

CEMENT SECTOR – AN OVERVIEW



November 2018

CEMENT INDUSTRY | INDUSTRY STRUCTURE

- ❑ Pakistan's cement industry is divided into two regions i.e. North and South

Geographical Capacity Division		
North	39	73%
South	15	27%
Total	54	100%

- ❑ Out of current operational cement capacity of 54.2mln tpa, north region secures 39mln tpa while rest lies in south
- ❑ Cement plants are usually established in areas where raw material (limestone reserves) is readily available
- ❑ Majority cement players are backed by strong sponsoring groups

CEMENT INDUSTRY | EXISTING MARKET SHARE

Groups	Companies	Cement Market Players	Sponsors	Operational Capacity	Total	Market Share
1	1	Bestway Cement Limited - Hattar	Bestway Group Sir Anwar Pervaiz	1,228,500	9,852,750	18.2%
		Bestway Cement Limited - Chakwal		3,600,000		
		Bestway Cement Limited - Farooqia		2,976,750		
		Bestway Cement Limited - Kalar Kahar		2,047,500		
2	2	Lucky Cement Limited - Pezu	Yunus Brothers Group Tabbas	3,786,000	8,686,000	16.0%
		Lucky Cement Limited - Indus Highway, Karachi		4,900,000		
3	3	D.G.Khan Cement Limited - D.G.Khan	Nishat Group Mian Mansha	2,110,500	7,119,000	13.1%
		D.G.Khan Cement Limited - Chakwal		2,110,500		
		D.G.Khan Cement Limited - Hub		2,898,000		
4	4	Fauji Cement Company Limited - Fateh Jang	Fauji Foundation Group	3,433,500	6,111,000	11.3%
	5	Askari Cement Limited - Wah		1,102,500		
		Askari Cement Limited - Nizampur		1,575,000		
5	6	Maple Leaf Cement Factory Limited - Daudkhel	Kohinoor Maple Leaf Group	3,370,500	3,370,500	6.2%
6	7	Attock Cement Pakistan - Hub Chowki, Lasbela	Pharaon Group	2,995,500	2,995,500	5.5%
7	8	Dewan Hattar Cement Limited - Hattar	Yousuf Deewan Companies	1,134,000	2,898,000	5.3%
		Dewan Cement Limited - Dhabeji		1,764,000		
8	9	Kohat Cement Company Limited - Kohat	Aizaz Sheikh and Family	2,677,500	2,677,500	4.9%
9	10	Cherat Cement Company Limited-Nowshera	Ghulam Faruque Group	2,425,500	2,425,500	4.5%
10	11	Gharibwal Cement Limited - Jehlum	Gharibwal Group Tousif Peracha	2,110,500	2,110,500	3.9%
11	12	Pioneer Cement Limited - Khushab	Mega Conglomerate Habibullah Khan	2,030,250	2,030,250	3.7%
12	13	Flying Cement Limited - Lilla	Flying Group of Industries	1,197,000	1,197,000	2.2%
13	14	Power Cement Limited - Nooriabad, Dadu	Arif Habib Group	945,000	1,433,250	2.6%
	15	Thatta Cement Limited - Thatta		488,250		
14	16	Fecto Cement Limited - Sangjani	Fecto Group Ghulam M. Fecto	819,000	819,000	1.5%
15	17	Dandot Cement Limited - Jehlum	Three Star Group Syed Akbar Group and Others	504,000	504,000	0.9%
Total				54,229,750	54,229,750	100.0%

North Plants & Capacities

South Plants & Capacities

Source: https://www.apcma.com/data_productioncapacity.html

CEMENT INDUSTRY | RATED UNIVERSE

Sr#	Rated Universe	PACRA	JCR-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)		61%	13%
Total Rated capacity		74%	

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

❑ 61% of operational cement capacity is being rated by PACRA while 13% by JCR-VIS

