

# Day Break

Wednesday, 06 March 2019

## COMPANY UPDATE

### Lucky Cement Limited

Cement

<b>Recommendation</b>	<b>BUY</b>
Target Price:	31-Dec-19 602.2
Last Closing:	5-Mar-19 469.6
Upside:	28.2
Valuation Methodology:	Discounted Cash Flow (DCF)
Time Horizon:	9M

### Market Data

Bloomberg Tkr.	LUCK PA		
Shares (mn)	323.4		
Free Float Shares (mn)	129.4		
Free Float Shares (%)	40.0%		
Market Cap (PKRbn   USDmn)	151.9	1,086.1	
Exchange	KSE ALL		
<b>Price Info.</b>	90D	06M	12M
Abs. Return	2.3	(12.9)	(28.0)
Lo	434.7	395.9	395.9
Hi	503.8	539.2	723.2

### Key Company Financials

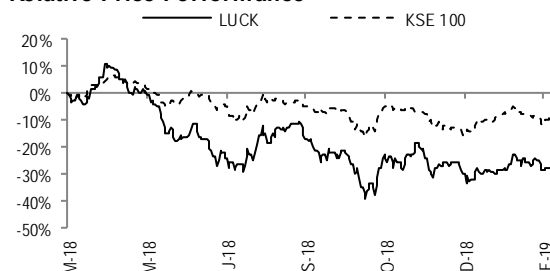
Period End: Jun

PKRbn	FY18A	FY19A	FY20E	FY21F
Total Revenue	47.5	52.3	56.5	63.6
Net Income	12.2	11.6	12.3	13.4
EPS (PKR)	37.7	35.8	38.1	41.4
DPS (PKR)	8.0	7.5	8.0	8.5
Total Assets	97	109	118	128
Total Equity	86	96	105	116

### Key Financial Ratios

ROE (%)	14.1	12.1	11.7	11.5
P/E (x)	12.5	13.1	12.3	11.4
P/B (x)	3.1	1.8	1.6	1.4
DY (%)	1.7	1.6	1.7	1.8

### Relative Price Performance



### About the Company

Lucky Cement Company Limited was incorporated in Pakistan on September 18, 1993. The Company manufactures and markets Cement. The Company has also issued GDRs which are listed and traded on the Professional Securities Market of the LSE.

Source: Bloomberg, PSX & IGI Research

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## Cements

### LUCK: Strong fundamentals to sustain top spot; 'Buy' call maintained

- We reiterate our 'BUY' call on LUCK with Dec-19 target price of PKR 602/share offering a healthy +28% upside along with a dividend yield of +1.60%.
- During 1HFY19 the company reported earnings decline of 16%YoY to PKR 17/share as heavy input costs squeezed company gross margins to all time low levels of 29.7%, however sales growth remained strong.
- Reduced infrastructural spending and rising interest rates are expected to hamper local oftakes for the rest of FY19, keeping earnings performance on the lower side as compared to the previous year. However, we expect this trend to change post FY19
- We expect LUCK to display 4Yrs earnings CAGR of 5.40% with (FY19E/20F/21F/20F) EPS of PKR (36/38/41/47) respectively.
- We maintain a 'BUY' call on the scrip with a Dec-19 based target price of PKR 602/share, offering a +28% upside from its last close. The scrip currently trades a 2019 forward P/E of 13.1 and offers a dividend yield of 1.60%.

### Reiterating stance on LUCK; target price of PKR 602/share offers +28% upside from current rate

We reiterate our 'Buy' call on LUCK with Dec-19 target price of PKR 602/share offering a healthy +28% upside along with a dividend yield of +1.60%. The stock has so far been an underperformer against (-7.5% negative return) the market -5.3% negative return for FY19 to date, primarily as multiple concerns – rising input cost and interest rates along with a potential of slowing demand – surfaced for the cement sector.

Gauging from its 1HFY19 result the company reported earnings decline of 16%YoY to PKR 17/share as heavy input cost squeezed company gross margins to all time low levels of 29.7%, however sales growth remained strong. Looking ahead, we expect the Company to display powerful earnings show in coming years – 5.40% 4yrs CAGR and to sustain highest 4Yr avg. Net Profit margins of 22% as against comparable IGI coverage companies 14%.

