

## Cements to benefit as inland freight subsidy to materialize

The Government of Pakistan has finally implemented the subsidy announced earlier in the Trade Policy 2009-10 on inland transportation of goods for exports. Cement, Light Engineering, Leather Garments, Furniture, Soda Ash, Hydrogen Peroxide, Caustic Soda and Sanitary companies would be the beneficiaries of the announced subsidy.

### Following are the key terms and conditions attached:

- Exports routed through Sea would be eligible
- Shipments made between the issuance of the Public Notice (March 26, 2010) and June 30, 2010 would be eligible for the subsidy
- Products originating a minimum 100km from the seaport would qualify
- The cement sector would be offered 35%, whereas all other sectors would be subsidized at 50%

As per our discussions with various cement companies, approximately Rs42-43 per bag cost is incurred at the Northern cement plants, for transporting cement to the seaport. Hence, we have arrived at the following positive impact on cement companies based on 3 months (April – June 2010). However, extension of the announced subsidy would bode further positive.

#### EPS Impact on cement companies

##### (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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