



LUCKY CEMENT: Ratio report

Buy

THE CEMENT INDUSTRY

The FY11 year was not an exciting one for the cement industry. The overall cement industry witnessed a decline of 8.32% in sales in FY11. The local sales condensed by 6.69% to 21.97mn tons as against 23.55mn tons in the prior year. The main reason behind this negative growth was the disastrous floods and lack of materialisation of PSDP projects.

On the export front our country registered a cut of 11.94% to 9.39mn tons as compared to 10.66mn tons in FY10.

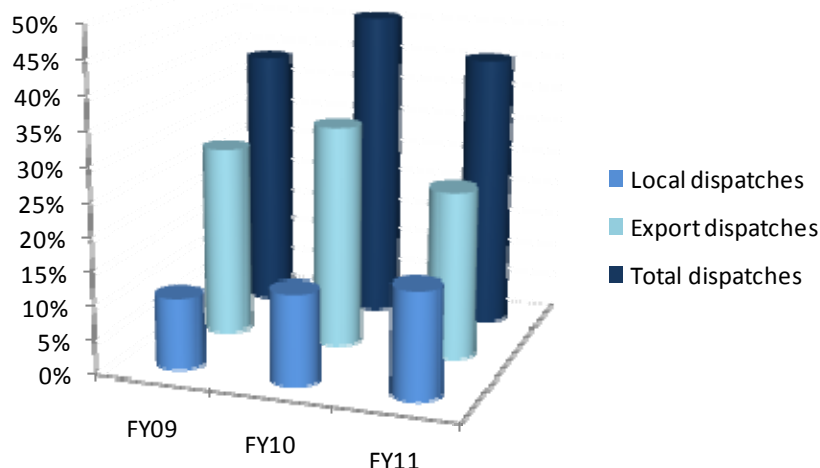
LUCKY CEMENT

Increasing local sales, decreasing exports and climbing revenue....

Lucky Cement, the largest cement producer in Pakistan, with exports as its forte, started capturing local market as well and has achieved great success in doing so. Its domestic market share increased to 15.76% with a growth of 11.07% from 3.12mn (FY10) tons to 3.46mn tons (FY11) in local sales volume.

However, the exports suffered a decline of 32.9% from 3.51mn tons to 2.35mn tons in FY11 ostensibly owing to reduced exports to middle east countries, slump in construction activities and increasing supply glut.

However, export of bagged cement increased by 7.03% in FY11.



As far as the revenue is concerned local sales revenue augmented to Rs20131mn on account of increasing sales volumes along with high cement price per 50kg bags owing to rising production cost.

The export revenue however, declined by 22% from Rs14861mn in FY10 to Rs11636mn in FY11.

