

# Cement: Potential increase in royalty to hurt earnings for KPK-based players

- We evaluate the potential impact of raising the limestone royalty for KPK-based cement plants to 6% of the ex-factory cement price (following the increase in Punjab) from the current Rs250/ton. This increase is expected to weigh on earnings of companies located in Khyber Pakhtunkhwa (KPK). The final notification by the KPK government for the proposed increase is however still awaited.
- The potential increase in royalty will have an impact on four cement players among our cement universe which include Cherat Cement Company Ltd. (CHCC), Kohat Cement Company Ltd. (KOHK), Lucky Cement Limited (LUCK), and Fauji Cement Company Limited (FCCL).
- We anticipate CHCC and KOHC to bear the most significant impact, with earnings projected to decline by 21% and 17% in FY26 from our earlier estimates, respectively given their exclusive operations in KPK, assuming prices are not passed on. In contrast, LUCK and FCCL are expected to see a comparatively lower earnings reduction of 10% and 11% if the development ensues.

## Potential increase in royalty for KPK players

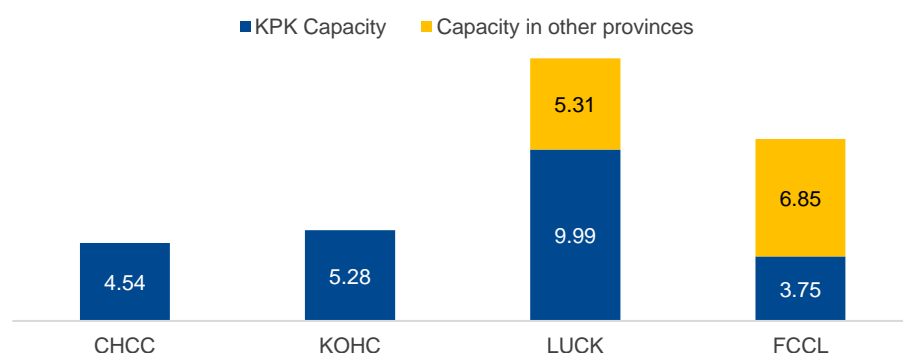
We evaluate the potential impact of raising the limestone royalty for KPK-based cement plants to 6% of the ex-factory cement price (similar to the increase implemented by the Punjab govt announced in Aug-2025) from the current Rs250/ton as proposed by the Minerals Dept of KPK govt. This increase is expected to weigh on companies' earnings with plants based in KPK province. However, the final notification from the KPK government is still awaited. The potential increase in royalty will have an impact on four cement players among our cement universe which includes CHCC, KOHC, LUCK and FCCL. To note, out of the overall country capacity of roughly ~88mn tons, approximately 36% is based in KPK, operating at ~50% utilization levels. Furthermore, increase in royalty for the South region can also not be ruled out at this moment.

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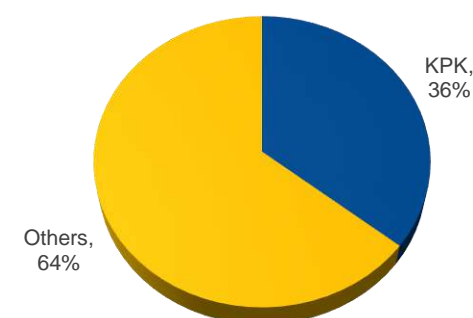
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## Company-wise Cement Plant Capacities (MTPA)



Source: Company accounts, APCMA, JS Research

## KPK capacity as a % of Pakistan's total cement capacity



Source: Company accounts, APCMA, JS Research

## KPK-centric players – CHCC & KOHC to face the brunt

We highlight, all players in the North, including KPK based players, raised cement prices subsequent to increase in royalty charges earlier this fiscal year by the

Punjab govt in Aug-2024. Cement producers in KPK, enjoyed the windfall gain in prices and margins during this period, with no change in royalty charge. Since the KPK Govt. is now considering a proposal to implement the same changes in royalty charges, we believe this change to significantly impact earnings for KPK-centric plants including CHCC and KOHC. For CHCC, the additional Rs73/bag cost is projected to reduce annualized earnings by Rs9.5/sh (-21%), making it the most affected player in the industry. Additionally, CHCC's heavy reliance on gas-based captive power plants (CPPs), having a share of ~50% in the power mix is expected to further impact earnings outlook amid surge in tariffs post imposition of levy.

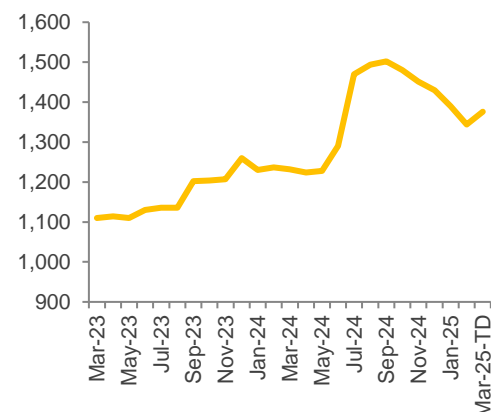
Meanwhile, KOHC, which recorded the highest margins in 1H FY25 at 42% within our cement universe is now expected to see a Rs9.54/sh (-17%) decline in FY26 earnings due to the additional royalty charge.

### LUCK and FCCL face partial impact

LUCK Cement's North plant in Pezu, KPK (~10mn tons per annum capacity, accounting for 65% of the company's total capacity) is also expected to witness a 10% decline in earnings alongside a margin contraction of 5ppts.

Meanwhile, FCCL is likely to experience the least impact among our covered players, as only one of its four plants – the Nizampur plant (3.75mn tons per annum, representing 35% of the company's total capacity) – is located in KPK.

**Cement price – North (Rs/bag)**



Source: Company accounts, APCMA, JS Research

### FY26E EPS sensitivity to royalty hike at varying Cement Prices (Rs)

Cos.	KPK Based Capacity (mn tons)	Base Case (Rs1,435/bag)	Cement Price Chg subsequent to increase in royalty			
			No Change	Rs30/bag increase	Rs60/bag increase	Rs90/bag increase
CHCC	4.54	44.90	35.40	38.70	41.50	44.20
KOHC	5.28	55.34	45.80	49.40	52.31	55.22
LUCK	9.99	106.02	94.93	101.32	106.46	111.61
FCCL	3.75	5.76	5.15	5.85	6.42	6.98

Source: Company accounts, JS Research

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