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Growth rate projection & cement sector consumption
Cement sector has taken center stage with FCCL our best pick

Growth rate projection & cement sector consumption

The new finance minister has given a projection of 3% GDP growth target for FY21 after IMF projected a growth rate of 1.5%. We think Pakistan can grow somewhere around 3% during FY21.

However, IMF also praised Pakistan performance in its report , gave a 4% target in FY22.

We see this in the wake of infrastructure & housing projects in the country. Infrastructure development is directly proportional to increase in GDP. Government focused on ongoing projects in KPK & Southern Punjab where it won majority seats in assemblies. Hence we see increase in cement sector dispatches during FY21.

Pakistan	2020e	2021e	2022e	2023e	2024e	2025e
Population	208.6	212.5	216.5	220.5	224.7	228.9
GDP Growth	-0.4	1.5	4.0	4.5	5.0	5.0
GDP, USDbn	263	n/a	n/a	n/a	n/a	n/a
GDP/capita, USD	1 260	n/a	n/a	n/a	n/a	n/a
CPI	8.6	10.0	7.9	7.1	6.5	6.5
Budget balance	-8.0	-7.1	-5.5	-3.9	-3.9	-3.5
Interest exp / Budget Revs	42%	39%	34%	31%	29%	27%
Gross Debt / GDP	87.2	87.7	83.3	77.7	73.6	69.5
CA Balance / GDP	-1.1	-1.5	-1.8	-2.0	-2.4	-2.7

Source: IMF (WEO April 2021)

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Cement sector has taken center stage…| FCCL our top pick

Cement sector is poised to show 58mn ton cement production in the country in FY21. It was ~48mn in FY20. We see monthly production reaching ~5.3mn tons as per All Pakistan Cement Association (APCMA).

During 9MFY21, cement production recorded at 43.2mn tons showing 17% yearly growth as per APCMA.

Retention prices beefing up 2HFY21 earnings…

An increase in cement demand especially in Punjab & KPK is good, resulting in an increase in retail prices above Rs625/bag. It seems price increase is a supply demand phenomenon since previously government had been monitoring cement bag prices especially in northern zone with respect to inflation.

Now the retention prices have jumped by ~28% to 32% in 2HFY21 as per our price working. This is giving better profitability margins to cement companies.

We see jump in EPS forecast of all northern zone cement companies viz. FCCL, CHCC, PIOC, DGKC, MLCF etc. during FY21.

We recommend positive stance in cement sector with FCCL being best pick. FCCL yields FY21 EPS of Rs3.01/sh and cash yield of at least 8.3% (taking annual dividend of Rs2/sh).

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