



ASL cement universe Posted growth of 69% YoY



Date: 30th Sep'24

REP # 048

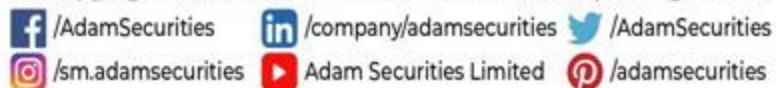


Adarsh Kumar

Email: Adarsh.kumar@adamsecurities.com.pk

Tel: +92-21-32440519 EXT: 117

© Copyright 2022, Adam Securities Limited | All rights reserved



Room# 806-814, 8th Floor,
Main Pakistan Stock Exchange Building,
Stock Exchange Road, Karachi.

info@adamsecurities.com.pk
adamsecurities145@yahoo.com
sm.adamsecurities@gmail.com

+9221 32444315-16, 32420909,
32413580, 32437380



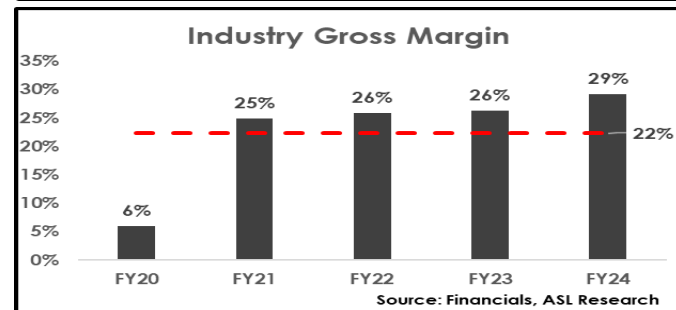
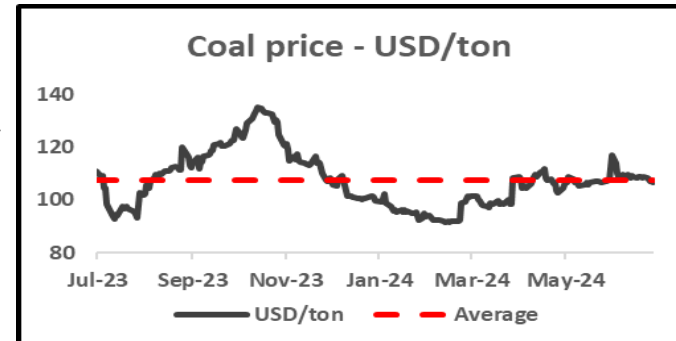
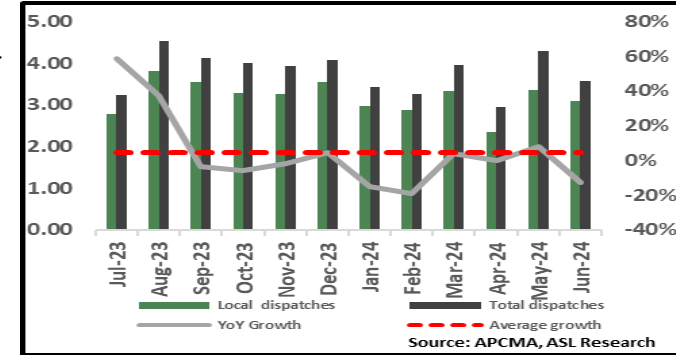
Cement sector gross margin improved to 29% in FY24

REP # 048

- In FY24, Pakistan cement dispatches posted growth of 2%, mainly due to exports. In said period, exports dispatches up by 56% YoY. Whereas, local demand for cement witnessed decline of 5% YoY.
- The elevated borrowing cost has led to decline in construction activities thus leading to reduced local demand for dispatches. Double-digit policy rate since April'22 has deterred both private and public sector investment. This has compounded by the Govt's reduced spending of PSDP. To control the budget deficit due to elevated borrowing cost, the gov't has been forced to reduce spending. This has resulted in sustained decline in consumption over the past three years.
- In FY24, industry's gross margin (includes 11 companies) increased by 295bps to 29%, compared to 26% in same period of last year. This was mainly due to largely stable international coal prices, shift from international coal to local coal and Afghan coal and diversification in power generation sources.

Future Outlook

- In 2MFY25, local and export sales have declined by 21% and 1% compared to SPLY. respectively. We expect that in FY25, local sales to remain flat compared to same period to last year. This is amid expectations of elevated construction cost, high cement price, measures of tax enforcement on property movement and to reduce spendings as of IMF demand, government is likely to less spend on PSDP projects. However, declining steel price and construction scheme of Punjab govt (Apni Chhat, Apna Ghar) may provide some support to local demand.
- Overall gross margin of industry will improve mainly due to stable coal prices in FY25 and shifting from costly energy sources to solar and local coal.



