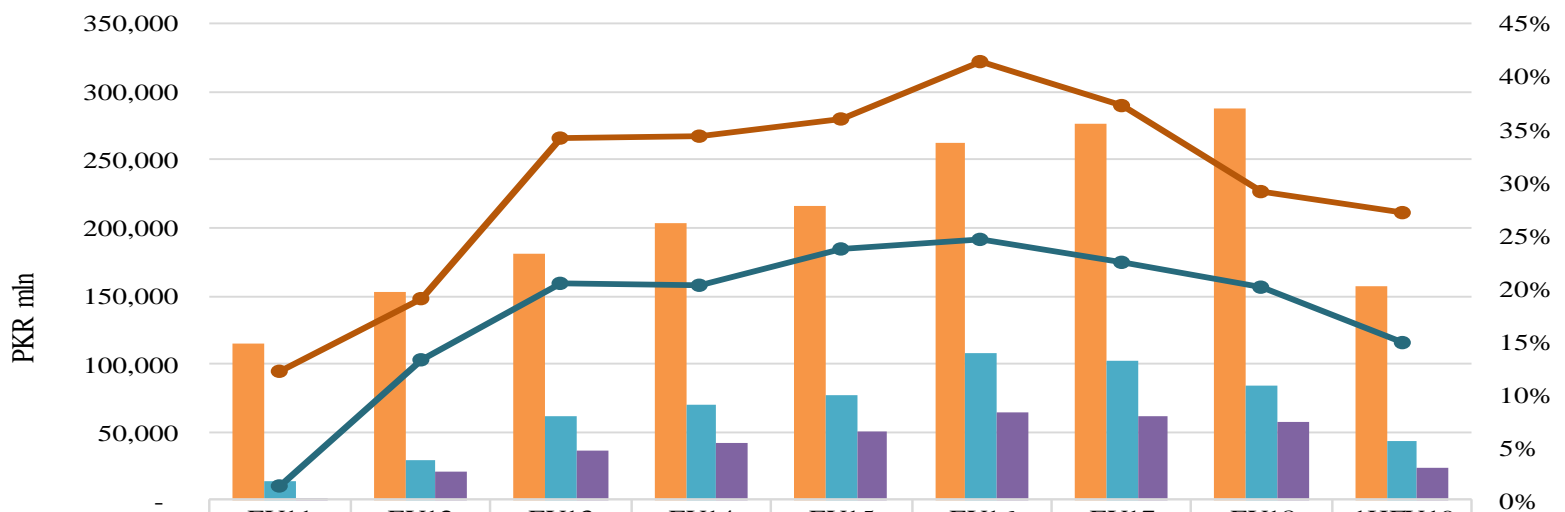


# Cement Industry | Historical Export Analysis

Year	Afghanistan (Via Land)	India (Via Sea & Land)	Other Countries (Via Sea)	Clinker	Total	Growth YoY
FY05	1.41	-	0.16		<b>1.57</b>	
FY06	1.41	-	0.09		<b>1.51</b>	-4%
FY07	1.73	-	1.11	0.39	<b>3.23</b>	114%
FY08	2.78	0.79	3.05	1.11	<b>7.72</b>	139%
FY09	3.15	0.63	6.06	0.91	<b>10.75</b>	39%
FY10	4.02	0.72	5.63	0.28	<b>10.65</b>	-1%
FY11	4.73	0.59	3.91	0.20	<b>9.43</b>	-11%
FY12	4.72	0.61	3.25	-	<b>8.57</b>	-9%
FY13	4.40	0.48	3.49	-	<b>8.37</b>	-2%
FY14	3.66	0.68	3.80	-	<b>8.14</b>	-3%
FY15	2.87	0.70	3.63	-	<b>7.20</b>	-12%
FY16	2.44	0.99	2.44	-	<b>5.87</b>	-18%
FY17	1.72	1.25	1.69	-	<b>4.66</b>	-21%
1HFY18	1.20	0.56	0.64	-	<b>2.41</b>	
FY18	1.82	1.21	1.71	-	<b>4.75</b>	2%
1HFY19	1.03	0.65	1.20	1.26	<b>4.14</b>	72%

