Equity & Stock Analysis/Valuation

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REPORT

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Leading and Dragging Cement Companies in Pakistan

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WORLD ECONOMY AT A GLANCE

The Earth is not only sheltering but also feeding the billions of living things , which are being managed and influenced by external and internal factors

Almost 71% of the earth surface is covered by the 5 oceans and the rest of that is divided into 7 continents , the population of these continent comprises over 6.8 billions human beings with 1.67% growth rate per annum.

Living needs and requirements are accomplished through a system and economy is that a system which provides living to the peoples or loosely defined as country's plan for its services ,goods produced and the exact way in which its economic plan is carried out.

There are several types of economy's but Market, Planed & Mix economies are most prominent, while the other types i.e. Political, capitalist & Price market are not well known

MARKET ECONOMY	decisions are dominated by supply & demand
PLANNED ECONOMY	production, distribution & prices are controlled by the
MIXED ECONOMY	flexibility in some area and control in others, this includes capitalist & socialist economic policies and often arise in societies that seek to balance political & economic views
POLITICAL ECONOMY	"capitalist regime" analyze the conditions under witch production was carried out into the national states , political economy basically study process of polity weather it is undergoing a surplus or deficit , also study of human activity in shaping material world & mechanism of distributing surplus or deficit generated from such activities.
CAPITALIST ECONOMY	otherwise called free market economy, where more private participants in economic activities, free environment to compete in economy, individuals/firms acts for profit and high freedom for choice to customers while government acts as police state.
PRICE MARKET ECO.	where prices of goods and services are determined by demand & supply forces, government to ensure that fair prices (determine by demand & supply) are being charged by suppliers. Peoples with sufficient control over resources and wealth can purchase goods/services which

Source: Economic watch, Asia Monitor, CIA Fact book & Encyclopedia are highly priced in free economy . system thrown out the poor's and they can not purchase basic needs. This is most efficient device to allocate resources with wealth or income, (giving peoples what they deserve) price market existing with the doctrine of socialism like. Limited regulations of prices by the government to protect the poor's can be ideal for developing countries, as did by the India & China

ISLAMIC ECONOMY

Regulates in accordance with Islamic law's, Government & Private ownership of resources with restriction on Riba (interest) but Profit earned through lawful businesses. ZAKAT, USHER,KHUMS & GIZIA are primary while trade taxes (trade with friend or foe countries) are secondary revenues , government is responsible to control prices & ensure only reasonable profit for the businessmen's and primarily responsible for fulfillment of basic needs & provision of equal opportunities for prosperity & welfare of all citizen (regardless of sect or religion) of the state.

Traditional Economy

Is a system where allocation of available resources is made on the basis of in heritance. As a deep rooted economic theory with well- belt social setup. Traditional economy generally makes use of prehistoric instruments & techniques, where age-old human occupations like agriculture & cottage industries were focal point of interests. Although there were some benefits where peoples feels psychological free, comfortable and secured , hence increase their working abilities and reduce un employment & low crime rates. However nations having traditional economy's are fast switching off to more contemporary concept like Mix / Controlled / Market economy and Islamic Economy (Muslim states) to keep pace with modern economic trend and happenings .

Global Economy

Shift in economic activities from “agriculture” to “service” which raised in growth in total as well as per capita GDP and reducing number of peoples in poverty. Global economy has equipped the economy with power to market goods & services across countries in the globe. Reaping benefit of economy in scale and availability of cheap labor/capital & technology are its advantages, while transportation of goods/services across nations, emission of greenhouse gases, loss of domestic jobs & displacement of labor because of shifting labor intensive industries to low wage countries and formulation of un differential legislation / regulations across the globe are main disadvantages.

Economic Relations

Relations between two countries depends on factors like import-export and investment which leads to bilateral or multilateral trade. World Trade Organization(WTO) managed to create free trade zones and made it possible to promote free trade on global basis to minimize trade barriers among different countries which are erected in the form of oppressive foreign trade legislations & tax policies which were not exactly in the favor of attracting FDI from other countries.

Globalization and International Economic Relations

Globalization has led to social, economic, technical, cultural & ecological interdependence among the nations. Unrestricted movement of goods/services/flow of capital/ mobility of workforce and reduction of regulatory obstacles need to be ensured for successful economic relations. Globalization leads to free trade between countries, flow of information’s, reduction in cultural barriers and environmental issue of the world, resultantly many mutual co-operations took place and economic activities under taken across geographical borders.

PAKISTAN ECONOMY

Regional Eco.

Asia is the largest & populous continent , consist over 8.6% of land area and residing 4 billion peoples (60% of the world population) comprises over 52 states , including economic giants (China & Japan), oil enriched gulf countries , plentiful natural resources states of formal USSR and largest democratic republic of India

Pakistan Eco

Pakistan economy is 26th largest for purchasing power and 46th in term of GDP (World Bank 2008)

Agriculture sector : contributes 23% of GDP hosting 45% of labor workforce, hence world leading in producing Agriculture commodities

Industry sector :Textile (is back bone of Pakistan meets 9% of world demand) Food processing , Chemical, Iron & Steel besides Fertilizer & Cement

Imports: Hydrocarbons, Capital goods & Chemicals

Natural Resources : Oil, Gas, Coal, Iron & Copper

Economic Indicators :

L. Scale(Mfg)	5.4	Inflation	23%
Taxes (Rs. B)	959	Export ($ M)	13015
Remittance($M)	4919	Import ($ M)	21878
C.A deficit ($M)	7455	Trade Bal.	8863
Foreign Invest	1892	F. Reserve	10 ($B)
Exchange Rate	80 Rs/$	Lending Rate	14%

Source: Economic survey of Pakistan, Board of Investment-Pakistan, Trade development of Pakistan

Stress on macro economic stability mainly emanated from unstable balance of payments, falling value of Rupee, escalating inflation & structural problems like power shortage resulting in perceptible slow down in economic activity, domestic socio political upheavals & rapid changing global economic environments added to multifaceted problems, but after endorsement of economic stabilization program by IMF, the economy got confidence back

Improvement in economic variables such as inflation, foreign exchange reserves, import growth & Government borrowing are evident of activity revival hence Economic growth target 3% & fiscal deficit target 5.6% of GDP are achievable and pressure on monitory/fiscal & exchange rate policy will be mitigated by lowering financing needs, elimination of subsidies , partial transfer of oil payments to foreign exchange market and fall in international oil prices will provide great help.

Downside risk to IMF program may come from slippage on FBR revenues & sow down in export neutralizing to some extent steep fall in import growth , negative growth in LSM(large Scale Manufacturing) and falling credit to private sector are indication of falling economic activity, however still prospects in Agriculture & Service sectors hoping to achieve targets

Political Consequences of 9/11 2001 are the major cause, which adversely affected on Afghanistan & Pakistan

Assassination of Banazir Butto & International Crises cause to Capital flight & stepping back of foreign investors from Pak has close down the business & economic activates and dropping down the currency value about 15% against US Dollar

War against terror , suicidal & terrorist attacks are major causes of social unrest

Successful Army operation in Swat and Waziristan has shown some hope to the revival of security situation

Economic Factors

Economic growth

According to UN Economic & Social Commission for Asia manufacturing sector is moderately growing despite 60% fall in profit due to international crises & oil prices as well as currency devaluation and fall in export

Inflation

Energy crises, insecurity ,low infrastructure, low productivity international cries, fuel prices hike, currency devaluation , debt financing , capital flight from Pakistan & low productivity in industrial workers & poverty are all together causing inflation

Interest

Raising interest rate was raised up to 14% beside tightening monetary policy to fight inflation, which has brought down

Exchange

Depreciation in Currency has not only increased debt Burdon on Pakistan but also effecting the international trades

Social Factors

Sense Social Justice is creeping among the society and they are demanding capability base access over wealth & resources as well as pressing government to provide Education/Health/ Safety & Security besides economic stability and justice

Technological Factors

Development & Promotion of Automation & IT in organization to increase efficiency & productivity particularly in manufacturing units Software for Bank & DFI's to promote investors confidence

NB Read in conjunction with working paper " Why to Invest in Pakistan"

COUNTRY RISK RATING

Political Factors

Al-Qaida & Taliban

Existence of Taliban & alleged presence of Al-Qaida management in Pakistan has not only deteriorated security situation in Pakistan but also debarred foreign investors to invest in Pakistan and resultantly economy has sagged at 49.6 basis point in short term scoring, despite effective operation in Swat & Malakand divisions, however impending operation in Waziristan and new Obama policy to expanding dialogue with radical groups in Pakistan & Afghanistan , has positively been responded in Pakistan.

Baluchistan

Provincial autonomy and more funding from federal government through NFC award on the ground of area and poverty instead of population. Consensus has developed among political parties and would bring positive result.

FATA

Demand has raised for self autonomy like Gilgat Baltistan instead of merging with NWFP province

Gilgat Baltistan Council

Status like AJK government has announced by the Govt. which will not damage the cause of Kashmir because council has not been declared as province of Pakistan

Independent Judiciary & Social justice

Power package 125 M, BISP 85 M, IDP's 56 M & EDU 45 M and Support to Construct Dams & Electricity Production & interest in Investment in Pak by USA & explanatory note on Carry Loger bill

Shares distribution of 1.2 billion rupees

Monopoly control fine on cement/ sugar &Petroleum prices

Waziristan operation & additional military aid by USA

EU & USA announce to take measures to make Pakistani exports most attractive., as demanded by Pakistan

Up gradation of Karachi steel by USSR

Goods train service to Turkey via Iran & Free Trade Zones

Pak Iran gas pipeline

Economic Factors

Foreign Direct Investment (FDI)

Global financial crises and volatile domestic security situation caused 57% yoy slump because of FDI hurt despite improvement in sovereign rating from negative to stable (speculative grade B3) by Moody & revised rating by Standard & Poor's from CCC+ to B- (improved external liquidity & reduction in fiscal deficit) and increased inflow from foreign portfolio investors , who purchased $95(M)in just one month in local stock and bringing DFI to $351 Mn. along with 1% cut in interest rate(14% to 13%) with 10% liquidity placement with State Bank of Pakistan(SBP) and release of 3rd trench of $7.6 billion loan. short term ranking of Pakistan is 44.4

Friends of Pakistan (Tokyo Accord) plus principal approval of another 4 billion loans from IMF, and impending approval of Carry Loger bill by president Obama and some other assistance programs for Pakistan by USA are in pipeline while will play a vital role in the prosperity of economy.

Business Environment

Power Crises

As demand increased by industrialization while capacity has not grown in tandem

Government is very serious to overcome & taken following -short term measures like hiring Rental power plants and provision of extra furnish oil /gas to existing IPP's and payment of their over dues, Controlling line losses & improving distribution system long term measures like construction of large, medium & small dams, and initiate a pilot project of coal power house.

Disillusionment with Trade Policy

Government trade policy has come under flak for not offering enough incentives to relive cost burden from export sector, which is weighing heavily on competitiveness. Without greater diversification in product & trading partners it will not possible for Pakistan to extricate itself from chronic trade deficits.

Physical Infrastructure of Road & Highways

Signed a contract of $230Mn by Asian Development Bank for safe, fast & cost effective transportation up to remote areas , it would attain infrastructure score of 36.1, while institutional score to 29.6 ,while market orientation to 47.5

WHY TO INVEST PAKISTAN

GREEN FIELD INVESTMENT INCENTIVES

Incentives

Capital / Profit & Dividend remittance allowed
5% custom duty on import of plant /machinery/ equipments on manufacturing/infrastructure sectors & 0% on agriculture and 0-5% on services sectors. Tax Relief (initial depreciation allow.) 50% of PMI costs

Royalty/Technical Fee no restriction on payment of fee in manufacturing & Rupee One lac or 5% of net sale up to 5 years
Minimum investment , no limit on manufacturing sector and US $ .3 million for agriculture & US$ .15 for service sectors
No permission required except some specific industry/sector

Reasons

Geo-strategic location : Pakistan Is gateway to energy enrich central Asian states , financial liquid gulf & economically advanced for eastern tiger. This strategic advantage alone makes Pakistan a marketplace teeming with possibilities

Trained work fore : large part is proficient in English , hardworking & intelligent . Pakistan possess large pool of trained/experienced (international) professionals

Economic outlook : Pakistan have been touched a growth rate of 8.4% in 2005 and growing middle class 180 million consumers, FDI reached to US $ 3.7 billion, fiscal deficit inclined up to 3% of GDP & foreign reserves US$ 11.6 billion

Investment policies : policies tailor to suit investors needs, consistency in policies with liberalization, de-regulations, privatization & facilitation being its foremost cornerstones

Financial Market : Security & Exchange Commission has improved the regulatory environment of stock exchanges, corporate bond market & leasing sector, while Federal board of Revenue brought structural reforms in Tax/Tariff and State bank of Pakistan has invigorated banking sector into high return on investment

Infrastructure : Sea ports (recently developed Gawader port) Airports, Roads (Highways & motor ways) , Railway to Turkey Courier services & dry ports export zones

Information : pre-feasibility information & land leasing facility

Foreign Investment

Greenfield foreign direct investment (FDI) for year 2008-9 by our major trade partners amounting to US$ 3179.9 million from USA, European countries (UK, Germany, Switzerland & Norway) Asian countries (China, Japan, Hongkong & Korea) Gulf States (UAE & Saudi Arabia) in oil/gas, power, chemical, textile , construction , communication/transportation and financial sectors

Legislation & Trade Agreements

Foreign private investment (promotion & protection) Act 1976 Free trade agreement with China, Malaysia & Sri lanka, South Asian Free trade agreement and preferential trade agreements with Iran & Maurities

Pakistan has been facing many difficulties on non economic front, which lead to further deterioration of business climate. The issued created due to problems such as energy crises, business closures , declining long term FDI has worsen by war on terror. Direct & indirect losses of lives, properties , business assets & loss of image made business interaction more difficult. After global crises , our economy is in recovery phase. Trade performance of 2009-9 witnessed unprecedented economic downturn in out major markets of USA & EU. Consumption decreased in developed world & global trade shrink 9% and badly effect on exporting countries. Pakistan exports declined by $ 17.8 billion while imports shrinkage are 13%

There is major structural change as for as product composition & geography of trade is concerned , there has been explosion of non textile manufactured exports at the global level and Pakistani exports , which are comprises over 54% on textile, has sharply declined. Our competitor economies have significantly enhanced their share in non textile manufactured, as for as textile & clothing sectors are concerned , the rate of growth in clothing is much higher then textile in int. market, whereas Pakistan is managing to keep its market share in textile to an extent, has been slow in benefiting from expansion in higher value clothing sector.

