

PAKISTAN CEMENTS

REP-019

MARKET VISTA

Profitability improved on lower finance cost

- **AKD Cement Universe profitability increased by 2%YoY in 2QFY26, primarily driven by sharp decline in finance cost**
- **Companies with presence in South region, i.e., LUCK and DGKC reported profitability growth on higher prices and easing coal prices.**
- **FCCL profitability remained flat YoY, as higher other income and lower finance cost offset the impact of weaker retention prices. While, PIOC, CHCC, KOHC, and MLCF profitability dropped by 9%/11%/17%/25% YoY, respectively.**
- **We maintain a positive outlook on the sector, supported by demand recovery, with LUCK, FCCL, and DGKC as our preferred picks.**

Earnings increased on easing finance cost: AKD Cement Universe profitability increased by 2% YoY to PkR25.7bn in 2QFY26, primarily driven by sharp decline in finance cost. However, lower cement prices and weaker exports from North, along with higher coal cost following the Afghan border closure, partially offset the benefit. To highlight, profitability came in slightly above our expectations due to lower-than-expected COGS.

Finance cost declined on lower rates and deleveraging: Finance cost slashed by 52%YoY to PkR2.4bn in 2QFY26, mainly due to 259bps YoY decline in financing rates, coupled with a 36% YoY reduction in total outstanding debt to PkR116bn as of Dec'25, compared to PkR182bn in SPLY. Moreover, sector's other income dropped by 5%YoY to PkR8.0bn in 2QFY26, as 21%YoY increase in sector cash & ST investments partially offset the impact of decline in yields.

Topline contracted on weaker retention prices: Sector revenue declined by 2%YoY to PkR128bn during 2QFY26, compared to PkR130bn in SPLY, mainly due to a decline in North retention prices and lower export volumes, though growth in domestic offtakes partially offset the impact. Subsequently, gross margins contracted to 34.2% during 2QFY26 from 35.4% in SPLY.

Notably, avg. cement prices in North declined by 6%YoY to PkR1,379/bag, as prices were elevated in SPLY due to pass-on of royalty rates by Punjab-based players. In contrast, avg. cement prices in South increased by 3%YoY to PkR1,428/bag, as pricing pressures eased amid improvement in export prices. Meanwhile, total offtakes increased by 3%YoY to 13.2mn tons during 2QFY26, mainly driven by 9%YoY rise in domestic offtakes, supported by recovery in construction activity with improving macros and declining inflation. However, exports declined by 24% YoY, primarily due to the Afghan border closure.

South-based players outperformed: Companies with presence in South region, i.e., LUCK and DGKC reported profitability growth of 18%YoY and 36%YoY, respectively, mainly due to aforementioned higher retention prices and easing coal prices. In contrast, PIOC, CHCC, KOHC, and MLCF profitability dropped by 9%/11%/17%/25% YoY, respectively, due to lower retention prices and a shift in coal mix towards Richards Bay following Afghan border closure. Meanwhile, FCCL's profitability remained flat YoY, as higher other income and lower finance cost offset the impact of weaker retention prices.

Investment Perspective: We maintain an 'Overweight' stance on the sector, supported by i) demand recovery, ii) stability in gross margins, and iii) reduction in debt levels along with monetary easing. Our top picks are LUCK (Dec'26 TP: PkR731/sh), FCCL (Dec'26 TP: PkR88/sh), and DGKC (Dec'26 TP: PkR389/sh). Our liking for LUCK stems from i) improvement in core margins, ii) increase in dividend from power segment and iii) expected recovery in cyclical segments benefiting its subsidiaries. FCCL is preferred on i) higher retention prices, ii) optimized energy mix, and iii) easing finance cost. While DGKC liking is due to i) declining finance cost amid easing interest rates, ii) improving export prices amid increase in global demand, and iii) higher utilization to enhance fixed cost absorption.

