

LUCK

A scrip with the least debt obligation, offering a return of 56%

Equity Research | Cement | Tuesday, 22 March, 2022

We initiate our coverage on Lucky Cement Limited (LUCK) with a DCF based Dec-22 TP of Rs.900 which provides an upside potential of 56%

Sales in value terms, increased from 30.08bn to 37.55bn in 1HFY22, registering a growth of 24.8% which is primarily due to increasing local cement prices

The use of Afghan coal in the North gave a sufficient buffer to cement companies that gave them room to keep their margins sustained in the short to medium term

LUCK is the only company with the lowest level of debt obligations as the whole cement sector is quite leveraged. In the FY21, the debt-to-equity ratio stands at 0.09x

Going forward, we expect the company's net profit to grow at a 5-year CAGR of 24.22% to Rs30.61bn as the expansionary phase of the economy to support cement dispatches as well as prices in the future

Company Overview

Lucky Cement is the largest producer of Cement in Pakistan with a production capacity of 12.15 MTPA and remains one of the country's leading exporters of quality cement. Over the years, the Company has grown substantially and is expanding its business operations with production facilities at strategic locations in Karachi to cater to the Southern regions and Pezu, Khyber Pakhtunkhwa to serve the Northern areas of the Country. Lucky Cement is Pakistan's first company to export sizeable quantities of loose cement.

Substantial Growth in Net Profit Despite Higher Input Cost

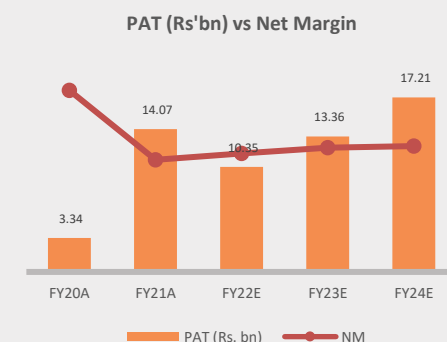
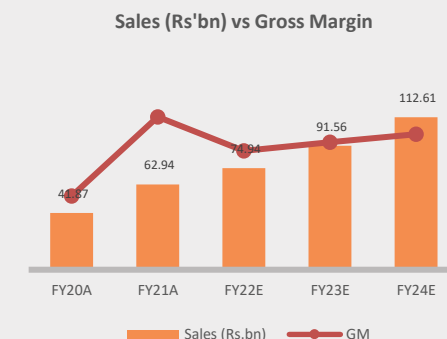
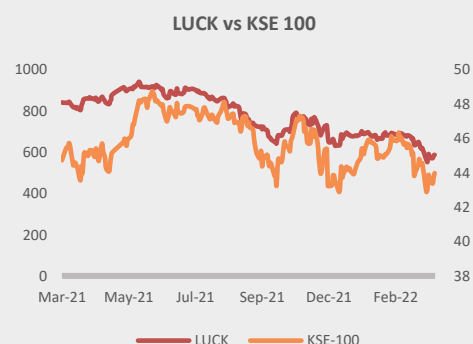
Sales in value terms, increased from 30.08bn to 37.55bn in 1HFY22, registering a growth of 24.8% which is primarily due to increasing local cement prices. However, there was some pressure on costs related to rising coal prices in the 1st and 2nd quarters that affected Gross margins. Therefore, the gross profit margin of the company for the 1HFY22 has decreased to 24.7% as compared to 28.5% during SPLY. However, Profit after tax has improved from 4.54bn to 5.77bn in 1HFY22 registering a growth of 27.2% amid dividend income, income from deposits with Islamic banks, and net income from supply of surplus electricity to Hyderabad Electric Supply Company. Going forward, we expect the company's net profit to grow at a 5-year CAGR of 24.22% to Rs30.61bn by FY26 as the expansion of the economy, construction of dams, the continuation of the Naya Pakistan Housing Scheme, and the government's upcoming policies to invest in real estate via Roshan digital account would further boost the demand for cement.

Expansion and Efficiency Enhancement

LUCK is the largest cement producer in the country with an annual capacity of 12.15 million tons, keeping up the pace with the increasing demand in the domestic market, the latest announced capacity expansion at the Pezu plant of 3.15 MTPA will increase the production capacity to 15.3 MTPA. Also, a fully integrated greenfield cement production facility in Samawah, Iraq with a capacity of 1.2 MTPA has successfully completed its trial production and commenced commercial operations with effect from March 10, 2021. This has further strengthened companies' foothold internationally. Furthermore, the construction activity of a 660 MW supercritical, lignite coal-based power plant has achieved a completion status of approximately 98.7% as of June 30, 2021.

