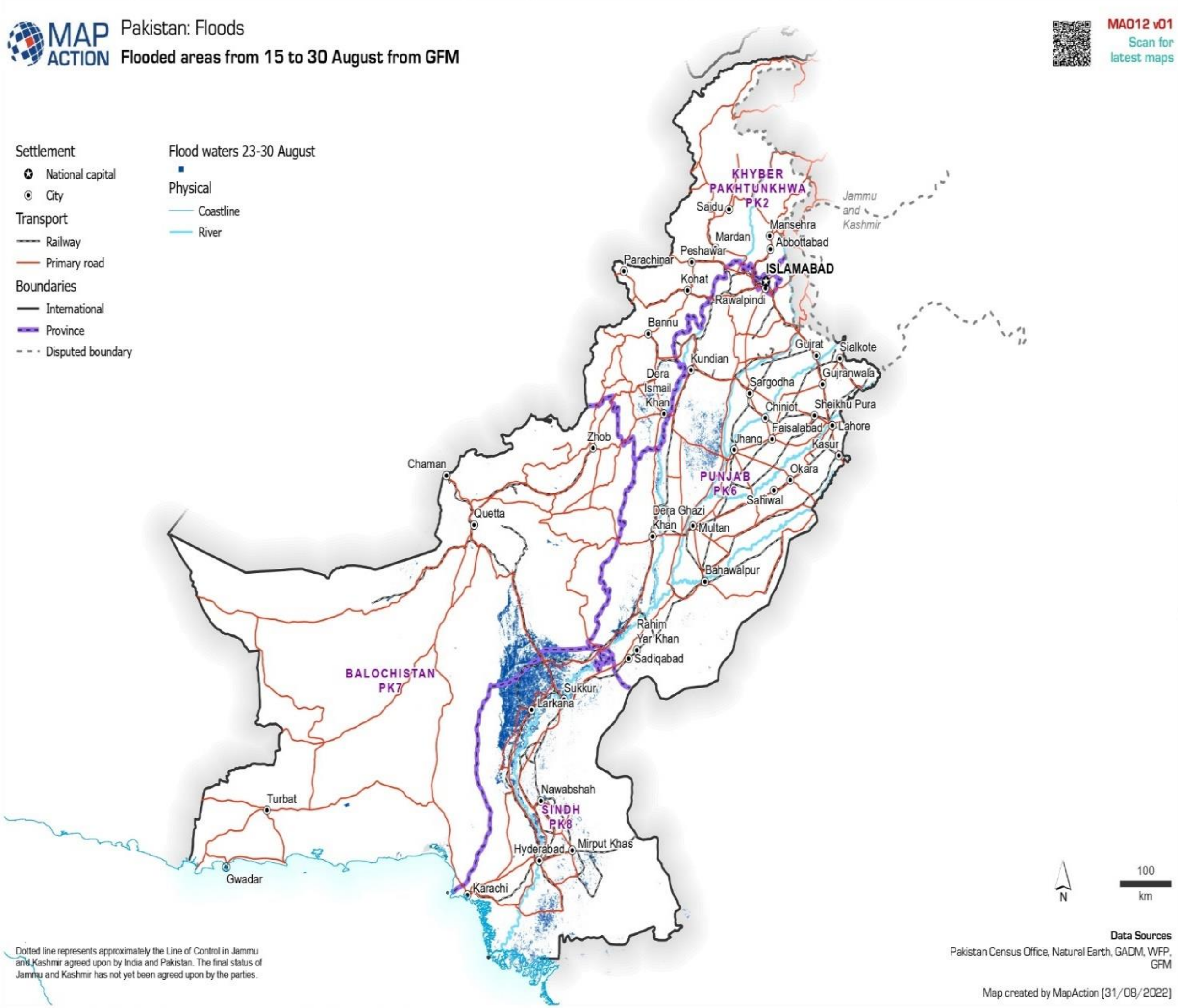
Post Floods Rehabilitation Activities to Support Cement Sector

Tuesday, 27 September, 2022

Heavy floods have hit Pakistan amid record-breaking rains in Sindh and Baluchistan. Almost 1 million homes have been damaged or destroyed, and around 33M people are affected by floods. Meanwhile, the death toll touches 1,290 including around 450 children. Current floods are one of the worst natural disasters witnessed by the country since 2010. Huge damage has occurred to the infrastructure and agriculture of the country which is quite higher than what was witnessed during the floods of 2010.