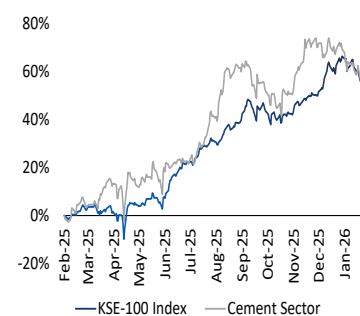
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AKD Cement Universe Valuation

	Stance	TP (Dec'26)	PE (FY26)	D/Y (FY26)
LUCK*	BUY	731	6.3	1.7%
FCCL	BUY	88	8.6	3.8%
MLCF*	BUY	157	9.5	1.3%
DGKC	BUY	389	8.7	2.2%
CHCC	BUY	640	6.9	2.4%
PIOC	BUY	372	11.0	6.0%
KOHC	BUY	194	8.4	0.0%

*Consolidated Source: PSX & AKD Research

Cement Sector vs. KSE100 Index



Source: PSX & AKD Research



AKD Securities Limited



AKD Cement Universe profitability increased by 2%YoY in 2QFY26

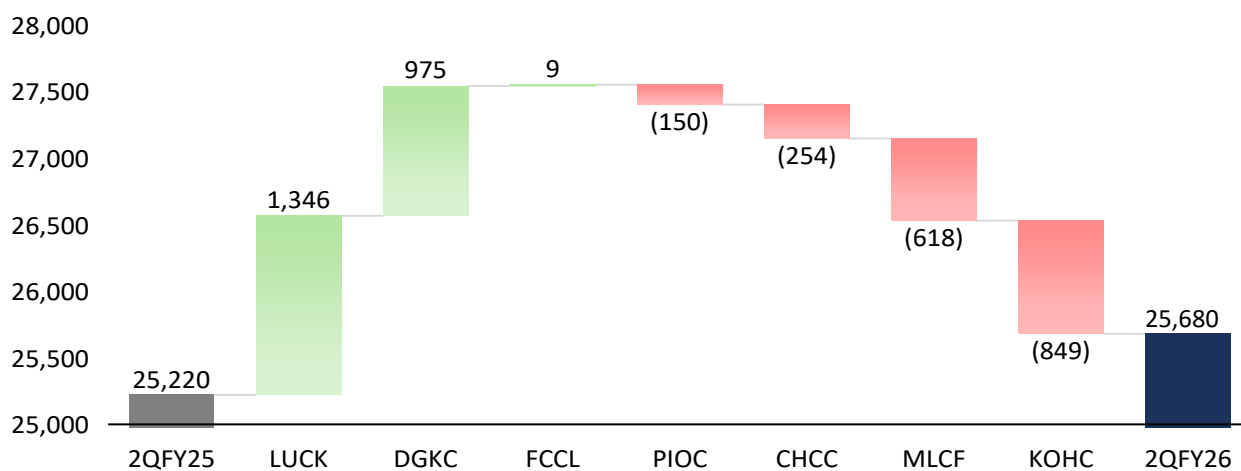
AKD Cement Universe Earnings snapshot

PkRmn	2QFY26	2QFY25	YoY	1QFY26	QoQ	1HFY26	1HFY25	YoY
Sales	127,649	130,228	-2%	122,762	4%	250,210	241,661	4%
COGS	84,008	84,131	0%	82,274	2%	166,282	159,316	4%
Gross Profit	43,641	46,097	-5%	40,488	8%	83,928	82,345	2%
Gross Margins	34.2%	35.4%	-	33.0%	-	33.5%	34.1%	-
Opex	7,905	8,236	-4%	7,442	6%	15,347	16,108	-5%
Other Income	8,013	8,439	-5%	13,163	-39%	21,176	15,209	39%
Finance Cost	2,376	4,931	-52%	2,563	-7%	4,947	9,994	-51%
PBT	38,873	38,668	1%	42,057	-8%	80,930	67,507	20%
Taxation	13,193	13,448	-2%	12,954	2%	26,147	22,992	14%
NPAT	25,680	25,220	2%	29,103	-12%	54,783	44,515	23%