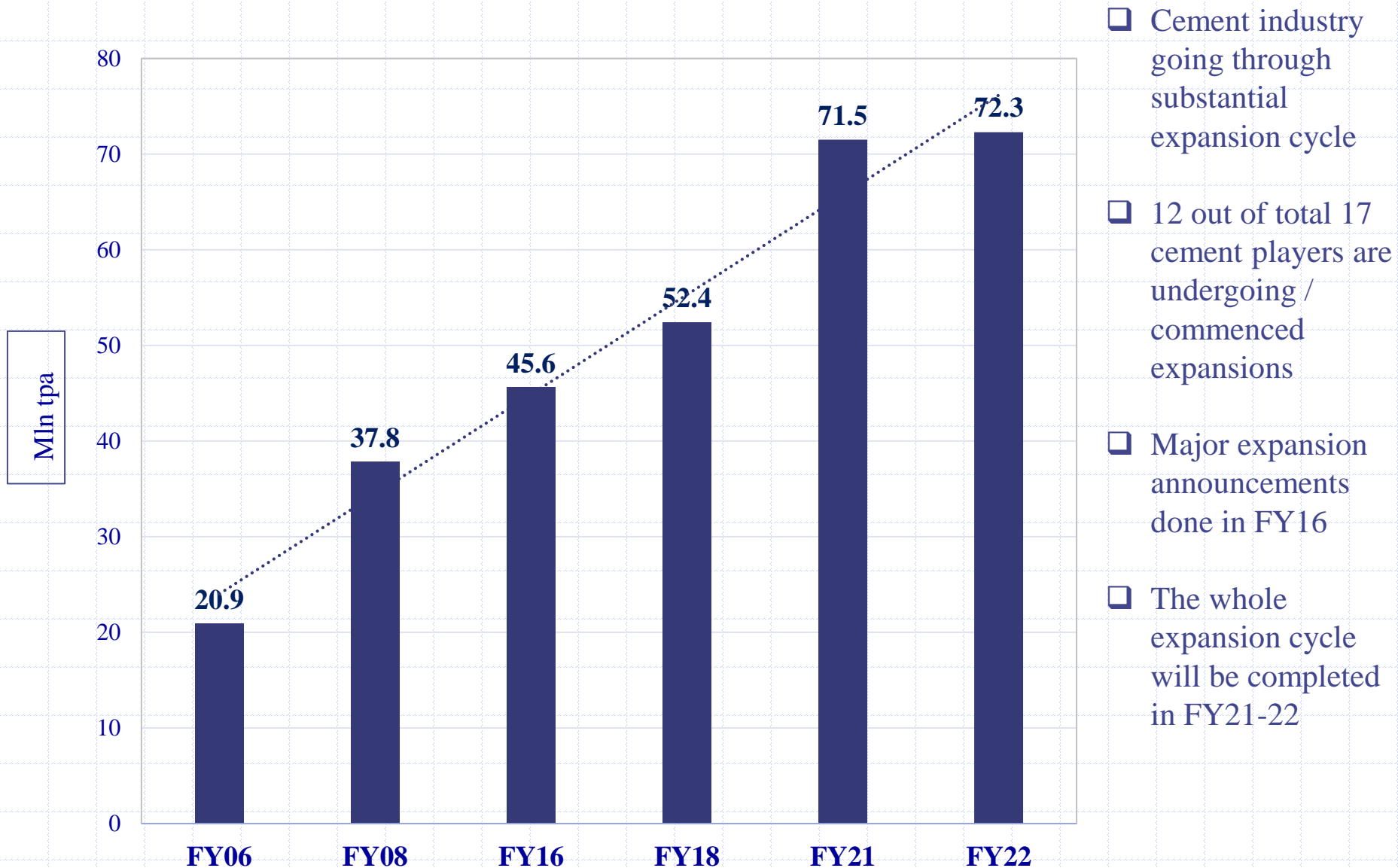
❑ Total rated cement capacity equates to 74%

