

July 29, 2010

## Pakistan Market

## LPCL: Earnings revision – upgraded to 'Buy'

KSE100 Index: Closing 10436.29 ↑ (+49.47)

MORNING BRIEFING

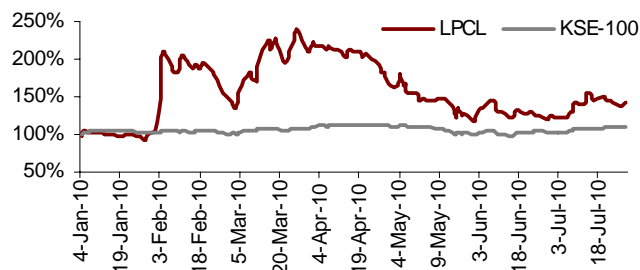


We upgrade our stance on Lafarge Pakistan (LPCL) to 'Buy' from 'Hold' earlier, on the back of recent escalation in the local cement prices, higher than expected off-take in 1H2010 and improved demand outlook. Hence, we have lowered our 2010E and 2011F loss estimates to Rs0.7 and Rs0.3 per share.

We expect the company to breakeven in 2012 and start booking profits from 2013, given lower financial charges on account of complete repayments of long term loans by 2012. Subsequently, we have raised our target price to Rs4.1 from Rs3.5 earlier, providing a potential upside of 32%, at current levels. For 2Q2010, we expect the company to announce a loss per share of Rs0.2, compared to a loss of Rs0.3 per share in 1Q2010.

Likely announcement of inland freight subsidy for FY11 in the upcoming trade policy would provide a further upside to our target price, while higher than anticipated coal prices is a key risk to our thesis.

## LPCL's relative performance to the market



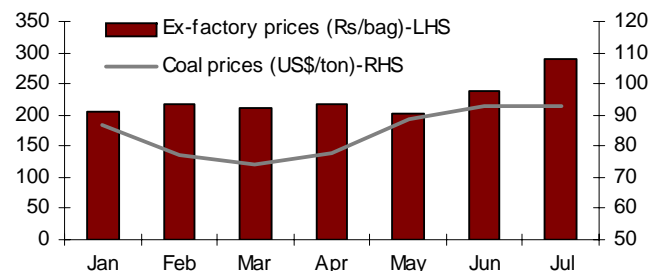
Source: KSE

## Price surge to provide impetus to earnings

Cement prices, after touching a trough of Rs215 per bag in Dec 2009; have rebounded sharply and are standing at Rs315 per bag on the back of improved demand outlook. Moreover, speculation over re-emergence of price consensus among cement manufacturers has once again gathered pace. We expect cement prices to average at Rs280 per bag in

2010, compared to 1H2010 average of Rs250 per bag. As per our analysis, an average increase of Rs10 per bag would improve our 2010 earning estimates for the company by Rs0.15 per share on an annualized basis.

## Local Cement &amp; Coal prices trend in 2010



Source: JS Research &amp; Reuters

## Improved domestic demand to lift utilization

Cement off-take during 1H2010 registered an increase of 5%YoY driven by a 13%YoY growth in local off-take. On the contrary, export sales have declined by 11%YoY. Going forward, the approval of Diامر-Bhahsa dam and higher utilization of PSDP on the back of further aid pledged by international donors is expected to boost local demand. Meanwhile, company's export sales are expected to remain stable owing to identification of new markets and demand & supply management b/w Lafarge (Parent) subsidiaries via its trading company. As a result, we expect LPCL's capacity utilization to improve to 96% in 2011 from 93% in 2009.

## Lower financial cost to improve bottom-line

Finance cost has continued to be a major thorn, as total long term loans stood at Rs2.4bn, as of Mar 31, 2010. However, on the back of complete repayments of long term loans by 2012, we expect the company to breakeven in 2012 and start booking profits from 2013. To provide perspective, the time interest earned ratio (EBIT/Interest), which stood at (0.8x) in 2010, improves to 2.0x in 2013.

## Recommendation: Upgraded to 'Buy'

We have lowered our loss per share estimates to Rs0.7 and Rs0.3 for 2010E and 2011F, respectively compared to our previous estimates of Rs0.8 and Rs0.4 on the back of the aforementioned reasons. As a result, we have raised our target price for the company to Rs4.1 from Rs3.5 earlier. On a quarterly basis, we expect the company to book a loss per share of Rs0.2 in 2Q2010, compared to a loss of Rs0.3/share in 1Q2010.

We value LPCL on DCF methodology, using a WACC of 17% and a terminal growth of 2%. With the scrip currently providing a potential upside of 32% to our target price and trading at 2010E PBV of 0.46x, we upgrade our stance to 'Buy' from 'Hold' previously.

## Key Statistics

(Rs)	2010E	2011F	2012F	2013F
EPS	(0.71)	(0.31)	0.03	0.25
Book value/share	6.73	6.42	6.45	6.68
PBV (x)	0.46	0.48	0.48	0.46

Source: JS Research

atif.zafar@js.com

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

## Lafarge Pakistan Cement

<b>Market Price:</b> Rs3.11	<b>Kats Code:</b> LPCL
<b>Market Cap:</b> Rs4.1bn (US\$47.7mn)	<b>Bloomberg Code:</b> PCL PA
<b>1-yrs Avg. Daily Volume:</b> 2.1mn shares, Rs8.3mn (US\$0.1mn)	<b>Reuters Code:</b> LPCL.KA
<b>1-year High/Low:</b> Rs5.26/1.97	

## JS Global Capital Limited

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

**Research:**  
js.research@js.com

**Equity Sales:**  
junaid.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS