

Flash Note

Monday, 25 April 2016

Cements

LUCK: Earnings clocked in at PKR 10.39/share in 3QFY16

- Earnings for Lucky Cement (LUCK) in 3QFY16 depleted by 9%YoY to PKR 3.4bn (EPS PKR 10.39) taking profitability for 9MFY16 to PKR 9.6bn (EPS PKR 29.73), inching up by +3%YoY.
- Revenue declined by 1%YoY to PKR 11.6bn in 3QFY16, taking 9MFY16 revenue to PKR 33.5bn.
- Gross Margin elevated by +282bpsYoY to 49% in 3QFY16 due to declining input cost and WHR in both regions, resulting in 14%YoY fall in cost to PKR 285/bag. 10MW additional WHR plan is also under process for Pezu plant, expected to come online in 3QFY17.
- Other Income went up by +21%YoY to PKR 357mn in 3QFY16, owing to higher investments and cash balances.
- Higher effective tax rate of 31% in 3QFY16 as compared to 14%YoY pulled down the earnings by 9%YoY.
- Company announced to put up a green field cement plant with capacity of 2.3mn tons at projected cost of USD 200mn (PKR 21bn) in 1QFY16. LUCK is currently engaged with GoP for land in Punjab and suppliers for equipment, expected to be completed by Jun-16. This will increase company's total cement capacity to 10.1mn tons. LUCK targets to achieve financial close of 660MW coal fired power plant by the end of Aug-16, while commercial operation date (COD) for DR Congo plant is expected by end of Oct-16.

Recommendation

The scrip is currently trading at FY16E P/E 11.6x. With our Jun-16 TP of PKR 672/share, the stock offers upside of +22% and we maintain our 'Buy' call on the scrip.

Exhibit: Financial Highlights

PKR mn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
<i>Dispatches</i>						
Local (mn tons)	1.46	1.16	26%	3.88	3.18	22%
Exports (mn tons)	0.33	0.62	-47%	1.23	1.85	-34%
Total	1.79	1.78	0%	5.11	5.03	1%
<i>Income Statement</i>						
Revenue	11,645	11,739	-1%	33,487	33,149	1%
Gross Profit	5,684	5,399	5%	15,894	14,676	8%
Selling and Admin	727	1,026	-29%	2,371	3,202	-26%
Other Income	357	295	21%	1,018	912	12%
PBT	4,893	4,313	13%	13,395	11,369	18%
Tax	1,534	611	151%	3,781	2,067	83%
Net profit	3,359	3,702	-9%	9,614	9,302	3%
EPS	10.39	11.45		29.73	28.77	
<i>Key Ratios</i>						
Gross Margin	49%	46%		47%	44%	
Net Margin	29%	32%		29%	28%	
Effective Tax Rate	31%	14%		28%	18%	

Source: IGI Research, Company Financials

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Analyst Certification

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

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- SoTP

Time Horizon

- Dec-2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Increase in Coal Prices
- Price War due to Expansions

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