- During 1HFY19, country's cement and clinker exports witnessed sizable growth of 72% mainly attributable to uptick in clinker and cement exports via sea
- Country's cement dispatches via sea witnessed a surge by 88%
- Trend in exports shifted as window is created in Bangladesh market as exports from Vietnam shifted to China

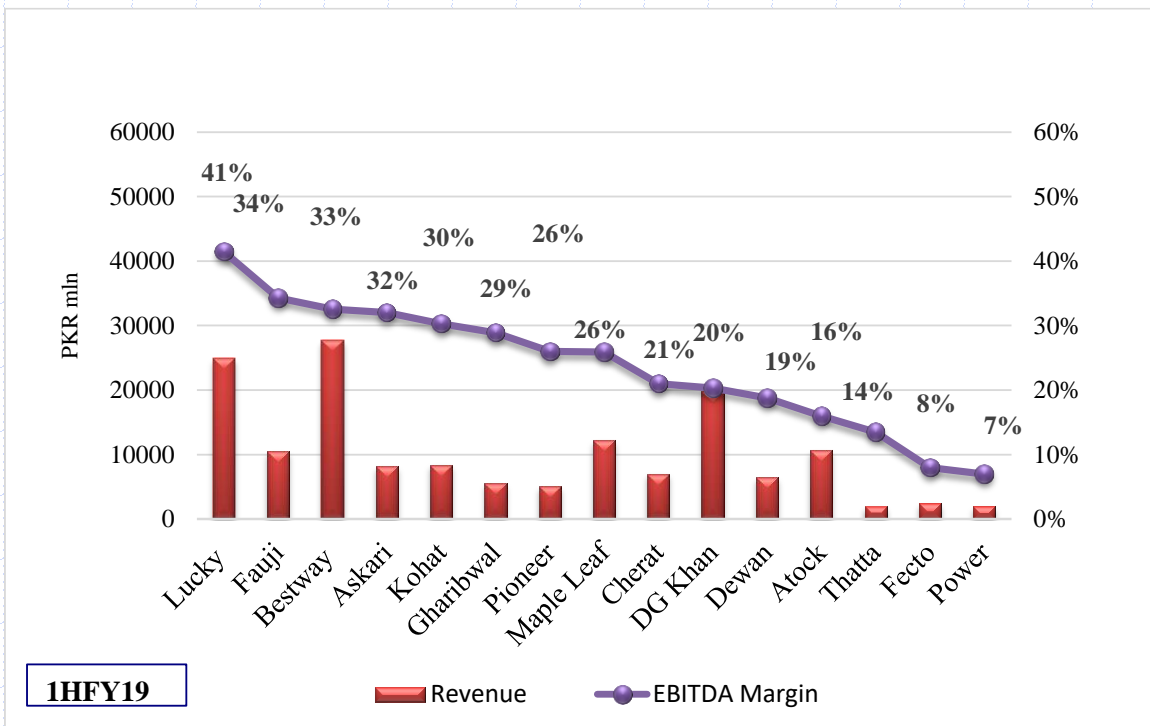
# Cement Industry | Performance Trend



	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	1HFY19
Revenues	114,565	153,413	180,621	203,659	215,271	262,007	276,184	287,496	156,979
EBITDA	13,955	29,161	61,754	69,836	77,393	108,413	102,872	83,639	42,711
Net Income	1,561	20,303	36,832	41,476	50,980	64,325	62,057	57,842	23,295
EBITDA Margin	12%	19%	34%	34%	36%	41%	37%	29%	27%
Net Margin	1%	13%	20%	20%	24%	25%	22%	20%	15%

