Cement: Profits jump by 763% in 1HFY09

KSE100 Index: Closing 5681.29 ↓ (-46.17)

After witnessing a substantial growth in 1QFY09, cement sector continued its growth trend with 763% growth in earnings during 1HFY09. This has been on the back of higher local and export retention prices & higher rupee based export sales amid rupee depreciation. However, this growth is magnified as 1HFY08 was an abnormally low profit period for the cement sector.

Our sample includes 17 out of total 21 listed companies representing 84% of cement sector's market capitalization. Moreover, we have removed one time such as impairment loss on acquired goodwill recognized by Javedan cement of Rs3bn.

Export boost sales by 101% in 1HFY09

Cumulative profitability of our sample companies in 1HFY09 stood at Rs3.3bn (US$43mn) depicting a massive growth of 737% over 1HFY08 combined profits of Rs0.4bn (US$6.3mn).

Key numbers based on sample companies

Cement Sector Sales	**1HFY09**	**1HFY08**	**%Δ**
Cement dispatches (mn)	11.0	10.5	5%
Installed capacity (mn)	31.9	28.4	
Capacity Utilization	*69%*	*74%*	
Sector Profitability (Rs mn)	**1HFY09**	**1HFY08**	**%Δ**
Net sales	56,150	27,987	101%
Gross profit	17,496	4,060	331%
Gross Profit Margins	*31%*	*15%*	
Financial charges	6,931	3,067	126%
Profit/(loss) before tax	3,300	(686)	NM
Profit after tax	3,306	383	763%
Net Profit Margins	*6%*	*1%*	
Per Ton Analysis (Rs)	**1HFY09**	**1HFY08**	**%Δ**
Net retention price	5,095	2,657	92%
Cost of goods sold	3,507	2,271	54%
Gross profit	1,587	385	312%
Net profit	300	36	725%

Source: JS Research, Company accounts

Although total dispatches were up just 5% (for sample companies), higher local prices (thanks to effective price arrangement between manufacturers) and better export retention prices amid rupee depreciation (21%) resulted in net sales growth of 101%. Resultantly, gross profits depicted 331% growth with gross margins increasing by 1,665bps to 31%, compared to 1HFY08 gross profit margins of 15%. The following table provides earnings snapshot of listed cement companies:

Company (EPS)	**1HFY09**	**1HFY08**	**%Δ**
Al-Abbas Cement	0.3	(0.1)	NM
Attock Cement	10.0	3.3	199%
Bestway Cement	1.7	(1.1)	NM
Cherat Cement	1.0	0.1	846%
DG Khan Cement	0.5	1.3	-61%
Dadabhoy Cement	(0.2)	1.5	NM
Dandot Cement	(1.1)	(2.3)	-51%
Fauji Cement	0.7	0.2	346%
Fecto Cement	3.0	(0.5)	NM
Flying Cement	(0.9)	(0.4)	144%
Javedan Cement	(6.0)	(6.4)	-6%
Kohat Cement	(0.6)	(1.3)	-56%
Lucky Cement	6.0	4.2	44%
Maple Leaf Cement	(0.8)	(1.1)	-30%
Mustehkam Cement	(3.8)	(11.1)	-66%
Pioneer Cement	(0.3)	(1.0)	-73%
Thatta Cement	1.1	(0.0)	NM

Source: JS Research, Company accounts

Outlook: 'Under-weight' maintained

Although massive profit growth has been witnessed in the cement sector, it has been because of price arrangement between companies in the local market to keep prices high. Local demand supply dynamics, however do not suggest such high prices would continue. Moreover, the export market only looks attractive for the short term as new capacities could soon come online in the middle-east. Hence, we maintain our 'Under-weight' stance for the sector.

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Also in focus

Govt. collecting Rs16bn/ month on oil products

Despite reduction of around Rs2/liter PDL (Petroleum Development Levy) on petrol (MS) on MoM, PDL on diesel (HSD) has gone up by Rs5/liter in February. This is due to sharp decline in international diesel prices. As a result, government's monthly PDL collection is now gone up to approx.16bn, as per our estimates. Only on HSD, the collection would be approx. Rs13bn a month.

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