

LUCK: 3QFY22 unconsolidated earnings clocked in at PKR 17.12/share

- Lucky Cement reported 3QFY22 unconsolidated earnings of PKR 5.5bn (EPS PKR 17.12), down 23% YoY. The decrease in earnings is primarily attributable to sizeable increase in cost of sales. This takes 9MFY22 earnings to PKR 11.9bn (EPS PKR 34.97), down 3% YoY.
- During 3QFY22, LUCK's revenue grew 25% YoY to PKR 21.34bn, primarily driven by an increase in local cement price which grew 29% YoY in North and 28% YoY in South, while the company local despatches dropped by 9.4% YoY in 3QFY22.
- Gross margins clocked in at 22.08% during 3QFY22 as compared to 35.93% in the same period last year. The decline in margins can be attributed to volatility of coal prices coupled with exuberantly high freight charges.
- Financial cost during the year declined by 5% YoY, owing to the decrease in short term Financing.
- On sequential basis, profitability of the company grew by 1.2x QoQ. Major reason behind higher profits was growth in other income which remained higher by 4.55x YoY to PKR 4.1bn, led by dividend contribution from Lucky Motor Company (LMC) and ICI. Moreover, company also recorded PKR 1.5bn in other income as a technical service provided to its joint venture in Congo.
- We have a 'BUY' stance on LUCK. Our Dec-22 SOTP based price target (PT) of PKR 1,004/share provides a potential upside of 77%.

Key Data

PSX Ticker	LUCK
Target Price (PKR)	1,004
Current Price (PKR)	571.12
Upside/(Downside) (%)	+ 75.8%
Dividend Yield (%)	1.4%
Total Return (%)	+ 77.2%
12-month High (PKR)	945
12-month Low (PKR)	545.50
Outstanding Shares (mn)	323.4
Market Cap (PKR mn)	231,203
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
Net Sales	17,027	21,341	25%	47,103	58,890	25%
Cost of Sales	10,908	16,630	52%	32,399	44,904	39%
Gross Profit	6,119	4,712	-23%	14,704	13,985	-5%
Selling & Admin. Exp	1,557	1,736	11%	4,830	4,781	-1%
Other Income	4,349	4,137	-5%	5,185	6,354	23%
Other Charges	542	450	-17%	1,017	1,123	10%
Finance cost	91	86	-5%	246	271	10%
Profit before tax	8,278	6,576	-21%	13,795	14,165	3%
Taxation	1,132	1,042	-8%	2,108	2,856	36%
Net Income	7,146	5,535	-23%	11,688	11,309	-3%
EPS	22.10	17.12	-23%	36.14	34.97	-3%

Source: Company Accounts, Akseer Research

Key Financial Ratios - Consolidated

	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
EPS	32.44	10.34	43.51	43.60	37.16	42.41
EPS Growth	-14%	-68%	321%	0%	-15%	14%
DPS	6.50	-	-	3.23	2.53	3.61
PER	17.6	55.2	13.1	13.1	15.4	13.5
Dividend Yield	1.1%	0.0%	0.0%	0.6%	0.4%	0.6%
EV/EBITDA	8.2	12.2	4.7	2.6	2.5	2.1
P/B	2.0	1.9	1.6	1.5	1.3	1.2
ROE	9.9%	5.6%	18.0%	20.7%	19.8%	20.7%

Source: Company Accounts, Akseer Research

Altamash Hemani
altamash.hemani@alphacapital.com.pk

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 12%, 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 1,004/share. Our price target indicates an upside of 77%. 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) – Unconsolidated						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net sales	48,021	41,871	62,941	88,064	90,733	95,961
Cost of sales	34,038	35,794	43,985	69,692	73,275	72,879
Gross Profit	13,984	6,077	18,956	18,372	17,457	23,082
SG & A	3,932	4,889	6,116	5,532	5,875	6,338
Operating Profit	10,052	1,188	12,840	12,840	11,583	16,744
Other income	3,242	3,186	5,846	6,749	6,747	4,477
Other charges	1,048	378	1,361	1,660	2,204	3,606
Finance cost	25	176	333	1,823	2,398	1,948
Profit before tax	12,221	3,820	16,992	16,106	13,727	15,666
Taxation	1,731	476	2,922	2,007	1,711	1,952
Profit after tax	10,490	3,344	14,070	14,099	12,017	13,714

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Unconsolidated						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
PPE	57,276	60,155	62,390	85,055	84,692	81,684
Other LT assets	13,481	25,130	34,434	47,246	53,302	47,252
Non-Current Assets	91,710	107,401	115,692	132,307	131,944	128,936
Current assets	33,379	28,468	40,676	56,915	57,576	63,061
Total Assets	125,089	135,868	156,368	189,222	189,520	191,997
Non-Current liabilities	7,193	7,729	12,781	30,283	26,283	22,283
Current liabilities	23,578	28,955	30,387	32,303	25,401	19,332
Total Liabilities	30,771	36,685	43,168	62,586	51,684	41,615
Equity	94,318	99,184	113,200	126,636	137,835	150,382
Total Equity & liabilities	108,999	125,089	135,868	156,368	189,222	189,520

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) - Unconsolidated						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	10,490	3,344	14,070	14,099	12,017	13,714
Non-cash Charges	3,321	3,854	4,283	4,426	4,748	6,054
Operating Cash flows	7,507	(8,115)	(542)	19,133	10,043	13,840
FCFF	(12,118)	(14,686)	(6,774)	(6,362)	7,758	12,500
Net borrowings	2,900	5,479	2,112	16,500	(5,000)	(4,000)
FCFE	(9,239)	(9,362)	(4,937)	8,541	658	6,794
Net change in cash	(11,778)	(7,841)	(4,991)	7,878	(160)	5,626
Closing cash	15,657	7,817	2,825	10,704	10,544	16,170

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

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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
 KCH Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alfaadhi.net