Source:	Ministry of Finance Pakistan, State Bank of Pakistan , Ministry of Production, International Monitory Fund (IMF)

Principal reason for this growing disconnect between evolving global market structure and out export performance is the erosion of the competitiveness of Pakistan's traditional exports in general and country's weakness in diversifying its product & market mix.

Fundamental principals of strategic trade policy framework , besides others are promoting private sector, investing in human resources, opportunities for gainful employment, export led growth by focusing development & facilitation , despite the challenges of energy, low labor productivity, low level of value addition in manufacturing of goods, low FDI , anti export bias in taxation & increased cost of production because of not attaining to economy level.

Government has announced the Following measures to affect the international commerce.

To strengthen export competitiveness , government will compensate inland freight cost to exporters of Cement, Light engineering, leather, Furniture, Tile/Marble & Soda

Government will support for brand development (for getting higher prices in int. market) for 25% of cost for Surgical instruments, Supports goods & Cutlery

Textile support by abolishing import duty in chemicals

Sea food 6% of export value will be reimbursement on a/c of research & development and 50% of certification expenditures by attaining HILAL board certification.

To increase overall competitiveness, Govt. promised to "Zero Rate" export completed, interim relief is given to Electric machinery, Carpet/Canvas, Support goods, Footwear, Surgical/Medical instrument, Cutlery, Fans, Furniture, Auto parts, Handicrafts, Pharmaceuticals

To reduce cost of doing business in Pakistan , Govt. will ease import restrictions on specialized machinery/ Transportation equipments/Construction spare parts, Waste disposal plant, Oil & Petroleum industry

To allow improved development of Pharmaceutical / Engineering services, Govt. to ease export restrictions on the industries.

Import of used Computer & Monitors

BUDGET 2009-10 (July – Jun)

Budget of Pak Rupees 2.9 trillion, based on uncertain external inflows , where Rs. 724 billion are proposed for debt financing, non development expenditures Rs. 1.55 trillion (Rs. 621 billion for public sector development program) and defense allocation of Rs 343 billion, Earthquake rehabilitation for Rs. 25 billion & Banazir income support program for Rs. 70 billion

War against terror since the year 2001-2 cost US $ 35 billion to Pakistan and 2.5 million IDP's (internally displaced persons) and Government has to allocate Rs. 50 billion for their relief, rehabilitation ,reconstruction & security. We had presented that neglecting the real sectors of economy (Agriculture, Industry) & fueling growth through high consumption & luxury imports financed by external borrowing have destroy our economy and budget deficit reached to 7.6% of GDP, run on foreign exchange reserves, stock market crash and inflation reached to 25% which can be reduced by reducing poverty.

Govt. has nine point agenda for economic & social recovery

Macroeconomic stability & Real sector growth

Immediate threat to economy & servicing of international debt financing were overcome through homegrown macro economic stability program. This program already ensured adjustment in petroleum prices & significant cut in expenditures to reduce deficit by elimination of under productive subsidies.

Protection the poor's

Banazir income support program for 5 million family by direct cash assistance , woman empowerment & child care, Health insurance / training & employment for poor's, provision of electric/gas , Farm to market roads & water supply, 12% shares to workers, 1000 houses to worker, daughter marriage allowance & micro financing to woman's . low cast flats for poor population through out the country under prime minister housing scheme

Increase productivity & Value addition in Agriculture

Fixing crop prices to farmers with international comparison, R & D for wheat/cotton, productive use of water by irrigation system (cemented) export of high value crops, no import duty on agricultural machinery/equipments , 32 small & medium dams, raising Mangla dam , Gomal dam, Setpar dam Canal improvement (Kachi & Raine canals) Rainwater harvesting & groundwater recharge and construction of warehouses for storage of food grain.

Making industries internationally competitive

Capital & Finance for development

Removing infrastructure bottleneck through PPP(private public Partner)

With a view to moving industry towards consolidation & value addition on export an investment support fund has created, small & medium enterprises (SME) sector has strengthen by providing credit access ,based on Government/Private at 50:50 percent basis point, Equity financing by venture at above ratio FDI for industrial financing .industrial clusters are going to involved for skill development to ensure ownership, monitoring/oversight a relevance of program. Excise duty has reduced by 5% on automobile industry, while Rs. 200/ton reduction in cement industry, Textile industry has given cuts on import duty of chemical etc, certain reductions/reliefs in tax/duty/levy to protect & revive local industries along with following facilities ie priority to providing electricity/gas & phase wise reduction of subsidies ,formation of large export houses / special economic zones & special industrial zones , access to USA & EU markets, consolidation of industries is being proposed , holding company formation facilitation , labor ownership relation & privatization through PPP

Integrated energy development program

Holding company creation to assume bank loan to resolve circular debt of this sector,(specially IPP & oil/gas companies) reinforcement of transmission & distribution system to minimize power losses/line losses. 15 IPP's of 2921 MW are under construction (60% will be completed in running year) 5 rental power plants for 800 MW are negotiated for this year, 16 Hydro power projects for 4160 MW & 2 new combined cycle power projects of 500 each & 2 hydro (Jinnah & K.Khwar) are being completed by China Basha Dam of 4500 MW has been allocated Rs. 4000 million & 30 No's small/medium dams has also been funded.

Solar thermal power of 50 MW, Wind energy forms, are being developed , production of solar cell/modules of 80 KW capacity & solar water heaters , Depreciation allowance has been enhanced to 100% for renewable energy

Human capital development

Education, Health, Clean drinking water, Sanitation , Population planning & gender equality are the main sectors which are focused in the budget, construction of basic education school & provision of missing facilities to existing educational/health structure and construction of 3500 new filtration plants.

Human refights ministry has established to protect & improve human rights & reduce violations.

Governance for a just & fail system

Improved “ Governance “ is must for just & fair system. The manner in which public institutions & officials acquire and excess authority to shape public policy and provide public goods/services is at the crux of the government. Political instability , corruption, volatile law & order situation and inadequate infrastructure have left a detrimental impact on Pakistan & business environments. Autonomous institutions are needed, capable of outlasting their creators & resisting capture by individuals lusting for power & money. They must so function as to inspire confidence , which means that they must protect the rights of society against the exercise of arbitrary power.

MONITORY/FISCAL POLICY

MONITORY AND FISCAL POLICY MEASURES

MONITORY POLICY

Pakistan monitory policy will remain vigilant about providing a resurgence of inflation & a durable solution to the problem of low tax revenues , should start with early implementation of VAT regime according to tax broadening program , where government could collect additional revenue of Rs. 400 billion & will mark economy less vulnerable and provide steady flow of resources needed to reduce poverty & developing basic infrastructure and strengthening government ability to deal with pressing needs of the population , meanwhile friends of Pakistan & IMF support will mitigate risk & enable Govt. to implement financial program. Relaxation of the fiscal policy stance, electricity tariff increases and the rebound in oil prices will add to inflationary pressure that monitory policy needs to combat. Increased flexibility of the exchange rate & the timely elimination of the bank's provision of foreign exchange for imports of diesel & other refined products will improve the function of foreign currency market and make economy more resilient to external shock and further strengthen to reserve position.

Accelerated reforms to strengthen state bank of Pakistan (SBP) independence & legislative amendments to increase its supervisory powers will enhance the Monitory Policy framework and help strengthening banking system.

MEASURES AGREED WITH INT. FINANCIAL INSTITUTIONS

Tax on Agriculture & broadening tax net to 15% of GDP potential of new tax source (stock market & real estate) elimination of inter-corporate circular debt single treasury account , & transparent social safety net

programming of T-bill auction & flexible exchange rate
transfer of oil import bill to inter bank market
autonomy & enforcement power of SBP & contingency plan for problem banks by SBP
not lifting “Floor” or assistance to stock exchange with out consultation of IMF.
Exploitation of price mechanism through revival of commission rate system
restoration of confidence of industrial sector by single digit interest/inflation and last not least stable exchange rate

PROJECTION FOR YEAR 2009-10
external debt will touch to 33.2 % of GDP & GDP growth rate will raise to 5% , & CPI based inflation will come down to 13% current account deficit 5.7% & Foreign exchange reserves will be US $ 11.291 billion and there would be need of external financing of US $ 8.7 billion which will be covered by FDI US $ 4.5 billion and long/short term loan from other international financial institutions as well as financing from bilateral creditors for projects

End of Govt. financing by SBP so that interest rates set out at T. Bills auctions would have to be attractive. Government borrowing through non banking sectors phasing out energy subsidies & revenue mobilization through Tax policy/administrative measures & reduction in expenditure to bring deficit down to 3.3 % enhancing SBP regulatory capacity and avoiding public resources to support the stock & improve monitory management would make it possible to build int. reserves Grand National Savings are estimated to 15.7% based on gross capital formation 21.3% of GDP

PRODUCTION & SALE

Year wise Production & Sale Data (Million Tons)

Year	Production	Change %	sale (local & export) Local	%	Export	%	Total
2004-5	17.909		14.788		1.565		16.353
2005-6	20.955	17.01	16.907	14.33	1.505	-3.83	18.412
2006-7	30.251	44.36	21.034	24.41	3.188	111.83	24.223
2007-8	37.157	22.83	22.596	7.3	7.717	142.02	30.286
2008-9	41.76	12.39	19.394	-14.07	11.381	47.48	30.775

Country wise Export of Cement & Klinker (Million Tons)

CEMENT			CLINKER	Total
Afghanistan	India	Others	Others	
1.408		0.157		1.565
1.414		0.091		1.505
1.726		1.071	0.391	3.188
2.778	0.787	3.045	1.106	7.717
3.202	0.67	6.567	0.942	11.381

Major Listed Companies (Location wise production capacity) in Million Tons

1	Attock Cement	Hub	1.796	1.796
		Hattar	1.229	
2	Bestway Cement	Chakwal	3.6	4.823
3	Charat Cement	Charat		1.05
4	Dewan	Hattar		1.134
		Chakwal	2.11	
5	D.G Khan Cement	D.G. Khan	2.11	4.221
6	Flying Cement			1.26
7	Gharibwal			2.678
8	Kohat Cement	Kohat		2.678
9	Lafrage Pakistan			2.048
		Lucky	3.912	
10	Lucky Cement	Karachi	3.6	7.512
11	Maple Leaf	Mianwali		3.69
12	Pioneer			2.03

Source:	Pakistan Cement Industry, Export promotion bureau of Pakistan, APCMA(All Pakistan Cement Manufacturer Association) , Business Recorder of Pakistan

PEST ANALYSIS OF CEMENT INDUSTRY OF PAKISTAN

Political

Tax policies Excise duty has decreased Excise duty Rs 200/ton

Tax collection rates at import stage has reduced 2% from 5% for mineral fuel & oil and inland freight compensation

No Sales tax or custom duty on raw material/ machinery import to set up new industrial projects

GST increase to 16% from 15% & special excise duty 1% and GST on gas raised from 24 to 25% oil regulatory authority is controlling fuel prices as per Int. market

Electricity subsidy will be lifted phase wise for industry only

Employment Laws

Labor policy announced to protect workers rights, settlement of industrial disputes, labor unions compliance of International standards , minimum wage rate Rs 2500 & tax threshold raised from Rs 150000 to Rs 180000

Safety , Health & Environmental Regulations

Environment protection act 1997

Health policy for industrial worker

Safety for workplace regulation in industrial policy

INDUSTRY SWOT ANALYSIS

SWOT ANALYSIS OF PAKISTAN CEMENT INDUSTRY

Strength	Availability of raw material & Imported plants in most co's Expected export growth up to $ 1 billion in year 2010 Availability of foreign loan/investment in portfolio &new plant Effect of GDP growth & construction of infrastructure houses and dams, where cement industry maintaining 21% growth ,High quality int. standard cement , standardized laboratories Cheap labor cost & govt. incentives Largest exporter in Asia
Weakness	Cross elasticity is negligible , no brand choice to consumer Freight cost is 20% of sale price, & high cost of plastic bag Logistic problem cause to loose Russian market Idle capacity and loosing economic scale production advantage Over supply problem may arise by induction of new plants ,Iran & India is expanding cement industry IMF control may ask to curtail development exp.
Threats	Depressed demand may cause over supply problem and price war between manufactures & cause business losses WTO ratifying & hike in Coal/oil prices may badly effect cost of production
Opportunity	Government gives incentives to import coal firing units Traditional growth rate is 7% which may dramatically increase by announcement of new dams & mega projects Sri Lanka has demanded 360000 tons annual basis South Africa have potential demand because of new stadium

INVESTMENT TIPS

One aspect of smart investment is being able to determine weather or not company is healthy company in general and not just this past year, we also wants to know weather stock is really bargain or not. Stock price & dividends are good to know but not the only pieces of information's we need to make sound & long term investment decision because a good year of either does not mean that will be more, there are several kind of ratio analysis that can be used

Before going to evaluate, first make sure that company is on sound wicket, then try to know at what price is the stock a good buy ?,because good company is not always a good investment , it is good investment only when it's share price offers appreciation potentials.

