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Pakistan Cements

Super tax to drag profits down

Higher cement prices to have slight bearing on cement demand

AFS cement universe is expected to post a profit of PKR9.6bn this quarter, compared to profit of PKR10.0bn in 4QFY21 and a profit of PKR15.1bn in 3QFY22 depicting a decline of 36%/4% QoQ/YoY. This decline in profitability is primarily due to imposition of super tax this quarter which is applicable on FY22 earnings. CHCC/DGKC/FCCL/KOHC/LUCK/MLCF/PIOC are expected to post earnings of PKR3.02/1.12/0.47/3.56/17.71/0.63 /1.07 per share respectively. Moreover, we expect these companies to pay final dividend of PKR0/1/0/0/5/0/0 per share respectively.

CHCC: Robust offtake to slightly cushion tanked earnings

CHCC is expected to report earnings of PKR0.59bn (EPS: PKR3.02) in 4QFY22 against earnings of PKR1.07bn (EPS: PKR5.48) last quarter. This QoQ decrease in earnings is largely due super tax which is expected to increase effective tax rate to 67% this quarter. Cement offtake remained stable QoQ despite huge upsurge in pricing. Gross margin is expected to decline to 25% this quarter. Finance Cost is also expected to increase to PKR0.56bn this quarter due to higher interest rate. We expect company to not pay any cash dividend this quarter.

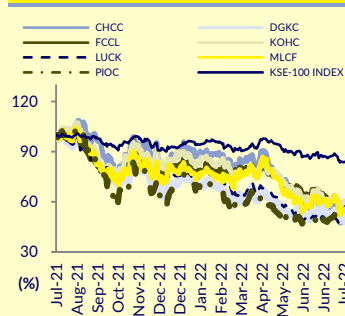
DGKC: Dividend income to keep profitability in positive territory

We expect DGKC to report a profit of PKR0.49bn (EPS: PKR1.12/sh) in 4QFY22 compared to profit of PKR3.29/sh last quarter due to super tax and lower offtake. Exports sales also remained subdued. Net sales are likely at PKR16.04bn this quarter up 1% QoQ. Gross profit margin is expected to remain at 17% this quarter. Company will bear huge increase in finance cost, expected at PKR1.3bn, up by PKR0.38bn due to higher interest rate. Dividend income from MCB of PKR0.5bn will help save company from posting loss this quarter. Tax rate is expected to shot up to 62% this quarter due to super tax. Finally, we expect DGKC to pay cash dividend of PKR 1.0/sh.

FCCL: Amalgamation to change profitability profile

We expect FCCL to report earnings of PKR1.04bn (EPS: PKR0.47) in 4QFY22. For perspective, the company posted EPS of PKR0.62 and PKR0.89 in 4QFY21 and 3QFY22 respectively. Net sales are expected to improve to PKR12.19bn due to contribution from Askari cement in the month of June. Similarly, gross profit is also expected to shot up to PKR3.2bn this quarter. Tax rate is expected to clock in at 63% this quarter. Moreover, we don't expect FCCL to pay any cash dividend this quarter due to impending capital expenditure requirements.

AFS's Cements vs KSE100



Source: PSX, Bloomberg

Earnings

EPS (PKR/sh)	4QFY21	3QFY22	4QFY22E	QoQ	YoY	FY21	FY22	YoY
CHCC	5.06	5.48	3.02	-45%	-40%	16.5	20.71	25%
DGKC	2.06	3.29	1.12	-66%	-46%	8.49	9.38	10%
FCCL	0.62	0.89	0.47	-47%	-24%	2.52	3.41	35%
KOHC	4.81	8.19	3.56	-57%	-26%	17.41	26.81	54%
LUCK*	14.32	23.41	17.71	-24%	24%	70.69	81.78	16%
MLCF*	0.89	1.42	0.63	-56%	-29%	3.49	4.56	31%
PIOC	3.00	2.14	1.07	-47%	-62%	8.69	8.25	-5%

DPS (PKR/sh)

DGKC	1.00	0.00	1.00	N/A	0%
LUCK	0.00	0.00	5.00	N/A	N/A

Source: Company Accounts, Alfalah CLSA Research * Consolidated

KOHC: Slight drop in offtake observed

KOHC is expected to report earnings of PKR0.72bn (EPS: PKR3.56) in 4QFY22 down 54%/22% QoQ/YoY. Tax rate of around 67% will factor into sequential decline in earnings. Cement offtake is also expected to drop by 8%/3% QoQ/YoY. However, increase in retention by PKR105/213 per bag QoQ/YoY will increase topline to PKR9.66bn this quarter up 13% QoQ. Gross profit margin is expected to decline 2.7ppts sequentially to 26.5% this quarter due to higher coal cost. Furthermore, we don't expect the company to pay any cash dividend this quarter.

LUCK: Contribution from LEPCL will support profitability

We expect LUCK's 4QFY22 earnings to increase 24% YoY to PKR5.73bn (EPS: PKR17.71) on account of LEPCL coming online and higher contribution from Lucky Motors Corporation. However, sequentially profitability will see a decline of 24% due to impact of super tax applicable in this quarter. Topline will improve to PKR126.3bn up 36%/151% QoQ/YoY. This increase in net revenue is due to higher contribution from LEPCL and a general hike in output prices. On standalone basis profit is likely to drop to PKR0.78bn due to super tax and lower dividend from subsidiaries. Contribution from foreign operations are expected at PKR2.3bn down 19% QoQ. Moreover, we expect LUCK to pay a dividend of PKR5.0/sh this quarter.

MLCF: Sequential volumetric decline and higher taxation to lower profitability

We expect MLCF's 4QFY22 PAT to see a decline and clock in at PKR0.70bn (EPS: PKR0.63) vs PKR0.98bn (EPS: PKR0.89) in SQLY. On QoQ basis, earnings are to decline by a massive 55%. Like other companies, higher taxation is the primary reason behind lower profitability. Net sales are expected to increase to PKR12.9bn this quarter up 8%/36% QoQ/YoY. This is despite 11%/14% drop in local dispatches as retention prices have increased by 21%/63% QoQ/YoY. Gross profit margin is expected at 27% this quarter. Finance cost is also expected to increase to PKR0.62bn this quarter up 22% QoQ. Furthermore, we don't expect MLCF to pay any final dividend.

PIOC: Higher finance cost to lower profitability

We expect PIOC to report earnings of PKR0.24bn (EPS: PKR1.07) in 4QFY22 down 47%/62% QoQ/YoY. Net sales are likely to improve by 20%/50% QoQ/YoY to PKR9.29bn due to higher cement retention prices. Gross margin will remain stable at 21% this quarter. Finance cost is expected to increase to PKR0.94bn from PKR0.76bn in preceding quarter, on the back of higher interest rate. Effective tax rate of around 68% will also negatively impact profitability. Lastly, due to debt repayments, we don't expect company to pay any dividend this quarter.

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