

## LUCK: 3QFY24 Analyst briefing key takeaways

- LUCK held its analyst briefing to discuss its 3QFY24 financial results and future outlook of the company.
- Company's profitability declined 26% YoY in 3QFY24 due to absence of gain on disposal of Nutrico Morinaga and gain on its remeasurement, along with lower profitability from i) polyester, ii) life sciences & chemical and iii) Auto & mobile assembling segments.
- However, Cement, Soda ash, and Power businesses provide support to company's profitability.
- The company is advancing renewable energy initiatives, with a 41.2MW capacity spread across its Karachi and Pezu plants. A 28.8MW captive wind power project is underway in Karachi, likely for completion by 1QFY25. Moreover, expansions in solar capacity, 6.8MW and 6MW at Karachi and Pezu respectively, are progressing, aiming for completion within the current fiscal year. These efforts will elevate solar capacity to 74.3MW, with total renewable capacity reaching 103.1MW post-wind project addition.
- While Lucky Cement's export margins are still lower than desired, the contribution margins are better. Cement exports improved due to decline in international coal prices and improved sales to exports destinations, positively impacting export performance.
- Export prices remained unchanged during the period, standing at USD 38-40/ton for cement and USD 30/ton for clinker.
- The demand growth in the company's international cement operations continues to remain in the double digits. The significant boost in profitability from Lucky Cement's foreign operations primarily stemmed from transitioning the kiln from heavy fuel oil (HFO) to gas in Iraq. Additional profitability gains were derived from robust pricing in both Iraq and Congo.
- In terms of local cement operations, company solely reliant on imported coal in the South region. Conversely, in the North region, the coal mix comprises 80% local or Afghan coal and 20% imported coal. During 3QFY24, the overall coal cost averaged around PKR 33,000-34,000/ton, with imported coal cost at USD 110/ton.
- The domestic transportation cost from the South to the North region varies between PKR 5,000-7,000/ton. During 3QFY24, local cement retention prices were ~PKR 13,500-14,000/ton.
- The management does not anticipate the implementation of the track and trace system initiative by the FBR for the cement industry, which would require an investment of ~PKR 1 bn.
- A JV between Lucky Cement and National Resources (Pvt) Limited has secured an exploration license in the Chagai district of Balochistan. While the capital expenditure for this endeavour is anticipated to commence within the next 2 to 3 years, Lucky Cement envisions promising prospects for this project, despite the extended gestation period involved.
- During 9MFY24, Lucky Electric plant (LEPCL) maintained availability at 100%. At present, the LEPCL outstanding receivables are hovering within manageable levels, approximately equivalent to 4 to 5 months, amounting to around PKR 30 billion.
- The management has no plans for any share buyback in the near future. However, if necessary, they have to wait for up to one year to initiate such a move.
- We have a 'BUY' recommendation on LUCK with our Dec-24 price target (PT) of PKR 945/share, providing an upside of 13% along with dividend yield of 3%.

### Key Data

|                         |         |
|-------------------------|---------|
| PSX Ticker              | LUCK    |
| Target Price (PKR)      | 945     |
| Current Price (PKR)     | 837     |
| Upside/(Downside) (%)   | 13%     |
| Dividend Yield (%)      | 3%      |
| Total Return (%)        | + 16%   |
| 12-month High (PKR)     | 875     |
| 12-month Low (PKR)      | 432     |
| Outstanding Shares (mn) | 293     |
| Market Cap (PKR mn)     | 245,162 |
| Year End                | June    |

Source: Company Accounts, Akseer Research

### Key Financial Ratios

|                | FY21A  | FY22A | FY23A | FY24E | FY25F | FY26F |
|----------------|--------|-------|-------|-------|-------|-------|
| EPS            | 70.7   | 91.2  | 150.8 | 239.7 | 262.1 | 274.4 |
| EPS Growth     | 272.8% | 29.0% | 65.3% | 59.0% | 9.3%  | 4.7%  |
| DPS            | -      | -     | 19.9  | 28.0  | 31.0  | 40.0  |
| PER            | 11.8   | 9.2   | 5.5   | 3.5   | 3.2   | 3.0   |
| Dividend Yield | -      | -     | 2.4%  | 3.3%  | 3.7%  | 4.8%  |
| EV/EBITDA      | 8.4    | 7.7   | 4.5   | 3.2   | 2.7   | 2.3   |
| P/B            | 1.7    | 1.4   | 1.0   | 0.8   | 0.7   | 0.6   |
| ROE            | 18.0%  | 18.2% | 22.8% | 23.8% | 22.7% | 21.6% |

Source: Company Accounts, Akseer Research

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**Valuation Basis**

Our PT for LUCK has been computed using SOTP based valuation method. To value individual parts, we have used a risk free rate of 15%, beta of 1.0 and market risk premium of 6%.

**Investment Thesis**

We have a 'BUY' recommendation on the stock based on our PT of 945/share. Our price target indicates an upside of 13% and dividend yield of 3%. Our investment case is based on i) dividend commencement from power, ii) lower debt burden, iii) expansion in overseas cement operations and iv) enhanced earnings from ICI.

**Risks**

Key risks to our investment thesis include i) lower than estimated earnings from overseas cement operations, ii) higher than anticipated increase in input cost (Coal, FO, Gas), iii) lower than anticipated growth in cement demand, iv) lower than estimated increase in cement prices v) Lower than forecasted automobile sales vi) downward revision in tariff for power project and vii) lower than expected growth in profitability of ICI.