❑ Bestway and DG Khan Cement secures highest rating within industry

❑ Greater concentration lies within single 'A' category

❑ Five Cement players are unrated

CEMENT INDUSTRY | EXPANSION PHASES



CEMENT INDUSTRY | UPCOMING EXPANSIONS

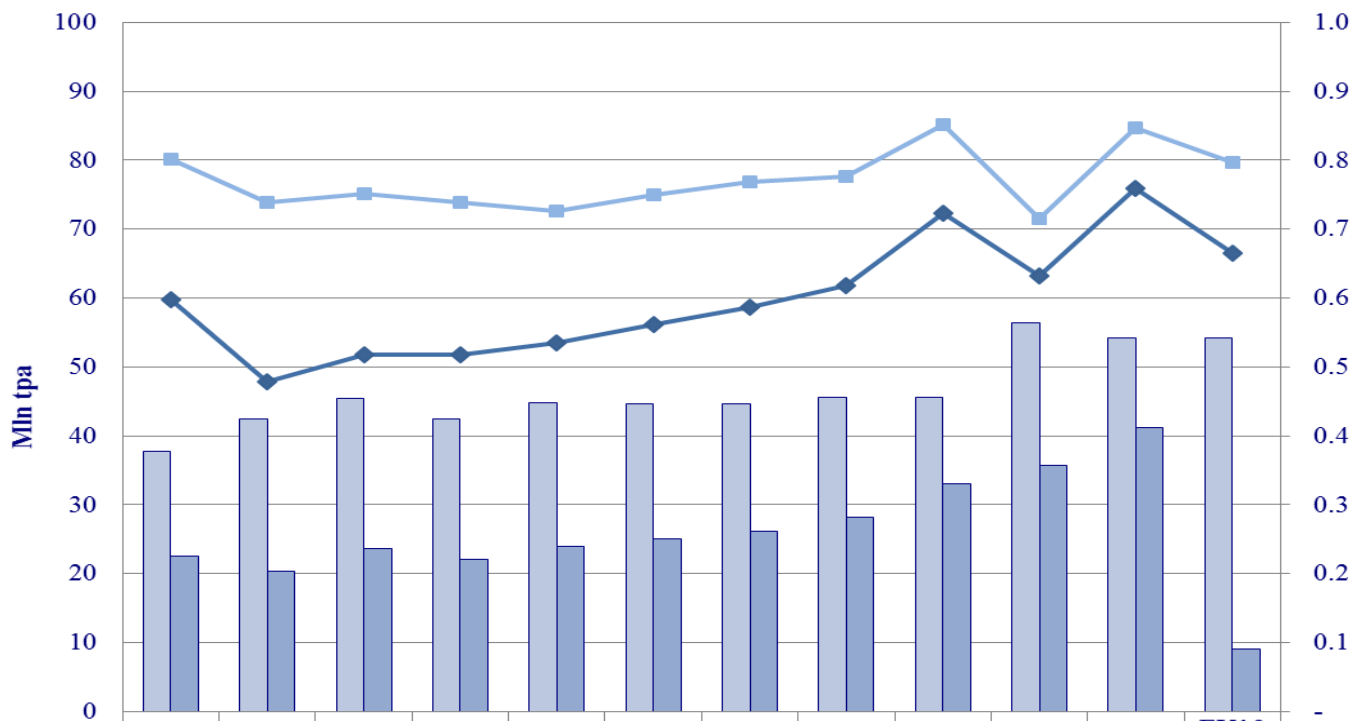
Mln tpa

Sr. #	Companies	Announced Expansion	North	South	FY18	FY19	FY20	FY21	Total	Market Share
1	Bestway Cement Limited	1.9	1.9	-	1.9	1.9	-	-	9.9	13.8%
2	Lucky Cement Limited	3.9	2.6	1.3	1.3	1.3	2.6	2.6	11.3	15.8%
3	D.G.Khan Cement Limited	5.1	2.2	2.9	-	2.9	-	-	7.1	9.9%
4	Maple Leaf Cement Factory Limited	2.2	2.2	-	-	2.2	2.2	-	5.6	7.8%
5	Kohat Cement Company Limited	2.3	2.3	-	-	-	2.3	-	5.0	7.0%
6	Gharibwal Cement Limited	1.0	1.0	-	-	-	-	-	2.1	2.9%
7	Pioneer Cement Limited	2.2	2.2	-	-	-	2.2	-	4.2	5.9%
8	Cherat Cement Company Limited	2.4	2.4	-	1.2	2.4	2.4	-	4.9	6.9%
9	Attock Cement Pakistan Limited	1.1	-	1.1	1.1	1.1	-	-	3.0	4.2%
10	Power Cement Limited	2.5	-	2.5	-	2.5	2.5	-	3.0	4.2%
11	Flying Cement Limited	1.2	-	1.2	-	-	1.2	-	2.4	3.4%
12	Fecto Cement Limited	1.9	1.9	-	-	-	-	1.9	2.7	3.8%
13	Dewan Cement Limited	-	-	-	-	-	-	-	2.9	4.1%
14	Fauji Cement Limited	-	-	-	-	-	-	-	3.4	4.8%
15	Askari Cement Limited	-	-	-	-	-	-	-	2.7	3.8%
16	Dandot Cement Limited	-	-	-	-	-	-	-	0.5	0.7%
17	Thatta Cement Limited	-	-	-	-	-	-	-	0.5	0.7%
Total Upcoming Expansion		27.7	18.7	9.0	5.5	14.3	15.4	4.5	71.5	100%
Total Capacities					54.2	61.3	69.6	71.5		

Partial operations of new line
Full year operations of new line
Construction at halt

❑ DG Khan Cement lately commenced its green field expansion at Hub Site while all others (planned and undergoing) are brown-field expansions

Cement Industry | Production and Consumption Trend



**Projected*

Production Capacity	37.8	42.4	45.5	42.5	44.8	44.6	44.6	45.6	45.6	56.4	54.2	54.2
Local Despatches	22.6	20.3	23.6	22.0	23.9	25.1	26.1	28.2	33.0	35.7	41.2	9.0
Total Despatches	30.3	31.3	34.2	31.4	32.5	33.4	34.3	35.4	38.9	40.3	45.9	10.8
Capacity Utilization Local (RHS)	60%	48%	52%	52%	53%	56%	59%	62%	72%	63%	76%	67%
Capacity Utilization Total (RHS)	80%	74%	75%	74%	73%	75%	77%	78%	85%	72%	85%	80%

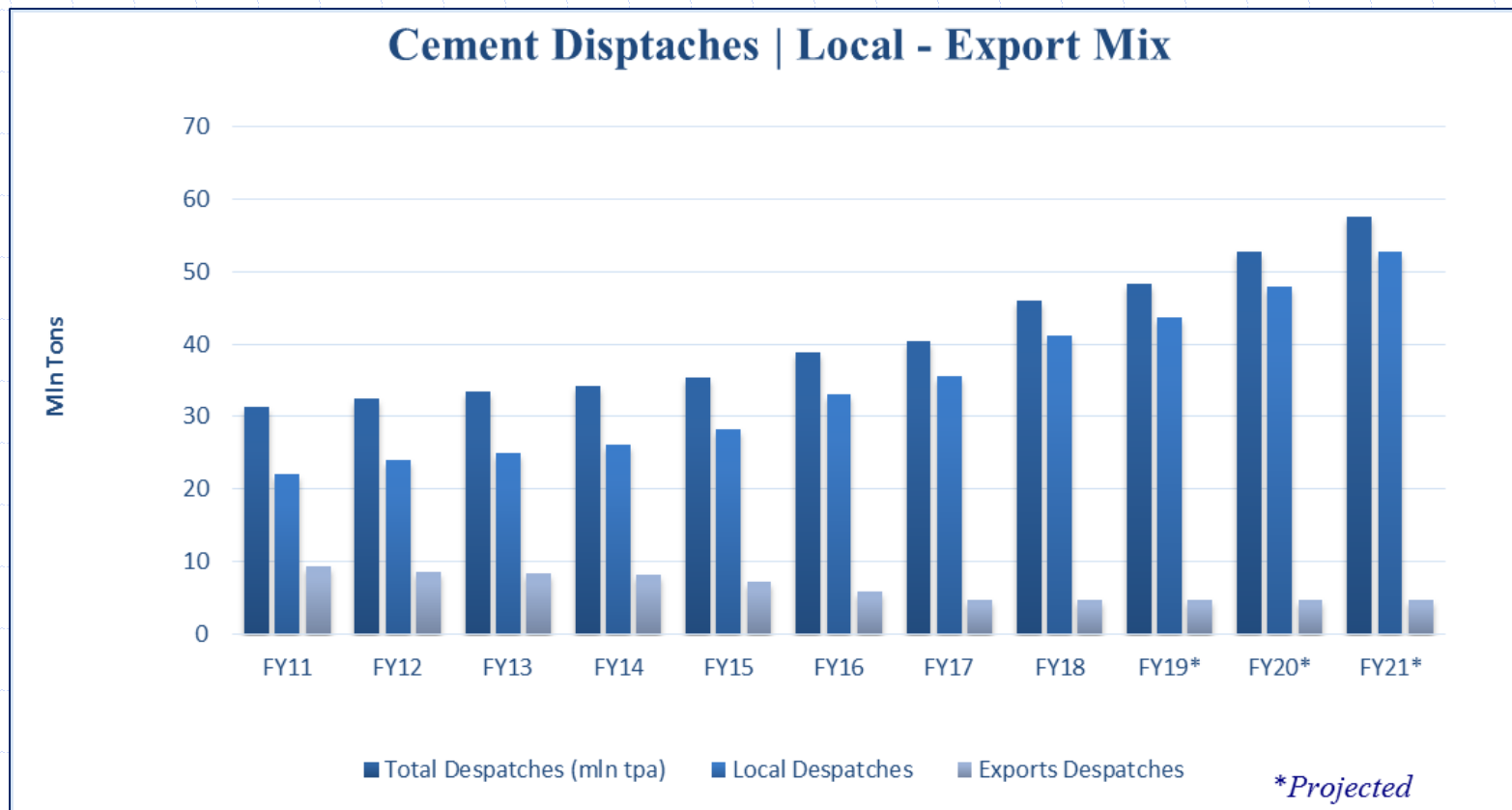
YoY Growth in Local Despatches |Actual & Assumed

FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	1QFY19
7%	-10%	16%	-7%	9%	5%	4%	8%	17%	8%	15%	4%

Cement Industry | Production and Consumption Trend

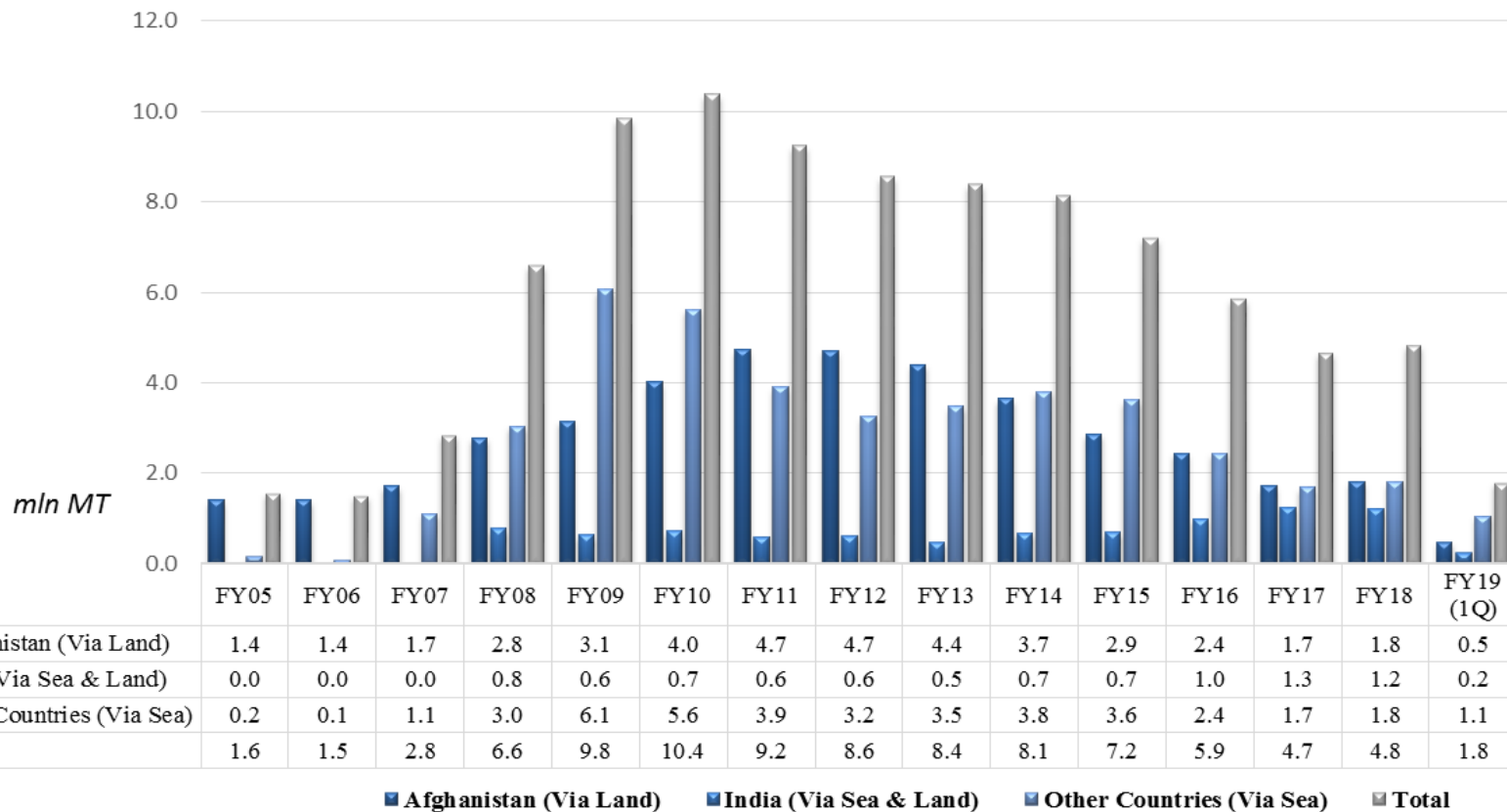
- ❑ Cement industry's capacity enhanced by cumulative 43% (16.4mln tons per annum) in last one decade
- ❑ In recent years, local dispatches gained momentum driven by greater PSDP spending, housing schemes and CPEC related activities
- ❑ During FY18, total dispatches witnessed ~14% YoY growth while 1QFY19 recorded growth in total dispatches of 4.4% YoY
- ❑ Cement demand is expected to pick up pace in 2HFY19 driven by release of PSDP funds 2018-19 of PKR 110.6bln (against total budgeted allocation of PKR 675bln) and establishment of Pakistan Housing Authority on priority basis