VALUATION TOOLS

P/E Determines weather or not stock is too expensive or good deal commonly used and abused valuation tool, because market gives value to company's on their future prospects (not past performance), historical P/E represents inaccurate picture, but forward PE . low P/E means company is under valued and stock is good deal, low P/E stock have higher yield than high P/E stock (it is far riskier to trade when multiplies above then 20 for new company's) P/E represents as multiple of current EPS, but this is not always true because leverage firm will tend to higher P/E multiple,(it is good to use for firm with no debt) secondly economy state (boom or recession) also play significant role,
P/EBITDA is used to compare company's having different amount of debts, Assets & depreciation methods , useful for low capital intensive & high growth companies
PE Real (EV/FCF) as revealed from title, it depicts true PE value of the stock

P/BV Stock price to book value ratio, represents Shareholders share in assets, ratio below one represents that Shareholders are undervalued , this ratio is used for targeting takeover, useful for capital intensive business

DCF Comprehensive valuation method, where future cash flow is discounted at desired rate of return

EV Market Capitalization +Net Debt-(Cash & Cash Equivalents) Widely used & acceptable but this is also misnomer because high debt would increase it, while actually is decrease the value of enterprise , lower EV is more attractive to takeover EV/Revenue, gives idea to investor of how much it costs to buy the company's sale, lower is attractive because company is undervalued. it is good for comparing firms in the same industry with different capital structure, but bad way to compare firms having higher margin than others, it may be used where EBITDA is negative, investors do not care about this multiple

EV/EBITDA , low return suggest poor use of company resources even if its profit margin is high, good more to compare firms with vary capital structure but not enough tool because firm having insolvency problem may reflect high value and over statement of cash flow for firms having high Fixed Asset's

Financial ratios contribute towards making right investment decision but even they have their limitations , most Financial Ratio's rely on historical data, they do not capture subjective issues like Management Quality, Business Potential, Investor Friendliness & Stock Liquidity, which are all key components for an investment decision, so one should not rely on financial tools solely but only use them to get closer to right stock

Lucky Cement is project of Youns Brothers , having 4 Textile & one power unit beside Lucky Cement which is comprises over two plants at Pezu & Karachi, first plant was erected in 1993 of 1.2 MTPY and was upgraded to 1.5 MTPY in 1999 & 4 MTPY in 2003 and 2nd plant of 2.5 MTPY capacity was set up at Karachi & an addition of new plant of 1.25 MTPA made the company capacity up to 7.75 MTPA in the year 2009 and planning to increase to the extent of 10.27 MTPA in 2013, along with latest infrastructure & techniques abating cost & expanding production / sale in the local and particularly in International

Lucky Cement is largest cement producer & Exporter in Pak. and having largest transport fleet (77 bulker +ship loader) and 3552 MWH/per day power plant ,and 21 No's Generators of 175 MW/Hr , use of industrial waste slag for manufacturing of cement is under consideration Safety Health & Environment policy has made company as Zero Injury Rate

FINANCIAL HIGHLIGHTS

Values	Trailing	Forward	Indicators	Trailing	Forward
Equity	23251972	75417357	Share Price	59	368
Liabilities	15140390	12282510	MVE (M)	18927	145895
Assets	38392362	87699867	P/E Multiple	4	11
Net Sales	26330404	58960161	EBITDA (M)	8366	18221
Expenses	21733855	46144632	Cost Per Ton	3806	4653
Profit	4596549	12815529	EV (Per Share)	88	232

Source: Financial Statements for the financial year(July-Jun) 2005-2009, Management vision & strategy

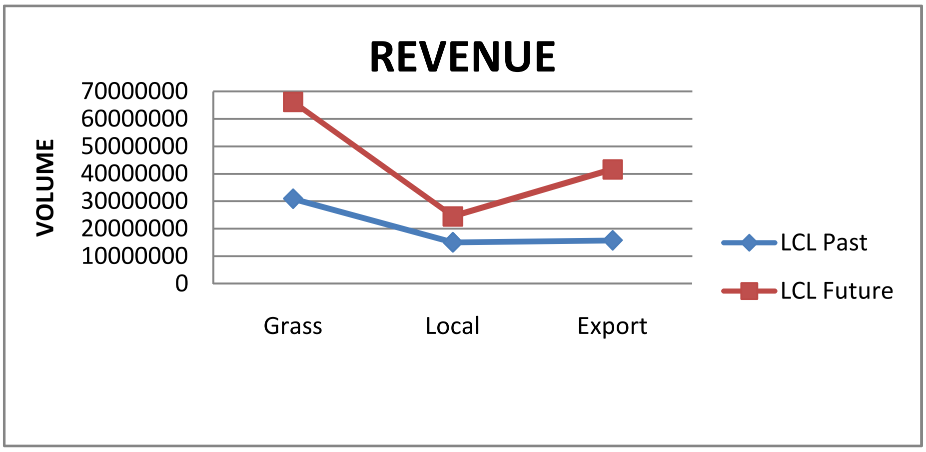
Strengths	Capacity Expansion cost per ton Rs 2748 , lowest after PCL Largest producer in both zones , having 18% market share Largest Exporter because of Location advantages (near see & near border) & excellent TPT /Ship loading equipments Further expansion plan in south zone of 2.52 MPTA(1.26 each) to bring capacity up to 9.01 MTPA to be completed in 2012 & 10.27 MTPA in 2013 Gas supply has been arranged for expansion plan Financial arrangement through issue of GDR (London registered) ,with dilution effect of 10-12% SILOS Facility (loose cement terminal) at Karachi port Captive plant at Pezu converted on gas Waste Heat Recovery plant will completed at end of 2009
Weakness	Expansion with China plant Used plant was installed at Pezu Interest rate in Pak will go down soon and market will boost up but GDR traded at London market will not react accordingly
Opportunity	
	Expand export to Middle East , South Africa & Sri Lanka by Sea Expand export to Afghanistan by Road from pezu plant Grinding facility abroad with international partners
Threats	Increase in Coal & Oil prices & Currency fluctuation (world market shift from dollar to Euro) Expected supply glut in near future & Price war may start

PRODUCTION CAPACITY & SALE VOLUME

CAPACITY The year under review , company has increased its production capacity from 3.94 MPTA to 7.75 MPTA (million ton per annum) and currently operating at 74% of the capacity , and do intend to further expand its line up to 10.27 MPTA with 97% utilization level as forecasted to meet the prospective demand which is likely to rise up to 10.33 million ton at the end of the year 2014,planed expansion will be carried out at rate of Rs 4843/= per ton which will be funded by the issuance of new ordinary shares

SALE keeping in view ,local & international demand the management has decided to double its export quantity with in projected period (20% per year) while overall increase of 75% of the base year in sale quantity (15% per year)are planed for the next five years

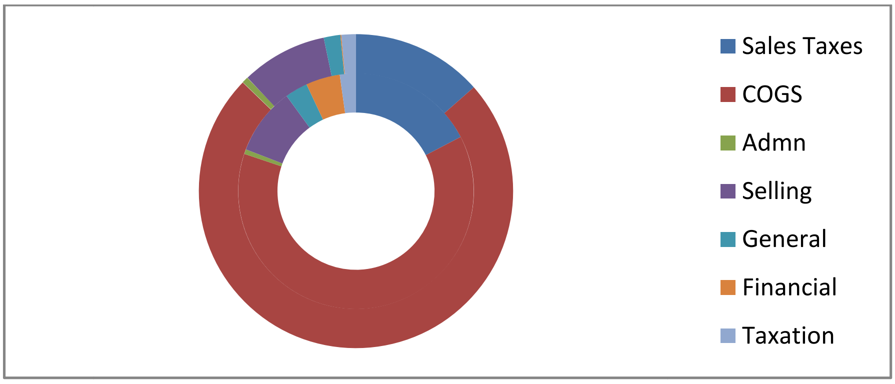
Revenue There was a boom in Pakistan Cement industry during Trailing period, therefore 455% Grass Revenue growth has witnessed during the trailing period where as only 100% is projected for coming years, despite massive change in Local/Export ratio which has been converted from 63/37 to 39/61



Other income & Associated party (Subsidiary Co) income for projected period is considered nil

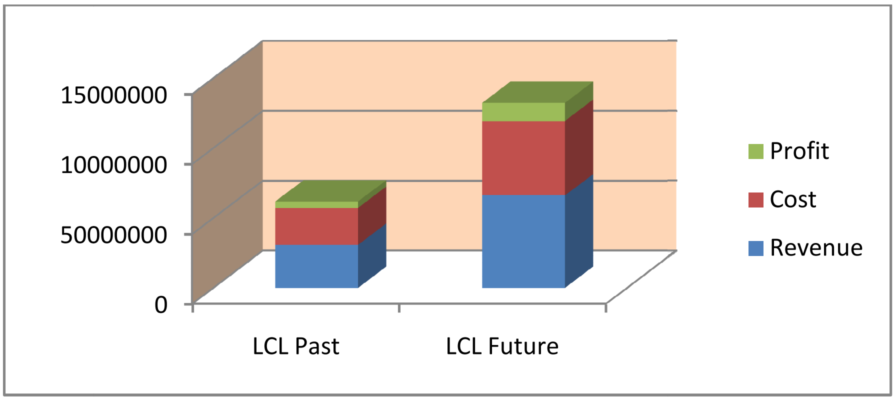
COST Inner Circle reflect past period Cost break-up, while outer circle present forecasted data

	LCL	DGC	MLCF	PCL
Cost of Goods Sold	54%	50%	54%	56%
Selling Cost	5%	4%	7%	4%
Financial Cost	3%	8%	12%	6%

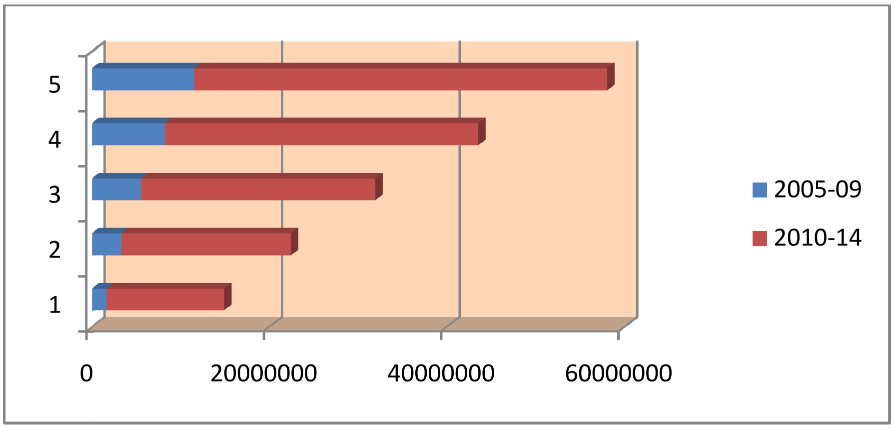


PROFIT 456% growth in profit has been reported for last period, while 385% has been estimated for following period

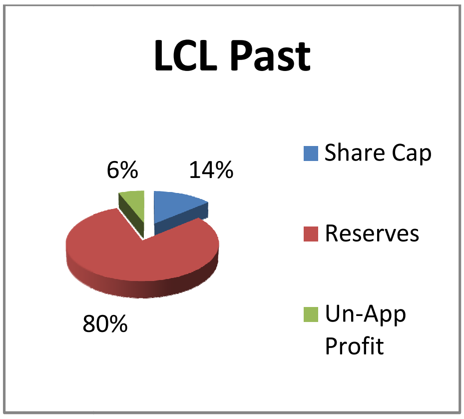
P&L A/C Profit & Loss volume & structure