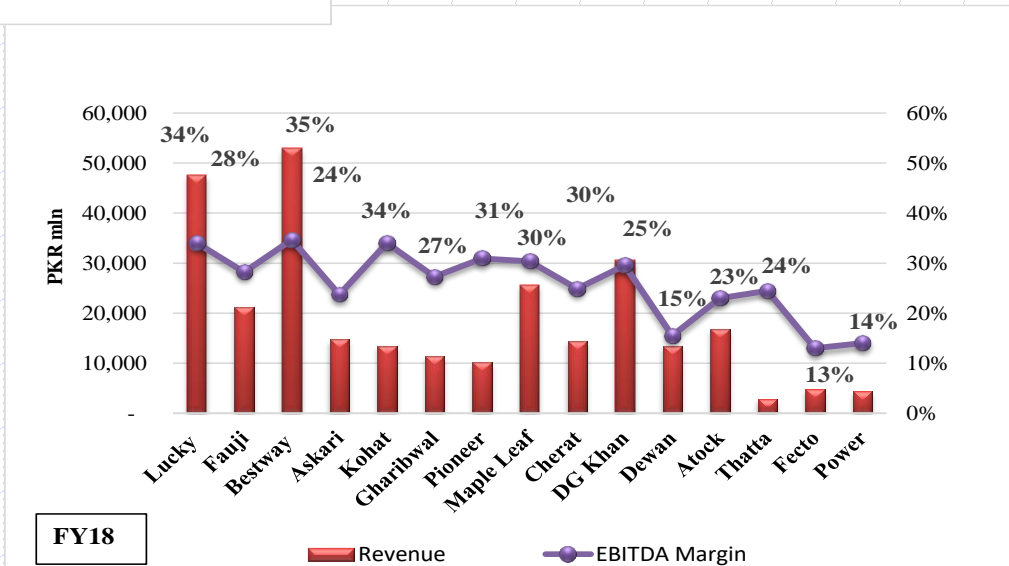
- During 1HFY19, revenues witnessed marginal downward trend (when considered YoY) primarily due to fluctuation in cement prices and increased federal excise duty. Volumetric analysis reveals total industry dispatches were inched up (1HFY19: 23.1, 1HFY18: 22.2) Furthermore, increased international coal prices during aforementioned period impacted margins.