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LUCK Current Price 83.50

High 84.00

Low 83.25

Chg 0.49

52 week high 84.90

52 week low 59.55

Beta 0.99

No of shares 323.37mn

Free float 129.4mn

BASED ON CURRENT MARKET PRICE

FY11 PE 6.76x

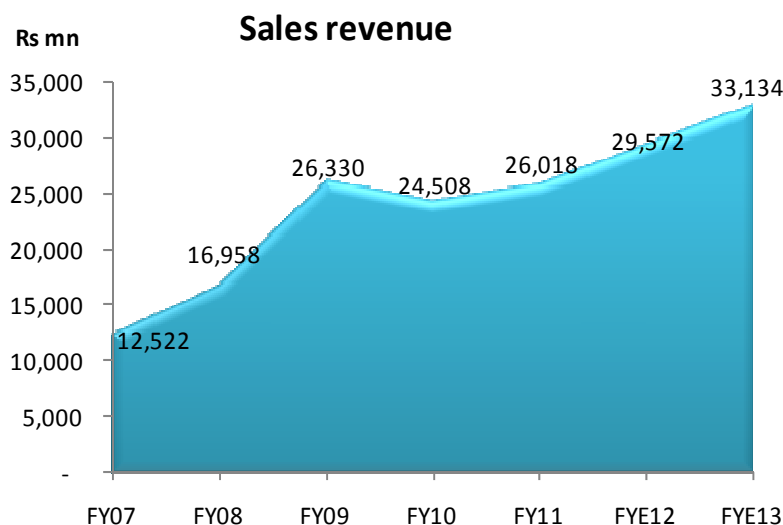
FYE12 PE 5.43x

FY11 EPS Rs12.28/sh

FYE12 EPS Rs15.28/sh

3-year avg. PE 7.05x

Thus, the total revenue of the company registered a positive growth of 9% to Rs31.76bn in FY11 as compared to Rs29.05bn in the same period last year.



**BASED ON JUNE 30
MARKET PRICES**

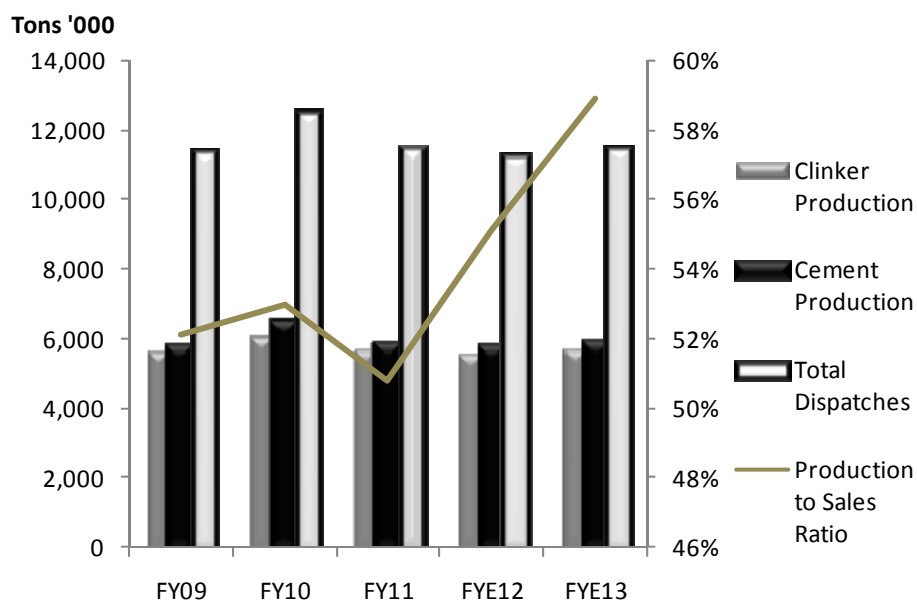
FY09 PE	4.12X
FY10 PE	6.41X
FY11 PE	5.77X
3-year avg. PE	5.43x

**LOCAL SALES
GROWTH**

FY10	-6%
FY11	42%
FYE12	29%
FYE13	19%

Production to sales...

Another point that could be noted is that the production to sales ratio of Lucky Cement declined to 51% from the prior year's ratio of 53% mainly owing to the decrease in production.



**EXPORT SALES
GROWTH**

FY10	-6%
FY11	-22%
FYE12	-8%
FYE13	-1%

**PRODUCTION/SALES
RATIO**

FY09	52%
FY10	53%
FY11	51%
FYE12	55%
FYE13	59%

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PROFITABILITY MARGINS

The company has increased its market share considerably in the domestic market which has largely contributed to its high revenue and hence increased profit margins. However, a 25% decline occurred in FY11 in the export market owing to supply glut.

The **gross profit** has increased by 3% to 33.5% as compare to same period last year.

The **profit before interest and taxation** increased from 16% in FY10 to 19% in FY11 attributable to the increase of 31% in operating income and decreased distribution cost.

The **profit before tax** increased to Rs4.32bn i.e. 16.6% in FY11 from Rs3.41bn i.e. 13.9% in the prior year which was contributed by the decline in finance cost in FY11.

Furthermore the **profit after tax** augmented by 19% from 3.13bn in FY10 to Rs3.97bn in FY11.