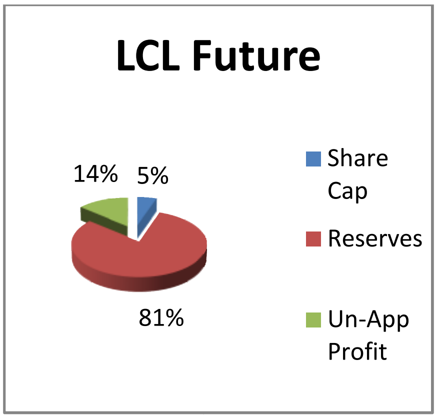


RETAINED Retained earning of the company has been displaced

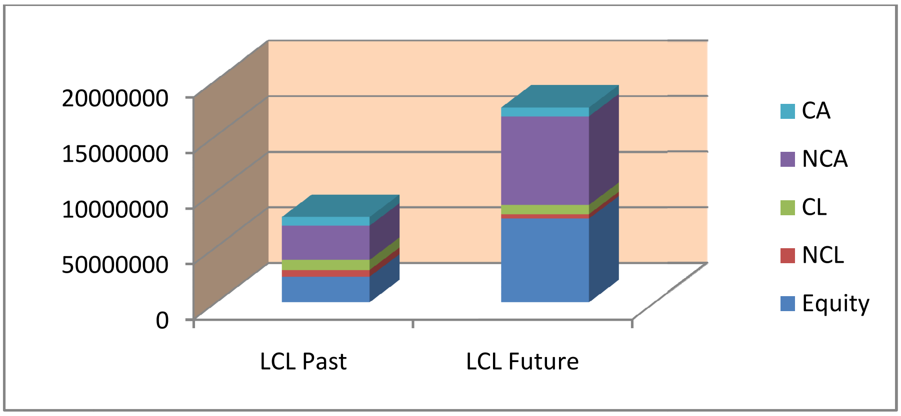


LCL cost of production is 2nd lowest & selling is 2nd highest but it stand on No 4 , because of lowest financial cost then peers and it has maintained its status of lowest cost per ton in projected period





EQUITY Above figures shows change in Shareholders equity



B.S

FINANCIAL FITNESS OF THE COMPANY

	2005	2006	2007	2008	2009
Insolvency Predicator (Score)	1.33	1.85	2.39	2.12	2.37
Sustainable Growth Rate	16%	24%	24%	14%	14%
Actual Growth in Capacity	162%	32%	25%	0%	19%
Actual Growth in sale	12%	92%	55%	25%	48%
Future Growth Expected	16%	24%	24%	14%	14%

Between 1.8 to 2.7 Good change of company going bankrupt with in 2 years of operation from the date of financial figures given

Contingencies			
	Litigations	-735	Million
	L/C & L/G's	1318	Million
	Commitments	1204	Million

Suitable Credit Rating Equity (L.T "A " & S.T "A1")

Capability of compliance with forthcoming financial obligation is considered according to AM Best debt-Hybrid continuum

"A"	High Credit Quality : Low expectations of credit risk, capacity for timely payments of financial obligations is considered strong, nevertheless vulnerable to change in economic conditions
'A1"	Obligation supported by a strong capacity for timely re-payments

FREE CASH FLOWS TO COMPANY

	FREE CASH FLOW				
	2010	2011	2012	2013	2014
	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000
EBIT (1-t)	5371896	8470024	10312792	11984768	14583850
Depreciation	1163040	1163040	2392442	3636656	3636656
EBITDA	6534935	9633064	12705234	15621423	18220506
Change in Working Capital	-1424583	2478435	-610900	868418	-461329
Capex	0	0	6065640	6138720	0
Free Cash Flow to Company	7959518	7154629	7250493	8614285	18681835
WACC	0	0	0	0	0
	1	1	2	2	2
Present Value of Free Cash Flow	6941238	5441109	4808594	4982187	9422594
Terminal Value					164890001
PV of Terminal Value					83165894
Sum of PV of Forecasted FCF					31595722
PV of Terminal Value					83165894
Enterprise Value					114761616
Less Net Debt					4300000
Equity Value					110461616
No of Shares Outstanding					323375
Equity Value Per Share					342

SENSITIVITY ANALYSIS (Interest)					
DCF Based Value Matrix			Rs. Per Share		
	Interest Rate				
Growth Rate		12%	13%	14%	
4%		373	368	364	
3%		345	342	338	
2%		322	319	316	

SENSITIVITY ANALYSIS (Exchange Rate & Prices)				
DCF Based Value Matrix			Rs. Per Share	
	prices Increase			
Exchange Rate	Local 5%	Export 2%		Sensitivity
3%			392	15%

Exchange rate & price changes in fist forecasted year followed by the basic assumptions

1	Shrinkage in local demand & start up of price war due to supply glut, may impede the production /sale and may even hamper capacity enhancement plan ,if it persist for a long term

SHORT TERM VALUATION

SHORT TERM VALUATION SUMMARY			
Pricing Methodology	Tool	Weight	Value(Rs.)
Target Price using	P/E Multiple	50%	89
Target Price using	EV Multiple	50%	69
Weighted Average			79
Current Market Price			59
Upside/(downside)		%	35
E/P & EV Multiple base value	35 which does not apply on LCL		

Forward Earning Yield %	0.10
Forward Dividend Yield %	0.04

Short term horizon of 12 month, valuation is carried out by applying a special technique of inverse Multiple i.e. E/P multiple instead of P/E multiple, because 3 out of 4 companies were showing losses In the coming year and their EPS is negative (while 2 companies displaying negative P/E, due to current and past year losses) therefore it does not make any sense to evaluate them with P/E multiple, hence multiple is restated ,only for these companies, with price in the denominator (because price can never be negative) however 2nd tool EV multiple is applied as per practice, because it was not posing likewise problem

Forward Revenue, EBITDA,PAT, EV, EPS or dividend is taken from well thought & practicable Management Plan, instead of presumption on historic performance of the company which does not encompass the Capacity/capability of the company neither business situation nor market demand

Valuation is based on company's own multiples and work plan (instead of industry multiples which are deceptive because cement in Pakistan is not mature industry but this sector is just evolving ,therefore there Is no common practice or business methodology and every unit has unique capital structure and self directive , hence producing mismatching results , however stock market is the best judge

COMPANY TAKEOVER VALUATION

TAKEOVER VALUATION				
Valuation Methodology				Ranking
	Total Weight	Ratio	Score	in Lowest
P/BV Basis	2.54		0.81	3rd
EV/Ton's Basis	17807		3660	2nd
Combination of (P/BV & EV/Tons)	Weight age	50:50	26	3rd

PROSPECTIVE PROFIT VIEW Y.O.Y

	2010	2011	2012	2013	2014
LCL	-43%	162%	26%	18%	24%
DGCL	-715%	-143%	270%	28%	66%
MLCF	-47%	-73%	-274%	156%	59%
PCL	-2585%	-66%	-210%	195%	65%

DG KHAN CEMENT

Project of Nishat Group, who is leading and most diversified in South East Asia, with Rs 300 billions assets, group has strong presence in Textile, Cement & Financial Services and may more and become multidimensional corporation and played important role in industrial development in Pakistan

DG Cement was established in 1978 and started commercial production in 1986 with 2000 TPD with dry process plant of Japan , unit was privatized in 1992 and Mansha group took it, who immediately improved its capacity by 200 TPD , new line of 3300 TPD of FLS plant was commissioned in 1998

Khan pur unit of 6700 TPD with latest technology (twin string pre-heater tower & twin vertical grinding mills) was installed, which gives advantage over operational flexibility to adjust according to market demand.
Company have its own power plant of 23.84 MW

Certified in Quality management (ISO-9002) & Environment management (ISO-14001) duel certification company in Pak.

FINANCIAL HIGHLIGHTS

Values	Trailing	Forward	Indicators	Trailing	Forward
Equity	21256126	75411630	Share Price	60	367
Liabilities	22611646	9235041	MVE (M)	18255	944291
Assets	43867772	84646670	P/E Multiple	44	11
Net Sales	18368507	38688608	EBITDA (M)	5193	14532
Expenses	17953425	30134741	Cost Per Ton	4615	4653
Profit	415082	8553867	EV (Per Share)	86	348

Source: Financial Statements for the financial year(July-Jun) 2005-2009, Management vision & strategy

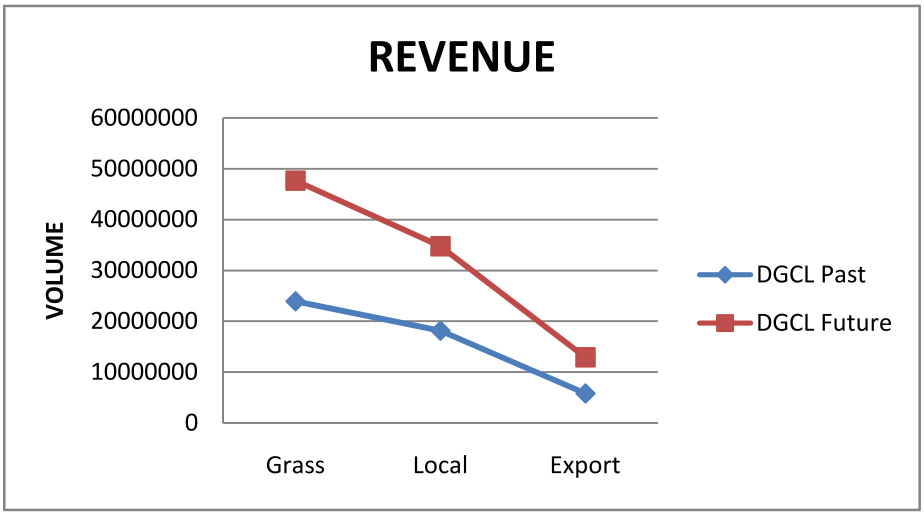
Strengths	Imported Machinery & Plant from Japan & France
	Best Brand name in & outside Pakistan
	Waste Heat Recovery plant of 10.4 MW
	Solid waste as fuel for heating plant erection soon
	Energy saving & low maintenance cost
Weakness	Highest cost of Expansion & high depreciation
Opportunity	
	Expand export to Europe at high margin due to quality
	Potential to increase product prices as compare to peers
	Local & International finance facility due to strong group
Threats	Increase in Coal & Oil prices & Currency fluctuation (world market shift from dollar to Euro)
	Expected supply glut in near future & Price war may start

PRODUCTION CAPACITY & SALE VOLUME

CAPACITY The year under review , company has increased its production capacity from 1.68 MPTA to 4.02 MPTA (million ton per annum) and currently operating at 98% of the capacity , and do intend to further expand its line up to 6.52 MPTA with 99% utilization level as forecasted to meet the prospective demand which is likely to rise up to 6.74 million ton at the end of the year 2014,planed expansion will be carried out at rate of Rs 9075/= per ton which will be funded by the issuance of new ordinary shares

SALE keeping in view ,local & international demand the management has decided to double its export quantity with in projected period (20% per year) while overall increase of 75% of the base year in sale quantity (15% per year)are planed for the next five years

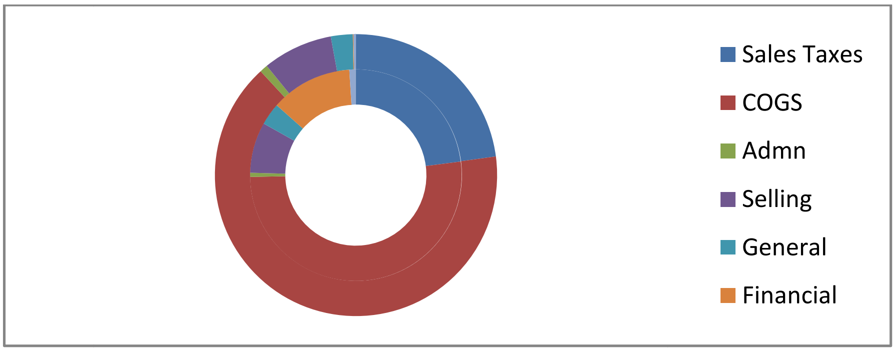
Revenue There was a boom in Pakistan Cement industry during Trailing period, therefore 225% Grass Revenue growth has witnessed during the trailing period where as only 108% is projected for coming years, despite following change in Local/Export ratio which has been converted from 85/15 to 73/27



Other income & Associated party (Subsidiary Co) income for projected period is considered nil

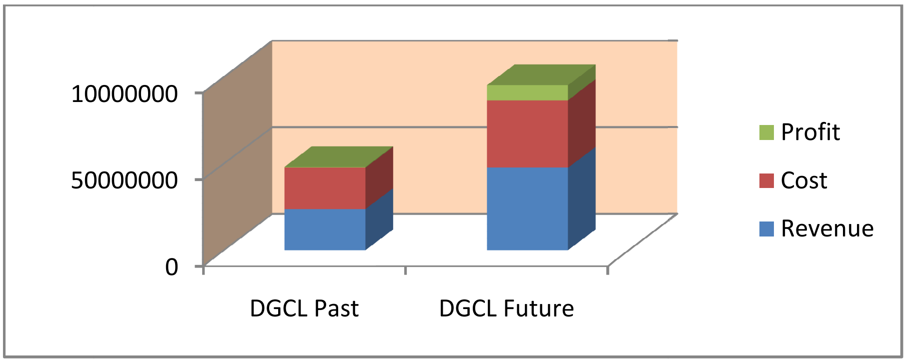
COST — Inner Circle reflect past period Cost break-up, while outer circle present forecasted data

	LCL	DGC	MLCF	PCL
Cost of Goods Sold	54%	50%	54%	56%
Selling Cost	5%	4%	7%	4%
Financial Cost	3%	8%	12%	6%