# Cement Industry | EBITDA Margin

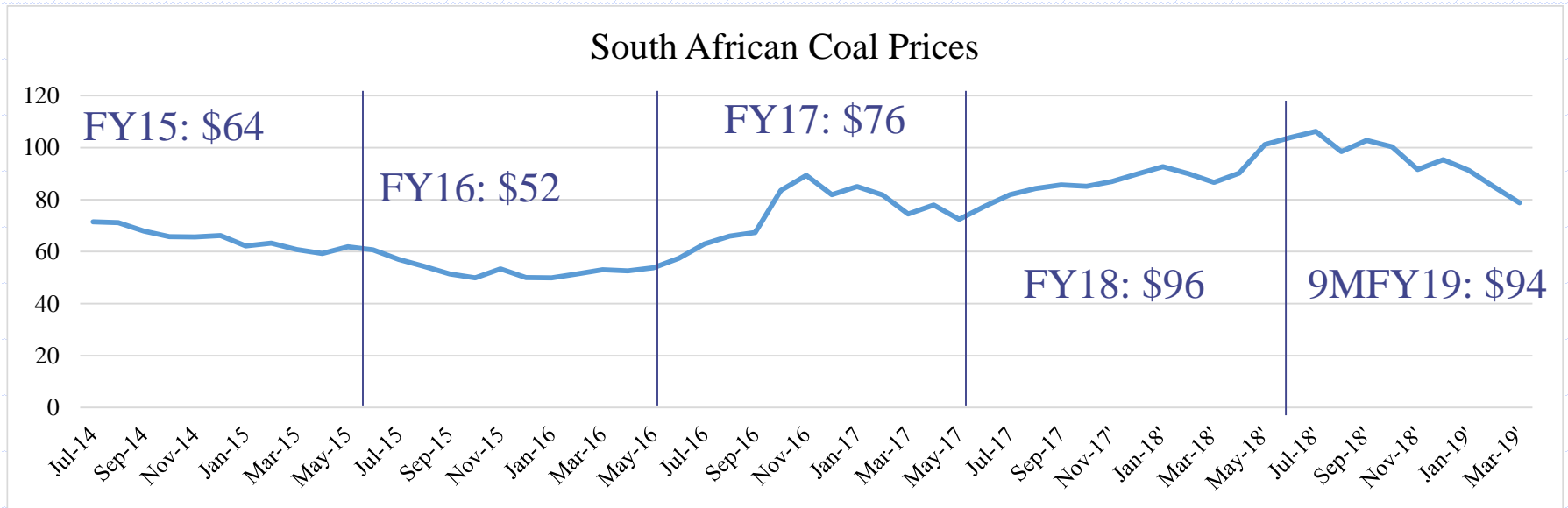


EBITDA margins witnessed declining trend for majority players attributable to inability to pass on increase in coal prices (average price during FY18) and currency devaluation

Variations in EBITDA margins are attributable to several reasons including Price differential in export and local