

LUCK: 1QFY22 unconsolidated earnings clock in at PKR 10.15/share

- Lucky Cement held its board meeting yesterday and disclosed its financial results today. The company reported 1QFY22 unconsolidated earnings of PKR 10.15/share, up 47% YoY. The increase in earnings is primarily attributable to increase in dividend income from ICI and higher than estimated gross margins. On consolidated basis, LUCK's 1QFY22 earnings clocked in at PKR 20.57/share, up 53% YoY.
- During 1QFY22, LUCK's revenue grew 18% YoY to PKR 16.9bn, primarily driven by an increase in local cement price. Cement prices during 1QFY22 was up 25% YoY in North and 11% YoY in South), while local despatches grew 2.7% YoY. Overall despatches, on the other hand, saw a decline of 7% YoY, dragged by 30% YoY decline in exports.
- Gross margins during 1QFY22 clocked in at 27.3% as compared to 27.9% in the same period last year. The stable margins are attributable to increase in retention prices during 1QFY22 partially offsetting the increase in input cost.
- Other income increased 1.4x YoY owing to an increase in dividends from ICI, while other charges during the year grew 73% YoY on the back of improved profitability, possibly due to a higher amount being allocated to WPPF, WWF.
- We have a 'BUY' stance on LUCK. Our Jun-22 price target (PT) of PKR 1,003/share provides a potential upside of 40%.

Key Data

PSX Ticker	LUCK
Target Price (PKR)	1,003
Current Price (PKR)	715
Upside/(Downside) (%)	+ 40%
Dividend Yield (%)	1.4%
Total Return (%)	+ 42%
12-month High (PKR)	945
12-month Low (PKR)	635
Outstanding Shares (mn)	323.4
Market Cap (PKR mn)	231,203
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimate (PKR mn) - Unconsolidated

	1QFY21	1QFY22	YoY
Net Sales	14,335	16,915	18%
Cost of Sales	10,341	12,298	19%
Gross Profit	3,995	4,618	16%
Distri. & Admin. Exp.	1,643	1,347	-18%
Other Income	602	1,472	144%
Other Charges	200	347	73%
Finance Cost	68	93	37%
Profit Before Tax	2,685	4,302	60%
Taxation	459	1,018	122%
Net Income	2,226	3,283	47%
EPS – Unconsolidated	6.89	10.15	47%
EPS - Consolidated	13.45	20.57	53%

Source: Company Accounts, Akseer Research

Key Financial Ratios - Consolidated

	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
EPS	35.03	18.96	70.69	129.45	147.02	174.59
EPS Growth	-24%	-46%	273%	83%	14%	19%
DPS	6.50	-	-	10.00	10.00	15.00
PER	20.4	37.7	10.1	5.5	4.9	4.1
Dividend Yield	0.9%	0.0%	0.0%	1.4%	1.4%	2.1%
EV/EBITDA	12.3	20.6	8.0	4.5	4.0	3.1
P/B	1.8	1.8	1.5	1.0	0.9	0.8
ROE	9.9%	5.6%	18.0%	20.3%	20.2%	20.9%

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 11%, 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 1,003/share. Our price target indicates an upside of 40%. Our investment case is based on i) Brownfield expansion at Pezu, iii) healthy contribution from Auto project, iv) expansion in overseas cement operations v) contribution from coal-based power project and vi) increase in earnings from ICI.

Risks

Key risks to our investment thesis include (1) lower than estimated earnings from overseas cement operations 2) higher than anticipated increase in input cost (Coal, FO, Gas), 3) lower than anticipated growth in cement demand 4) lower than estimated increase in cement prices 5) Lower than forecasted automobile sales 6) downward revision in tariff for power project and 7) 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						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net sales	108,296	123,768	207,159	372,334	403,519	437,610
Cost of sales	84,507	104,811	159,614	289,233	314,731	337,488
Gross Profit	23,789	18,957	47,545	83,101	88,789	100,122
SG & A	9,130	11,870	15,531	22,420	24,655	27,235
Operating Profit	14,659	7,087	32,014	60,682	64,134	72,887
Other income	3,000	2,376	2,928	4,740	7,635	9,742
Other charges	1,904	1,203	4,915	2,719	3,412	5,113
Finance cost	1,610	2,367	1,464	17,258	17,349	16,062
Share from Associate	1,013	3,038	4,439	5,155	5,429	5,437
Profit before tax	15,158	8,931	33,002	50,599	56,437	66,890
Taxation	2,811	1,614	4,773	3,706	3,680	4,581
Profit after tax	12,347	7,317	28,229	46,893	52,757	62,310
NCI	1,019	1,185	5,371	5,031	5,216	5,851
Attributable to Parent	11,328	6,132	22,858	41,862	47,541	56,458

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) - Consolidated						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
PPE	135,476	190,789	215,582	293,501	290,955	283,239
Other LT assets	26,810	32,295	35,007	43,554	45,690	47,608
Non-Current Assets	162,286	223,084	250,590	337,055	336,645	330,847
Current assets	64,735	68,803	110,808	156,065	172,808	202,018
Total Assets	227,021	291,887	361,398	493,121	509,453	532,865
Non-Current liabilities	49,372	99,601	113,524	171,681	160,191	147,637
Current liabilities	52,379	60,799	90,848	90,371	88,412	87,460
Total Liabilities	101,751	160,400	204,371	262,052	248,603	235,097
Equity	125,270	131,487	157,026	231,069	260,851	297,768
Total Equity & liabilities	227,021	291,887	361,398	493,121	509,453	532,865

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) - Consolidated						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	12,347	7,317	28,229	46,893	52,757	62,310
Non-cash Charges	6,400	8,147	8,814	14,278	14,817	16,288
Operating Cash flows	20,375	10,391	20,723	54,144	61,515	74,947
FCFF	(46,034)	(51,136)	(11,231)	(21,974)	65,547	81,403
Net borrowings	27,885	51,637	12,818	57,691	(11,149)	(11,097)
FCFE	(19,460)	(1,438)	335	19,723	38,181	55,343
Net change in cash	(16,112)	(2,539)	(2,355)	46,872	15,205	29,951
Closing cash	18,270	15,732	13,377	60,250	75,455	105,406

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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Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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