Cement Industry | Local – Export Mix



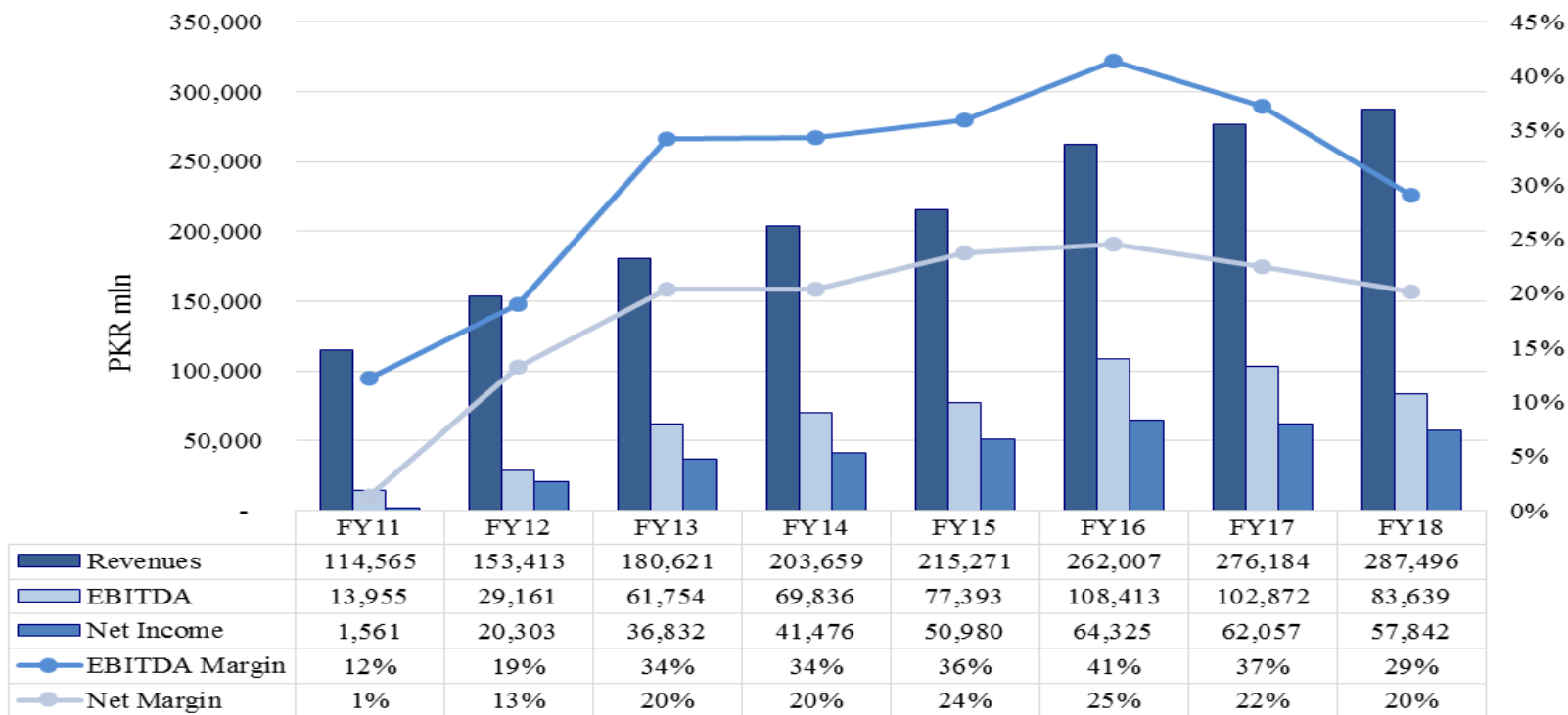
- ❑ In recent years, dispatches were channeled to local market as demand picked pace

Cement Industry | Historical Export Analysis



- ❑ Highest exports, in last one decade, were recorded in FY10 of 10.4mln tpa as expanded capacity was channeled through sea to South Africa due to suppressed local demand
- ❑ Lately, cement players are exporting to Bangladesh