dispatches, cement and clinker and usage of local coal by some players



# Cement Industry | Fuel Component | Coal Price Trend



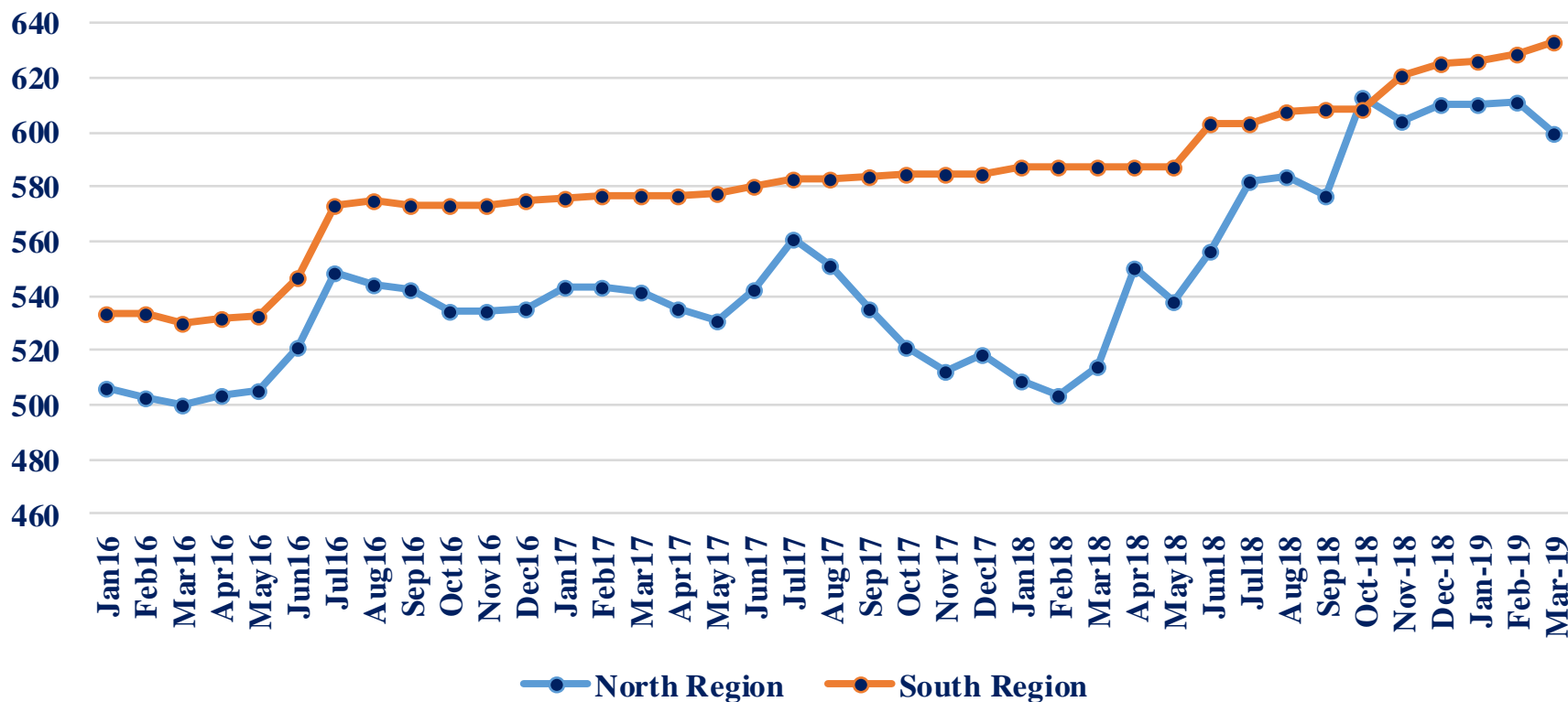
South African and Indonesian coal is imported by majority Pakistani cement players to be used as major fuel component; Better K-Cal value and lower Sulphur content leads to easy handling of coal