Company-wise profitability and key drives of performance

EPS (PkR)	2QFY26	YoY	QoQ	1HFY26	YoY	Reason for annual change in 2QFY26 profitability
LUCK	5.9	18%	-41%	15.6	68%	Higher local volumetric sales and improved gross margins, alongside tax normalization.
LUCK Consol.	15.4	6%	3%	29.7	13%	Growth in cement operations along with improvement in autos and mobile assembly segment.
MLCF	3.0	-17%	14%	5.5	15%	Lower retention prices and higher weighted-average coal costs pressured margins.
FCCL	1.6	0%	23%	3.0	1%	Growth in local sales and easing finance costs were offset by lower cement prices and weaker exports.
DGKC	8.4	36%	71%	11.0	66%	Higher local sales mix along with stronger South retention prices and lower international coal prices, led to an 8-year high margin.
CHCC	10.4	-11%	-4%	21.5	-20%	Decline in local retention prices and lower exports amid Afghan border closure. In addition, change in power mix following imposition of levy on captive gas increased COGS.
PIOC	7.0	-9%	26%	12.9	4%	Margin compression from lower retention prices and a higher avg. coal cost (increasing Richards Bay mix) outweighed offtake growth.
KOHC	2.8	-25%	-12%	6.0	-20%	Lower retention prices and higher coal costs weighed on margins. In addition, other incomes weakened on lower investment yields.

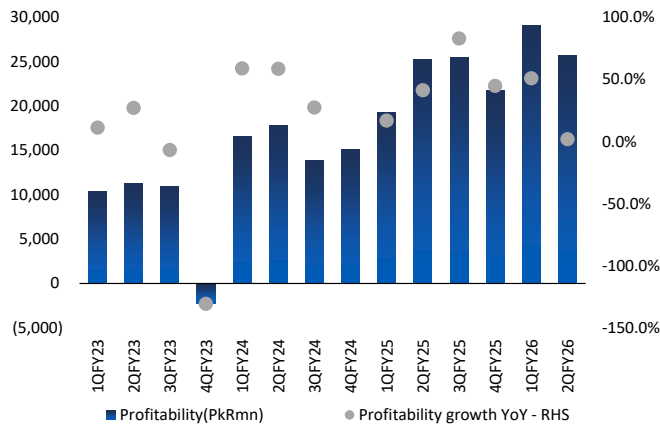
LUCK & DGKC posted earnings growth on higher South pricing and lower coal cost



