OPTIMUS CAPITAL MANAGEMENT

Cement

Earnings to Stay Upbeat Y/Y in 3QFY25

14 April 2025

- **Optimus cement universe's PAT to grow by 24% Y/Y in 3QFY25.** We expect our cement universe's net profit to clock-in at ~PKR 17 BN in 3QFY25, owing to a significant earnings growth in all the universe companies. The major factors driving this growth include 1) increase in dispatches, both local and exports, 2) 13%/8% Q/Q / Y/Y decline in international coal prices, 3) higher other income (up 32% Y/Y), and 4) lower finance costs (down 25%/29% Q/Q / Y/Y) on the back of a 1000 bps cut in interest rates.
- **Cement volumes on the rise.** During 3QFY25, the export dispatches went up by 19% Y/Y while local dispatches saw a modest growth of 2% Y/Y, resulting in total dispatches to rise by 4% Y/Y to 11.1 MN tons compared to 10.6 MN tons in SPLY.
- **3QFY25 gross margins to be reported at 29.8%.** Our cement universe's gross margins are expected to go up by 200 bps, from 27.8% in 3QFY24 to 29.8% in 3QFY25. The improvement in margins is primarily driven by soaring cement prices in both, north and south region. Cement prices increased by 10% Y/Y (-6% Q/Q) in north and by 16% Y/Y (-1% Q/Q) in south. Furthermore, decreasing energy prices and increased use of renewable energy sources like WHR, solar, and wind will also help boost margins. However, the margins are expected to decline by 500 bps Q/Q, due to lower volumes affected by the whole month of Ramadan and Eid holidays that also kept prices under pressure.
- **Outlook.** International oil prices are on a downward trajectory, and coal prices are also expected to follow. Furthermore, strengthening macroeconomic environment will support a recovery in cement offtakes, while rising prices in north have already surpassed the south prices. As a result, cement players are likely to see improved margins going forward.

Y/E : Jun	Mar-25E	FY25E	FY26E	
PKR/sh		EPS		FV
ACPL	3.7	13.0	19.5	249
CHCC	6.9	42.7	43.2	340
DGKC	3.7	16.4	21.5	160
FCCL	1.0	5.3	6.4	53
KOHC	11.4	60.5	61.7	570
LUCK	19.8	119.1	123.0	1,615
LUCK*	56.6	244.9	277.7	
MLCF	1.6	7.6	9.4	72
PIOC	6.5	25.0	31.4	304

Source: Optimus Research
*Consolidated

Agam Kumar
agam.kumar@optimus.pk
+9221 3529 6888 x 2309
REN: REP-107

Cement's Estimates for 3QFY25

- **ACPL poised for nearly 3x earnings growth.** ACPL is expected to post earning of PKR 3.72/sh, reflecting a Y/Y growth of 187% (-12% Q/Q). This significant growth is attributable to gross margins improving substantially from 18% in 3QFY24 to 26% in 3QFY25, due to a decline in energy costs driven by addition of a 4.8MW wind power plant and use of cheaper coal sources. Additionally, higher contribution from other income is also expected to lift the net margin.
- **CHCC's earning to arrive at PKR 6.85/sh (-41%/+7% Q/Q / Y/Y).** We foresee CHCC's profit after tax to rise 7% Y/Y, driven by expectations of higher other income (up 229% Y/Y) from piling cash reserves and short-term investments, along with a 23% Y/Y drop in finance cost. Despite dispatches declining 23% Q/Q and 14% Y/Y, gross margins are projected to remain stable with a 100 bps Y/Y increase in 3QFY25. Rising cement prices in North and a shift from imported to Afghan coal will also help sustaining these margins. We have assumed a coal mix of 40%/60% Afghan/Darra coal.
- **DGKC to report profit of PKR 3.66/sh.** DGKC's PAT is forecasted to surge by 36% Y/Y (down 41% Q/Q) in 3QFY25 despite gross margin plummeting to 21% (-500/-500 bps Q/Q / Y/Y). The total dispatches increased by 30% Y/Y mainly due to a 161% Y/Y increase in exports while local dispatches remained stagnant, resulting in overall retention prices to fall by 6% Y/Y to PKR 12,992/ton from PKR 13,752/ton in SPLY.
- **FCCL's earning to clock at PKR 0.95/sh (-42%/+32% Q/Q / Y/Y).** The company is projected to post PAT of PKR 2.3 BN. Despite a dip of 10.3% Y/Y in weighted average coal cost, the imposition of 6% royalty on ex-factory prices by Punjab govt. is expected to offset this benefit, keeping the margins steady at 29%. FCCL's projected other income is estimated to rise by 146% Y/Y and finance cost to decline by 48% Y/Y (down 36% Q/Q), supporting the growth in profits.