Coal prices are witnessing downward trend worldwide; Coal future contracts indicating same trend to continue in medium term – further ~\$ 5 dilution by end-Sep19

Few players have shifted on local coal and reaping cost efficiencies.

# Cement Industry | Per 50 KG Bag Price Trend

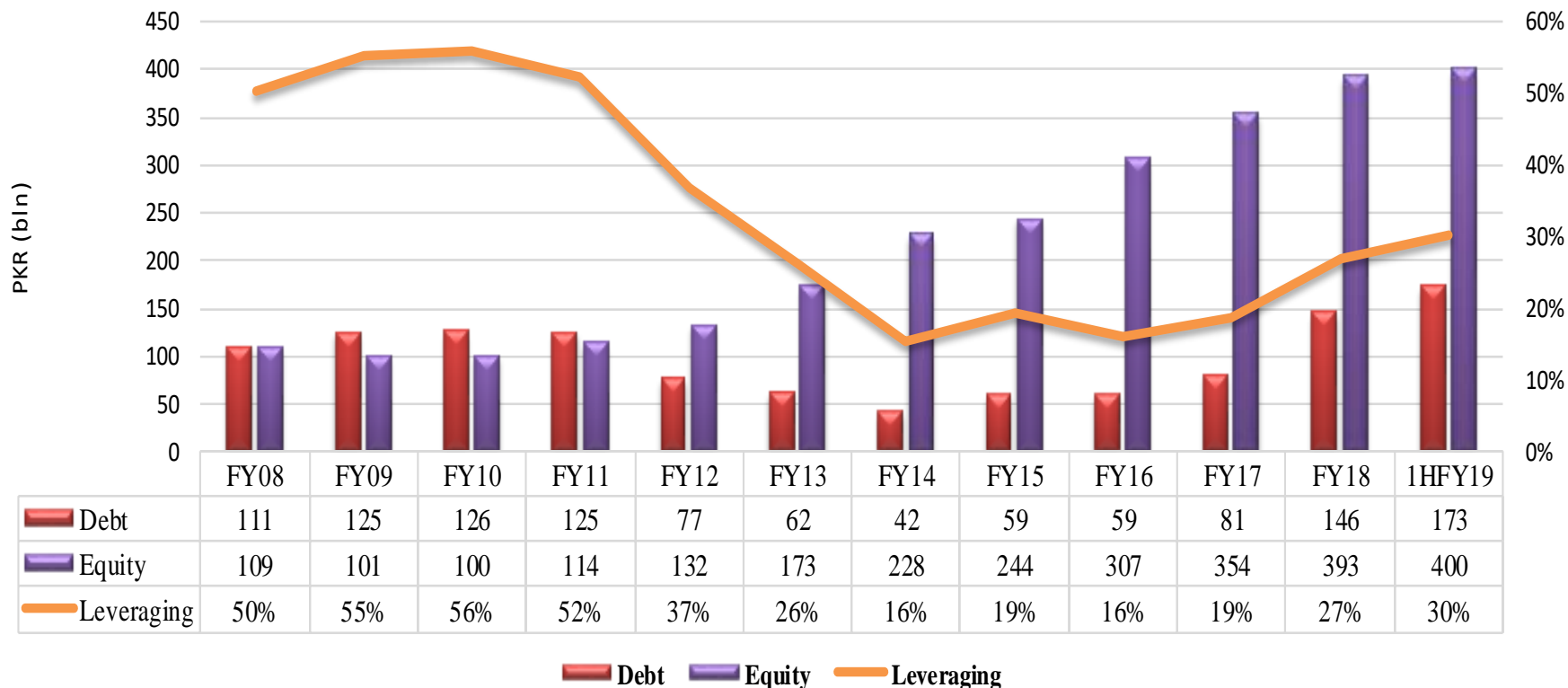
## Cement | Monthly Price Trend



- Cement prices in north and south region behave distinctly attributable to dynamics of each region
- North region’s average cement price had been fluctuating as region hosts cement players and 74% of country’s operational cement capacity. Greater competition leads to lower price than south
- South region’s average cement prices behaves maturely as sustainable price hikes are observed and followed by industry players

# Cement Industry | Capital Structure

## Cement Sector | Capital Structure



Analysis of last one decade reveals that cement industry's equity base have increased manifolds. Hence, leveraging in second phase of expansion (majority player's debt is loaded) is much lower than first phase (2008). Nevertheless, increased interest rate requires prudent management of financial affairs

# Cement Industry | Liquidity Profile

Sr. #	Cement Players	PKR mln						times	
		EBITDA		Total Debt		Payback			
		FY18	1HFY19	FY18	1HFY19	FY18	1HFY19		
1	Bestway	18,345	9,026	22,152	20,594	1.2	1.1		
2	Lucky	16,185	10,350	-	1,000	0.0	0.0		
3	DG Khan	9,064	4,017	32,277	37,049	3.6	4.6		
4	Fauji	5,972	3,580	2,702	1,174	0.5	0.2		
5	Askari	3,499	2,620	10,862	10,375	3.1	2.0		
6	Maple Leaf	7,805	3,169	19,397	23,018	2.5	3.6		
7	Attock	3,957	1,752	6,050	7,580	1.5	2.2		
8	Dewan	2,088	1,215	5,961	3,871	2.9	1.6		
9	Kohat	4,567	2,544	430	5,326	0.1	1.0		
10	Cherat	3,579	669	16,064	17,710	4.5	13.2		
11	Gharibwal	3,135	1,589	4,288	3,876	1.4	1.2		
12	Pioneer	3,131	1,332	10,889	18,952	3.5	7.1		
13	Flying	369	256	3,515	3,620	9.5	7.1		
14	Power	590	132	10,853	18,792	18.4	71.2		
15	Thatta	696	268	684	499	1.0	0.9		
16	Fecto	656	191	18	21	0.0	0.1		
17	Dandot	(404)	(158)	2,088	2,006	5.2	6.4		
	<b>Total</b>	<b>83,235</b>	<b>42,552</b>	<b>148,230</b>	<b>175,463</b>				

Total debt involves long term finance - related current maturity and short term borrowings acquired by companies. Going forward, improvement in retention prices, passing on impact of Rupee devaluation remains vital to strengthen liquidity profile.