On the other hand, if we analyze the cement sector, we can see that the industry has been facing difficult times amid record-high coal, electricity, and fuel prices and the dispatches have plunged drastically, and the pre floods conditions did not look good for the sector. But the post floods conditions can be supportive of the construction sector as we have witnessed in the past that after every major natural disaster, a rally is seen in the cement sector amid increased demand due to the rehabilitation activities for the infrastructure of affected areas.

In the past 20 years, Pakistan has witnessed two major natural disasters. The first one was the Kashmir earthquake on the 8th of Oct 2005 and the second one was witnessed in 2010 due to the major floods in the country. If we look at the historical data of different companies it can be seen that such disasters have caused an upward rally and we expect to see the same in the current situation. We will be discussing 7 companies with bright aspects.

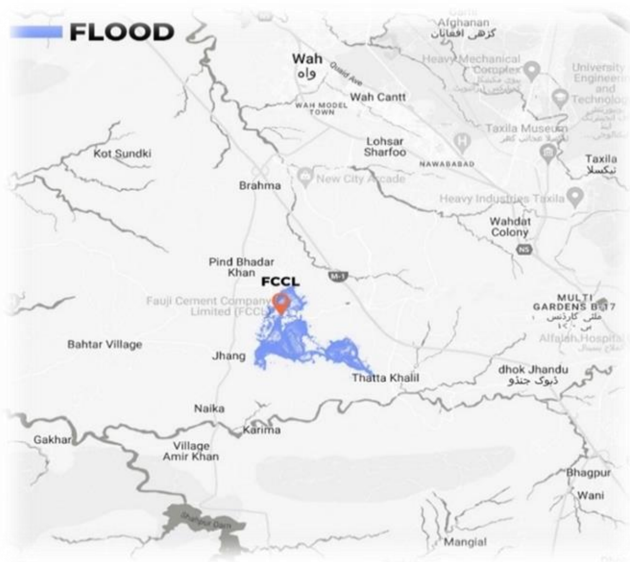


COMPANY UPDATE

Fauji Cement Company Limited | FCCL | TP - 22

Tuesday, 27 September, 2022

FCCL is one of the leading producers of a wide range of cement in Pakistan with an annual total production capacity of 3.5 million tons of cement. If we look at the financial ratios of the company it has an average gross margin for the last 5 years of 21%, an operating margin of 16.5%, and net profit margins of 11.29%. Furthermore, the total debt to equity ratio of the company stands at 0.13x and finance cost as a percentage of EBIT stands at 3.8% as of FY22. Due to high-interest rates prevailing in the country, low debt to equity ratio is likely to keep the company's net profit margins healthy. FCCL is currently trading at a P/E Ratio (TTM) of 4.7x.



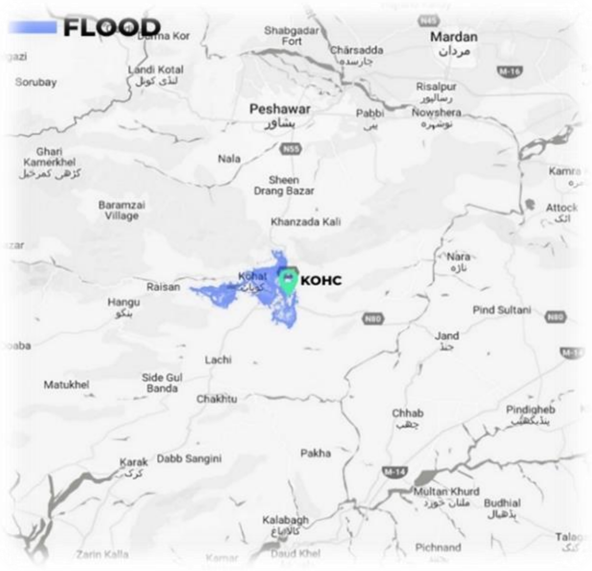
The plant of Fauji Cement Company Limited (FCCL) is located at Jhang Bahtar, District Attock near Islamabad and it can be seen in the graph that the area between Jhang and Dera Ismail Khan is affected by the floods which provides a geographical advantage to the FCCL for the upcoming demand for construction in the flood affected areas.

