

Lucky Cement Limited
Key Takeaways

PSX: LUCK Bloomberg: LUCK PA Reuters: LUKC.PSX

Pakistan Research

Corporate Briefing Key Takeaways

- Lucky Cement held its analyst briefing today to discuss its 1QFY23 financial results. Earlier the company had recorded a consolidated EPS of PKR 16.85 in 1QFY23 compared to an EPS of PKR 20.57 in SPLY, down 21.8% YoY. Decline in earnings was due to lower contribution from its power plant as the plant was not available for 15-20 days during 1QFY23.
- On unconsolidated basis, the company reported an EPS of PKR 11.91 in 1QFY23, up 17% YoY, on account of higher cement prices.
- The management informed that LUCK's planned expansion of 3.15mn tons is on schedule and is set to come online by Dec-22. The expansion will enhance LUCK's cumulative production capacity to 15.3mn tons, making it the largest cement plant in the country. Along with this, the company is installing 34MW solar plant on its PEZU site which is expected to be commission by Dec-22.
- The company shared that plant's cement utilization level in south region stood at 47%, down 5ppt QoQ, whereas north region plant's utilization clocked in at 52%, down 16ppt QoQ. The management of the company is expecting a 10% YoY decline in local cement demand during FY23. To highlight, 1QFY23, local cement volumes declined by 32% YoY. The management is of the view that demand may pick up in coming months after work on flood related rehabilitation projects kicks in.
- The management shared their view on the current energy prices as well as their reservations about gas situation. Given the significant rise in energy cost, the company doesn't believe that they will be able to maintain their current margins. In order to hedge the risk of rising cost, the company has stored 0.5mnt clinker.
- Furthermore, Lucky Cement is looking for renewable sources of energy. Currently the company operates on 20% WHR and 80% of thermal, however, after the completion of expansion projects, the company will be operating on 20% solar, 18% WHR and 62% thermal.
- The management conveyed that they are currently using mix between Afghan and local coal, and the weighted average cost of coal for the 1QFY23 was approx. PKR 50,000/ton.
- The management shed some light over their international venture where they informed that due to subdued demand in IRAQ, their international cement venture in Basra observed a decline in EBITDA of 32% YoY and their venture in Najmat al Samawah observed a decline of 45.4%. However, Al Samawah venture has now shifted from furnace oil to gas which will likely improve margins, going forward.
- The auto mobile segment will continue to face hardship in future due to import restriction for the next 6 months. With all time high car prices and interest rates, auto volumes will remain depress in near future.
- With regards to its power plant, the management informed that the plant was not available for 15-20 days during 1QFY23 due to technical issues which resulted in loss of capacity payments. The management believes that these issues will be resolved in the upcoming months. The plant is currently using a mix of imported and local coal.

Key Data

PSX Ticker	LUCK
Target Price (PKR)	875
Current Price (PKR)	488
Upside/(Downside) (%)	+79%
Dividend Yield (%)	0.0%
Total Return (%)	+ 79%
12-month High (PKR)	818
12-month Low (PKR)	407
Outstanding Shares (mn)	323
Market Cap (PKR mn)	160,904
Year End	June

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Lucky Cement Limited (LUCK) has been computed using Some of the parts (SOTP) valuation. We have used a risk-free rate of 13%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 875/share. Our price target indicates an upside of 79%. Our investment case is based on i) Brownfield expansion at Pezu, iii) healthy dividend contribution from Auto project, ICI and coal-based power project.

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						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	123,768	207,159	331,462	424,359	451,140	486,831
Cost of sales	104,811	159,614	268,291	339,972	368,751	384,666
Gross Profit	18,957	47,545	63,171	84,387	82,389	102,166
SG & A	11,870	15,531	17,585	24,369	25,714	28,296
Operating Profit	7,087	32,014	45,586	60,018	56,675	73,870
Other income	2,376	2,928	7,337	4,517	7,640	11,007
Other charges	1,203	4,915	4,466	2,490	2,869	3,993
Finance cost	2,367	1,464	7,095	20,939	17,022	15,347
Profit before tax	8,931	33,002	47,036	47,570	50,890	71,948
Taxation	1,614	4,773	10,613	8,802	9,445	13,571
Profit after tax	7,317	28,229	36,423	38,768	41,445	58,377
NCI	1,185	5,371	6,925	4,145	4,805	5,339
Attributable to parent	6,132	22,858	29,497	34,623	36,639	53,038

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) - Consolidated						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	190,789	215,582	276,029	296,103	289,864	284,945
Other LT assets	32,295	35,007	51,932	55,342	57,808	59,957
Non-Current Assets	223,084	250,590	327,961	351,445	347,672	344,902
Current assets	68,803	110,808	175,726	203,352	228,370	243,606
Total Assets	291,887	361,398	503,687	554,797	576,042	588,508
Non-Current liabilities	99,601	113,524	154,606	155,577	155,423	144,830
Current liabilities	60,799	90,848	149,323	153,426	143,338	146,890
Total Liabilities	160,400	204,371	303,929	309,004	298,761	291,720
Equity	131,487	157,026	199,758	245,794	277,281	296,789
Total Equity & liabilities	291,887	361,398	503,687	554,797	576,042	588,509

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	7,317	28,229	36,423	38,768	41,445	58,377
Non-cash Charges	8,147	8,814	8,926	15,110	16,428	17,010
Operating Cash flows	10,391	20,723	(6,116)	68,332	62,703	100,425
FCFF	(51,136)	(11,231)	(77,502)	50,311	66,441	100,786
Net borrowings	51,637	12,818	80,210	(5,454)	(10,735)	(9,170)
FCFE	(1,438)	335	(2,785)	27,793	41,843	79,164
Net change in cash	(2,539)	(2,355)	3,524	35,060	31,885	40,295
Closing cash	15,732	13,377	16,901	51,961	83,846	124,142

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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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

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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