

Southern cement plants to receive inland freight subsidy

The court has ruled in favour of south based cement companies, with regard to their earlier disqualification for the inland freight subsidy announced by the Government of Pakistan (GoP), at least till the final disposal of the case. All shipments made after March 29, 2010 would be eligible, allowing the companies situated in the southern region to avail the 35% inland freight subsidy for exports. The news flow has been confirmed by the Trade Development Authority of Pakistan (TDAP) and cement companies' officials.

To recall, the GoP had earlier implemented the inland freight subsidy on exports, of products excluding those originating a minimum 100km from the seaport. South-based cement plants have a share of 33% in total cement exports. With an approximate inland freight cost of Rs350 per ton (Rs17.5 per bag), the subsidy is expected to provide relief of Rs123 per ton or Rs6.1 per bag.

Two major beneficiaries of this decision are to be Lucky and Attock Cement. Following are the likely impact on the FY10 earnings for the aforementioned companies.

EPS impact on south cement plants

Rs/share

Lucky Cement	0.21
Attock Cement	0.12

Source: JS Research

Below is the earlier impact on Northern cement plants based on approximately Rs42-43 per bag cost incurred, for transporting cement to the seaport.

EPS Impact on north cement plants

(Rs/share)

Lucky Cement	0.15
DG Khan Cement	0.13
Lafarge Pakistan Cement	0.03
Maple Leaf Cement	0.19

Source: JS Research

Moreover, this should help generate better volumes as it will strengthen Pakistan's price competitiveness over other manufacturers, which in turn can provide an up tick to local cement prices as well

Currently we have a 'Buy' stance on DG Khan and an 'Accumulate' on Lucky Cement

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