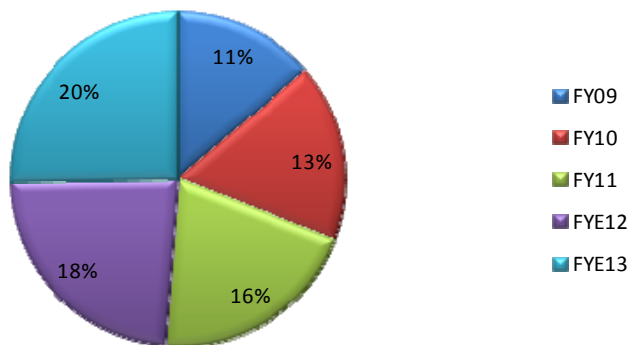
The **effective tax rate** of the company increased to 6.02% in FY11 as against 5.77% in the same period last year.

PROFITABILITY RATIOS

Net Margins

FY09	17.46%
FY10	12.80%
FY11	15.26%
FYE12	16.71%
FYE13	18.21%

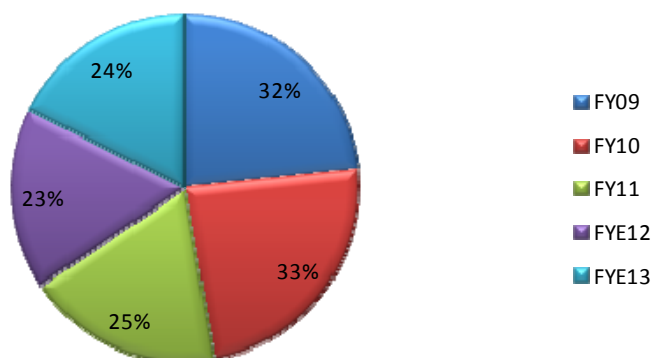
Local Dispatches Market Share



Gross Margins

FY09	37.26%
FY10	32.55%
FY11	33.48%
FYE12	34.21%
FYE13	34.69%

Export Dispatches Market Share



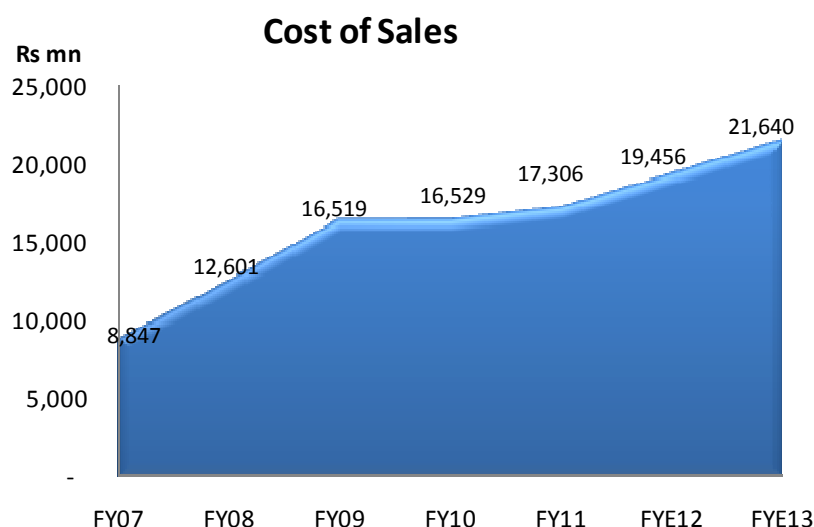
PBIT Margins

FY09	24.36%
FY10	16.26%
FY11	18.60%
FYE12	20.45%
FYE13	21.69%

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COST OF PRODUCTION

Lucky Cement has been able to keep its production cost low compared to the hike in inflation mainly on account of economies of scales that it thoroughly enjoys; however cost have increased for LUCK.



Raw material and fuel and power...

Analyzing cost of production it appears that the input cost of raw material and fuel and power were the major components responsible for high cost of sales per ton, that increased by 19.26% during FY11 as against FY10.

