

Lucky Cement Limited
Key Takeaways

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

Pakistan Research

Corporate Briefing Key Takeaways

- LUCK held its analyst briefing today to discuss its 1HFY23 financial results. The company reported consolidated earnings of PKR 49.32/share, up 21% YoY during the 1HFY23 (PKR 32.51/share in 2Q). The result is higher than our expectation mainly due to higher share of profit from associates as well as lower effective tax rate and lower distribution cost.
- Net sales during 1HFY23 increased to PKR 185.6bn vs PKR 123.4bn in SPLY, witnessing a 50% growth YoY. The company apprised that this revenue growth is largely due to commencement of commercial operations of LEPCL.
- Revenue contribution from the cement segment increased by 24% YoY to PKR 25.6bn, on the back of 55% YoY increase in retention prices to ~PKR 13,000/ton during 2Q.
- LUCK's market share, during 1H, in the north region settled at 12.4% (+0.2ppt YoY) whereas in the South region, it stood at 28.8% (+1.3ppt YoY).
- During 1HFY23, the company saw a decline of 18% YoY (-11% YoY in 2Q) in local dispatches, which can be attributed to demand contraction. The management is eyeing an 18-20% decline in cement dispatches for FY23.
- The management conveyed that the effective cost of coal during 2Q remained 50,000/ton. The current coal mix of the company comprises of 30-40% of Imported coal whereas rest is equally sourced through Afghani and local coal. LUCK currently holds 30 days' worth of inventory.
- Overseas cement operations during 2Q flourished largely due to increase in EBITDA margins of CONGO plant, that resulted in profits from associates to go up by 47% YoY.
- Chemicals segment's (LCI) operating profit declined significantly by 20.3% YoY. This is largely due to decline in profitability of Polyester, Chemical & Agri Science, and Pharmaceuticals caused by the contraction in demand, devaluation of PKR, business specific restrictions and higher global commodity prices.
- Contribution from the Auto and Mobile Assembly segment also witnessed a significant decline of 38.1% YoY in the 1HFY23 owing to lower volumes. Both segments observed 30%-40% YoY decline in volumes due to business specific restrictions.
- On the company's energy project, the management updated that LEPCL plant availability has improved from 78.4% during last quarter to 92% in the current quarter. The improvement can be credited to remedial actions taken by management to address teething issues for LEPCL.
- We have a 'BUY' stance on LUCK. Our Dec-23 price target (PT) of PKR 620/share provides an upside of 56%.

Key Data	
PSX Ticker	LUCK
Target Price (PKR)	620
Current Price (PKR)	395
Upside/(Downside) (%)	+ 56%
Dividend Yield (%)	0%
Total Return (%)	+ 56%
12-month High (PKR)	705
12-month Low (PKR)	376
Outstanding Shares (mn)	323.4
Market Cap (PKR mn)	127,784
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 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 620/share. Our price target indicates an upside of 56%. Our investment case is based on i) Brownfield expansion at Pezu, iii) healthy dividend contribution from Auto project, LCI 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	401,514	433,309	466,883
Cost of sales	104,811	159,614	268,291	310,206	335,284	355,650
Gross Profit	18,957	47,545	63,171	91,308	98,026	111,233
SG & A	11,870	15,531	17,585	22,444	24,936	27,811
Operating Profit	7,087	32,014	45,586	68,864	73,090	83,422
Other income	2,376	2,928	7,337	3,577	5,493	8,868
Other charges	1,203	4,915	4,466	3,167	3,468	4,557
Finance cost	2,367	1,464	7,095	23,449	23,038	17,249
Share from Associate	3,038	4,439	5,674	7,418	8,693	9,785
Profit before tax	8,931	33,002	47,036	53,244	60,770	80,270
Taxation	1,614	4,773	10,613	14,391	14,255	19,818
Profit after tax	7,317	28,229	36,423	38,853	46,514	60,452
NCI	1,185	5,371	6,925	4,731	5,754	6,637
Attributable to Parent	6,132	22,858	29,497	34,123	40,761	53,814

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Consolidated						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	190,789	215,582	276,029	305,773	298,196	291,855
Other LT assets	332,295	35,007	51,932	56,321	60,630	64,784
Non-Current Assets	223,084	250,590	327,961	362,094	358,826	356,639
Current assets	68,803	110,808	175,726	160,503	205,844	251,371
Total Assets	291,887	361,398	503,686	522,599	564,672	608,012
Non-Current liabilities	99,601	113,524	154,606	158,301	139,255	128,166
Current liabilities	60,799	90,848	149,323	111,378	134,143	139,978
Total Liabilities	160,400	204,371	303,929	269,678	273,398	268,145
Equity	131,487	157,026	199,758	252,920	291,274	339,867
Total Equity & liabilities	291,887	361,398	503,686	522,599	564,672	608,012

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	7,317	28,229	36,423	38,853	46,514	60,452
Non-cash Charges	8,147	8,814	8,926	15,488	16,830	17,428
Operating Cash flows	10,391	20,723	(6,116)	89,842	36,620	77,787
FCFF	(51,136)	(11,231)	(77,502)	61,820	45,066	79,691
Net borrowings	51,637	12,818	80,210	(45,374)	8,154	(9,906)
FCFE	(1,438)	335	(2,785)	(666)	35,587	56,794
Net change in cash	(2,539)	(2,355)	3,524	13,643	27,426	44,936
Closing cash	15,732	13,377	16,901	30,543	57,969	102,905

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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