ASL cement universe stocks are trading at attractive P/E

REP # 048

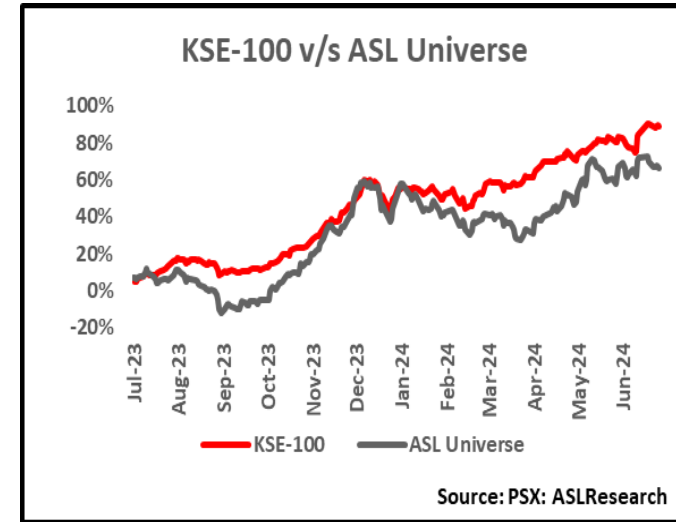
- In FY24, ASL universal stocks, (DGKC, MLCF, FCCL) collectively reported a net profit of Rs.14bn, which represents a substantial increase of 69% YoY, compared to the Rs.8bn earned in FY23. The significant increase in earnings can be primarily attributed to the reversal of loss of Rs.3.64bn incurred by DGKC in FY23. When excluding the impact of DGKC's earnings, net income witnessed growth of 13%. Topline, posted growth of 9% YoY on back of high retention prices.
- In FY24, gross profit increased by 223bps to 27%, compared to 25% but it is till lower than industry average of (including 11 listed companies) of 29%.
- During the period, profit margin of ASL universe stocks improved to 7%, when compared to 4% in FY23. Increase in margins was driven by high cement prices, stable coal price, shift from costly source of energy and increase in other income of 34% YoY, resulted in improved margins. In FY24, operating cost increased by 34% YoY, due to implementation of axle load restriction, while financial cost increased by 38% YoY basis, due to high borrowing rate.

ASL Universe	FY22	FY23	FY24	YoY
Rs mn				
Sales	160,807	195,128	212,517	9%
Cost of sales	123,704	146,981	155,344	6%
Gross Margin	37,103	48,148	57,173	19%
Operating cost	6,794	11,916	15,941	34%
Other income	3,747	3,830	5,131	34%
Financial cost	6,514	12,611	17,376	38%
Profit before taxation	24,730	25,301	27,080	7%
PAT	13,710	8,295	14,038	69%

Source: Financials, ASL Research

Future Outlook

- We maintain our buy stance ASL universe picks, including DGKC, FCCL & MLCF, with Jun'25 target price of Rs.113, Rs.31.8 7 Rs.56.45, respectively.
- MLCF, DGKC and FCCL are trading at attractive forward P/E of 4.1x 6.8x and 5.6x, compared to industry P/E of 8.77x, respectively.
- We expects earnings of these companies will improve on back of reduction in policy rate, stable coal prices, increase in export dispatches and cost saving measures.





Analyst Certification & Disclosures



The research analyst(s) primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report. Furthermore, it is stated that the research analyst or any of its close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company. Additionally, the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Price Methodology:

To arrive at our period end Target Price, Adam Securities Limited uses different valuation methods which include:
1) Discounted Cash flow method 2) SOTP method 3) Justified Price to Book Value method and 4) FCFE or FCFF method.

Company Specific Disclosures:

Adam Securities Limited may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their customers. Adam Securities Limited, their respective directors, officers, representatives, employees and/or related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise. Adam Securities Limited may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities.

Research Dissemination Policy:

Adam Securities Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Disclaimer:

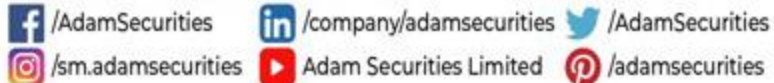
Adam Securities Limited has produced this report for private circulation only. The information and statistical data herein have been obtained from reliable sources to our knowledge where such information has not been independently verified and we make no representation or warranty as to its accuracy, completeness or correction. This report makes use of forward-looking statements that are based on assumptions made and information currently available to us and those are subject to certain risks and uncertainties that could cause the actual results to differ. This report is not a solicitation or any offer to buy or sell any of the securities mentioned herein. It is meant for information purposes only and does not take into account the particular investment objectives, financial situation or needs of individual recipients. Neither Adam Securities Limited nor any of its affiliates or any other person connected with the company accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein.

Rating System:

Adam Securities Limited employs a 3-tier rating mechanism i.e. Buy, Hold and Sell, which is based upon the level of expected return for a specific stock. Time horizon is usually the annual financial reporting period of the company. If total expected return exceeds or equals to 15.0%, a Buy rating is issued. If total expected return falls or equals to 10.0%, a sell rating is issued. If return is in between the two ranges, hold rating is assigned. Aforementioned ratings are subject to change on the basis of change in stock price, change in analyst's estimates, change in assessment of company's business risk or a combination of these factors.

Stance Criterion	
Buy	≥15.0%
Sell	≤10.0%
Hold	Between - 10.0% to 15.0%

© Copyright 2022, Adam Securities Limited | All rights reserved



Room# 806-814, 8th Floor,
Main Pakistan Stock Exchange Building,
Stock Exchange Road, Karachi.



info@adamsecurities.com.pk
adamsecurities145@yahoo.com
sm.adamsecurities@gmail.com



+9221 32444315-16, 32420909,
32413580, 32437380





ADAM SECURITIES LIMITED

Corporate Member of Pakistan Mercantile Exchange (PMEX) – Reg No. BRC – 017
TREC Holder Pakistan Stock Exchange Limited – TRE Certificate No. 145
SECP Broker License No. 145
Management Rating by VIS – BMR2+



DOWNLOAD AT
WWW.ADAMSECURITIES.COM.PK/DOWNLOADS



© Copyright 2022, Adam Securities Limited | All rights reserved



/AdamSecurities



/company/adamsecurities



/AdamSecurities



/sm.adamsecurities



Adam Securities Limited



/adamsecurities



Room# 806-814, 8th Floor,
Main Pakistan Stock Exchange Building,
Stock Exchange Road, Karachi.



info@adamsecurities.com.pk
adamsecurities145@yahoo.com
sm.adamsecurities@gmail.com



+9221 32444315-16, 32420909,
32413580, 32437380



سرمایہ کاری مسجد اری کے ساتھ
www.jamapunji.pk