Now if we look at the historical trend for the FCCL we can see that in 2005 after the 8th of Oct, a major rally was witnessed in the FCCL and the share price went up from 17.58 to 2 8 recording an upside of almost 60%. Moreover, in 2010 Pakistan was hit by floods in July and in those days a surge in the price of scrip can be seen as it went up from 4.52 to 5.5 recording an upside of almost 22%. **We have a BUY stance on the scrip with a DCF based Jun-23 TP of Rs 22 which provides an upside potential of 44%.**

Kohat Cement Company Limited | KOHC | TP - 210

Tuesday, 27 September, 2022

KOHC is one of the leading cement manufacturing companies in Pakistan. It has an annual capacity of 4.78 million tons of Grey Clinker and 135 thousand tons of White Clinker. If we look at the financial ratios of the company it has an average gross margin for the last 5 years of 22.74%, an operating margin of 20.69%, and net profit margins of 12.76%. Furthermore, the total debt to equity ratio of the company stands at 0.19x and finance cost as a percentage of EBIT stands at 5.68% as of FY22. Due to high-interest rates prevailing in the country, low debt to equity ratio is likely to keep the company's net profit margins healthy. KOHC is currently trading at a P/E Ratio (TTM) of 6.5x.

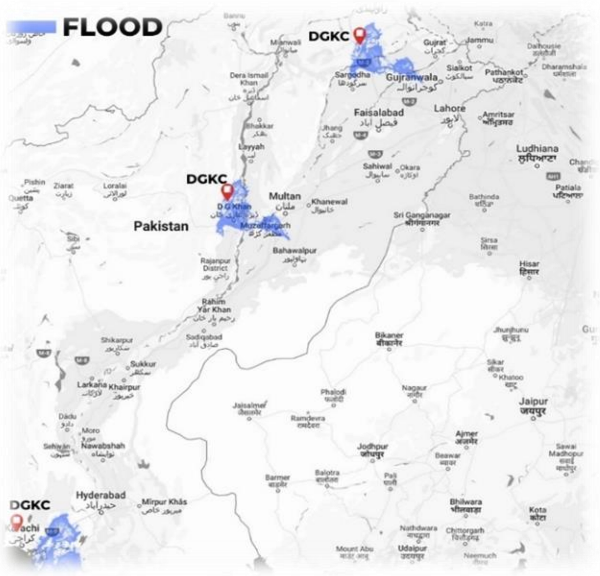


The plant of Kohat Cement Company Limited is located at Rawalpindi Road, Kohat, Pakistan. As it can be seen that flooded areas of KPK like Sawat and Kumrat are geographically quite near to KOHC and it provides an advantage to KOHC for the upcoming demand for construction in the flood-affected areas.

Now if we look at the historical trend for the KOHC we can see that in 2005 after the 8th of Oct a major rally was witnessed in the KOHC and the share price went up from 55 to 92 recording an upside of almost 68%. Moreover, in 2010 Pakistan was hit by floods in July and in those days a surge in the price of scrip can be seen as it went up from 5.85 to 8.05 recording an upside of almost 37%. **We have a BUY stance on the scrip with a DCF based Jun-23 TP of Rs 210 which provides an upside potential of 30%.**

D.G. Khan Cement Company Limited | DGKC | TP - 80

Tuesday, 27 September, 2022



DGKC is amongst largest the cement manufacturers of Pakistan with a production capacity of 22,400 tons per day (6.72 million tons/annum) with an approximate market share of 11%. If we look at the financial ratios of the company it has an average gross margin for the last 5 years of 16.35%, an operating margin of 15%, and net profit margins of 8.08%. Furthermore, the total debt to equity ratio of the company stands at 0.56x% and finance cost as a percentage of EBIT stands at 37.23% as of FY22. DGKC is currently trading at a P/E Ratio (TTM) of 9.01x.

DGKC has a strong presence all over Pakistan. With its plants stretched from North to Center to South, DGKC covers the market in far-reach areas of Pakistan through an extensive dealership network of over 2,200 dealers. DGKC has four cement plants, two plants are located at Dera Ghazi Khan, one at Khairpur Distt. Chakwal, and one at Hub Lasbela District (Balochistan). Its presence in the north and south gives it a major advantage as there all plants are near the flooded areas.

Now if we look at the historical trend for the DGKC we can see that in 2005 after the 8th of Oct a major rally was witnessed and the share price went up from 81 to 154 recording an upside of almost 92%. Moreover, in 2010 Pakistan was hit by floods in July and in those days a surge in the price of scrip can be seen as it went up from 23.26 to 32.37 recording an upside of almost 39%. **We have a BUY stance on the scrip with a DCF-based Jun-23 TP of Rs 80 which provides an upside potential of 30%.**

