

Lucky Cement Limited
Analyst Briefing Key Takeaways

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Pakistan Research

LUCK: Analyst briefing key takeaways

- Lucky Cement Limited (LUCK) held its analyst briefing on 05th August 2022 to discuss its FY22 financial performance. Earlier the company had reported 4QFY22 consolidated EPS of PKR 27.2, up 90% YoY. The earnings were higher than expectations owing to lower coal inventory. This takes FY22 EPS to PKR 91.2, up 29% YoY.
- During 4QFY22, LUCK's revenue clocked in at PKR 114.9bn, up 128% YoY, primarily driven by higher local cement retention prices (+64% YoY). The management stated that current local retention price is PKR 12,500/ton while export retention price is around PKR 10k-11k tons/bag.
- Local cement dispatches of the company dropped 4% YoY in 4QFY22. The company foresees a 10-15% further decline in cement dispatches in FY23 due to economic and political condition.
- The export dispatches saw a major decline of 55% YoY in 4QFY22. During FY22, company's major export destinations were Srilanka and Bangladesh with a market share of 32% and 37%.
- Company's cement operations gross margins clocked in at 39% during 4QFY22 due to proactive procurement of coal. The management informed that the company used South African coal in the outgoing quarter with an average cost of PKR 35,000/ton. Company has 45 days of inventory at hand while coal is currently being procured at an average cost of PKR 55,000/ton.
- Lucky electric power company Ltd (LECPL) is now fully operational. The company has already received PKR 10-11bn and has an overdue of PKR 30bn till date. Currently, the company is using international coal. That coal will be available from July-23 onwards at an average price of PKR 10,000/ton. The management expects LECPL to announce dividends from FY24.
- Lucky motor company is facing issues on the import of CKD kits and the management expects this problem to resolve within this quarter.
- The company recorded a 36% effective tax rate for 4QFY22 on account of changes in tax regime. The company booked super tax charge of PKR 1.7bn in 4QFY22.
- We have a 'BUY' stance on LUCK. Our Dec-22 SOTP based price target (PT) of PKR 920/share provides a potential upside of 97%.

Key Data

PSX Ticker	LUCK
Target Price (PKR)	920
Current Price (PKR)	466
Upside/(Downside) (%)	+ 97%
Dividend Yield (%)	0.0%
Total Return (%)	+ 97%
12-month High (PKR)	889
12-month Low (PKR)	407
Outstanding Shares (mn)	323
Market Cap (PKR mn)	150,741
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Net Sales	50,364	114,885	128%	207,159	331,462	60%
Cost of Sales	38,026	91,569	141%	159,614	268,291	68%
Gross Profit	12,338	23,316	89%	47,545	63,171	33%
Selling & Admin. Exp	3,405	4,065	19%	15,531	17,585	13%
Other Income	2,047	2,862	40%	7,367	13,011	77%
Other expenses	3,448	1,851	-46%	4,915	4,466	-9%
Finance cost	357	4,924	1280%	1,464	7,095	385%
Profit before tax	7,175	15,338	114%	33,002	47,036	43%
Taxation	1,100	5,450	395%	4,773	10,613	122%
Net Income	6,075	9,888	63%	28,229	36,423	29%
NCI	1,443	1,096	-24%	5,371	6,925	29%
Attributable to parent	4,632	8,792	90%	22,858	29,497	29%
EPS	14.32	27.19	90%	70.69	91.22	29%

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22	FY23E	FY24F
EPS	35.0	19.0	70.7	91.2	133.5	162.1
EPS Growth	-24%	-46%	273%	29%	46%	21%
DPS	6.5	-	-	-	-	-
PER	13.3	24.6	6.6	5.1	3.5	2.9
Dividend Yield	1.4%	-	-	-	-	-
EV/EBITDA	8.5	15.3	6.1	6.0	3.0	2.4
P/B	1.2	1.1	1.0	0.8	0.6	0.5
ROE	9.9%	5.6%	18.0%	18.2%	18.0%	19.2%

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 13%, 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 920/share. Our price target indicates an upside of 97%. 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)						
	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
Net sales	108,296	123,768	207,159	331,462	430,504	466,619
Cost of sales	84,507	104,811	159,614	268,291	343,457	373,281
Gross Profit	23,789	18,957	47,545	63,171	87,047	93,338
SG & A	9,130	11,870	15,531	17,585	25,729	27,834
Operating Profit	14,659	7,087	32,014	45,586	61,317	65,504
Other income	3,000	2,376	2,928	7,337	5,460	9,716
Other charges	1,904	1,203	4,915	4,466	2,745	2,962
Finance cost	1,610	2,367	1,464	7,095	15,108	14,169
Profit before tax	15,158	8,931	33,002	47,036	54,748	64,079
Taxation	2,811	1,614	4,773	10,613	6,113	5,444
Profit after tax	12,347	7,317	28,229	36,423	48,635	58,634
NCI	1,019	1,185	5,371	6,925	5,455	6,218
Attributable to Parent	11,328	6,132	22,858	29,497	43,180	52,416

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
PPE	135,476	190,789	215,582	276,029	296,530	290,271
Other LT assets	26,810	32,295	35,007	51,932	54,131	56,549
Non-Current Assets	162,286	223,084	250,590	327,961	350,662	346,820
Current assets	64,735	68,803	110,808	175,726	181,396	219,401
Total Assets	227,021	291,887	361,398	503,686	532,058	566,221
Non-Current liabilities	49,372	99,601	113,524	154,606	157,247	158,418
Current liabilities	52,379	60,799	90,848	149,323	105,153	101,673
Total Liabilities	101,751	160,400	204,371	303,929	262,400	260,090
Equity	125,270	131,487	157,026	199,758	269,658	306,132
Total Equity & liabilities	227,021	291,887	361,398	503,687	532,059	566,222

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
Net Income	12,347	7,317	28,229	36,423	48,624	58,622
Non-cash Charges	6,400	8,147	8,814	8,926	14,993	16,167
Operating Cash flows	20,375	10,391	20,723	(6,116)	111,055	65,002
FCFF	(46,034)	(51,136)	(11,231)	(77,502)	89,081	68,125
Net borrowings	27,885	51,637	12,818	80,210	(41,668)	2,903
FCFE	(19,460)	(1,438)	335	(2,785)	33,992	58,062
Net change in cash	(16,112)	(2,539)	(2,355)	3,524	55,268	35,914
Closing cash	18,270	15,732	13,377	16,901	72,168	108,082

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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