Cement Dispatches (MN Tons)

	Mar-25	Dec-24	Mar-24	Q/Q	Y/Y
Domestic					
ACPL	0.34	0.34	0.30	1%	13%
CHCC	0.49	0.55	0.52	-11%	-6%
DGKC	0.90	1.03	0.86	-13%	4%
FCCL	1.15	1.33	1.11	-13%	4%
KOHC	0.54	0.63	0.56	-14%	-4%
LUCK	1.53	1.60	1.51	-4%	2%
MLCF	0.94	0.96	0.90	-2%	5%
PIOC	0.52	0.56	0.56	-6%	-6%
Export					
ACPL	0.25	0.41	0.25	-39%	0%
CHCC	0.02	0.11	0.07	-83%	-74%
DGKC	0.45	0.51	0.17	-13%	161%
FCCL	0.04	0.16	0.08	-76%	-53%
KOHC	0.00	0.00	0.01	-80%	-85%
LUCK	0.72	1.03	0.52	-30%	37%
MLCF	0.03	0.07	0.02	-61%	8%
PIOC	-	-	-	n.m	n.m

Source: APCMA, Optimus Research

- **KOHC's 3QFY25 earning estimated at PKR 11.44/sh.** We expect KOHC's profits to surge by 9% Y/Y (-35% Q/Q) with gross margin climbing up to 37% in 3QFY25. This upturn in profitability is attributed to a significant Y/Y decline of 35% in energy costs, owing to an addition of 5.34 MW solar plant and higher reliance on relatively cheaper local Darra coal. We have assumed a mix of 70%/30% Darra/Afghan coal with a weighted average coal cost of PKR 36,652/ton vs PKR 43,629/ton in 3QFY24.
- **LUCK's consolidated EPS to arrive at PKR 56.63 (-23%/6% Q/Q / Y/Y).** We expect LUCK's standalone earnings to clock in at PKR 19.82 (up -20%/18% Q/Q / Y/Y) as other income is estimated to grow by 23% Y/Y in 3QFY25 due to a large jump in short term investments. However, there is no expectation of dividend from LCI or LEPCL. Moreover, lower retention prices, due to increase in export mix in total dispatches from 26% in 3QFY24 to 32% in 3QFY25, will neutralize the impact of lower weighted average coal price and increased power generation from renewable sources. Hence, we estimate a slight improvement in gross margin to 30.2% in 3QFY25 vs 28.8% in SPLY. Moreover, LUCK's consolidated profit is also projected to increase by 6% Y/Y despite lower earnings Y/Y from LEPCL. Gross margin is also forecasted to decline to 26% in 3QFY25.
- **MLCF to post earnings growth of 49% Y/Y.** MLCF's earning is estimated to arrive at PKR 1.57/sh, reflecting a climb of 49% Y/Y in 3QFY25 (down 49% Q/Q). Despite the increase in raw material cost due to 6% royalty on limestone in Punjab, the gross margins are expected to surge to 34% from 28% in SPLY. Our assumption for coal mix is 20%/30%/50% of Imported/Afghan/Darra coal with weighted average coal cost dropping by 17% Y/Y to PKR 35,000/ton.