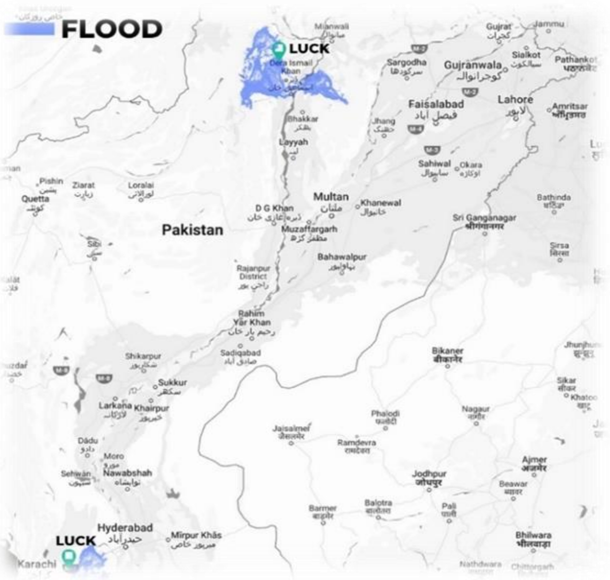
Lucky Cement Limited | LUCK | TP - 600

Tuesday, 27 September, 2022

Lucky Cement is one of the largest producers and leading exporters of quality cement in Pakistan with an annual capacity of 15.3 million tons with an approximate market share of 18%. If we look at the financial ratios of the company it has an average gross margin for the last 5 years of 27.44%, an operating margin of 24.24%, and net profit margins of 19.34%. Furthermore, the total debt to equity ratio of the company stands at 0.12x and finance cost as a percentage of EBIT stands at 1.81% as of FY22. Due to high-interest rates prevailing in the country, low debt to equity ratio is likely to keep the company's net profit margins healthy. LUCK is currently trading at a P/E Ratio (TTM) of 10.44x.

Lucky Cement Limited has production facilities at strategic locations in Karachi to cater to the Southern regions and Pezu, Khyber Pakhtunkhwa to furnish the Northern areas of the country. Its presence in the north and south gives it a major advantage as there all plants are near the flooded areas.

Now if we look at the historical trend for LUCK, we can see that in 2005 after the 8th of Oct a major rally was witnessed and the share price went up from 59.5 to 131 recording an upside of almost 119%. Moreover, in 2010 Pakistan was hit by floods in July and in those days a surge in the price of scrip can be seen as it went up from 62.5 to 79 recording an upside of almost 26%. **We have a BUY stance on the scrip with a DCF-based Jun-23 TP of Rs 600 which provides an upside potential of 21.6%.**



Maple Leaf Cement Factory Limited | MLCF | TP - 38

Tuesday, 27 September, 2022

Maple Leaf Cement is the largest single cement production site in Pakistan with an annual total installed capacity for clinker production of 5,585,342 tons. If we look at the financial ratios of the company it has an average gross margin for the last 5 years of 18%, an operating margin of 13.2%, and net profit margins of 5.64%. Furthermore, the total debt to equity ratio of the company stands at 0.58x and finance cost as a percentage of EBIT stands at 19.51% as of FY22. MLCF is currently trading at a P/E Ratio (TTM) of 8.61x.

The Company markets and sells its products all over Pakistan with market presence mainly in North and Central regions. Plant of MLCF is located at Iskanderabad, District Mianwali, Punjab, Pakistan. Which provides a geographical edge to MLCF in affected areas of north region.

Now if we look at the historical trend for MLCF, we can see that in 2005 after the 8th of Oct a major rally was witnessed and the share price went up from 32 to 49 recording an upside of almost 53%. Moreover, in 2010 Pakistan was hit by floods in July and in those days a surge in the price of scrip can be seen as it went up from 3.07 to 3.81 recording an upside of almost 23.5%. **We have a BUY stance on the scrip with a DCF-based Jun-23 TP of Rs 38 which provides an upside potential of 34%.**