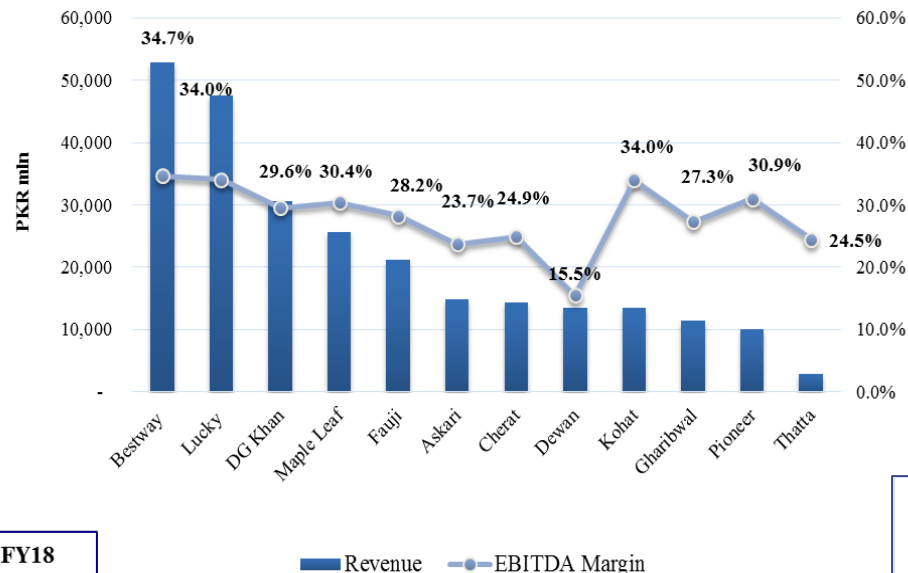
Cement Industry | Performance Trend



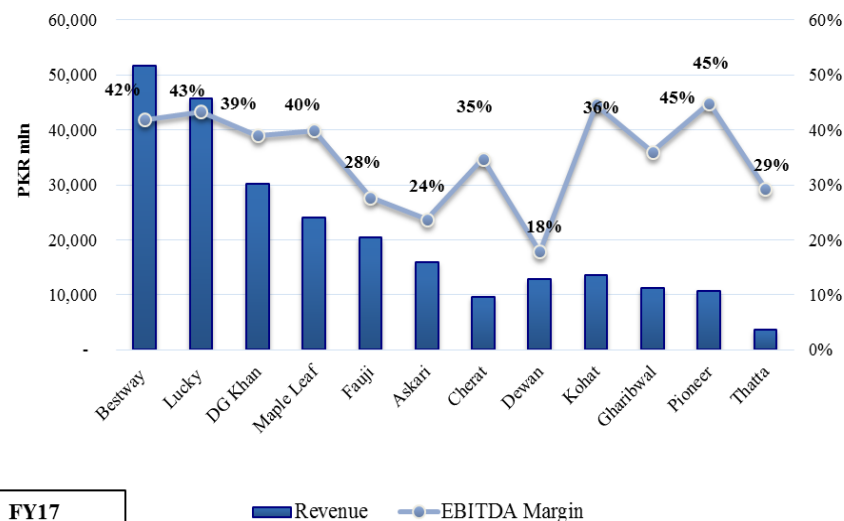
- Industry's EBITDA margin continued declining trend after touching highest level (above 40%) in FY16

Cement Industry | EBITDA Margin

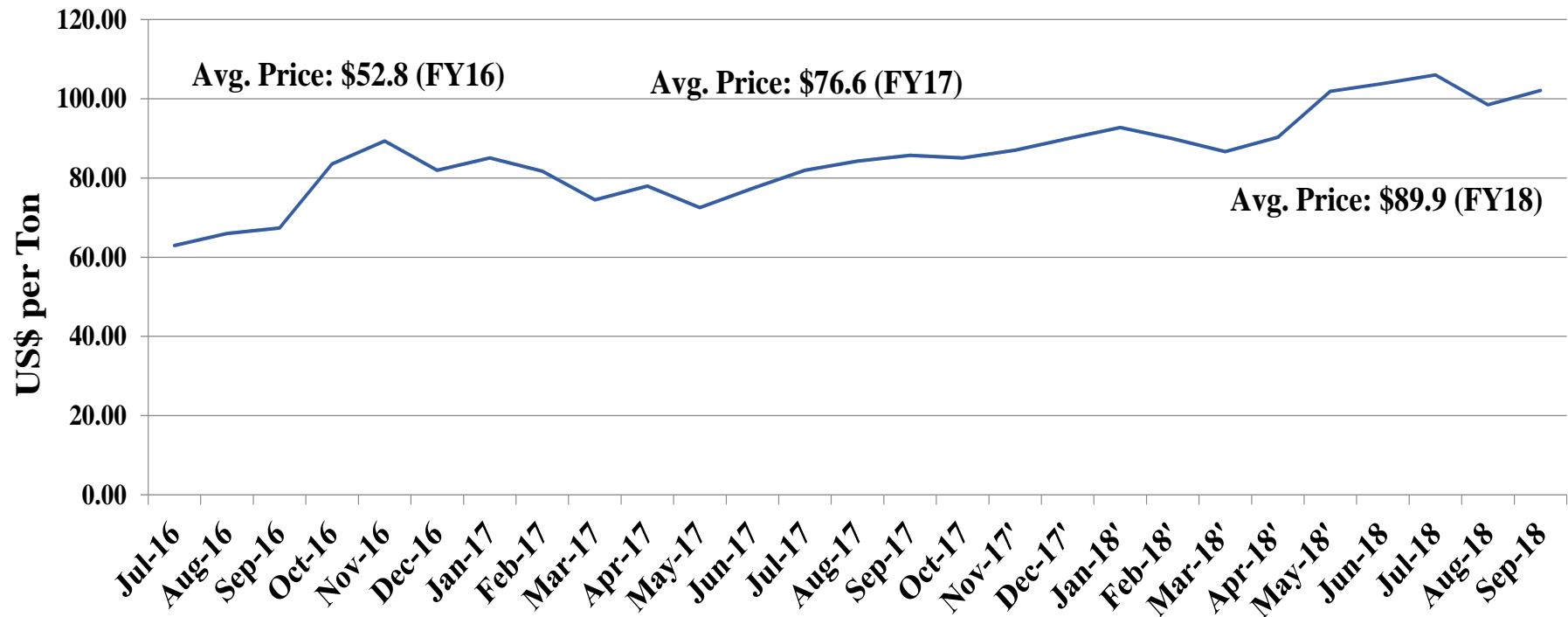
□ Highest EBITDA secured by Bestway Cement and Lucky Cement of ~35% and 34% respectively



