

May 05, 2009

**Pakistan Market****Cement: Profits jump by 833% in 9MFY09****MORNING BRIEFING**

KSE100 Index: Closing 7062.25 ↓ (-139.85)

After witnessing a substantial growth in 1HFY09, cement sector continued its growth trend with 833% growth in earnings during 9MFY09. This has been on the back of higher retention prices (up 64%) & higher rupee based export sales amid rupee depreciation. However, this growth is magnified as 9MFY08 was an abnormally low profit period for the cement sector.

Our sample includes 18 out of total 21 listed companies representing 94% of cement sector's market capitalization. Moreover, we have removed one time impairment loss on acquired goodwill recognized by Javedan cement of Rs3bn.

**Better retention prices drive earnings upward**

Cumulative profitability of our sample companies in 9MFY09 stood at Rs3.7bn (US\$47.3mn) depicting a massive growth of 833% over 9MFY08 combined profits of Rs395mn (US\$6.4mn).

**Key numbers based on sample companies (Rs mn)**

	9MFY09	9MFY08	%Δ
Net sales	94,535	54,178	74%
Gross profit	25,647	6,619	287%
Gross Profit Margins	27%	12%	
Financial Charges	11,433	5,835	96%
Profit before tax (PBT)	4,129	(1,330)	NM
Profit after tax (PAT)	3,686	395	833%
Net Profit Margins	4%	1%	

Source: Company announcements, JS Research

Although total dispatches were down 0.4%, net retention prices up 64% to Rs230 per bag (partly down to effective price arrangement between manufacturers) and better export based revenue amid rupee depreciation (21%YoY) resulted in net sales growth of 74%. Resultantly, gross profits depicted 287% growth with gross margins increasing by 1,491bps to 27%, compared to 9MFY08 gross profit margins of 12%. However, 96% increase in financial charges due higher average 6-month KIBOR (434bps) during the period took some gloss off the bottomline as net margins recorded an

increase of just 317bps to 4%. The following table provides earnings snapshot of listed cement companies:

Company (EPS)	9MFY09	9MFY08	%Δ
Al-Abbas Cement	0.03	(0.14)	NM
Attock Cement	14.39	4.83	198%
Bestway Cement	2.24	(0.92)	NM
Cherat Cement	1.23	(0.09)	NM
Dandot Cement	(2.15)	(3.49)	NM
Dewan Cement	(1.42)	(0.44)	NM
DG Khan Cement	1.27	1.92	-34%
Fauji Cement	1.01	0.23	348%
Fecto Cement	4.61	(1.02)	NM
Flying Cement	(0.80)	(0.57)	NM
Javedan Cement*	(9.98)	(12.30)	NM
Kohat Cement	(0.43)	(1.76)	NM
Lafarge Pakistan Cement	(0.51)	(0.23)	NM
Lucky Cement	9.50	6.23	53%
Maple Leaf Cement	(1.84)	(1.00)	NM
Mustehkam Cement	(5.25)	(14.11)	NM
Pioneer Cement	(0.27)	(0.82)	NM
Thatta Cement	2.21	(0.18)	NM

NM = Not Meaningful, \*Adjusted for one time impairment loss on goodwill

Source: Company announcements, JS Research

**Outlook: 'Market-weight' maintained**

This massive earnings growth has been largely due to price arrangement between companies in the local market to keep prices high. However, local demand supply dynamics 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 along with weak domestic demand on the back of low PSDP and economic growth. Hence, we expect volumes to suffer going forward. We have a 'Market-weight' stance for the sector with a 'Buy' call on Lucky and D.G. Khan Cement.

atif.zafar@js.com

92 (21) 111-574-111 (ext. 3118)

**Also in focus****Kerry-Lugar bill presented to Congress**

Yesterday, Senator John Kerry and Richard Lugar have presented a much awaited US\$15bn Pakistan Enduring Assistance and Cooperation Enhancement bill to congress for debate. This highlights US long-term commitment towards Pakistan economy and safety. The granular details of the bill are not yet disclosed, however, we believe, most of the money will be used for safety, health, education and infrastructure. The aid is likely to reduce Pakistan's current account deficit by US\$1.5bn per annum basis. This should boost liquidity; strengthen reserves, and keep exchange rate stable.

**JS Global Capital Limited**

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

**Research:**

Tel: +92 (21) 2799005

Fax: +92 (21) 2800163

js.research@js.com

**Fixed Income Sales:**

Tel: +92 (21) 2799541-44

Fax: +92 (21) 2800165

tariq.usman@js.com

**Equity Sales:**

Tel: +92 (21) 2799513

Fax: +92 (21) 2800166

junaid.iqbal@js.com

**Corporate Finance:**

Tel: +92 (21) 2799005

Fax: +92 (21) 2800166

llyas.ahmed@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG & THOMSON REUTERS