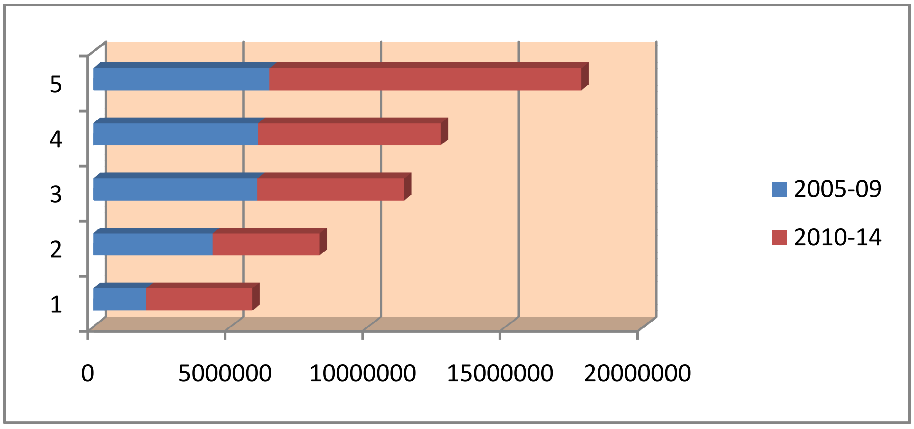


PROFIT — 75% decline in profit has been reported for last period, while Rs.8.55 Billion has been estimated for coming period

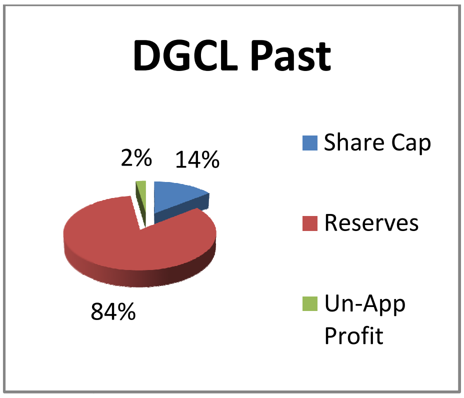
P&L A/C

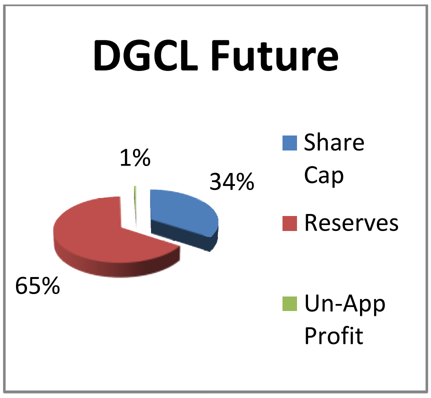


RETAINED — Retained earning of the company has been displaced

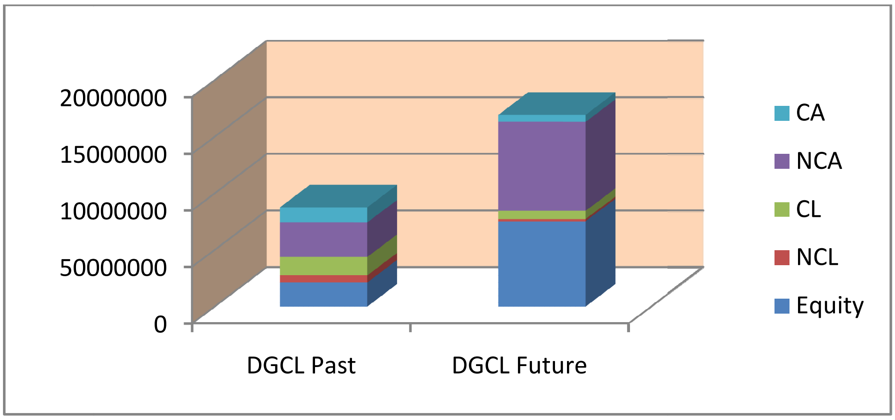


DGCL cost of production is low then peers but it stands on No 2, because of financial which is 8% which is 2nd low after MLCF , however it has improved in projected period owing to shed off debt & lowering 50% depreciation rate and stands on No 4 (equal to LCL) regarding cost per ton





EQUITY Above figures shows change in Shareholders equity



B.S

FINANCIAL FITNESS OF THE COMPANY

	2005	2006	2007	2008	2009
Insolvency Predicator (Score)	1.99	1.72	1.48	1.11	1.30
Sustainable Growth Rate	18%	12%	5%	0%	2%
Actual Growth in Capacity	12%	17%	4%	97%	0%
Actual Growth in sale	48%	49%	-14%	86%	37%
Future Growth Expected	-5%	1%	-6%	-17%	-22%

Below 1.8 Probability of Financial embarrassment is very high

Contingencies

Litigations	1533	Million
L/C & L/G's	927	Million
Commitments	1183	Million

Suitable Credit Rating Equity (L.T "BBB" & S.T"A3")

Capability of compliance with forthcoming financial obligation is considered according to AM Best debt-Hybrid continuum

"BBB"	Good Credit Quality: Currently low expectation of credit risk, capacity for timely payments of financial obligation is considered adequate, nevertheless more vulnerable to change in economic conditions
"A3"	Obligation supported by adequate capacity for timely re-payments, however susceptible to adverse change in business , economic or financial conditions

FREE CASH FLOWS TO COMPANY

	FREE CASH FLOW				
	2010	2011	2012	2013	2014
	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000
EBIT (1-t)	1278509	2025352	5018726	6224809	9679709
Depreciation	852748	2814545	2814545	4852673	4852673
EBITDA	2131257	4839897	7833271	11077482	14532382
Change in Working Capital	8284740	-882044	8753774	-7796234	-6507672
Capex	0	11137500	0	11550000	0
	-				
Free Cash Flow to Company	6153483	-5415559	-920502	7323716	21040054
WACC	0.138533	0.138533	0.138533	0.138533	0.1385326
	113.85%	129.62%	147.57%	168.01%	191.28%
	-				
Present Value of Free Cash Flow	5404904	-4178085	-623772	4359125	10999721
Terminal Value					199675081
PV of Terminal Value					104389951
Sum of PV of Forecasted FCF					5152086
PV of Terminal Value					104389951
Enterprise Value					109542037
Less Net Debt					9600018
Equity Value					99942019
No of Shares Outstanding					304249
Equity Value Per Share					328

SENSITIVITY ANALYSIS (Interest)					
DCF Based Value Matrix			Rs. Per Share		
	Interest Rate				
Growth Rate		13%	14%	15%	
4%		379	367	356	
3%		338	328	319	
2%		305	296	288	

SENSITIVITY ANALYSIS (Exchange Rate & Prices)				
DCF Based Value Matrix			Rs. Per Share	
	prices Increase			
Exchange Rate	Local 5%	Export 2%		Sensitivity
3%			403	23%

Exchange rate & price changes in fist forecasted year followed by the basic assumptions

1	Shrinkage in local demand & start up of price war due to supply glut, may impede the production /sale and may even hamper capacity enhancement plan ,if it persist for a long term

SHORT TERM VALUATION

SHORT TERM VALUATION SUMMARY			
Pricing Methodology	Tool	Weight	Value (Rs.)
Target Price using	E/P Multiple	50%	-0.04
Target Price using	EV Multiple	50%	8
Weighted Average			4
Current Market Price			64
Upside/(downside)		%	-94
P/E & EV Multiple base value	-36		

Forward Earning Yield %	-0.5
Forward Dividend Yield %	0.0

Short term horizon of 12 month, valuation is carried out by applying a special technique of inverse Multiple i.e. E/P multiple instead of P/E multiple, because 3 out of 4 companies were showing losses In the coming year and their EPS is negative (while 2 companies displaying negative P/E, due to current and past year losses) therefore it does not make any sense to evaluate them with P/E multiple, hence multiple is restated ,only for these companies, with price in the denominator (because price can never be negative) however 2nd tool EV multiple is applied as per practice, because it was not posing likewise problem

Forward Revenue, EBITDA,PAT, EV, EPS or dividend is taken from well thought & practicable Management Plan, instead of presumption on historic performance of the company which does not encompass the Capacity/capability of the company neither business situation nor market demand

Valuation is based on company's own multiples and work plan (instead of industry multiples which are deceptive because cement in Pakistan is not mature industry but this sector is just evolving ,therefore there Is no common practice or business methodology and every unit has unique capital structure and self directive , hence producing mismatching results , however stock market is the best judge

COMPANY TAKEOVER VALUATION

TAKEOVER VALUATION				
Valuation Methodology				Ranking
	Total Weight	Ratio	Score	in Lowest
P/BV Basis	2.54		0.86	4th
EV/Ton's Basis	17807		6539	4th
Combination of (P/BV & EV/Tons)	Weight age	50:50	35	4th

PROSPECTIVE PROFIT VIEW Y.O.Y

	2010	2011	2012	2013	2014
LCL	-43%	162%	26%	18%	24%
DGCL	-715%	-143%	270%	28%	66%
MLCF	-47%	-73%	-274%	156%	59%
PCL	-2585%	-66%	-210%	195%	65%

Heavy loss of 2.55 billion and issuance of 1.113 billion new shares has badly affected on EPS

MAPLE LEAF CEMENT

MLCF was established in 1956 and incorporated in 1960 with production capacity of 1000 TPD ,setup a new plant of 600 TPD in 1986 and 3300 TPD dry process technology plant in 1998 (which was up graded to 4000 TPD in 2005) and undertaken an expansion project of 6700 TPD in 2007

installed white cement plant of 50 TPD in 1967 which was doubled in 1983 (and converted to dry process in 2006 and then to oil well cement plant.) another white cement plant of dry process with capacity of 500 TPD (extendable to 1000 TPD) was erected besides expansion & conversion of old wet plants and all together reach to the production line of 11700 TPD for gray & 500 for white and 1000 TPD each for SRC, Low Alkali and oil well cement.

Acquisition of existing power plant, establishing new coal power plant and waste heat recovery plant of 15MW besides construction of vide range infrastructure are part of capacity expansion plan of the management.

FINANCIAL HIGHLIGHTS

Values	Trailing	Forward	Indicators	Trailing	Forward
Equity	6717801	9699648	Share Price	4	44
Liabilities	18943037	21858066	MVE (M)	1601	18762
Assets	25660838	31557714	P/E Multiple	-1.63	5.71
Net Sales	15251374	24274731	EBITDA (M)	3518	5680
Expenses	16234344	20991619	Cost Per Ton	5195	5263
Profit	-982970	3283112	EV (Per Share)	44	45

Source:	Financial Statements for the financial year(July-Jun) 2005-2009, Management vision & strategy

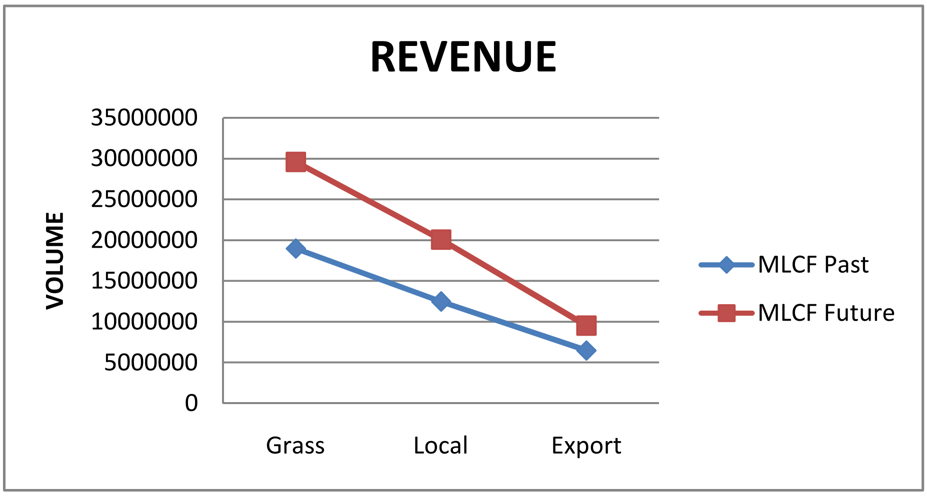
Strengths	Plant location is rich with raw material, including Iron ore New dry process plants , completely automated Waste heat recovery plant & coal power plant Diversified products line White ,Oil well, SRC, Low Alkali Internationally certified & BIS certificate from India High Salary packages to employees
Weakness	Remote location & trouble to hire good quality employees Old wet process plants gives low profit due to high cost Excessive capacity expansion & price change sensitive High transportation cost effects on export & local sales Short transport fleet cause to loose Indian & Afghanistan Heavy borrowing for expansion (to meet prospective demand in case of construction of Kala bagh Dam) at high rate increasing debt burden
Opp.	BIS certification provide opportunity to capture Indian market with very less competition (just one competitor Lucky Cement) Afghanistan is also advantageous because of TPT cost , as there is no big producer except Lucky Cement Oil well & white cement are very profit able products & highly demanded inside & outside the country. Heat recovery plant is cost advantage to coal waste firing for kilns is under consideration which would give immense cost benefit, if applied
Threats	Highly vulnerable to price competition due to high production cost, more over rocketing increase in furnace oil & coal competitive commission action against cement cartel MLCF come under pressure due to financial profile of the company (high leverage capital structure) and stressed cash flow, which could impede the company ability to meets its financial obligations going forward. Management should take steps to mitigate these risks by induction of capital and re-structuring the debt

PRODUCTION CAPACITY & SALE VOLUME

CAPACITY The year under review , company has increased its production capacity from 1.50 MPTA to 3.69 MPTA (million ton per annum) and currently operating at 85% of the capacity , and do not intend to further expand its production line but just to increase its utilization level up to 108% as forecasted to meet the prospective demand which is likely to rise up to 3.95 million ton at the end of the year 2014, because of not having sustainable growth and over burden of debt company do not foresee any expansion in near future.