□ Continuous decline in cement players' EBITDA margins on account of fluctuation of cement prices, increase in Federal Exise Duty and hike in international coal price

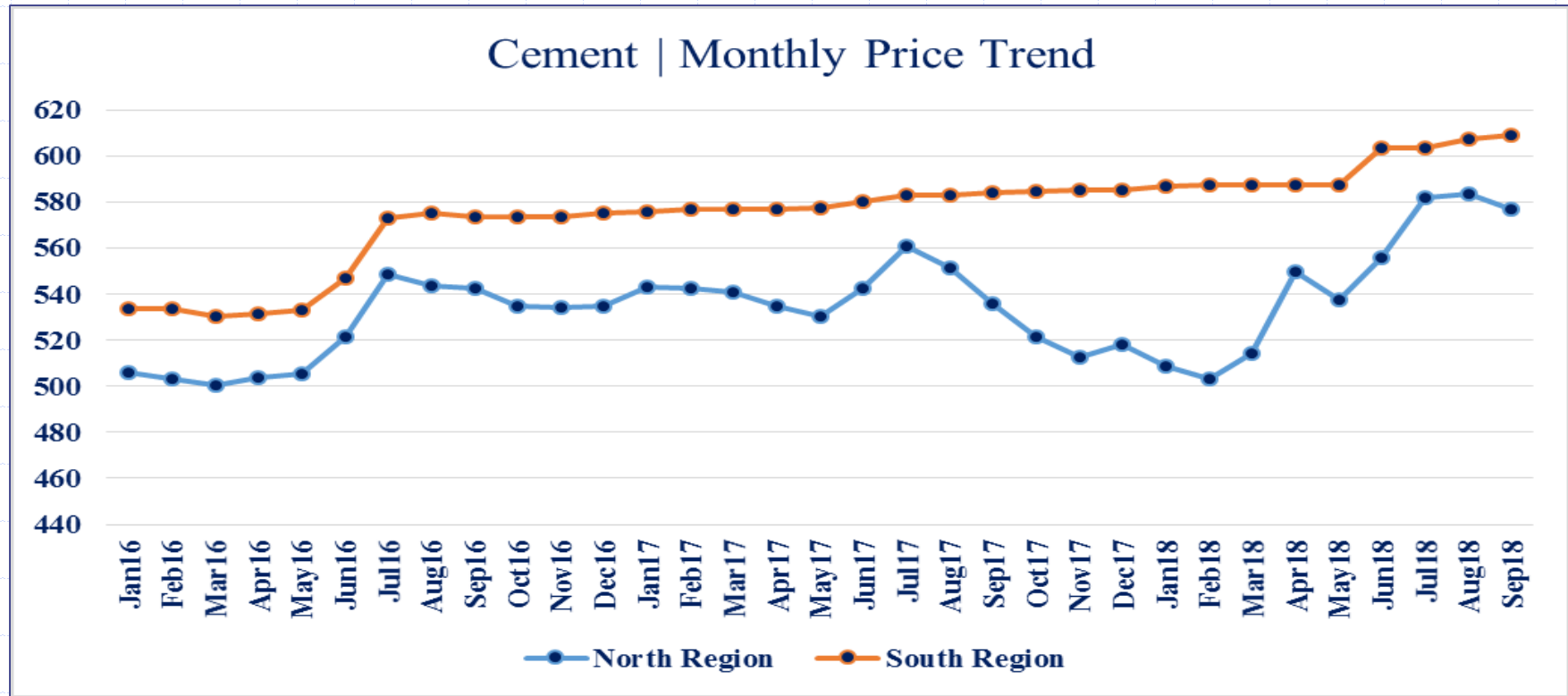


Cement Industry | Coal Price Trend



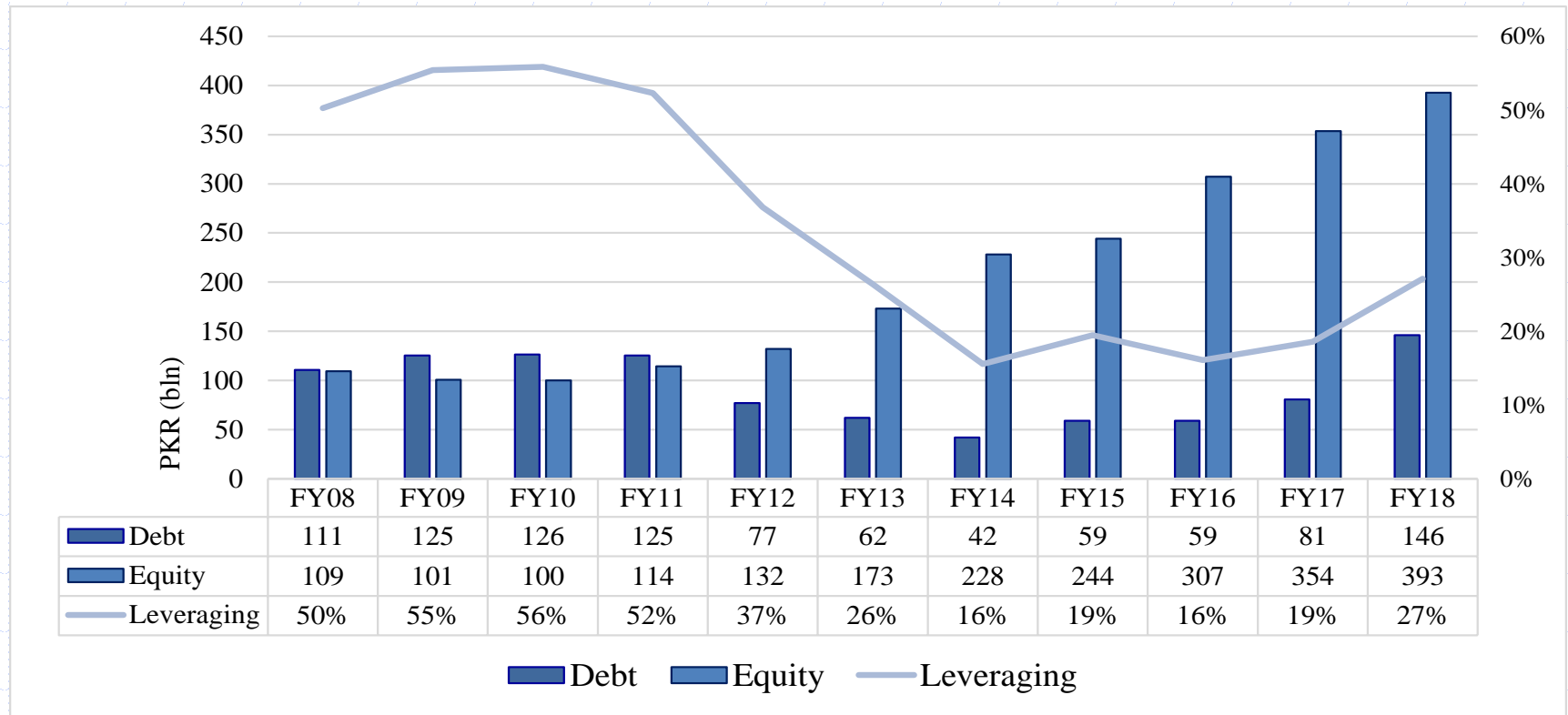
Tenure	Price per MT
Jul-18	106.0
Aug-18	98.4
Sep-18	102.1

Cement Industry | Cement Price Trend



- ☐ Cement Price – North region – witnessed high level of instability on account of supply glut and non-existence of consensus amongst north players
- ☐ Cement Price – South region – smooth sail as there are only two major players
- ☐ Last price war incurred in FY08-09, when debt driven expansions were underway and demand didn't arise as expected

Cement Industry | Capital Structure



- ❑ During expansion cycle of FY-08, cement industry's was highly leveraged which resulted in defaults of some cement players.
- ❑ Currently, cement industry is only 27% leveraged – even after acquiring maximum debt
- ❑ Equity base has augmented since many last years

Cement Industry | Total Debt/EBITDA

PKR mln

	EBITDA			Total Debt			Total Debt/EBITDA		
Cement Players	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
Bestway	20,776	21,640	18,345	18,940	14,888	22,152	0.91	0.69	1.21
Lucky	21,224	19,784	16,185	-	-	-	0.00	0.00	0.00
DG Khan	12,770	11,758	9,064	7,002	21,615	32,277	0.55	1.84	3.56
Fauji	10,137	5,655	5,972	4,090	1,802	2,702	0.40	0.32	0.45
Askari	5,731	5,534	3,499	7,385	8,185	10,862	1.29	1.48	3.10
Maple Leaf	10,042	9,574	7,805	2,999	6,723	19,397	0.30	0.70	2.49
Attock	4,441	4,907	3,957	8	3,585	6,050	0.00	0.73	1.53