The cost of diesel increased by 12%, with packing raw material cost rising by 15%, on account of inflation and increased diesel prices. Fuel and power cost increasing by 23% as against the prior mainly owing to the 40% hike in international prices of coal to around US\$140-US\$145 per ton.

Per ton data could be viewed below:

PER TON DATA	FY10	FY11	FYE12	FYE13
Sales per ton	3,697	4,478	4,781	4,915
Cost per ton	2,494	2,979	3,145	3,210
Margin per ton	1,203	1,499	1,635	1,705
EBITDA per ton	814	1,103	1,262	1,342

Source: Standard Capital Research

Distribution cost, administration cost and other charges...

The distribution expenses witnessed a decline as exports fell but increased by 0.19% as a percentage of export sales in FY11.

P&L Extract Rs 'mn	FY09E	FY10F	FY11	FYE12	FYE13
Distribution costs	2,427	3,433	3,237	3,439	3,554
Administrative expenses	166	303	313	339	390
Other charges	827	258	325	293	369

Source: Standard Capital Securities

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EBITDA/sh

FY10	Rs16.69/sh
FY11	Rs19.82/sh
FYE12	Rs24.15/sh
FYE13	Rs27.97/sh

EBITDA/sales

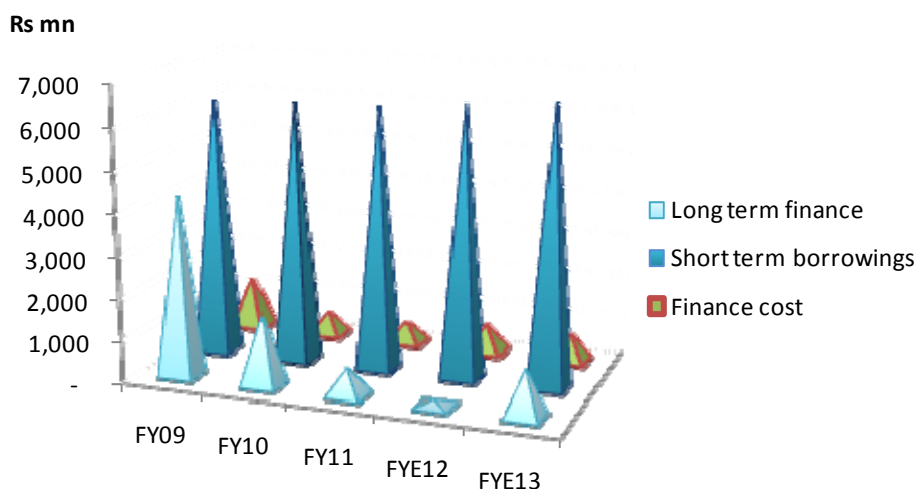
FY10	22.03%
FY11	24.64%
FYE12	26.4%
FYE13	27.3%

EV/EBITDA

FY10	5.25x
FY11	4.71x
FYE12	4.27x
FYE13	3.94x

Finance cost...

The finance cost of the company decreased by approximately 9% from Rs569mn to Rs518mn in FY11 hence contributing to increase in PBT. However, short term borrowings increased manifolds in the prior years to manage its working capital requirements.



