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**Pakistan Market****Cement: Are exports a real concern?****MORNING BRIEFING**

KSE100 Index: Closing 10056.46 ↓ (-81.47)

Investors have voiced concerns over the industry's export potential, given the upcoming supply glut in the region. However, we feel the concerns have been overplayed as All Pakistan Cement Manufacturers Association (APCMA) quoted a 14%YoY growth in cement exports for 7MFY10. The latest break-up of cement exports show the rising share of African countries, Iraq and Sri Lanka, while exports to Gulf countries have witnessed a widely anticipated slowdown.

On the back of the aforementioned replacement and implementation of the inland freight subsidy, we maintain our 11mn tons export sales target for FY10.

**Breakup of Cement exports**

Countries	July-Sept FY10	July-Sept FY09
AFGHANISTAN	30%	31%
SUDAN	12%	5%
QATAR	12%	9%
DJIBOUTI	10%	10%
INDIA	7%	10%
IRAQ	6%	3%
OMAN	6%	8%
U.R.OF TANZANIA	3%	1%
SRI LANKA	2%	0%
U.A.E.	1%	14%
KUWAIT	0%	5%

Source: TDAP

**East Africa – A region of high potential**

The East African market predominantly comprises Kenya, Tanzania, Mozambique and Madagascar. The construction industry in the region has flourished lately owing to foreign aid channeled through the governments for infrastructure expansion. High growth potential exists, as per capita consumption of cement stands between 25-50kg, which is significantly lower than the world's average of 425kg and that of neighboring South Africa at 295kg. Demand is expected to grow by 33% to 8mn tons in 2011, from 6mn tons in 2009

(source: Cemnet). Moreover, the global financial crisis has acted as a break in the commissioning of new capacities, providing a window of 1-2 years to Pakistan cement exporters.

Cement in the East African region was classified as a sensitive product in 2005 with the import duty set at 55%, which was to be reduced by 5% every subsequent year. However, in June 2009, the status was removed and the tariff was cut to 25%. This along with ability to produce at a lower cost and the implementation of 35% inland freight subsidy (Rs16-18/bag) has made Pakistan's cement manufacturers more price competitive over African manufacturers.

**Iraq and Sudan – Reconstruction to spur demand**

The share of Iraq and Sudan in Pakistan cement exports has risen to 6% and 12%, respectively as a result of reconstruction activities in the two countries. Though it is difficult to estimate the demand and supply dynamics, various sources suggest a supply deficit situation in Iraq and Sudan.

**Egypt – Supply deficit holds potential for Pakistan**

Construction activities in Egypt proved resilient against the regional construction downturn on the back of booming housing demand and a cash economy. Though a supply glut is expected by the end of 2012, Pakistan's cement producers can benefit from the current supply deficit in the country.

**Sri Lanka – Positive post Civil War outlook**

Reconstruction activities post the Civil War has pushed up cement demand in Sri Lanka. A deficit of around 1-2mn tons is being met through imports, of which Pakistan constitutes a major portion.

**Afghanistan – Proximity to favor Pakistan**

Afghanistan continues to remain our major export market as it constitutes 30% of the total cement exports. We believe, Afghanistan's share will continue to remain strong given ongoing reconstruction activities and its geo-proximity to Pakistan.

**GCC – Best years behind us**

Gulf countries during FY08 & FY09 were primary export avenues for the cement manufacturers. With substantial capacity expansions and lower than expected demand, future sales to the GCC countries appear to be a bleak possibility. However, Dubai's US\$9.5bn funding to Dubai World may provide some stimulus to demand going forward.

**GCC Cement Production Capacity**

(mn tons)	2008	2011	Δ%
Saudia Arabia	44.6	62.3	40%
Qatar	3.1	6.6	113%
Kuwait	2.6	5.4	108%
Bahrain	0.5	1.5	200%
UAE	29.3	40.6	39%
Oman	4.6	5.4	17%
Total	84.7	121.8	44%

Source: Global Investment House

**Outlook: 'Over-Weight'**

We expect the current export sales momentum to carry forth in the fourth quarter and hence maintain our export sales target of 11mn and 10mn tons for FY10E and FY11F, respectively. With the cement sector trading at a discount of 31% and 57% to the market's FY11 PE and PBV, respectively, we maintain our 'Over-Weight' stance on the sector.

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