Key Statistics

Symbol	LUCK
TP - Dec 22	900
LDPC	578.5
Upside (%)	56
Free Float ('mn)	113
Market Cap. (Rs.'mn)	187,072



Sources: ACPL Research, Company Financials,

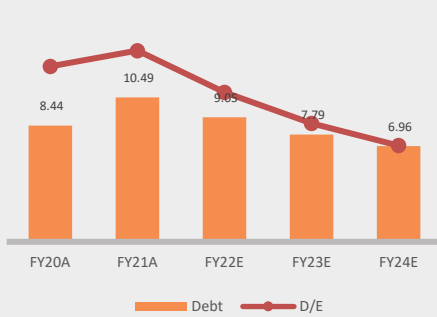
Muhammad Ahmed

Phone: (+92) 42 38302028; Ext: 118

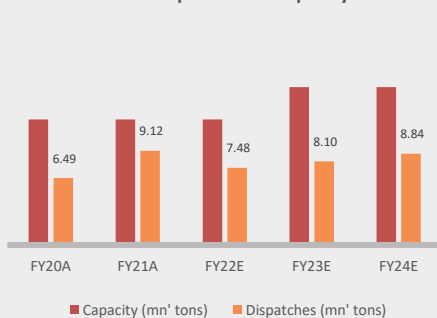
Email: mahmed@abbasiandcompany.com

Key Statistics

Debt (Rs'bn) vs D/E



LUCK Dispatches vs Capacity



Use of Afghan coal in North Helping Maintain Gross Margins

The Russia-Ukraine war had created huge volatility in the commodity market, hence global coal prices rallied amid intensified and tight supplies in strategic European countries, instigating European buyers to look for alternative regions like the USA, Asia, Colombia, and South Africa. Currently, the price of benchmark Richard Bay coal prices climbed to a lifetime high of \$460/ton thus raising long-term risks of financial hardships for the cement industry. To tackle the situation Cement factories in the North have mostly switched to utilizing a mix of Afghan and coal sourced from other countries, they are currently using 70 percent Afghan coal and are considering adding 20 percent more local rocky fuel to the mix. The majority of the northern players have landed the cost of closing inventory at \$150-\$170/ton for approximately 70 days of inventory being held which gave a sufficient buffer to cement companies that gave them room to keep their margins sustained in short to medium term. However, with time, we are seeing a reversal in the international commodity prices and that would also ease the matter for companies to maintain their gross profit margins.

Regional Diversification to Remain a Key Strength

LUCK is the only company other than DGKC which have their presence in both the north and south zone due to which they have export opportunities to Afghanistan and Iran through the north zone. On the other hand, the company has ample export opportunities via sea from its south zone to Bangladesh, Sri Lanka, South Africa. Moreover, LUCK has significant investments in companies like ICI, KIA motors, and LCL Investment Holdings Limited, which provides a major diversification to the company.

Minimum Debt Obligations

LUCK is the only company with the lowest level of debt obligations as the whole cement sector is quite leveraged. In the FY21, the debt-to-equity ratio stands at 0.09x. Due to minimum debt obligation, LUCK has a major competitive edge in the industry amid the prevailing monetary tightening phase.

Valuation

LUCK is currently trading at FY22E P/E of 18.08x. Furthermore, the scrip is also trading at FY22E P/B of 1.50x which offers a discount of 19% relative to its historical 3-year average of 1.85x. We have a **BUY** stance on the scrip with a DCF based Dec-22 TP of Rs.900 which provides an upside potential of 56%.

Key Risks to Valuation

- More than expected depreciation of PKR
- Hike in prices of raw material
- Covid-19 (Omicron) scenario
- Less than expected growth in demand

Financial Projections

Rupees' millions	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Net sales	48,021	41,871	62,941	74,944	91,561	112,610	138,013
Cost of sale	34,038	35,794	43,985	57,398	68,542	82,554	100,013
Gross profit	13,984	6,077	18,956	17,546	23,019	30,056	38,000
Selling and promotion expenses	1,228	1,190	1,257	1,416	1,730	2,128	2,608
Administration expenses	2,729	3,699	4,859	4,684	5,723	7,038	8,626
Other operating expenses	1,048	378	1,361	1,341	1,639	2,016	2,470
Operating Profit	8,980	810	11,479	10,105	13,927	18,874	24,295
Other operating income	3,242	3,186	5,846	4,440	4,440	4,440	4,440
Finance cost	-	176	333	947	818	704	624
Profit before taxation	12,221	3,820	16,992	13,597	17,549	22,610	28,111
Taxation	1,731	476	2,922	3,250	4,194	5,404	6,719
Profit after taxation	10,490	3,344	14,070	10,348	13,355	17,206	21,392
EPS	32.44	10.34	43.51	32.00	41.30	53.21	66.15