Market Share

	Mar-25	Dec-24	Mar-24	Q/Q	Y/Y
Domestic					
ACPL	4%	3%	3%	0.3%	0.4%
CHCC	5%	5%	6%	-0.2%	-0.5%
DGKC	10%	10%	9%	-0.7%	0.2%
FCCL	12%	13%	12%	-0.9%	0.2%
KOHC	6%	6%	6%	-0.5%	-0.3%
LUCK	16%	16%	16%	0.4%	0.0%
MLCF	10%	10%	10%	0.4%	0.3%
PIOC	6%	6%	6%	0.0%	-0.5%
Export					
ACPL	14%	15%	17%	-0.8%	-2.8%
CHCC	1%	4%	5%	-2.9%	-3.7%
DGKC	26%	19%	12%	6.8%	14.2%
FCCL	2%	6%	6%	-3.8%	-3.4%
KOHC	0%	0%	0%	-0.1%	-0.4%
LUCK	42%	39%	36%	3.0%	5.4%
MLCF	2%	3%	2%	-1.0%	-0.2%
PIOC	0%	0%	0%	0.0%	0.0%

Source: APCMA, Optimus Research

- **PIOC's earning to clock at PKR 6.51/sh. (-15%/+23% Q/Q / Y/Y).** We forecast PIOC to report PAT of ~PKR 1.5 BN during 3QFY25, owing to the improved margins. The 14% Y/Y reduction in weighted average coal prices are expected to provided a significant support in raising the gross margin from 32% in 3QFY24 to 37% in 3QFY25, as PIOC is heavily reliant on coal not just for fuel but for electricity generation as well. Moreover, we estimate a 42% Y/Y reduction in finance cost and more use of local Darra coal (85%) in fuel mix, which will also result in boosting profitability.

Cement's Universe Estimates

PKR MN	Mar-25E	Dec-24	Sep-24	Jun-24	Mar-24	Q/Q	Y/Y	9MFY25E	9MFY24	Y/Y
Net Sales	**113,634**	**139,153**	**117,859**	**114,425**	**109,574**	**-18%**	**4%**	**370,647**	**354,555**	**5%**
Cost of goods sold	79,828	91,606	80,800	81,466	79,085	-13%	1%	252,234	251,382	0%
Gross profit	**33,806**	**47,547**	**37,059**	**32,959**	**30,489**	**-29%**	**11%**	**118,413**	**103,173**	**15%**
Selling and distribution expenses	6,100	6,754	6,235	5,982	5,543	-10%	10%	19,089	16,877	13%
Admininstrative expenses	2,544	2,697	2,478	2,292	2,161	-6%	18%	7,718	6,533	18%
Operating rofit	**25,163**	**38,096**	**28,347**	**24,684**	**22,784**	**-34%**	**10%**	**91,606**	**79,763**	**15%**
Depreciation	6,740	6,984	6,795	6,181	6,709	-4%	0%	20,519	19,161	7%
EBITDA	**31,902**	**45,080**	**35,143**	**30,866**	**29,494**	**-29%**	**8%**	**112,125**	**98,925**	**13%**
Other charges	1,964	2,720	1,833	438	1,303	-28%	51%	6,516	5,550	17%
Other income	7,391	9,187	7,420	10,420	5,607	-20%	32%	23,999	21,429	12%
Finance cost	4,368	5,815	5,428	6,277	6,163	-25%	-29%	15,611	18,184	-14%
PBT	**26,222**	**38,749**	**28,507**	**28,389**	**20,924**	**-32%**	**25%**	**93,478**	**77,458**	**21%**
Taxation	9,266	13,456	9,452	13,837	7,223	-31%	28%	32,174	26,730	20%
PAT	**16,955**	**25,293**	**19,056**	**14,552**	**13,701**	**-33%**	**24%**	**61,304**	**50,728**	**21%**
Gross margin	**29.8%**	**34.2%**	**31.4%**	**28.8%**	**27.8%**			**32%**	**29%**	
Local dispatches (MN Tons)	9.3	10.0	8.1	8.8	9.2	-6%	2%	27.5	29.4	-7%
Export dispatches	1.7	2.7	2.1	2.0	1.4	-35%	19%	6.5	5.1	28%
Total industry dispatches	**11.1**	**12.7**	**10.3**	**10.8**	**10.6**	**-13%**	**4%**	**34.0**	**34.5**	**-1%**