### Exhibit: LUCK key financial projections

PKRbn	FY17A	FY18A	FY19E	FY20F	FY21F	FY22F
Net Sales	45.7	47.5	52.3	56.5	63.6	67.2
Gross Profit	21.3	17.0	16.9	18.0	20.5	22.3
Gross Profit Margin	47%	36%	32%	32%	32%	33%
Profit After Tax	13.7	12.2	11.6	12.3	13.4	15.1
Net Margin	30%	26%	22%	22%	21%	22%
EPS (PKR)	42.3	37.7	35.8	38.1	41.4	46.6

Source: Company Accounts, IGI Research

### Sector to remain under hot water; LUCK to stand tall owing to stable fundamentals

While rising interest rates and curtailed domestic dispatches prospect are expected to overshadow sector performance for the near term, LUCK remains in the sweet spot provided a) it carries a debt free balance sheet, b) holds a substantial cash and cash equivalent balance of PKR 22bn that is to push other income in an upward rising interest rate situation; and c) export via South plant are expected to keep utilization levels on healthy track as against majority of the industry players who are premised in North alone catering a shrinking domestic market.

### Lower domestic dispatches and elevated input costs hamper sector performance...

LUCK reported unconsolidated earnings of PKR 5.50bn (EPS: PKR 17.01) for 1HFY19 down by 16%YoY as against PKR 6.55bn (EPS: PKR 20.25) reported in the same period last year.

#### Exhibit: LUCK 1HFY19 result highlights - Unconsolidated

Period end (Jun) - PKRmn	1HFY19	2QFY19	1QFY19	FY18	4QFY18	3QFY18	2QFY18	1QFY18	FY17	FY16
Net Sales	24,955	13,550	11,405	47,542	11,871	12,417	12,050	11,204	45,687	45,135
<i>Net Sales Growth %</i>	<i>7%</i>	<i>12%</i>	<i>2%</i>	<i>4%</i>	<i>14%</i>	<i>5%</i>	<i>-6%</i>	<i>2%</i>	<i>1%</i>	<i>1%</i>
Gross Profit	7,424	4,000	3,424	16,952	3,860	4,207	4,772	4,113	21,298	21,746
<i>Gross Profit Margins</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>	<i>36%</i>	<i>33%</i>	<i>34%</i>	<i>40%</i>	<i>37%</i>	<i>47%</i>	<i>48%</i>
Sell. / Dist. & Admin	1,934	1003	931	3,082	919	793	719	651	2,725	3,126
Other Op. Income	1,607	962	644	2595	560	840	663	532	1993	1420
EBIT	6,526	3634	2892	15,119	3139	3,885	4,394	3701	18,778	18,400
<i>EBIT Margins</i>	<i>26%</i>	<i>27%</i>	<i>25%</i>	<i>32%</i>	<i>26%</i>	<i>31%</i>	<i>36%</i>	<i>33%</i>	<i>41%</i>	<i>41%</i>
Pre-tax Profits	6,526	3,634	2,892	15,119	3,139	3,885	4,394	3,701	18,778	18,400
Taxation	1,025	626	399	2,922	744	630	864	683	5,086	5,456
<i>Effective Tax Rate (%)</i>	<i>16%</i>	<i>17%</i>	<i>14%</i>	<i>19%</i>	<i>24%</i>	<i>16%</i>	<i>20%</i>	<i>18%</i>	<i>27%</i>	<i>30%</i>
Post-tax Profits	5,501	3,008	2,493	12,197	2,395	3255	3529.85	3,017	13,692	12,944
<i>Net Margin (%)</i>	<i>22%</i>	<i>22%</i>	<i>22%</i>	<i>26%</i>	<i>20%</i>	<i>26%</i>	<i>29%</i>	<i>27%</i>	<i>30%</i>	<i>29%</i>
<b>EPS</b>	<b>17.01</b>	<b>9.30</b>	<b>7.71</b>	<b>37.72</b>	<b>7.41</b>	<b>10.06</b>	<b>10.92</b>	<b>9.33</b>	<b>42.34</b>	<b>40.03</b>
<b>DPS</b>	-	-	-	<b>8.00</b>	<b>8.00</b>	-	-	-	<b>17.00</b>	<b>10.00</b>

Source: Company Accounts, IGI Research

No. of Shares: 323.3mn

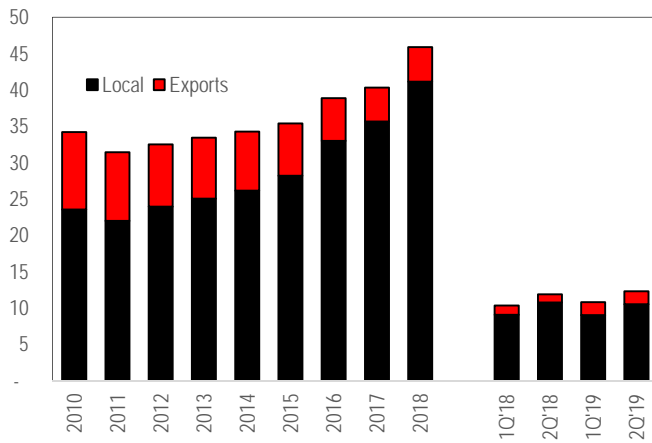
### ...LUCK's substantial exports growth partially dilutes pressure

Though the Company managed to achieve double digit growth in its net sales (up by +12%YoY) driven by a +7%YoY rise in total dispatches (wherein exports volume, up by +109%YoY, arrested the impact of 7% decline in local offtakes), elevated input costs on the back of substantial PKR devaluation, consistently higher coal prices and surged gas prices during the period dragged gross margins down by 16%YoY. Similarly, gross margins also fell by a whopping 800bps to 30% as against previously reported figure of 38%.

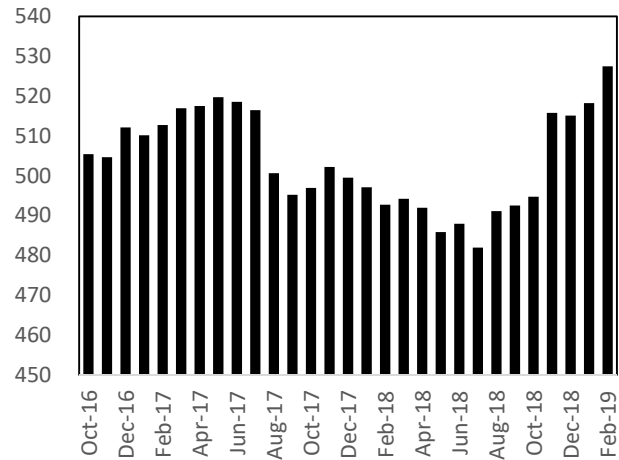
Distribution expenses of the company rose by a significant proportion, a direct function of rising exports. Non-operating income of LUCK also saw a blatant increase on account of enhanced interest rates given the Company holds huge cash reserves in Islamic saving deposits.

However, enhanced exports also played its due part in lessening the Company’s tax liability with effective tax rate clocking in at 16% as against 19% reported in the same period last year.

**Exhibit: Proportion of exports are rising again since arrival of fresh capacities in South; LUCK being the largest cement exporter**



**Exhibit: Coal based margins improving amid enhanced sales prices/bag and softening coal prices**



Source: IGI Research, Company Accounts

**Earnings to remain subdued for FY19; growth expected in FY20**

Reduced infrastructural spending and rising interest rates are expected to hamper local offtakes for the rest of FY19, keeping earnings performance on the lower side as compared to the previous year. However, we expect this trend to change post FY19, wherein we estimate local sales to display a 3Yr CAGR of 4.6% for the period FY20-22 based on improving macro indicators therein. Moreover, softening coal and FO prices globally are also expected to improve margins post FY19.

From a Company standpoint, we expect LUCK to stand tall among its peers based on the following premise:

- *Brownfield expansion* in North of 2.6mn tons to sustain LUCK’s domestic market share to ~16% post settlement of industry wide expansion cycle.
- *Presence in South and greater international marketability* to provide better export position in a possible local demand hangover situation
- *Zero debt and significant cash resources* to propel greater other income in an interest rate rising scenario.

**Recommendation**

We maintain a ‘BUY’ call on the scrip with a Dec-19 based target price of PKR 602/share, offering a +28% upside from its last close. The scrip currently trades a 2019 forward P/E of 13.1 and offers a dividend yield of 1.60%.

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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)
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**Time Horizon:** Dec – 2019

**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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