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Net sales	1.0%	-12.8%	50.3%	19.1%	22.2%	23.0%	22.6%
Cost of sale	11.3%	5.2%	22.9%	30.5%	19.4%	20.4%	21.1%
Gross profit	-17.5%	-56.5%	211.9%	-7.4%	31.2%	30.6%	26.4%
Selling and promotion expenses	12.7%	-3.1%	5.7%	12.7%	22.2%	23.0%	22.6%
Administration expenses	37.0%	35.6%	31.4%	-3.6%	22.2%	23.0%	22.6%
Other operating expenses	-22.2%	-64.0%	260.5%	-1.4%	22.2%	23.0%	22.6%
Operating Profit	-28.3%	-91.0%	1316.3%	-12.0%	37.8%	35.5%	28.7%
Other operating income	24.9%	-1.7%	83.5%	-24.1%	0.0%	0.0%	0.0%
Finance cost	0.0%	0.0%	88.7%	184.6%	-13.7%	-13.9%	-11.3%
Profit before taxation	-19.2%	-68.7%	344.8%	-20.0%	29.1%	28.8%	24.3%
Taxation	-40.8%	-72.5%	513.9%	11.2%	29.1%	28.8%	24.3%
Profit after taxation	-14.0%	-68.1%	320.8%	-26.5%	29.1%	28.8%	24.3%
EPS	-14.0%	-68.1%	320.8%	-26.5%	29.1%	28.8%	24.3%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
GP Margin	%	29.12	14.51	30.12	23.41	25.14	26.69	27.53
NP Margin	%	21.84	7.99	22.35	13.81	14.59	15.28	15.50
OP Margin	%	18.70	1.94	18.24	13.48	15.21	16.76	17.60
ROE	%	11.12	3.37	12.43	8.29	9.85	11.52	12.85
ROCE	%	10.79	3.11	11.38	7.73	9.31	11.01	12.39
ROA	%	8.39	2.46	9.00	6.32	7.52	8.76	9.67
Cost per ton	'mn	5.20	5.30	4.82	7.67	8.46	9.34	10.28
EBITDA per ton	'mn	1.80	0.72	1.73	1.88	2.20	2.57	2.88

Liquidity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Current	x	1.42	0.98	1.34	2.13	2.51	2.88	3.25
Acid-test	x	0.89	0.62	0.84	1.30	1.58	1.88	2.21
Cash to current liab.	x	0.66	0.27	0.09	0.38	0.71	1.08	1.48

Activity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Average Inventory		3,524,839	3,584,286	3,010,295	4,257,724	5,876,538	7,000,142	8,145,435
Inventory Turnover	x	10	10	15	13	12	12	12
Inventory Days		38	37	25	27	31	31	30
Receivables Days		16	30	16	16	16	16	16
Payables Days		206	197	173	104	104	104	104
Operating Cycle		-152	-131	-132	-61	-57	-57	-59
Utilization	%	73	53	75	62	53	58	64
Export Revenue	%	0	83	83	82	82	82	83
Local Revenue	%	0	17	17	18	18	18	17
Export Market Share	%	0	0	0	0	0	0	0
Local Market Share	%	0	0	0	0	0	0	0
Total Market Share	%	0	0	0	0	0	0	0

Investment Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
EPS		32.44	10.34	43.51	32.00	41.30	53.21	66.15
DPS		6.50	0.00	0.00	6.00	8.00	11.00	13.00
Div. Yield	%	1.11	0.00	0.00	1.04	1.38	1.90	2.25
Dividend Cover		4.99	0.00	0.00	5.33	5.16	4.84	5.09
BVPS		291.67	306.71	350.06	386.09	419.42	461.73	514.99
Payout	%	20.04	0.00	0.00	18.75	19.37	20.67	19.65
Retention	%	79.96	100.00	100.00	81.25	80.63	79.33	80.35
No. of Shares	'mn	323	323	323	323	323	323	323
P/E		18.10	55.94	13.30	18.08	14.01	10.87	8.74
Sales per share		148.50	129.48	194.64	231.76	283.14	348.23	426.79
P/BV		2.01	1.89	1.65	1.50	1.38	1.25	1.12
Price to Sales		3.95	4.47	2.97	2.50	2.04	1.66	1.36

Gearing Ratios		FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Debt to Equity	x	0.03	0.09	0.09	0.07	0.06	0.05	0.04
L.T. Debt to Equity	x	0.00	0.00	0.03	0.02	0.01	0.01	0.01
Total Debt to Assets		0.02	0.06	0.07	0.06	0.04	0.04	0.03
L.T. Debt to Assets		0.00	0.00	0.02	0.01	0.01	0.01	0.01
Interest Cover	x	0.00	4.59	34.48	10.67	17.03	26.81	38.91

Source: ACPL Research, Company Financials

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore
 Phone: (+92) 42 38302028; Ext 116, 117
 Email: research@abbasiandcompany.com
 web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore
 Phone: (+92) 42 38302028
 Email: info@abbasiandcompany.com
 web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore
 Phone: (+92) 42 37320707
 Email: info@abbasiandcompany.com
 web: www.abbasiandcompany.com