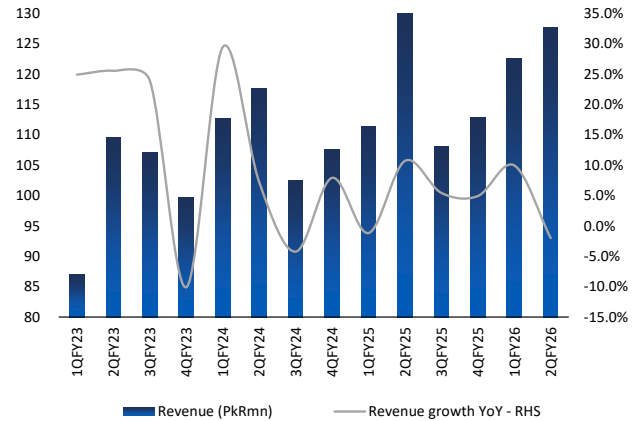


Offtakes supported by recovery in domestic demand

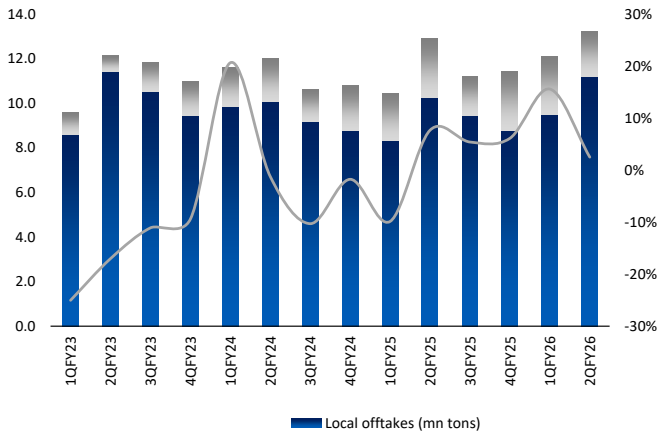
Sector profitability up 2%YoY in 2QFY26



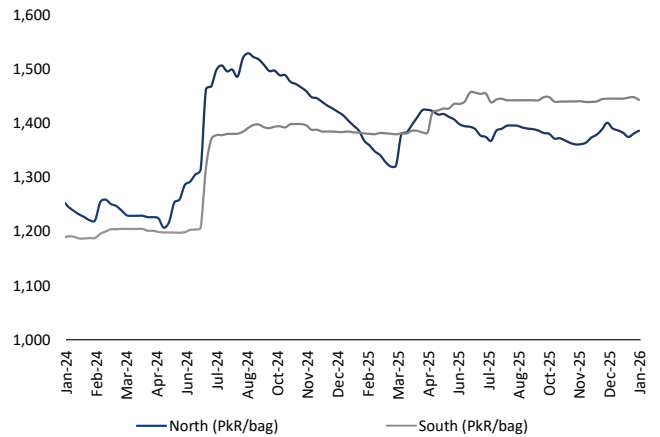
...while revenue declined on weaker retention prices



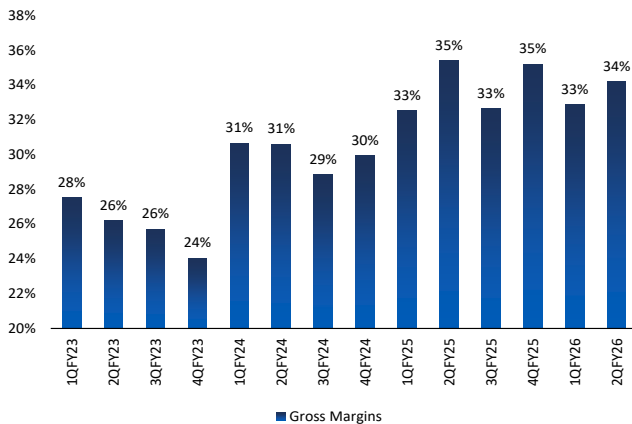
Offtakes increase led by strong domestic dispatches



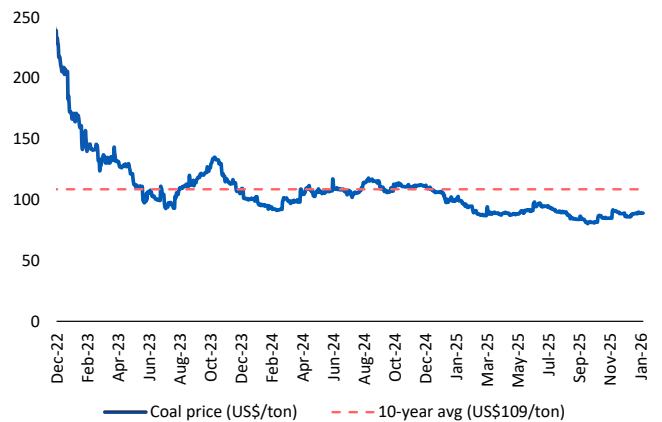
...while avg. cement prices softened...



...resulting in gross margins contraction in 2QFY26



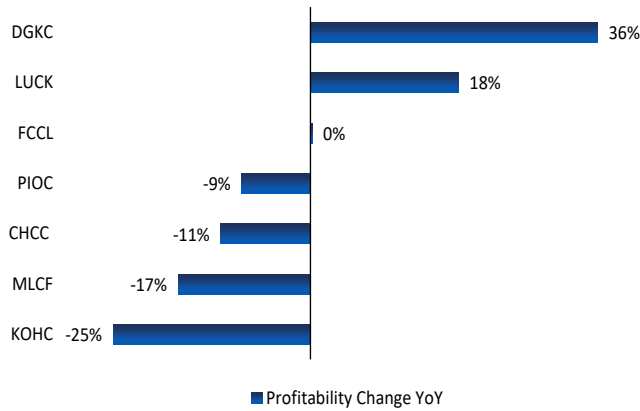
...despite easing international coal prices



