

## LUCK: 1QFY22 Analyst briefing key takeaways

- LUCK held its analyst briefing today to discuss its 1QFY22 financial results. The company recorded consolidated net sales of PKR 54.9bn in 1QFY22 compared to PKR 45.1bn in 1QFY21, witnessing 22% growth YoY. However, the company believes that the growth during the quarter was restricted owing to issue related to transportation and inflationary pressures which affected the CPEC related activity in the country.
- Contribution from the cement segment saw an increase of 18% YoY to PKR 16.9bn in revenue while operating profit grew 48% YoY. The increase profitably is primarily attributable to an increase in local retention prices (up 33% YoY to ~PKR 8000/ton) during the quarter.
- LUCK's market share in the local cement industry settled at 15.3% (down 0.6pps YoY) where the company saw a steeper decline in South region share, down 2.9pps to 29.6%. North region market share was down only 0.2pps to 12.6%. The decline in market share in the South is mainly attributable to the resumption of Dewan cement production which was not operational in the same period last year.
- Volume-wise, the company saw a decline of 7% YoY in 1QFY22 mainly due to a 30% YoY decline in export despatches while local despatches increased 3.7% YoY.
- The management disclosed that the effective coal cost during the quarter was ~USD 100/ton, while in the next two quarters the cost is estimated to be ~ USD 135/ton and USD 150/ton.
- LUCK's expansion of 3.15mn tons along with a WHR plant is expected to achieve COD by 2QFY23. The project is estimated to cost ~PKR 26bn.
- Overseas cement operations during the quarter saw compression in EBITDA margins primarily owing to the devaluation rising cost of energy.
- Contribution from the chemicals segment (ICI) saw a significant growth in 1QFY22 wherein the revenue grew 48% YoY to PKR 21.5bn while operating profit surged 107% YoY. The growth is primarily attributable to the consolidation of NutriCo Pakistan (Pvt) Ltd. which also translated into a one-off realization gain of PKR 1.8bn.
- Contribution from the Auto segment saw a mere 1% YoY increase to PKR 16.6bn while operating profit was up 7% YoY to clock in at PKR 1.6bn. A worldwide shortage of semiconductors mainly resulted in restricted growth. On the matter of the new SBP Policy, the company disclosed that due to the ongoing shortage of semiconductors the impact of the new policy may take 6-9 months to reflect.
- On the company's energy project, the management updated that the plant is expected to commence commercial operations by Dec-21. Moreover, the company also disclosed that the plant was initially designed to operate on imported coal however given the availability of local coal the plant was modified to operate on both imported and local (Thar) coal. Initially, the plant will operate on mixed based on local and imported coal. Moreover, the plant recently tested the transportation of 10,000 tons of coal from which was successful.
- We have a 'BUY' stance on LUCK. Our Jun-22 price target (PT) of PKR 1,003/share provides a potential upside of 37%.

### Key Data

PSX Ticker	LUCK
Target Price (PKR)	1,003
Current Price (PKR)	734
Upside/(Downside) (%)	+ 37%
Dividend Yield (%)	1.4%
Total Return (%)	+ 38%
12-month High (PKR)	945
12-month Low (PKR)	635
Outstanding Shares (mn)	323.4
Market Cap (PKR mn)	249,897
Year End	June

Source: Company Accounts, Akseer Research

**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 11%, 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 1,003/share. Our price target indicates an upside of 37%. Our investment case is based on i) Brownfield expansion at Pezu, iii) healthy contribution from Auto project, iv) expansion in overseas cement operations v) contribution from coal-based power project and vi) increase in earnings from ICI.

**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						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net sales	108,296	123,768	207,159	372,334	403,519	437,610
Cost of sales	84,507	104,811	159,614	289,233	314,731	337,488
<b>Gross Profit</b>	<b>23,789</b>	<b>18,957</b>	<b>47,545</b>	<b>83,101</b>	<b>88,789</b>	<b>100,122</b>
SG & A	9,130	11,870	15,531	22,420	24,655	27,235
<b>Operating Profit</b>	<b>14,659</b>	<b>7,087</b>	<b>32,014</b>	<b>60,682</b>	<b>64,134</b>	<b>72,887</b>
Other income	3,000	2,376	2,928	4,740	7,635	9,742
Other charges	1,904	1,203	4,915	2,719	3,412	5,113
Finance cost	1,610	2,367	1,464	17,258	17,349	16,062
Share from Associate	1,013	3,038	4,439	5,155	5,429	5,437
<b>Profit before tax</b>	<b>15,158</b>	<b>8,931</b>	<b>33,002</b>	<b>50,599</b>	<b>56,437</b>	<b>66,890</b>
Taxation	2,811	1,614	4,773	3,706	3,680	4,581
<b>Profit after tax</b>	<b>12,347</b>	<b>7,317</b>	<b>28,229</b>	<b>46,893</b>	<b>52,757</b>	<b>62,310</b>
NCI	1,019	1,185	5,371	5,031	5,216	5,851
<b>Attributable to Parent</b>	<b>11,328</b>	<b>6,132</b>	<b>22,858</b>	<b>41,862</b>	<b>47,541</b>	<b>56,458</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) - Consolidated						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
PPE	135,476	190,789	215,582	293,501	290,955	283,239
Other LT assets	26,810	32,295	35,007	43,554	45,690	47,608
Non-Current Assets	162,286	223,084	250,590	337,055	336,645	330,847
Current assets	64,735	68,803	110,808	156,065	172,808	202,018
<b>Total Assets</b>	<b>227,021</b>	<b>291,887</b>	<b>361,398</b>	<b>493,121</b>	<b>509,453</b>	<b>532,865</b>
Non-Current liabilities	49,372	99,601	113,524	171,681	160,191	147,637
Current liabilities	52,379	60,799	90,848	90,371	88,412	87,460
<b>Total Liabilities</b>	<b>101,751</b>	<b>160,400</b>	<b>204,371</b>	<b>262,052</b>	<b>248,603</b>	<b>235,097</b>
Equity	125,270	131,487	157,026	231,069	260,851	297,768
<b>Total Equity &amp; liabilities</b>	<b>227,021</b>	<b>291,887</b>	<b>361,398</b>	<b>493,121</b>	<b>509,453</b>	<b>532,865</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) - Consolidated						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	12,347	7,317	28,229	46,893	52,757	62,310
Non-cash Charges	6,400	8,147	8,814	14,278	14,817	16,288
<b>Operating Cash flows</b>	<b>20,375</b>	<b>10,391</b>	<b>20,723</b>	<b>54,144</b>	<b>61,515</b>	<b>74,947</b>
<b>FCFF</b>	<b>(46,034)</b>	<b>(51,136)</b>	<b>(11,231)</b>	<b>(21,974)</b>	<b>65,547</b>	<b>81,403</b>
Net borrowings	27,885	51,637	12,818	57,691	(11,149)	(11,097)
<b>FCFE</b>	<b>(19,460)</b>	<b>(1,438)</b>	<b>335</b>	<b>19,723</b>	<b>38,181</b>	<b>55,343</b>
Net change in cash	(16,112)	(2,539)	(2,355)	46,872	15,205	29,951
<b>Closing cash</b>	<b>18,270</b>	<b>15,732</b>	<b>13,377</b>	<b>60,250</b>	<b>75,455</b>	<b>105,406</b>

Source: Company Accounts, Akseer Research

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