

Day Break

Monday, 30 July 2018

Company Update

Exhibit: Lower retention prices and increased cost of production have reduced gross profits of LUCK

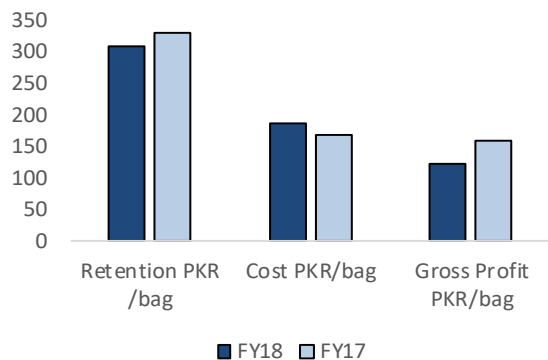


Exhibit: High local demand and rising exports of LUCK maintain healthy capacity utilization levels despite capacity enhancement (South) in Dec-17.

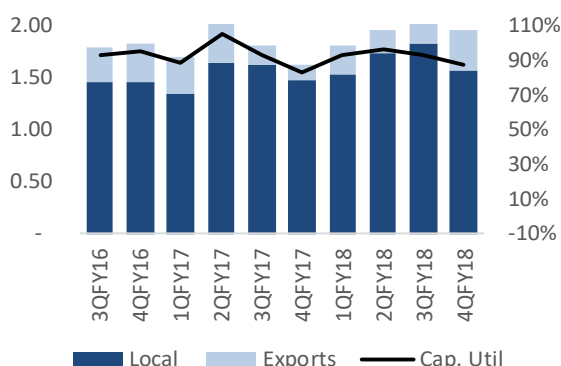
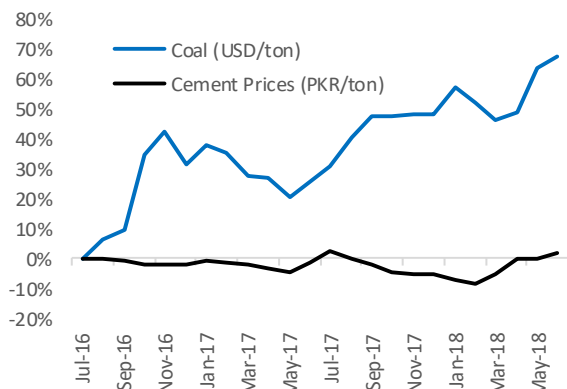


Exhibit: Coal prices haven risen sharply over the comparative period, increasing cost of production thereby



Source: Company Accounts, Bloomberg & IGI Research

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Cements

LUCK: FY18 EPS to close at PKR 38.22; down by 10%YoY

- The Board of Directors meeting of Lucky Cement Limited (LUCK) is scheduled to take place on 31st Jul-18 to consider the annual accounts for FY18. We expect the Company to report unconsolidated earnings of PKR 12.36bn (EPS: PKR 38.22) for the year ended FY18, down by 10%YoY, as compared to PKR 13.69bn (EPS: PKR 42.34) in the previous year.
- Cement sales are expected to continue the remarkable trend of growth in the local front with CPEC activities and household sectors being the primary contributors. However, fluctuating FX, high coal prices and upward trending inflation will counter the positive impacts.
- We recommend a "BUY" call on LUCK with a Dec-18 target prices of PKR 641 per share offering +17% upside from its last closing.

LUCK: Lower retention prices and enhanced cost structure to push FY18E earnings down by 10%YoY to PKR 12.36bn

The Board of Directors meeting of Lucky Cement Limited (LUCK) is scheduled to take place on 31st Jul-18 to consider the annual accounts for FY18. We expect the Company to report unconsolidated earnings of PKR 12.36bn (EPS: PKR 38.22) for the year ended FY18, down by 10%YoY, as compared to PKR 13.69bn (EPS: PKR 42.34) in the previous year. We attribute this decline in earnings to lower retention prices, stemming from a) imposition of higher FED (up by +25%YoY) through Finance Act 2017-18; and b) trimmed local cement sales prices in the northern region, and enhanced cost of producing cement following rise in global coal/FO prices coupled with substantial devaluation of PKR against the greenback. Likewise, gross margin of the Company is expected to hover around 36% as against 47% recorded in the corresponding period. The situation is further exacerbated by the continuation of Super Tax @ 3%, reducing net profitability by PKR 1.45/share. The Company is expected to announce a final cash dividend of PKR 8.00/share along with the result.

Exhibit:

LUCK Result Highlights

Period end (JUN) - PKRmn	4QFY18E	4QFY17	YoY	FY18E	FY17	YoY
Net Sales	12,323	10,446	18%	47,994	45,687	5%
Gross Profit	4,297	4,347	-1%	17,390	21,298	-18%
Sell. / Dist. & Admin	871	567	54%	3,034	2,725	11%
Non-Operating Income	616	533	16%	2,651	1,993	33%
EBIT	3,692	4,100	-10%	15,671	18,778	-17%
Financial Charges	-	-	n/a	-	-	n/a
Pre-tax Profits	3,692	4,100	-10%	15,671	18,778	-17%
Taxation	1,135	839	35%	3,312	5,086	-35%
Post-tax Profits	2,557	3,261	-22%	12,359	13,692	-10%
EPS	7.91	10.08	-22%	38.22	42.34	
DPS	8.00	12.00		8.00	12.00	
Key Ratios						
Gross Margin (%)	34.9	41.6		36.2	46.6	
Net Margin (%)	20.7	31.2		25.8	30.0	
Effective Tax Rate (%)	30.7	20.5		21.1	27.1	

Source: Company Accounts, IGI Research

No. of Shares : 323mn

Sector Outlook

Cement sales are expected to continue the remarkable trend of growth in the local front with CPEC activities and household sectors being the primary contributors, albeit possibilities of cuts in PSDP expenditures owing to rising pressures over fiscal curtailment do exist. A sort of pricing discipline is also anticipated to be maintained by the industry players in an effort to sustain margins amid rising input costs and a dynamic business environment. However, fluctuating FX, high coal prices and upward trending inflation will counter the positive impacts.

Recommendation

We recommend a **“BUY”** call on LUCK with a Dec-18 target prices of PKR 641 per share offering +17% upside from its last closing.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2018

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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