# Cement Industry | Large Players Comparison

## Comparison Sheet - Large Players

Overall Market Share	Non-Rated				AA- (PACRA )				AA- (PACRA)				A+ (JCR)				A+ (PACRA)			
	Lucky   16.0%				Bestway   18.2%				DG Khan   13.1%				Attock   5.5%				Maple   6.2%			
	1HFY19	FY18	FY17	FY16	1HFY19	FY18	FY17	FY16	1HFY19	FY18	FY17	FY16	1HFY19	FY18	FY17	FY16	1HFY19	FY18	FY17	FY16
Current Capacity (mln tons)	-	8.7	7.38	7.38	-	8.3	8.3	5.9	-	4.2	4.2	4.2	-	3.0	1.7	1.7	-	3.4	3.4	3.4
Utilization	-	84%	93%	90%	-	97%	98%	70%	-	107%	107%	87%	-	86%	107%	108%	-	105%	98%	98%
Revenue	24,955	47,542	45,687	45,222	27,709	52,884	51,623	45,721	19,767	30,668	30,136	29,704	10,634	16,884	14,735	13,918	12,249	25,699	23,992	23,433
Operating Profit	5,490	13,870	18,573	18,632	7,909	15,265	18,569	17,507	2,225	7,217	10,314	11,146	1,247	3,483	4,569	4,230	2,019	5,556	7,586	8,176
EBITDA	10,350	16,185	19,784	21,224	9,026	18,345	21,640	20,776	3,884	9,064	11,758	12,770	1,752	3,957	4,907	4,441	3,169	7,805	9,574	10,042
Net Profit	5,501	12,197	13,692	12,944	6,881	13,158	13,293	11,880	1,742	8,838	7,975	8,790	817	4,400	3,034	2,890	800	3,632	4,777	4,885
Operating Margin	22%	29%	41%	41%	29%	29%	36%	38%	11%	24%	34%	38%	12%	21%	31%	30%	17%	22%	32%	35%
EBITDA Margin	41%	34%	43%	47%	33%	35%	42%	45%	20%	30%	39%	43%	16%	23%	33%	32%	30%	40%	43%	
Total Debt	1,000	-	-	-	20,594	22,152	14,888	18,940	36,459	32,277	21,615	7,002	7,427	6,050	3,485	8	22,581	19,397	6,723	2,999
Long Term		-	-	-	8,414	10,000	10,000	16,500	22,069	20,067	13,044	3,551	2,825	3,438	1,504	8	17,628	14,036	3,584	1,574
Short Term	1,000	-	-	-	12,180	12,152	4,888	2,440	14,389	12,210	8,571	3,451	4,602	2,613	1,981	-	4,953	5,360	3,138	1,425
Equity	89,271	86,367	79,785	69,323	57,193	53,310	47,769	41,983	74,480	77,134	74,869	65,783	14,773	14,873	11,948	10,447	30,118	29,911	23,708	21,337
Leveraging	1%	0%	0%	0%	26%	29%	24%	31%	33%	30%	22%	10%	34%	29%	23%	0%	43%	39%	22%	12%



# Cement Industry | Medium Players Comparison

## Comparison Sheet - Medium Players

Market Share	A+ (JCR)			A+ (PACRA)			A (PACRA)			A (PACRA)			A (PACRA)			A (PACRA)		
	Attock   5.5%			Maple   6.2%			Kohat   4.9%			Cherat   4.5%			Askari   4.9%			Pioneer   3.7%		
	1HFY19	FY18	FY17	1HFY19	FY18	FY17	1HFY19	FY18	FY17	1HFY19	FY18	FY17	1HFY19	FY18	FY17	1HFY19	FY18	FY17
Current Capacity (mln tons)	-	2.9	1.7	-	3.4	3.3	-	2.7	2.7	-	2.3	2.3	-	2.6	2.6	-	2.0	2.0
Utilization	-	86%	107%	-	105%	99%	-	72%	73%	-	97%	66%	-	82%	87%	-	78%	78%
Revenue	16,634	16,884	14,735	12,249	25,699	23,992	8,392	13,439	13,540	7,033	14,388	9,645	8,186	14,752	15,953	5,057	10,121	10,631
Operating Profit	1,247	3,483	4,569	2,019	5,556	7,586	2,206	4,025	5,535	956	2,557	2,708	1,677	2,521	4,588	1,035	2,546	4,250
EBITDA	1,752	3,957	4,907	3,169	7,805	9,574	2,544	4,567	6,033	1,500	3,579	3,349	2,620	3,499	5,534	1,332	3,131	4,769
Net Profit	817	4,400	3,034	800	3,632	4,777	1,527	2,980	3,545	1,027	2,132	1,957	1,350	1,720	2,694	527	1,644	2,918
Operating Margin	7%	21%	31%	16%	22%	32%	26%	30%	41%	14%	18%	28%	20%	17%	29%	20%	25%	40%
EBITDA Margin	11%	23%	33%	26%	30%	40%	30%	34%	45%	21%	25%	35%	32%	24%	35%	26%	31%	45%
Total Debt	7,580	6,050	3,485	23,018	19,397	6,723	5,326	430	917	19,323	16,064	6,401	10,143	10,862	8,185	18,952	10,889	2,307
Long Term	2,978	3,438	1,504	18,065	14,036	3,584	5,083	430	717	17,400	15,100	4,901	7,641	8,007	5,097	14,377	8,449	1,500
Short Term	4,602	2,613	1,981	4,953	5,360	3,138	243	-	200	1,923	964	1,500	2,502	2,855	3,088	4,575	2,440	807
Equity	14,773	14,873	11,948	30,118	29,911	23,708	18,731	17,977	15,306	11,617	11,174	10,462	17,493	16,153	11,660	13,231	13,629	12,248
Leveraging	34%	29%	23%	43%	39%	22%	22%	2%	6%	62%	59%	38%	37%	40%	41%	59%	44%	16%