Source: Company Accounts, Optimus Research

Earnings Summary

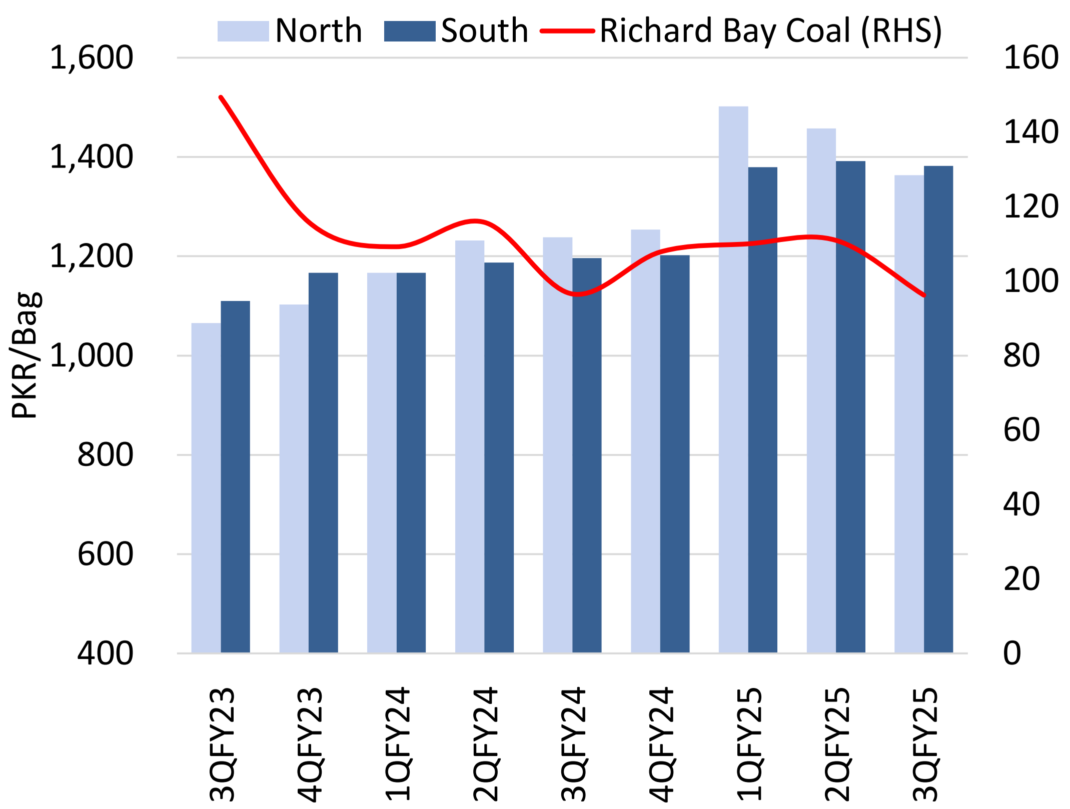
	Mar-25E	Dec-24	Sep-24	Jun-24	Mar-24	Q/Q	Y/Y	9MFY25E	9MFY24	Y/Y
EPS										
ACPL	3.72	4.23	0.45	0.33	1.30	-12%	187%	8.40	25.62	-67%
CHCC	6.85	11.69	14.81	4.40	6.40	-41%	7%	33.35	23.91	39%
DGKC	3.66	6.21	1.84	(3.86)	2.69	-41%	36%	11.70	5.10	129%
FCCL	0.95	1.64	1.32	0.48	0.72	-42%	32%	3.91	2.87	36%
KOHC	11.44	17.59	17.56	12.16	10.51	-35%	9%	46.59	33.10	41%
LUCK - Standalone	19.82	24.84	22.40	32.28	16.85	-20%	18%	67.06	62.32	8%
LUCK - Consolidated	56.63	73.17	61.18	49.93	53.20	-23%	6%	190.99	170.41	12%
MLCF	1.57	3.08	0.99	0.93	1.05	-49%	49%	5.65	4.00	41%
PIOC	6.51	7.70	4.50	5.93	5.29	-15%	23%	18.72	16.85	11%