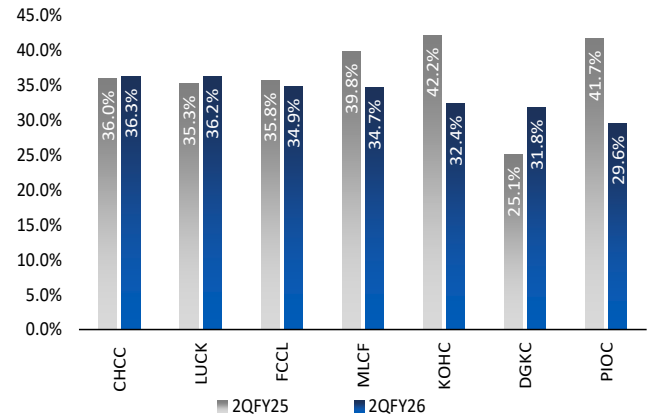


South-based players posted profitability growth

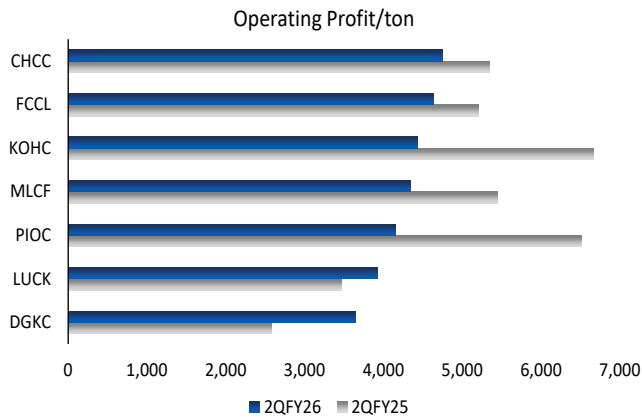
DGKC & LUCK posted profitability growth



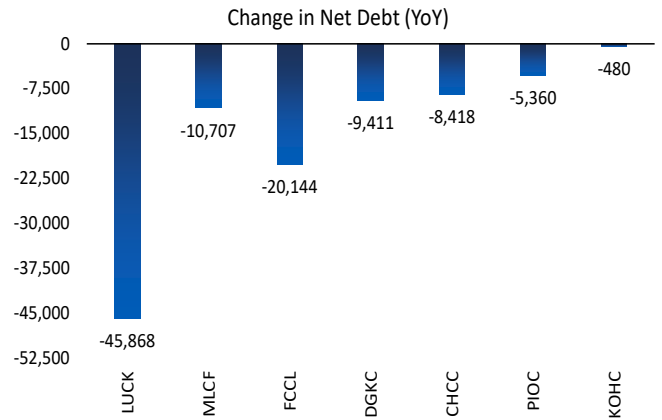
...driven by margin expansion



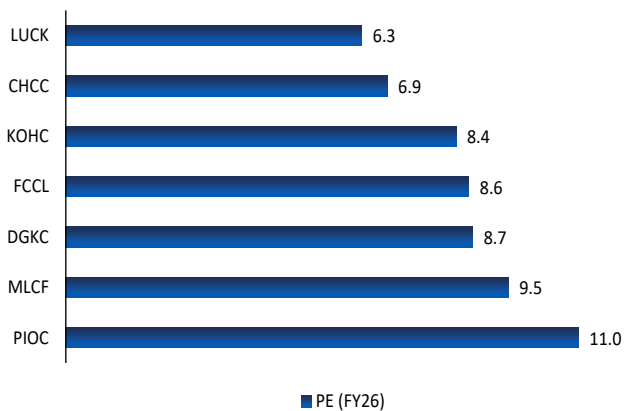
CHCC & FCCL led OP/ton due to higher margins



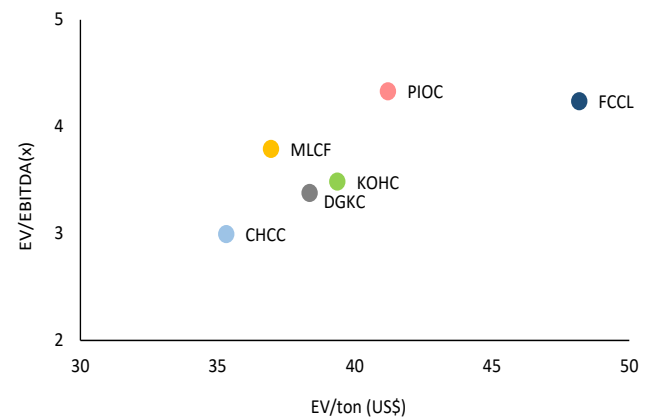
LUCK and FCCL posted highest reduction in Net-debt position



