



Thursday, September 02, 2010

Cement sales declined due to floods and Ramadaan

Total cement dispatches during August declined by 19.8% to 2.36 mn tonnes as against 2.95 mn tonnes in same month last year. The major drop was witnessed in local dispatches that declined by 26.4% while exports sales dropped by 6% only. However, the decline was around 6.4% on MoM basis.

The drop in local cement off takes is mainly due to slow down in construction activities in the month of Ramadaan (Fasting month of Muslims) and super flooding in the country that hampered the industrial production and its supply across the country due to damage caused to infrastructure. We believe that cement sales to remain depressed during the next couple of months also. However, the initiation of reconstruction activities post super flood may lead to significant rise in the local cement dispatches during the second half of the current fiscal year. Currently, we recommend a BUY on LUCK and DGKC with TP of PkR 90.0 and 36.0 respectively.

The aftermath of Floods likely to affect coming wheat crop

The next wheat crop is at risk after floods destroyed more than 0.5 million tonnes of seed stocks, according to United Nations' food agency (FAO). Unless people get seeds over the next few weeks, the farmers will not be able to plant wheat in coming season which is due to be planted in between September to November. Moreover, in some areas, the fertile top layer of soil has been washed away, making planting impossible, while in some other areas, the land is still waterlogged or covered in silt and needs to be cleared.

As per the recent govt. estimates, the devastating floods have inflicted an overall loss of about USD 43 billion to the different sectors of the economy. As a result, the country remains in dire need of funds to contain losses and provide relief to the affectees.

Market Outlook

We recommend a 'Sell on Strength' stance for the day.