Source: [Company's financial Statements](#)

# Cement Industry | Small Players Comparison

## Comparison Sheet - Small Players

Overall Market Share	Non Rated			A- (VIS)			A- (VIS)			A- (PACRA)			A- (PACRA)		
	Flying			Power   1.7%			Thatta   0.9%			Fecto   1.5%			Gharibwal   3.9%		
	1HFY19	FY18	FY17	1HFY19	FY18	FY17	1HFY19	FY18	FY17	1HFY19	FY18	FY17	1HFY19	FY18	FY17
Current Capacity (mln tons)	1.1	1.1	1.1	0.9	0.9	0.9	0.5	0.5	0.5	0.8	0.8	0.8	2.0	2.0	2.0
Utilization	-	76%	60%	-	73%	54%	-	80%	101%	-	90%	95%	-	82%	85%
Revenue	1,791	2,910	2,470	2,018	4,343	4,481	1,993	2,843	3,657	2,484	4,903	5,131	5,506	11,484	11,223
Operating Profit	166	203	158	62	428	798	197	563	914	120	536	1,143	1,155	2,303	3,506
EBITDA	256	369	303	132	590	953	268	696	1,073	191	656	1,204	1,589	3,135	4,044
Net Profit	78	182	161	29	320	467	119	357	582	105	442	761	593	1,510	2,284
Operating Margin	9%	7%	6%	3%	10%	18%	10%	20%	25%	5%	11%	22%	21%	20%	31%
EBITDA Margin	14%	13%	12%	7%	14%	21%	13%	24%	29%	8%	13%	23%	29%	27%	36%
Total Debt	3,620	3,516	1,145	18,792	10,853	1,707	499	684	746	21	18	-	3,876	4,338	4,506
Long Term	2,944	2,810	1,064	15,342	9,820	599	211	320	552	21	18	-	3,634	4,038	4,506
Short Term	675	706	81	3,450	1,034	1,108	288	364	194	-	-	-	242	300	-
Equity	3,996	3,919	3,737	11,328	11,299	8,394	2,532	2,557	2,441	4,215	4,210	3,894	12,483	12,491	11,381
Leveraging	48%	47%	23%	62%	49%	17%	16%	21%	23%	0%	0%	0%	24%	26%	28%

Short to Medium term outlook: **Negative**

Factors for outlook:

- Slow down in large infrastructural projects
- Industry players achieving major capacity expansions in upcoming months – especially in north region – which amid low demand may result in supply glut in upcoming year
- Trend in cement prices across north region; historically unsustainable in period of expansions coming online (recently prices have come down despite increase in cost)
- Hike in interest rate is burdening profitability of industry players

<b>Rating Team</b>	<b><i>Unit Head - Ratings</i></b> <b>Jhangeer Hanif</b> jhangeer@pacra.com	<b><i>Supervisory Senior</i></b> <b>Sehar Fatima</b> sehar.fatima@pacra.com
<b>Contact Number: +92 42 3586 9504</b>		

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