Dewan	2,390	2,293	2,088	3,076	6,060	5,961	1.29	2.64	2.85
Kohat	6,638	6,033	4,567	1,593	917	430	0.24	0.15	0.09
Cherat	2,350	3,349	3,579	4,231	6,401	16,064	1.80	1.91	4.49
Gharibwal	4,305	4,044	3,135	4,029	4,506	4,288	0.94	1.11	1.37
Pioneer	4,314	4,769	3,131	645	2,354	10,889	0.15	0.49	3.48
Flying	290	303	369	475	1,145	3,515	1.63	3.78	9.52
Power	849	953	590	3,143	1,707	10,853	3.70	1.79	18.40
Thatta	867	1,073	696	1,283	746	684	1.48	0.70	0.98
Fecto	1,289	1,204	656	-	-	18	0.00	0.00	0.03
Dandot	(2,344)	(211)	(211)	3,099	3,210	3,210	-1.32	-15.18	-15.18
Total	106,069	102,660	83,427	61,997	83,842	149,352	0.58	0.82	1.79

Cement Industry | Duty Structure

- Regulatory Duty on Cement Imports: 20%
- Sales tax on Cement Retail Price: 17%
- Federal Excise Duty on Cement Retail Price PKR 1,250 per ton

Cement Industry | Sector Outlook

- ❑ Slowdown in economic activity is expected | *Dampening growth rate of cement off take.*
- ❑ Expanded Capacity | *Majority lines coming in FY19 & FY20*
- ❑ Greater Input costs | *Coal prices surged globally*
- ❑ Duty Structure | *Increase in Federal Excise Duty and duty on coal import*
- ❑ Cement price fluctuation expectedly in the North
- ❑ Reduced profitability of the sector

Medium-term Outlook: Negative

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

DISCLAIMER

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. The information in this document may be copied or otherwise reproduced, in whole or in part, provided the source is duly acknowledged. The presentation should not be relied upon as professional advice.