SALE keeping in view ,local & int. demand , company has decided to export all its specialized products &raise export quantity by 25% with in projected period and the same will be reflected in overall sale during next five years

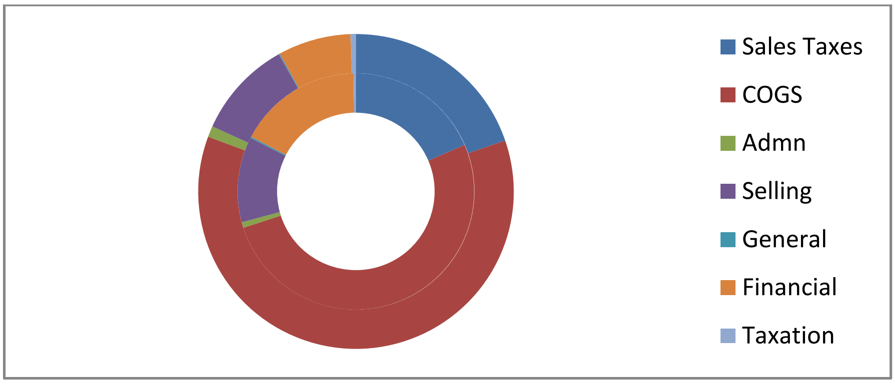
Revenue There was a boom in Pakistan Cement industry during Trailing period, therefore 206% Grass Revenue growth has witnessed during the trailing period where as only 60% is projected for coming years, despite following change in Local/Export ratio which has been converted from 82/18 to 67/33



Other income & Associated party (Subsidiary Co) income for projected period is considered nil

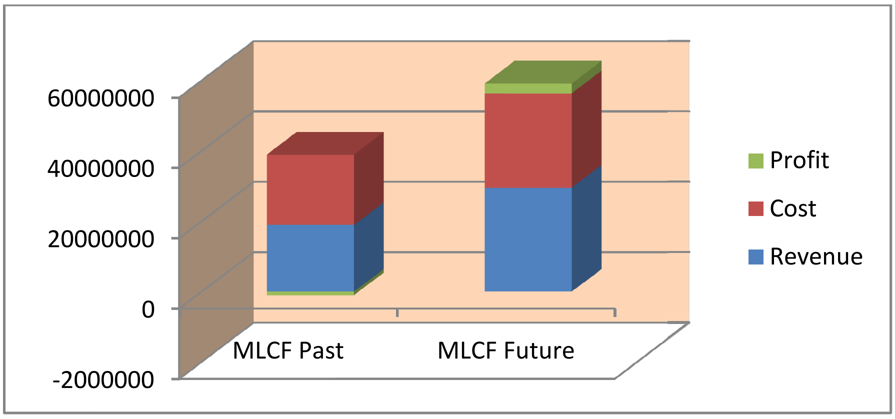
COST Inner Circle reflect past period Cost break-up, while outer Circle present forecasted data.

	LCL	DGC	MLCF	PCL
Cost of Goods Sold	54%	50%	54%	56%
Selling Cost	5%	4%	7%	4%
Financial Cost	3%	8%	12%	6%

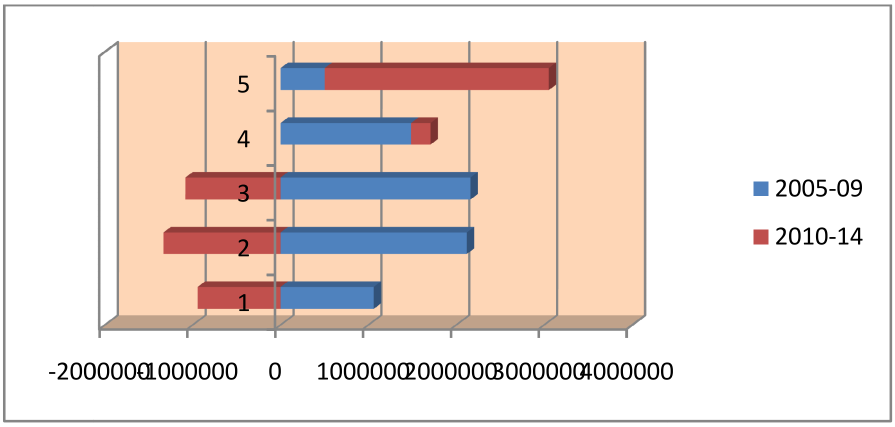


PROFIT 235% decline in profit has been reported for last period, while Rs.2.76 Billion has been estimated for coming period

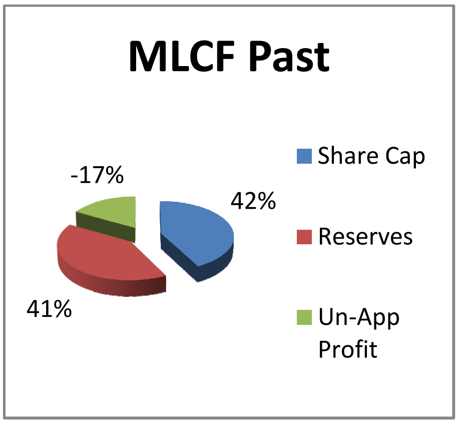
P&L A/C

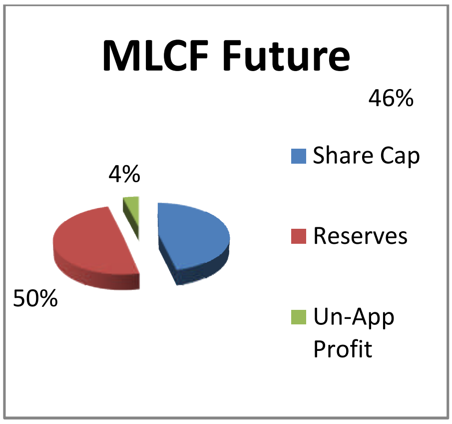


RETAINED Retained earning of the company has been displaced

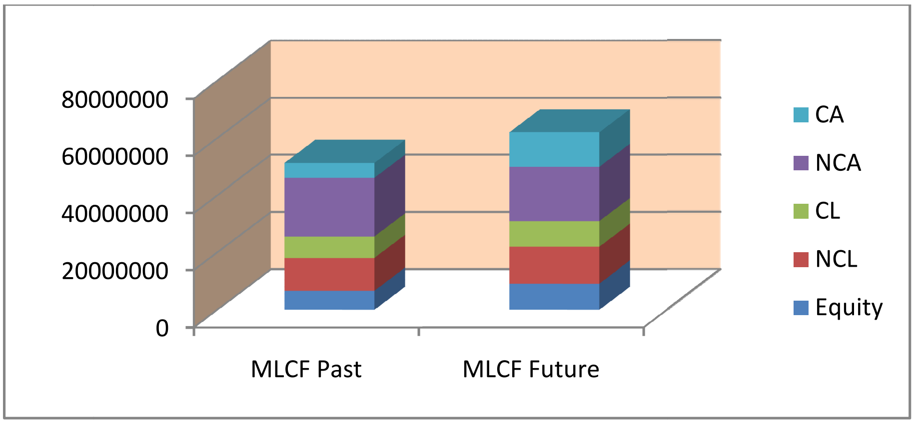


MLCF cost is very high , as reflected in table because of financial which is 12% & selling cost which is 7% ,despite lowering 25% depreciation rate in projected period, it still stands on highest cost per ton





EQUITY Above figures shows change in Shareholders equity



B.S

FINANCIAL FITNESS OF THE COMPANY

	2005	2006	2007	2008	2009
Insolvency Predicator (Score)	1.84	1.28	0.71	0.55	0.88
Sustainable Growth Rate	12%	14%	0%	-8%	-15%
Actual Growth in Capacity	0%	5%	7%	80%	22%
Actual Growth in sale	25%	28%	-31%	91%	80%
Future Growth Expected	10%	3%	-15%	-25%	-35%

Below 1.8 Probability of Financial embarrassment is very high

Contingencies

Litigations	1846	Million
L/C & L/G's	1099	Million
Commitments	345	Million

Suitable Credit Rating Equity (L.T "B" & S.T"C")

Capability of compliance with forthcoming financial obligation is considered according to AM Best debt-Hybrid continuum ,however company is in course of negotiation with bank to convert Sukuk certificates & debt to preference Shares because of worst cash condition, ratings are conditional to the positive outcome of the proposal

"B"	Highly speculative : Significant credit risk is present, but limited margin of safety remains, financial obligations are Currently being met, however capacity for continued payments is contingent upon sustained, Favorable business & economic conditions
"C"	Obligations for which there is an inadequate capacity to ensure timely re-payments

FREE CASH FLOWS TO COMPANY

	FREE CASH FLOW				
	2010	2011	2012	2013	2014
	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000
EBIT (1-t)	590931	1678877	2778110	3870448	4935068
Depreciation	745423	745423	745423	745423	745423
EBITDA	1336355	2424300	3523534	4615872	5680492
Change in Working Capital	2163476	1460108	914378	-274039	2604216
Capex	0	0	0	0	0
Free Cash Flow to Company	-827122	964192	2609156	4889910	3076275
WACC	0.124296	0.124296	0.124296	0.124296	0.1242956
	1	1	1	2	2
Present Value of Free Cash Flow	-735677	762779	1835918	3060357	1712435
Terminal Value					33602447
PV of Terminal Value					18705092
Sum of PV of Forecasted FCF					6635813
PV of Terminal Value					18705092
Enterprise Value					25340905
Less Net Debt					10455503
Equity Value					14885402
No of Shares Outstanding					372263
Equity Value Per Share					40

SENSITIVITY ANALYSIS (Interest)					
DCF Based Value Matrix			Rs. Per Share		
	Interest Rate				
Growth Rate		14%	15%	16%	
4%		51	46	43	
3%		43	40	37	
2%		38	35	32	

SENSITIVITY ANALYSIS (Exchange Rate & Prices)				
DCF Based Value Matrix			Rs. Per Share	
	prices Increase			
Exchange Rate	Local 5%	Export 2%		Sensitivity
3%			68	70%

Exchange rate & price changes in fist forecasted year followed by the basic assumptions

1	Shrinkage in local demand & start up of price war due to supply glut, may impede the production /sale and may even hamper capacity enhancement plan ,if it persist for a long term
2	Inability to shed off debt may cause severe threat to the company

SHORT TERM VALUATION

SHORT TERM VALUATION SUMMARY			
Pricing Methodology	Tool	Weight	Value (Rs.)
Target Price using	E/P Multiple	50%	2.1
Target Price using	EV Multiple	50%	15
Weighted Average			8
Current Market Price			4
Upside/(downside)		%	95
P/E & EV Multiple base value	10		

Forward Earning Yield %	-0.4
Forward Dividend Yield %	0.0

Short term horizon of 12 month, valuation is carried out by applying a special technique of inverse Multiple i.e. E/P multiple instead of P/E multiple, because 3 out of 4 companies were showing losses In the coming year and their EPS is negative (while 2 companies displaying negative P/E, due to current and past year losses) therefore it does not make any sense to evaluate them with P/E multiple, hence multiple is restated ,only for these companies, with price in the denominator (because price can never be negative) however 2nd tool EV multiple is applied as per practice, because it was not posing likewise problem

Forward Revenue, EBITDA,PAT, EV, EPS or dividend is taken from well thought & practicable Management Plan, instead of presumption on historic performance of the company which does not encompass the Capacity/capability of the company neither business situation nor market demand

Valuation is based on company's own multiples and work plan (instead of industry multiples which are deceptive because cement in Pakistan is not mature industry but this sector is just evolving ,therefore there Is no common practice or business methodology and every unit has unique capital structure and self directive , hence producing mismatching results , however stock market is the best judge

COMPANY TAKEOVER VALUATION

TAKEOVER VALUATION				
Valuation Methodology				Ranking
	Total Weight	Ratio	Score	in Lowest
P/BV Basis	2.54		0.27	1st
EV/Ton's Basis	17807		4463	3rd
Combination of (P/BV & EV/Tons)	Weight age	50:50	18	1st

PROSPECTIVE PROFIT VIEW Y.O.Y

	2010	2011	2012	2013	2014
LCL	-43%	162%	26%	18%	24%
DGCL	-715%	-143%	270%	28%	66%
MLCF	-47%	-73%	-274%	156%	59%
PCL	-2585%	-66%	-210%	195%	65%

PIONER CEMENT LTD

PCL was incorporated in 1986 as medium size company and commenced its operation with 2000 TPD in the year 2005 and carried out BMR to increase its capacity by 350 TPD and then additional line of 4300 TPD was commissioned in 2006, bringing al together its capacity to 1.995 MTPA company have completed its plants at very low cost as compare to its peer, which gives him advantages of low financial cost as well as low depreciation cost, hence it is competing the giant units despite small unit

Company have converted its firing system from oil to coal Management is very *cautious* to SHE (Safety, Health & environment) as well as Social responsibility , therefore installed number of equipments to control dust/gaseous / noise and tree plantations. Comprehensive safety measures and workers health plan

Company is very generous for the welfare of the community as well ,therefore running several educational/health/ training and financial assistant projects in the area.