**Company Description**

Lucky Cement Limited (LUCK) is a manufacturer and supplier of cement. It produces various types of cement such as the Ordinary Portland Cement (OPC), clinkers, block cement and the sulfate resistant cement. The company has manufacturing plants in both North and South regions of the country, and also in Iraq and Congo. The company operates as a group company of Yunus Brothers Group and have exposure to chemical (ICI) and power generation business.

**Financial Highlights - LUCK**

| Income Statement (PKR mn) - Consolidated |               |               |               |                |                |                |
|--|---------------|---------------|---------------|----------------|----------------|----------------|
|  | FY21A         | FY22A         | FY23A         | FY24E          | FY25F          | FY26F          |
| Net sales                                | 207,159       | 331,462       | 385,125       | 408,595        | 521,844        | 560,244        |
| Cost of sales                            | 159,614       | 268,291       | 291,491       | 285,342        | 395,771        | 426,686        |
| <b>Gross Profit</b>                      | <b>47,545</b> | <b>63,171</b> | <b>93,634</b> | <b>123,253</b> | <b>126,073</b> | <b>133,558</b> |
| SG & A                                   | 15,531        | 17,585        | 16,339        | 23,107         | 22,868         | 25,013         |
| <b>Operating Profit</b>                  | <b>32,014</b> | <b>45,586</b> | <b>77,295</b> | <b>100,146</b> | <b>103,205</b> | <b>108,545</b> |
| Other income                             | 2,928         | 7,337         | 19,370        | 19,407         | 16,837         | 17,677         |
| Other charges                            | 4,915         | 4,466         | 4,126         | 4,329          | 4,238          | 4,648          |
| Finance cost                             | 1,464         | 7,095         | 30,641        | 37,587         | 24,507         | 22,363         |
| Share of inv. gain                       | 4,439         | 5,674         | 10,522        | 14,558         | 10,962         | 12,755         |
| <b>Profit before tax</b>                 | <b>33,002</b> | <b>47,036</b> | <b>72,420</b> | <b>92,196</b>  | <b>102,259</b> | <b>111,966</b> |
| Taxation                                 | 4,773         | 10,613        | 12,882        | 17,926         | 20,786         | 26,010         |
| <b>Profit after tax</b>                  | <b>28,229</b> | <b>36,423</b> | <b>59,537</b> | <b>74,270</b>  | <b>81,473</b>  | <b>85,957</b>  |
| <b>Attributable to Parent</b>            | <b>22,858</b> | <b>29,497</b> | <b>48,758</b> | <b>70,236</b>  | <b>76,797</b>  | <b>80,410</b>  |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) - Consolidated |                |                |                |                |                |                |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                       | FY21A          | FY22A          | FY23A          | FY24E          | FY25F          | FY26F          |
| PPE                                   | 215,582        | 276,029        | 294,839        | 307,122        | 304,375        | 301,656        |
| Other LT assets                       | 35,007         | 51,932         | 74,744         | 50,770         | 53,813         | 57,772         |
| Non-Current Assets                    | 250,590        | 327,961        | 369,583        | 357,892        | 358,188        | 359,428        |
| Current assets                        | 110,808        | 175,726        | 238,776        | 242,567        | 297,572        | 327,658        |
| <b>Total Assets</b>                   | <b>361,398</b> | <b>503,686</b> | <b>608,359</b> | <b>600,459</b> | <b>655,760</b> | <b>687,085</b> |
| Non-Current liabilities               | 113,524        | 154,606        | 171,646        | 128,862        | 118,420        | 108,239        |
| Current liabilities                   | 90,848         | 149,323        | 175,713        | 159,088        | 178,341        | 180,831        |
| <b>Total Liabilities</b>              | <b>204,371</b> | <b>303,929</b> | <b>347,360</b> | <b>287,951</b> | <b>296,761</b> | <b>289,070</b> |
| Equity                                | 157,026        | 199,758        | 260,999        | 312,507        | 358,999        | 398,015        |
| <b>Total Equity &amp; liabilities</b> | <b>361,398</b> | <b>503,687</b> | <b>608,359</b> | <b>600,458</b> | <b>655,759</b> | <b>687,084</b> |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) - Consolidated |                 |                 |               |               |                |                |
|--|-----------------|-----------------|---------------|---------------|----------------|----------------|
|  | FY21A           | FY22A           | FY23A         | FY24E         | FY25F          | FY26F          |
| Net Income                                 | 28,229          | 36,423          | 59,537        | 74,270        | 81,473         | 85,957         |
| Non-cash Charges                           | 8,814           | 8,926           | 15,043        | 17,740        | 17,251         | 17,428         |
| <b>Operating Cash flows</b>                | <b>20,723</b>   | <b>(6,116)</b>  | <b>25,575</b> | <b>98,750</b> | <b>98,053</b>  | <b>95,022</b>  |
| <b>FCFF</b>                                | <b>(11,231)</b> | <b>(77,502)</b> | <b>24,878</b> | <b>99,003</b> | <b>103,091</b> | <b>97,496</b>  |
| Net borrowings                             | 12,818          | 80,210          | 20,646        | (25,825)      | (11,703)       | (8,043)        |
| <b>FCFE</b>                                | <b>335</b>      | <b>(2,785)</b>  | <b>20,334</b> | <b>42,899</b> | <b>71,863</b>  | <b>72,284</b>  |
| Net change in cash                         | (2,355)         | 3,524           | 22,037        | 20,138        | 36,881         | 25,344         |
| <b>Closing cash</b>                        | <b>13,377</b>   | <b>16,901</b>   | <b>38,938</b> | <b>59,077</b> | <b>95,959</b>  | <b>121,303</b> |

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods, which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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|---------------|-------------------------------|
| Buy           | Greater than or equal to +15% |
| Hold          | Between -5% and +15%          |
| Sell          | Less than or equal to -5%     |

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