Pakistan Cements

12 November 2026

FCCP royalty hearing

Potential relief for Punjab players

At the hearing of the cement royalty case before the Federal Constitutional Court of Pakistan (FCCP), the Additional Attorney General concluded his arguments and the Court reserved its judgment, which is expected to be announced next week. Should the FCCP rule against Punjab's 6% ex-factory price-based methodology, royalty could revert to the previous fixed levy of PKR250/ton of limestone, reducing the burden from an average of c.PKR1,740/ton of cement. Alternatively, Punjab could adopt KPK's methodology, which would also mean a lower burden than the current regime.

Implications of hearing

- **Punjab's methodology drives a higher royalty burden:** Punjab links royalty to cement's ex-factory price, translating into c.PKR1,740/ton of cement or c.PKR87/bag.
- **KPK royalty remains lower:** KPK producers currently pay PKR385/ton of limestone, equivalent to c.PKR578/ton of cement or c.PKR29/bag. The rate is subject to 10% annual increases through FY28 and 7.5% thereafter through FY31 but remains below Punjab's current burden. This provides KPK players with a structural cost advantage and scope to undercut Punjab producers by c.PKR40-50/bag.
- **Meaningful EPS upside under KPK-equivalent rates:** We estimate an average FY27 EPS upside of **18%** for the four Punjab-based players, assuming Punjab adopts the prevailing KPK royalty rate of c.PKR578/ton of cement, based on our FY27 dispatch estimates.
- **Higher upside under Punjab's previous rate:** We have also shown the FY27 EPS impact if Punjab reverts to its previous PKR250/ton of limestone rate.
- **Historical earnings impact:** The table also highlights the per-share benefit that would have accrued over the past two years had Punjab retained its previous fixed royalty methodology.

Standardization of royalty rates across Punjab and KPK would provide meaningful cost relief for Punjab players. However, the key risk is that the 6% ex-factory methodology is struck down but replaced with a **higher fixed levy on limestone**, potentially limiting or eliminating the expected benefit. Further developments from the courts and Punjab authorities remain key.

Probable one-off reversal

(PKRmn)	MLCF*	PIOC	DGKC	FCCL
Post-tax estimated amount for FY26	5,790	2,162	1,557	4,458
Post-tax estimated amount for 1QFY27	1,143	383	469	685
Total amount for reversal	6,933	2,545	2,026	5,143
EPS (PKR/sh)	6.6	11.2	4.6	2.1

Source: Company Accounts, IMS Research
*Consolidated

FY27 impact	KPK methodology (PKR385/ton)				Old methodology (PKR250/ton)			
	MLCF*	PIOC	DGKC	FCCL	MLCF*	PIOC	DGKC	FCCL
Estimated punjab dispatches (mn tons)	4.42	2.79	2.82	3.62	4.42	2.79	2.82	3.62
Post-tax estimated amount (PKRmn)	4,114	1,444	1,703	2,160	4,892	1,745	2,008	2,551
EPS (PKR/sh)	3.9	6.4	3.9	0.9	4.7	7.7	4.6	1.0

Source: IMS Research
*Consolidated

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*Based on 12 month horizon unless stated otherwise in the report.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Risks i) Coal price and geopolitical risk, ii) Price war threat, and iii) Higher taxation and regulatory scrutiny.

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