FINANCIAL HIGHLIGHTS

Values	Trailing	Forward	Indicators	Trailing	Forward
Equity	4581430	3226858	Share Price	14	144
Liabilities	5766304	11258043	MVE (M)	2710	28733
Assets	10347734	14484902	P/E Multiple	75	18
Net Sales	5000235	11038258	EBITDA (M)	1244	3191
Expenses	4964121	9424807	Cost Per Ton	4360	4811
Profit	36114	1613451	EV (Per Share)	31	114

Source: Financial Statements for the financial year(July-Jun) 2005-2009, Management vision & strategy

Strengths	low cost on plant & equipments Environment Management System ISO 14001 Certified & QMS (ISO-9001) certified
Opportunity	Centrally location to cover lower Punjab and beat/ compete the peers over inland freight cost (which are very high in Pak)
Weakness	Secondhand plant
Threats	Expected supply glut in near future & Price war may start , which is for the company because of not having benefits of economy scale production.

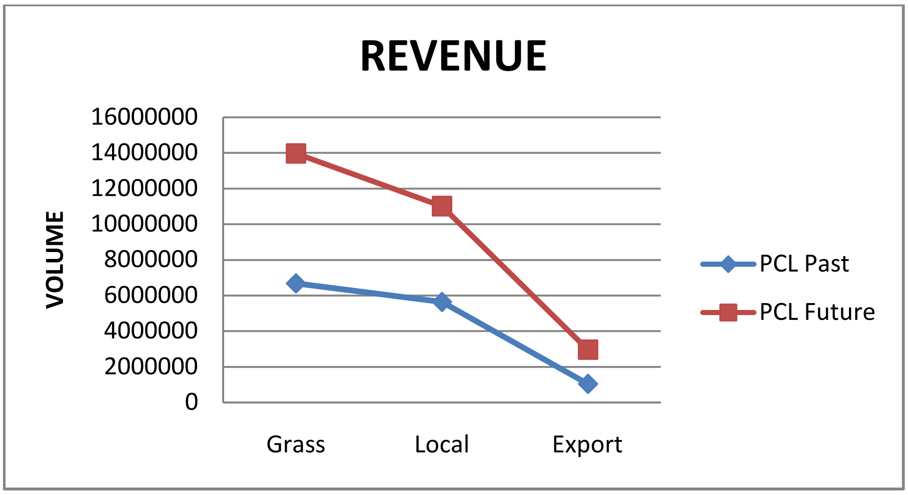
PCL planned acquisition of the majority ownership by Vision Holding Middle East Ltd, who should immediately move towards the following steps
strengthening capital structure and assembling a cohesive and competent management team & implementation of an effective business strategy

PRODUCTION CAPACITY & SALE VOLUME

CAPACITY The year under review , company has increased its production capacity from 0.705 MPTA to 1.99 MPTA (million ton per annum) and currently operating at 57% of the capacity , and do not intend to further expand its production line but just to increase its utilization level up to 98% as forecasted to meet the prospective demand which is likely to rise up to 2.04 million ton at the end of the year 2014, because of not having sustainable growth and capital as well as debt constraints company do not foresee any expansion in near future.

SALE keeping in view ,local & int. demand company has decided to double its export quantity with in projected period (20% per year) while overall increase of 75% of the base year in sale quantity (15% per year)are planed for next five years

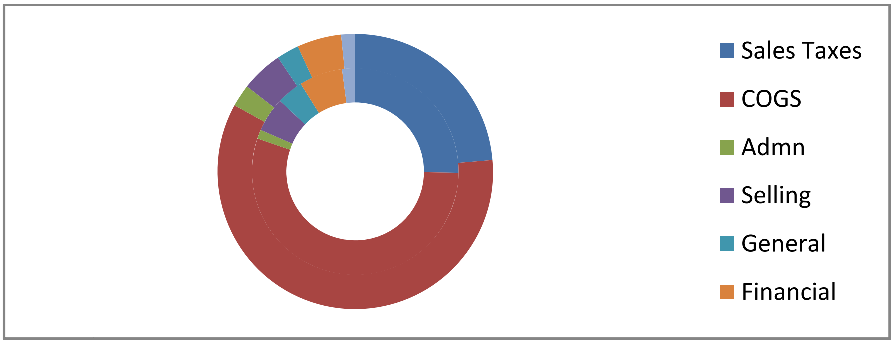
Revenue There was a boom in Pakistan Cement industry during Trailing period, therefore 139% Grass Revenue growth has witnessed during the trailing period where as only 109% is projected for coming years, despite following change in Local/Export ratio which has been converted from 85/15 to 79/21



Other income & Associated party (Subsidiary Co) income for projected period is considered nil

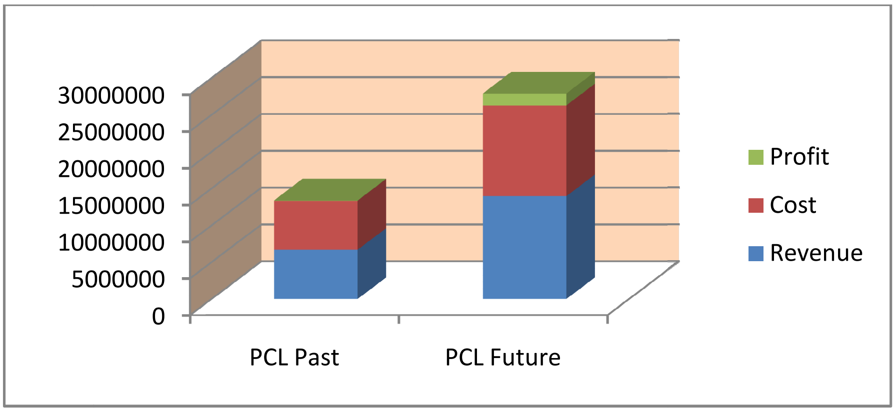
COST — Inner Circle reflect past period Cost break-up, while outer circle present forecasted data

	LCL	DGC	MLCF	PCL
Cost of Goods Sold	54%	50%	54%	56%
Selling Cost	5%	4%	7%	4%
Financial Cost	3%	8%	12%	6%

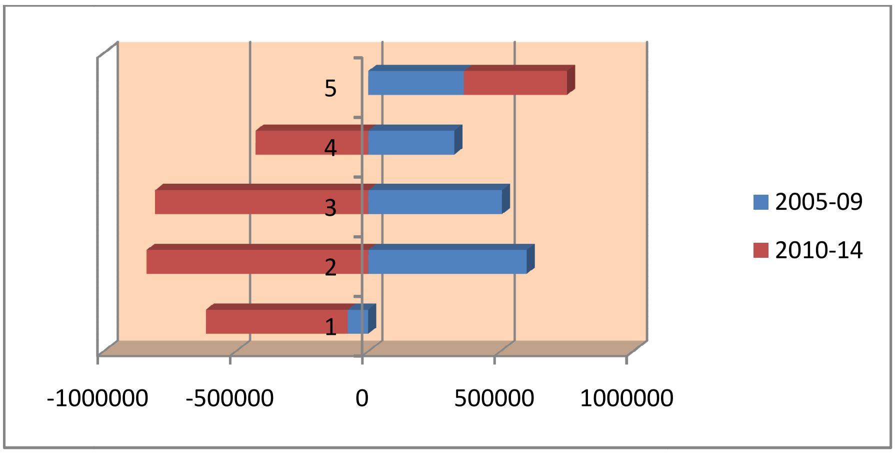


PROFIT — 89% decline in profit has been reported for last period, while Rs.1.61 Billion has been estimated for coming period

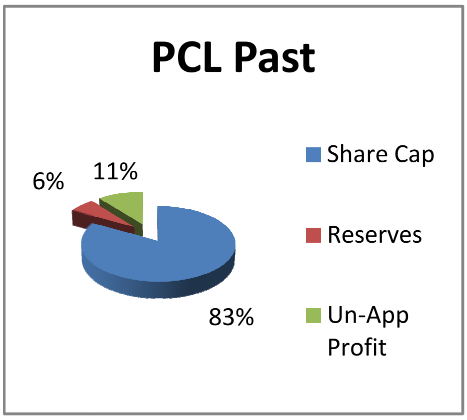
P&L A/C

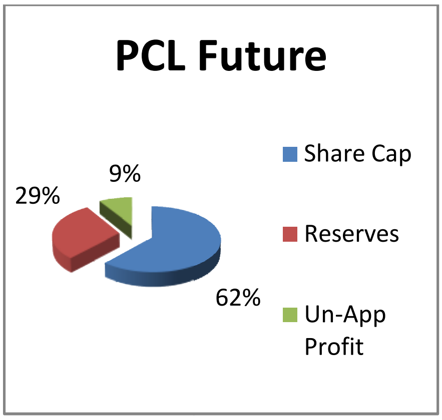


RETAINED — Retained earning of the company has been displaced

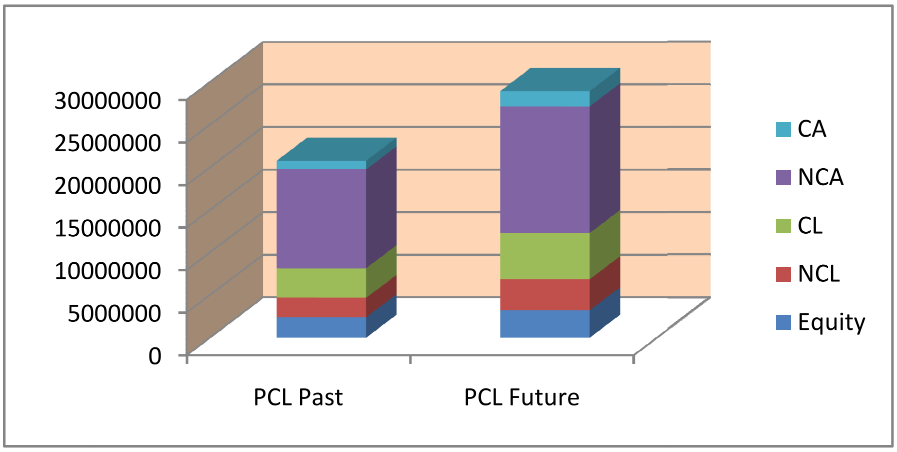


PCL production cost is higher then its peers ,despite low depreciation cost (due to low cost plant) but stands on No 3 , because of low financial which is 6% & selling cost which is 4% ,but it moves up to No 2 in projected period which is bad indicator of company performance





EQUITY Above figures shows change in Shareholders equity



B.S

FINANCIAL FITNESS OF THE COMPANY

	2005	2006	2007	2008	2009
Insolvency Predicator (Score)	0.84	1.61	1.01	0.77	0.73
Sustainable Growth Rate	20%	29%	-4%	-8%	2%
Actual Growth in Capacity	-53%	183%	0%	0%	0%
Actual Growth in sale	-44%	48%	12%	42%	1%
Future Growth Expected	20%	29%	-4%	-8%	2%

Below 1.8 Probability of Financial embarrassment is very high

Contingencies

Litigations	-322	Million
L/C & L/G's	14	Million
Commitments	22	Million

Suitable Credit Rating Equity (L.T "BB" & S.T"A3")

Capability of compliance with forthcoming financial obligation is considered according to AM Best debt-Hybrid continuum

"BB"	Speculative : Possibility of credit risk is developing, this is not an investment grade
"A3"	Obligation supported by adequate capacity for timely re-payments, however susceptible to adverse change in business , economic or financial conditions

FREE CASH FLOWS TO COMPANY

	FREE CASH FLOW				
	2010	2011	2012	2013	2014
	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000
EBIT (1-t)	19005	671382	1365134	2078347	2784390
Depreciation	406547	406547	406547	406547	406547
EBITDA	425552	1077928	1771681	2484894	3190936
Change in Working Capital	- 551095	286492	1015103	- 1912332	-14796
Capex	0	0	0	0	0
Free Cash Flow to Company	976647	791436	756578	4397226	3205732
WACC	0.1256 1	0.1256 1	0.1256 1	0.1256 2	0.1256 2
Present Value of Free Cash Flow	867668	624666	530520	2739318	1774217
Terminal Value					34545407
PV of Terminal Value					19119208
Sum of PV of Forecasted FCF					6536389
PV of Terminal Value					19119208
Enterprise Value					25655597
Less Net Debt					3198701
Equity Value					22456896
No of Shares Outstanding					199532
Equity Value Per Share					113

SENSITIVITY ANALYSIS (Interest)						
DCF Based Value Matrix			Rs. Per Share			
	Interest Rate					
Growth Rate			14%	15%	16%	
4%			132	125	118	
3%			118	113	107	
2%			108	103	98	

SENSITIVITY ANALYSIS (Exchange Rate & Prices)				
DCF Based Value Matrix			Rs. Per Share	
	prices Increase			
Exchange Rate	Local 5%	Export 2%		Sensitivity
3%			135	19%

Exchange rate & price changes in fist forecasted year followed by the basic assumptions

