

Analysts remain selective, mindful of Centre's likely capex nudge ahead of 2024 elections



Analysts remain selective on cement stocks amid the government's likely capital expenditure push ahead of the general elections in May next year. While UBS has initiated coverage on the Indian cement sector with an anti-consensus negative view and suggests investors sell select cement stocks on a rally, those at Nomura remain selectively bullish on the sector and prefer companies with large brownfield optionality and multi-region presence.

In the near term, UBS expects the strong earnings of cement companies in the next two quarters to be driven by robust demand and margin tailwinds, but suggests any sharp uptick in stock prices could offer a good opportunity for booking profits in the related counters.

“With valuations of 15x one-year forward enterprise value/earnings before interest, tax, depreciation, and amortisation (Ebitda) and 30x estimated 2024-25 price-to-earnings for a sector tracking close to the gross domestic product growth rate, rising competition, low entry barriers, and a return profile of low double digits, we see little room for potential upside. Structurally, we would sell any rally, not buy the dip,” wrote Nikunj Mandawara and Pramod Kumar of UBS in a recent note.

Among the lot, UBS has a 'buy' rating on ACC, downgraded UltraTech Cement (UltraTech) to 'neutral', and downgraded Dalmia Bharat (Dalmia), and Ambuja Cements (Ambuja) to 'sell'.

Nomura, conversely, has maintained a 'neutral' rating on UltraTech and Ambuja while maintaining a 'reduce' rating on ACC, The Ramco Cements (Ramco), and Shree Cement. It has initiated coverage on Dalmia and Nuvoco Vistas with a 'buy' rating.

Both UBS (at 10 per cent) and Nomura (8 per cent) have similar forecasts for volume growth in 2023-24 in the pre-election year, which, they feel, will also be aided by an uptick in the real estate cycle (housing accounts for 60–65 per cent of cement demand in India).

Higher volumes, believes Nomura, should result in higher fixed cost absorp-

tion, resulting in higher Ebitda per tonne, partially offset by weaker realisations, given the market-share tussle amid unbridled capacity expansion by the industry.

“We do not see the industry attaining pricing power in the near term, as we expect utilisation levels to remain low. As a result, we expect prices to increase in line with the Wholesale Price Index, similar to costs, except for a few episodes of supplier discipline/indiscipline. This will keep the return on capital employed depressed amidst rising capital employed,” wrote Jashandeep Singh Chadha of Nomura in a recent report.

Meanwhile, at the bourses, cement stocks have had a mixed run.

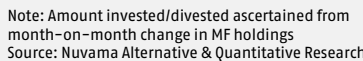
While Ramco, Prism Johnson, UltraTech, JK Cement, Orient Cement, and Dalmia gained between 11 per cent and 41 per cent in the first half of calendar year 2023 and outperformed the S&P BSE Sensex, which moved up nearly 7.85 per cent during this period, Bheema Cements, ACC, Ambuja, Jaiprakash Associates, JK Lakshmi Cement, and India Cements lost up to 75 per cent, reveals ACE Equity data.

Consolidation

The chances of consolidation or merger and acquisition across the top five cement companies in the near to medium term, too, according to UBS, appear slim.

Valuation-wise, the most expensive cement company, Ambuja (standalone), according to UBS, is trading at roughly \$260 million per tonne of capacity (versus replacement costs of roughly \$100 million), while the most inexpensive mid-cap cement stock with sound operational performance and balance sheet is trading at \$40–50 per tonne.

“There is limited incentive to sell for the top six to 28 companies, and balance-sheet strengths provide a buffer to absorb margin hits from weak pricing. We, therefore, believe notable market-share gains from the top six to 28 companies remain difficult for the top five firms, organically or inorganically. This raises the threat of overcapacity or expansion with lagging guidance. Both are derating risks for an expensive sector in the 90th percentile of its five-year valuation range,” observed the UBS note.





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
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Date : 13.07.2023
Place : Tamil Nadu

Sd/-
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| 2 | Construction of 4 Class rooms building in Government High Secondary School at Vengambakkam in Chengalpattu District. E.M.D. Rs.59,000/- | Rs.80.50 Lakhs | 8 Months | Class IV and above |
| 3 | Construction of 5 Class rooms and Lab Building in Government High School at Sogandi in Chengalpattu District. E.M.D. : Rs.74,000/- | Rs.127.50 Lakhs | 8 Months | Class IV and above |
| 4 | Construction of 16 Class rooms Building in Government Girls Secondary School at Nandharvam in Chengalpattu District. E.M.D. Rs.1,62,000/- | Rs.303.95 Lakhs | 12 Months | Class III and above |
| 5 | Providing accommodation to the Commercial Court in the first floor of the PWSA Building and Commercial Court / Commercial Court in the first floor of Annex Building in Combined Court Building Campus at Chengalpattu in Chengalpattu District. E.M.D. : Rs.66,500/- | Rs.112.40 Lakhs | 8 Months | Class IV and above |

1. For Tender documents, visit <https://tenders.gov.in> from 21. Last Date and Time for submission of tender documents: 08.07.2023 upto 03.00 PM. 3. Date and Time of opening of the tender: 08.08.2023 at 04.00 PM.

Superintending Engineer, P.W.D. (F&C) Buildings (C&M) Circle, Chennai-5.

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