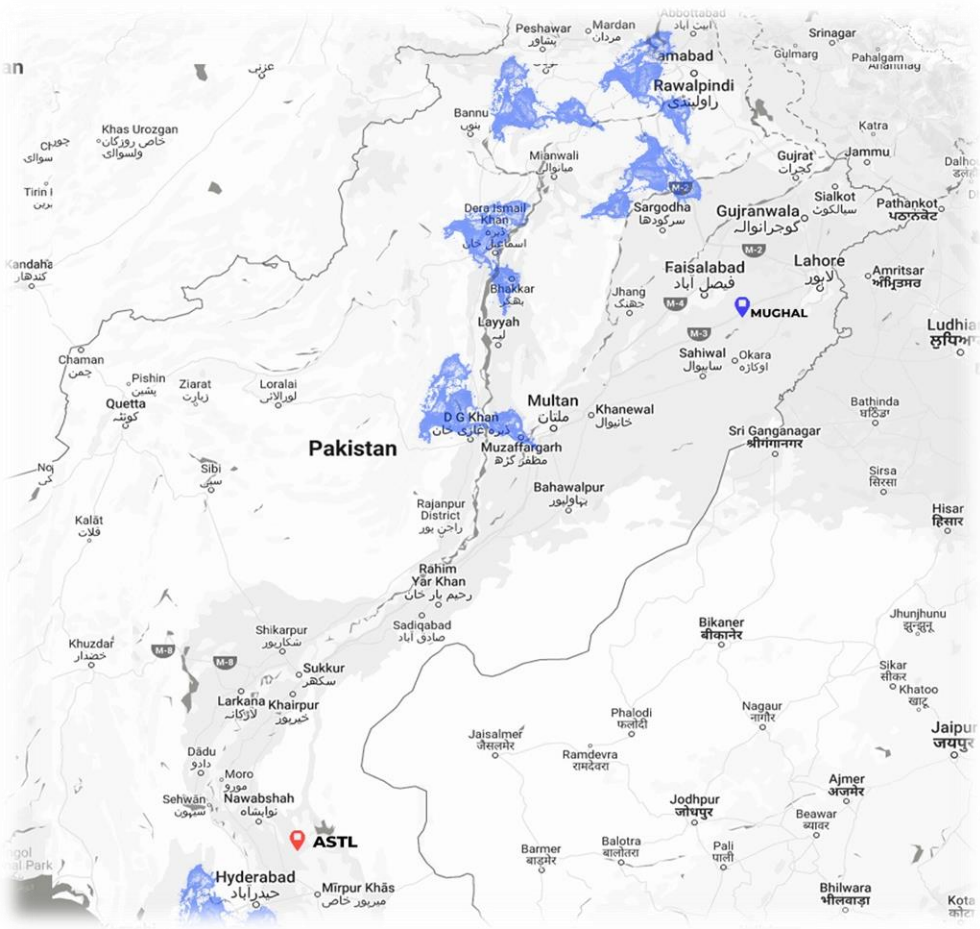
Steel Sector, The Other Beneficiary

Tuesday, 27 September, 2022

The steel and Cement industries have a strong correlation. As per International Standards, every 5MTs of cement used in infrastructure projects requires 1MT of steel (Source National Steel Advisory Council). Amreli Steels Limited and Mughal Iron & Steel Industries Limited are among the largest manufacturer of steel billet and rebar in Pakistan.

Firstly, the plant of Mughal Iron is situated in Sheikhupura - Faisalabad Rd, Karian Wala having a re-rolling active capacity of 630,000 metric tons per annum. Furthermore, the melting capacity of MUGHAL stands at 429,100 metric tons per annum. If we look at the financial ratios of MUGHAL, it has an average gross margin for the last 5 years of 12.54%, an operating margin of 10.22%, and net profit margins of 5.65%. Furthermore, the total debt to equity ratio of the company stands at 1.41x, the five-year average ROE stands at 15.71%, and finance cost as a percentage of EBIT stands at 29.72% as of FY22. **We have a BUY stance on MUGHAL with a DCF-based Jun-23 TP of Rs 80 which provides an upside potential of 20%.**

Secondly, the two re-rolling plants of ASTL are situated at S.I.T.E. Karachi and Dhabeji having a capacity of 180,000 metric tons and 425,000 metric tons of rebars per annum respectively. Their Melt Shop plant in Dhabeji, Sindh is the largest billet manufacturing facility in Pakistan boasting a nameplate capacity of 600,000 metric tons per annum. Moreover, ASTL has an average gross margin for the last 5 years of 11.17%, an operating margin of 6.56%, and net profit margins of 2.29%. Furthermore, the total debt to equity ratio of the company stands at 1.34x, the five-year average ROE stands at 4.17%, and finance cost as a percentage of EBIT stands at 52.61% as of FY22. **We have a BUY stance on ASTL with a DCF-based Jun-23 TP of Rs 36 which provides an upside potential of 33%.**



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TP	Target Price	DDM	Dividend Discount Model	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	JPB	Justified Price to Book

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
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Market Weight	Neutral
Underweight	Negative

RESEARCH ANALYST
Muhammad Ahmed
Phone: (+92) 42 38302028
Ext: 118
Email: mahmed@abbasiandcompany.com

HEAD OFFICE
6 - Shadman, Lahore
Phone: (+92) 42 38302028
Email: support@abbasiandcompany.com
web: www.abbasiandcompany.com