LUCK & CHCC trade at lowest PE multiples



CHCC, MLCF, & DGKC well-positioned on replacement cost basis



Company-wise cement offtakes

mn tons	2QFY26	2QFY25	YoY	1QFY25	QoQ	1HFY26	1HFY25	YoY
LUCK								
Domestic	1.74	1.60	9%	1.61	8%	3.35	2.97	13%
Exports	0.71	1.03	-31%	0.81	-12%	1.52	1.84	-18%
Total	2.45	2.63	-7%	2.42	1%	4.87	4.81	1%
MLCF								
Domestic	1.12	0.96	16%	0.95	18%	2.06	1.74	18%
Exports	0.02	0.07	-72%	0.05	-65%	0.07	0.14	-47%
Total	1.14	1.03	10%	1.00	13%	2.14	1.88	14%
FCCL								
Domestic	1.45	1.33	9%	1.24	18%	2.69	2.49	8%
Exports	0.05	0.16	-71%	0.27	-83%	0.31	0.32	-4%
Total	1.50	1.49	1%	1.50	0%	3.00	2.82	7%
DGKC								
Domestic	1.02	1.03	-1%	0.86	18%	1.88	1.77	6%
Exports	0.39	0.51	-23%	0.49	-19%	0.88	0.95	-8%
Total	1.41	1.54	-8%	1.35	5%	2.76	2.73	1%
CHCC								
Domestic	0.61	0.55	11%	0.54	12%	1.15	0.99	16%
Exports	0.03	0.11	-71%	0.16	-80%	0.19	0.25	-25%
Total	0.64	0.65	-2%	0.70	-9%	1.34	1.24	8%
PIOC								
Domestic	0.70	0.56	26%	0.55	28%	1.25	1.02	22%
Exports	0.00	0.00	n.m	0.00	n.m	0.00	0.00	n.m
Total	0.70	0.56	26%	0.55	28%	1.25	1.02	22%
KOHC								
Domestic	0.69	0.63	10%	0.65	5%	1.34	1.21	11%
Exports	0.02	0.00	333%	0.05	-58%	0.07	0.02	325%
Total	0.71	0.63	12%	0.70	1%	1.41	1.22	15%
ACPL								
Domestic	0.23	0.34	-32%	0.34	-31%	0.57	0.61	-6%
Exports	0.57	0.41	40%	0.49	15%	1.06	0.70	52%
Total	0.80	0.75	7%	0.83	-4%	1.63	1.30	25%
POWER								
Domestic	0.34	0.35	-3%	0.33	3%	0.66	0.60	10%
Exports	0.24	0.33	-27%	0.23	7%	0.47	0.50	-6%
Total	0.58	0.68	-15%	0.56	4%	1.14	1.10	3%
BWCL								
Domestic	1.90	1.84	3%	1.66	14%	3.56	3.27	9%
Exports	0.01	0.04	-74%	0.04	-77%	0.05	0.07	-24%
Total	1.91	1.88	2%	1.70	12%	3.62	3.34	8%
DCL								
Domestic	0.34	0.31	8%	0.29	18%	0.63	0.58	9%
Exports	0.00	0.00	n.m	0.00	n.m	0.00	0.00	n.m
Total	0.34	0.31	8%	0.29	18%	0.63	0.58	9%
FECTC								
Domestic	0.19	0.16	18%	0.18	7%	0.36	0.27	33%
Exports	0.00	0.01	-87%	0.00	-54%	0.00	0.02	-77%
Total	0.19	0.17	11%	0.18	6%	0.37	0.29	26%
GWLC								
Domestic	0.41	0.34	22%	0.32	31%	0.73	0.60	22%
Exports	0.00	0.00	n.m	0.00	n.m	0.00	0.00	n.m
Total	0.41	0.34	22%	0.32	31%	0.73	0.60	22%

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To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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BUY	> 15% expected total return
NEUTRAL	> 0% to < 15% expected total return
SELL	< 0% expected total return

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