

August 03, 2009

Pakistan Market**Cement dispatches up 6%YoY; LUCK & DGKC shine**

KSE100 Index: Closing 7720.93 ↑ (+229.17)

MORNING BRIEFING

Cement sales in the first month of FY10 performed strongly, up 6%YoY. Exports sales were once again a reason to cheer for cement manufacturers as they were up 41%YoY; however local dispatches disappointed, down 10%YoY. DG Khan Cement (DGKC) and Lucky Cement (LUCK) both posted strong growth of 32% and 35% respectively and remain our preferred plays in the cement sector.

Dispatches up 6%YoY amid sturdy exports

Cement sales were up 6%YoY amid sturdy export sales performance. Export dispatches arrived at 1.1mn tons, up 41%YoY. However, local dispatches came in disappointed, down 10%YoY to 1.6mn tons on account of slower than expected economic recovery. Resultantly, total dispatches came in at 2.8mn tons. Moreover, on a month on month basis, total dispatches depicted a decline of 10% driven by 13% decline in local dispatches and 6% in exports.

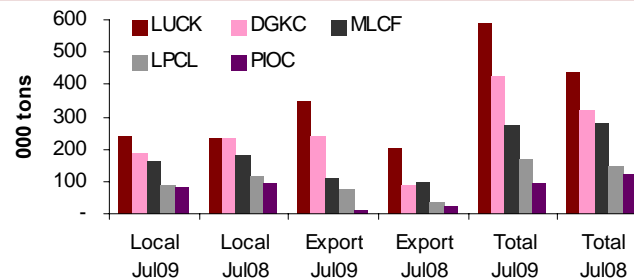
Table: July's cement dispatches (000 tons)

	Jul-09	Jul-08	Δ%	Jul-09	Jun-09	Δ%
Local	1,607	1,791	-10%	1,607	1,836	-13%
Export	1,146	813	41%	1,146	1,217	-6%
Total	2,753	2,604	6%	2,753	3,053	-10%

Source: APCMA

DGKC and LUCK clear outperformers

Lucky and DG Khan Cement led the way with overall volumetric sales growth of 35% and 32%YoY, respectively. Though DG Khan's local cement sales dropped by 20%, an astounding export growth of 171% covered up for its declining share in local sales. Lucky Cement depicted growth of 4% and 35% in its local and export sales. Lucky was the only company to post a positive year on year growth in local dispatches amongst our universe of cement stocks. Amongst other JS Universe scrips, Lafarge Cement's total dispatches depicted a growth of 9%YoY whereas sales of Maple and Pioneer Cement fell by 3% and 24% respectively.

Graph: Company-wise breakdown of July's cement sales

Source: APCMA

Outlook: 'Market-Weight' maintained

We remain optimistic on the sector's outlook with record PSDP allocation of Rs621bn and reduction in excise duty by Rs10 per bag which is expected to boost depressed local sales going forward. Furthermore, declining interest rate scenario will prove highly beneficial for the highly leveraged cement sector. However, materialization of PSDP and dam building announcements remain key triggers for cement manufacturers while decline in export prices remain a downside risk to our valuations. While maintaining 'Market-Weight' stance on the cement sector, we flag Lucky and DG Khan Cement as preferred plays trading at FY10F PE's of 5.0x and 7.9x respectively.

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Also in focus**M2 rises by 9.58% in FY09**

SBP has released M2 for FY09 and reported a growth of 9.58% (15.35% in FY08). Interestingly, Govt. budgetary borrowing from SBP rose by Rs131bn to Rs1,129bn, compared to the prescribed target of IMF of PRs1,167bn. Private to credit off take remained unimpressive for the full FY09 and came in at Rs18.9bn compared to Rs408bn reported last year. Clearly, the balance of interest rate risk is pointing a rate cut in the forth coming monetary policy. Our call remains intact at 150bp decline in policy rate.

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