	Mar-25E	Dec-24	Sep-24	Jun-24	Mar-24	Q/Q	Y/Y	9MFY25E	9MFY24	Y/Y
Gross margin										
ACPL	26%	21%	17%	18%	18%	5%	8%	21%	19%	3%
CHCC	31%	36%	40%	28%	30%	-5%	1%	36%	32%	4%
DGKC	21%	25%	20%	8%	26%	-5%	-5%	22%	19%	3%
FCCL	29%	36%	34%	36%	28%	-7%	1%	33%	31%	3%
KOHC	37%	42%	43%	32%	30%	-5%	7%	41%	28%	13%
LUCK - Standalone	30%	35%	33%	32%	29%	-5%	1%	33%	34%	-1%
LUCK - Consolidated	26%	30%	28%	30%	29%	-4%	-4%	28%	30%	-2%
MLCF	34%	38%	30%	35%	28%	-4%	6%	34%	30%	4%
PIOC	37%	42%	30%	35%	32%	-5%	5%	37%	32%	4%

Source: Company Accounts, Optimus Research

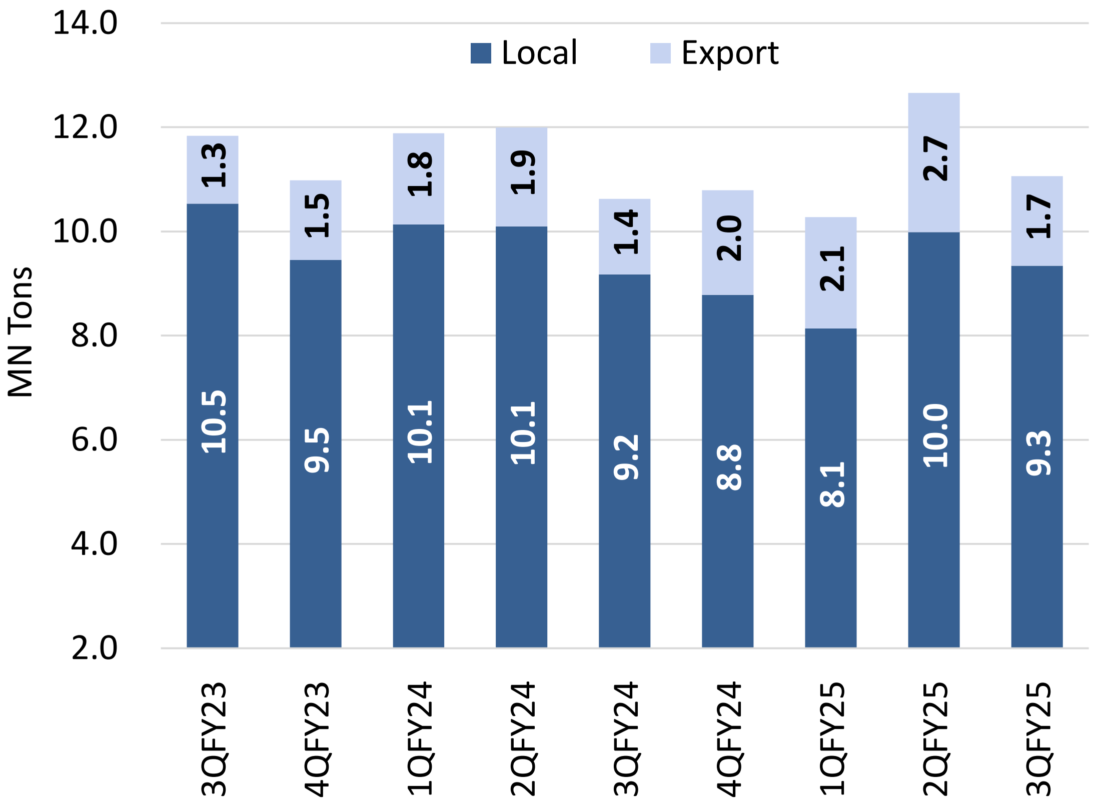
Industry Volumes and Cement Prices

Chart 1: North-South price gap closing-in



Source: PBS, Optimus Research

Chart 2: 3QFY25 exports continuing upward trajectory Y/Y



Source: APCMA, Optimus Research

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