

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 3QFY23 financial results. The company earlier reported consolidated earnings of PKR 66.47/share, up 1.8x YoY, compared to 23.41 SPLY. This takes 9MFY23 earnings to PKR 115.24, up 78.7% YoY. The increase in earnings came largely from PKR 17.1bn gains on partial disposal and remeasurement of interest retained on NutriCo Morinaga (Pvt) Ltd.
- Net sales of the local cement venture during 3QFY23 increased to PKR 25.0bn vs PKR 21.3bn in SPLY, witnessing a 17% growth YoY. The company apprised that revenue growth is largely due to increase in the retention prices of cement which we believe clocked in at ~ PKR 13,100 per ton up 44% YoY.
- The management has communicated that 34MW solar power facility has been commissioned during the quarter, resulting in operational costs reduction. In addition, management anticipated that the per unit cost will improve in subsequent periods as the solar plant will be operating at its full potential.
- Lucky Cement's market shares for northern region stood at 12.2% vs 12.4% SPLY, however, market shares for southern region declined by 1.3ppt YoY to 27.5%. The decline in southern region market share is due to restorations of older capacities of other cement players.
- Furthermore, the company has stated that it has the potential to incorporate up to 80% of locally sourced coal into its current coal mix. However, limitations with logistics and the availability of local coal may hinder the company from fully realizing its potential.
- On future outlook, the management mention that they don't see any positive triggers for demand and expects cement industry demand to remain stagnant.
- Moving to LEPCL, the management mentioned that previously 67% of the coal was sourced from Thar, however due to technical issues with SECMC the Thar coal availability will be hindered for the next 6-8 months.
- Moreover, the true up tariff for LEPCL is expected in 6 months, and the company anticipates that its subsidiary will be able to pay dividends in 6 to 8 months following the tariff.
- The foreign operations of the company are also anticipated to improve as the Iraq kiln operations will now be using gas instead of furnace oil which will likely result in operational efficiency.
- We have a 'BUY' stance on LUCK. Our Dec-23 price target (PT) of PKR 720/share provides an upside of 67%.

Key Data	
PSX Ticker	LUCK
Target Price (PKR)	720
Current Price (PKR)	431
Upside/(Downside) (%)	+ 67%
Dividend Yield (%)	0%
Total Return (%)	67%
12-month High (PKR)	567
12-month Low (PKR)	376
Outstanding Shares (mn)	313.4
Market Cap (PKR mn)	135,143
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 720/share. Our price target indicates an upside of 67%. 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	433,265	467,966	502,276
Cost of sales	104,811	159,614	268,291	341,235	372,031	399,395
Gross Profit	18,957	47,545	63,171	92,030	95,935	102,882
SG & A	11,870	15,531	17,585	22,639	23,656	26,279
Operating Profit	7,087	32,014	45,586	69,391	72,279	76,603
Other income	2,376	2,928	7,337	28,188	7,908	10,969
Other charges	1,203	4,915	4,466	3,526	3,264	3,887
Finance cost	2,367	1,464	7,095	28,825	27,389	18,802
Profit before tax	8,931	33,002	47,036	70,055	55,046	70,928
Taxation	1,614	4,773	10,613	13,347	11,052	14,278
Profit after tax	7,317	28,229	36,423	56,708	43,993	56,651
NCI	1,185	5,371	6,925	12,751	4,989	5,864
Attributable to Parent	6,132	22,858	29,497	43,957	39,004	50,787

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Consolidated						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	190,789	215,582	276,029	307,116	298,164	291,242
Other LT assets	32,295	35,007	51,932	55,845	58,726	61,322
Non-Current Assets	223,084	250,590	327,961	362,961	356,889	352,564
Current assets	68,803	110,808	175,726	181,585	212,750	248,992
Total Assets	291,887	361,398	503,686	544,546	569,640	601,557
Non-Current liabilities	99,601	113,524	154,606	155,577	144,022	135,497
Current liabilities	60,799	90,848	149,323	129,317	128,668	124,851
Total Liabilities	160,400	204,371	303,929	284,894	272,690	260,347
Equity	131,487	157,026	199,758	259,653	296,951	341,210
Total Equity & liabilities	291,887	361,398	503,686	544,546	569,640	601,557

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	7,317	28,229	36,423	56,708	43,993	56,651
Non-cash Charges	8,147	8,814	8,926	16,696	16,403	17,126
Operating Cash flows	10,391	20,723	(6,116)	94,592	61,835	71,052
FCFF	(51,136)	(11,231)	(77,502)	70,241	76,339	75,865
Net borrowings	51,637	12,818	80,210	(12,637)	(16,174)	(14,420)
FCFE	(1,438)	335	(2,785)	34,271	38,274	46,427
Net change in cash	(2,539)	(2,355)	3,524	37,458	31,578	34,036
Closing cash	15,732	13,377	16,901	54,358	85,936	119,973

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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