1	Shrinkage in local demand & start up of price war due to supply glut, may impede the production /sale and may even hamper capacity enhancement plan ,if it persist for a long term
2	Inability to shed off debt may cause severe threat to the company

SHORT TERM VALUATION

SHORT TERM VALUATION SUMMARY			
Pricing Methodology	Tool	Weight	Value (Rs.)
Target Price using	E/P Multiple	50%	-0.1
Target Price using	EV Multiple	50%	11
Weighted Average			5
Current Market Price			13
Upside/(downside)		%	-60

P/E & EV Multiple base value -163

Forward Earning Yield % -0.8

Forward Dividend Yield % 0.0

Short term horizon of 12 month, valuation is carried out by applying a special technique of inverse Multiple i.e. E/P multiple instead of P/E multiple, because 3 out of 4 companies were showing losses In the coming year and their EPS is negative (while 2 companies displaying negative P/E, due to current and past year losses) therefore it does not make any sense to evaluate them with P/E multiple, hence multiple is restated ,only for these companies, with price in the denominator (because price can never be negative) however 2nd tool EV multiple is applied as per practice, because it was not posing likewise problem

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COMPANY TAKEOVER VALUATION

TAKEOVER VALUATION				
Valuation Methodology				Ranking
	Total Weight	Ratio	Score	in Lowest
P/BV Basis	2.54		0.59	2nd
EV/Ton's Basis	17807		3145	1st
Combination of (P/BV & EV/Tons)	Weight age	50:50	20	2nd

PROSPECTIVE PROFIT VIEW Y.O.Y

	2010	2011	2012	2013	2014
LCL	-43%	162%	26%	18%	24%
DGCL	-715%	-143%	270%	28%	66%
MLCF	-47%	-73%	-274%	156%	59%
PCL	-2585%	-66%	-210%	195%	65%

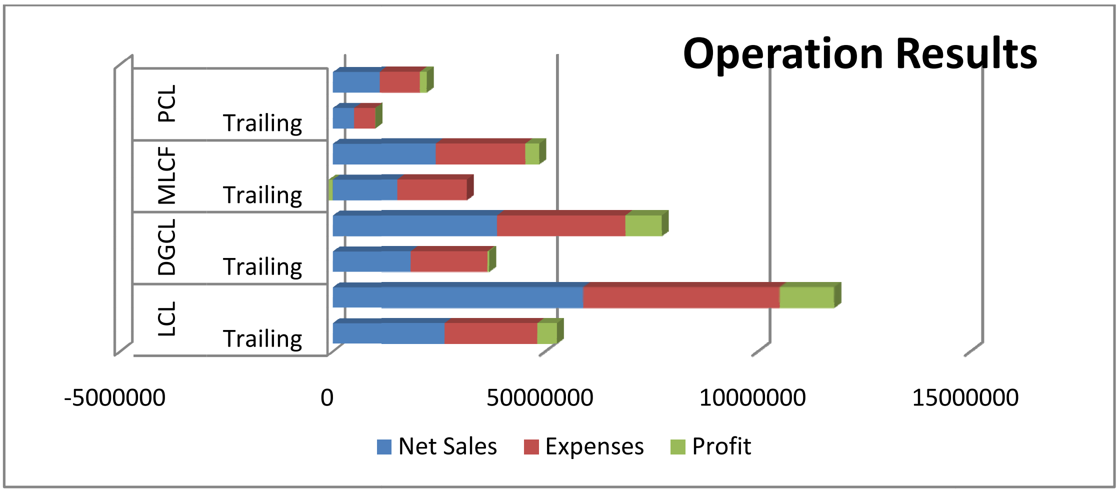
Heaviest lost of the company history has worsen its position

COMPARATIVE VIEW

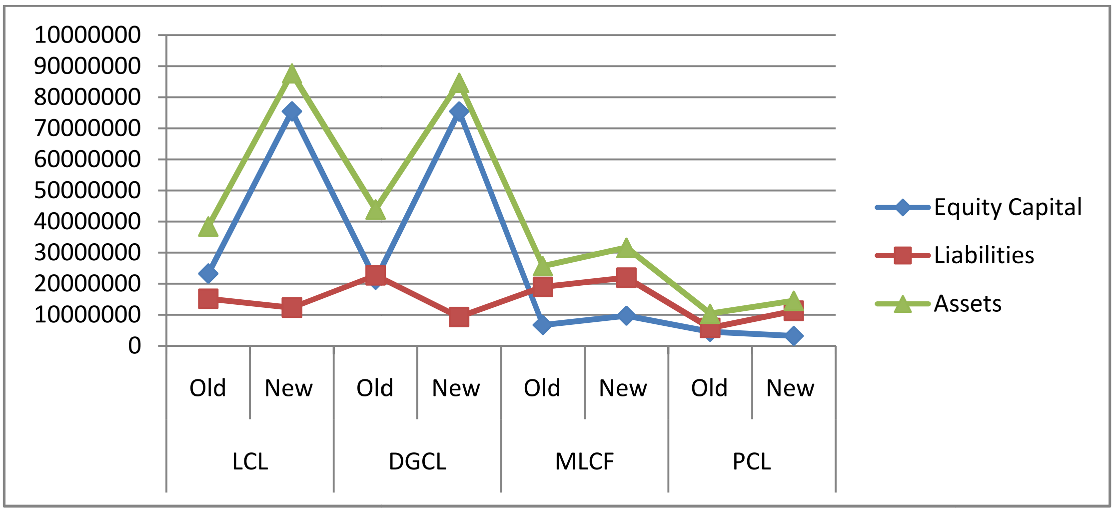
Multiples

Company	LCL		DGCL		MLCF		PCL	
	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW
Insolvency *	2.37	6.03	1.3	11.67	0.77	1.55	0.73	1.23
Sale Growth	0.19	0.17	0.37	0.17	0.8	0.11	0.01	0.17
Share Price	59	342	60	328	4	40	14	113
MVE (M)	18927.1	135588	18255	843944	1600.73	17056	2710	22547
P/E Multiple	4.12	7.00	43.98	19.00	-1.63	0.67	75.03	2.00
EV Multiple	3.4	1.7	5.1	8	4.7	0.4	5	-1
EBITDA (M)	8366	18221	5193	14532	3518	5680	1244	3191
Cost Per Ton	3806	4653	4615	4653	5195	5395	4360	4811
EV(Per Ton)	3660	2937	6539	17841	4463	544	3145	-1665
Price /BV	0.81	1.8	0.86	11.21	0.27	1.85	0.59	4.15

Business Results

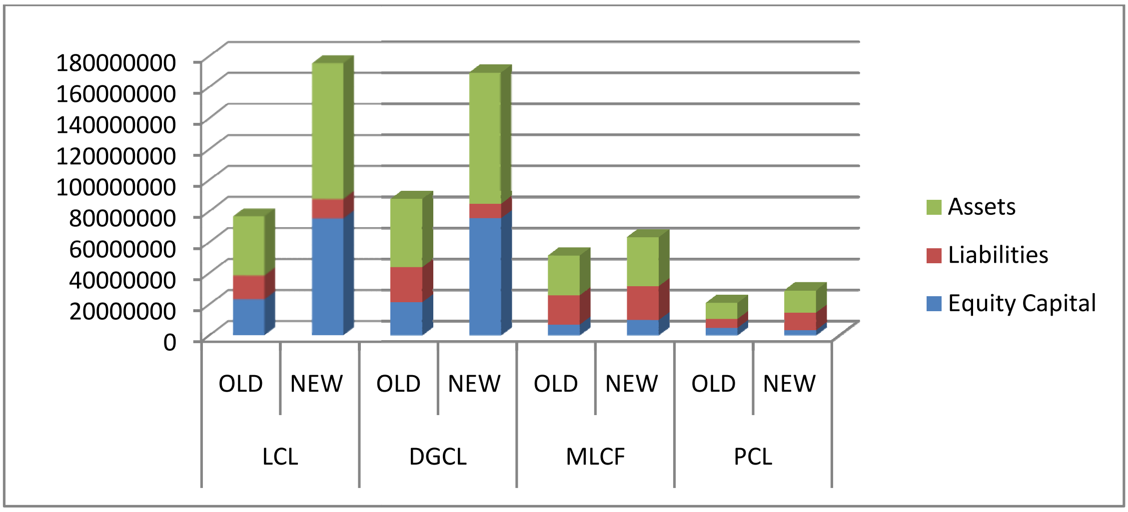


Business Structure



- As per Altman's Z Score Criteria , there is no insolvency risk on or above score 3 , but always persist below this score , as indicated on respective companies fitness tables

Equity Position



INSOLVENCY RISK SCORE (Free of Risk Score : 3.00)					Total
	LCL	DGCL	MLCF	PCL	Ratio
S.T liquidated Value of Share	61%	48%	26%	54%	
L.T liquidated Value of Share	86%	89%	30%	46%	
Insolvency Score	2.37	1.30	0.77	0.73	5.17

Standard Risk	0.21	0.57	0.74	0.76
S.T Comparative Adj. (Anti Insolvency)	0.75		0.25	
L.T Comparative Adj..(Anti Insolvency)	0.46	0.25	0.15	0.14
Improve/(Deteriorate) Past	78%	-34%	-58%	-14%
Improve/(Deteriorate) Future	64%	187%	195%	499%
Past Trend of S/Price	38%	-25%	-80%	-33%
S.T Max Risk Reward Ratio Adj.	1:[1.2]		1:2	
L.T Max Risk Reward Ratio Adj.	1:35	1:41	1:12	1:13

NB:
S.T Optimum Portfolio operates with in respective risk of the Company's "Past"
L.T Optimum Portfolio Recommended on respective risk of the Company's "Futu

Note:

Insolvency predicator should be read in conjunction with Net Worth of the company & then ascertain potential loss on investment, however liquidation does not took place, just because of inability to pay off debts or other liabilities in short while and not just on the will of lender or creditors ,but depends upon many other factors like earning potential of the company, qualities/vision of management, shareholders/group capacity of pouring additional funds or absorbing losses , lender/creditors tolerance limits and customer faith on the products of the company

INVESTMENT PLAN					Ranking
Type of Investment	LCL	DGCL	MLCF	PCL	Order
Share price as on Dec. 23, 2009	66	29.5	3.51	9.75	
Short Term (One Year)					MLCF
CMP of Shares	58.5	60.0	4.3	13.6	LCL
Multiple Basis	79	4	8	5	
Up/Downside	35%	-94%	95%	-61%	
Recommended	Buy	Sell	Buy	Sell	
Risk Lover			100%		
Risk avoid	100%				
Optimizer	75%		25%		
Long Term (5 -10 Year)					MLCF
CMP of Shares	59	60	4	14	PCL
DCF Basis value	342	328	40	113	LCL
Up/Downside	484%	447%	830%	729%	DGCL
Recommended	Buy	Buy	Buy	Buy	
Risk Lover			53%	47%	
Risk avoid	46%	54%			
Optimizer	46%	25%	15%	14%	
Takeover of Business					MLCF
P/BV (Scores)	0.81	0.86	0.27	0.59	PCL
EV/Ton(Score)	3660	6539	4463	3145	LCL
Combine(Scor)	26	35	18	20	DGCL
Recommended			Buy	Buy	
Priority			1st	2nd	

NOTE:

Relative valuation for short term horizon of 12 months has been based on P/E multiple and EV multiple,(Except for loss sustaining companies where P/E is replaced with E/P) derived from estimates of forward year 2010. EV multiple help in comparing company's performance with its peers irrespective of depreciation & finance expenses, while PE multiple helps in comparing company peers with respect to earning potential, Valuation is based on multiples of the respective company to arrive at fair value and avoid exaggeration because industry multiples, as stated earlier, are misleading due to unstable economy and unorganized industry as well as rolling stock market (which is running under control since last year and floor lifting was conditional to IMF approval)

Intrinsic Long Term valuation is reflected from DCF of respective company , which is based on comprehensive financial statements, prepared in accordance with historical norm of respective companies and vision/strategy of their managements

Inverse technique has proven its reliability ,as witnessed by latest stock prices as on Dec. 23, 2009, stocks are moving towards prediction with slow or fast pace ,except MLCF which have slump down after publication of an article in newspaper on Dec.10, 2009, where debt conversion proposal of the company to the banks ,who misconstrued & treated this as inability of the company to comply with impending financial obligations. http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/news/business/11-banks-to-face-rs8-billion-sukuk-default---il--02

Disclosure under FINRA Rules

The Research Analyst do hereby declare & states that neither draft nor any section of this report has submitted to any company for verification of factual accuracy of information ,because research was not legal obligation nor it contains any ratings (opinion expressed in this report is for the sake of study & expression of information

Applicability or otherwise of categories, given against each

Ownership & material conflict of interest	Not Applicable
Receipt of compensation	Not Applicable
Position as Officer/Director	Not Applicable
Meaning/Distribution of Ratings	Rating meaning has been disclosed in foot note of the page, and this is the first & last rating ,hence no distribution disclosure required
Price chart	As the companies under review were not placed on watch list & report is not legitimate/formal, so Not Applicable
Price Targets	Method & Assumptions has been given in attached spreadsheet files of respective companies

DISCLAIMER

It is stated that this report is not intended to be & must not be taken as basis for an investment decision/advice , nor it should be construed or solicitation to buy, hold/reduce or sell securities of the companies referred in this report.