VALUATION RATIOS

P/BV

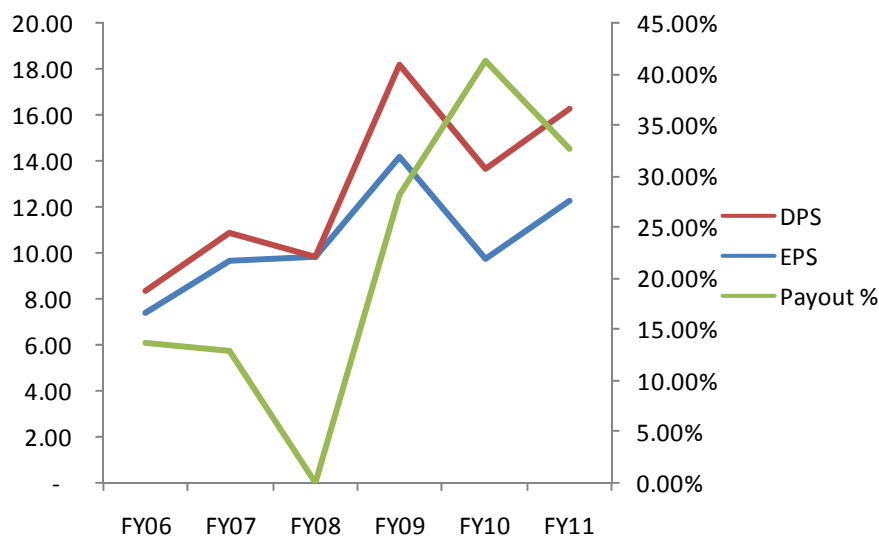
FY10	0.80x
FY11	0.82x
FYE12	0.77x
FYE13	0.71x

P/Sales

FY10	0.0025x
FY11	0.0027x
FYE12	0.0025x
FYE13	0.0022x

VALUATIONS

The company declared a dividend of 40% i.e. Rs4/sh with a payout ratio of 32.58%. The company yielded an EPS of Rs12.28/sh which displays a substantial increase of 27%.



Equity multiplier

FY10	1.53x
FY11	1.48x
FYE12	1.47x
FYE13	1.44x

We expect Lucky Cement to yield a DCF fair value of Rs100.7/sh with FY11 EPS of Rs15.28/sh and potential PE of 5.43x.

We expect that the future projects of Lucky once materialised will increase its target price beyond Rs100.7/sh.

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RATIO ANALYSIS

Dividend cover and Interest Coverage ratios...

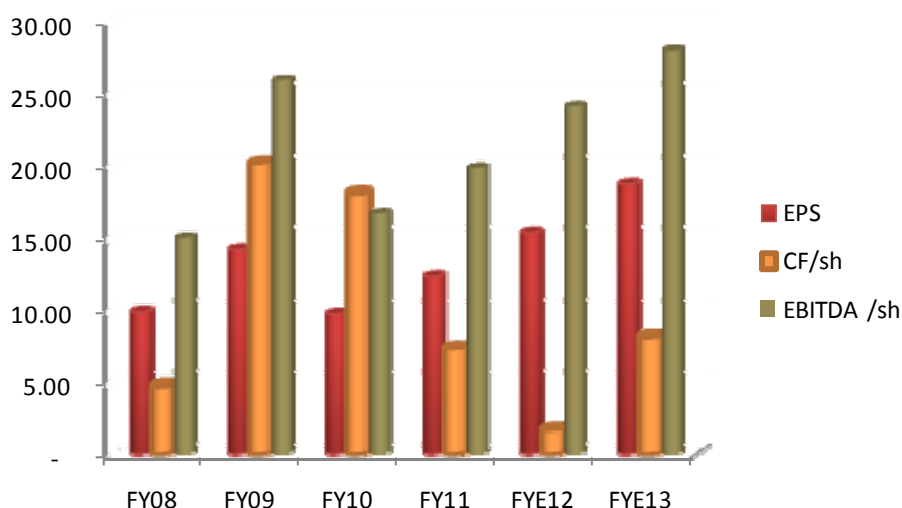
The company's dividend cover ratio improved by 27% from 2.43 to 3.07 in FY11 along with an improved interest coverage ratio by 31% from 7.50 in FY10 to 9.81 in FY11, thus making Lucky attractive in the eyes of creditors.

Current ratio...

The liquidity of the company also appears to have improved with the current ratio increasing from 0.71 to 0.88 in FY11 owing to high inventory values.

Cash ratio...

Despite of increased capital expenditure the company has been able to maintain its cash ratio at 0.03. However the cash flow per share has declined by 59% to 7.37 in FY11 on account of increase in stock in trade and stores and spares.



Gearing levels...

The gearing levels of the company have shown a declining trend since FY06 and have reached 2.37% in FY11 (0.02:1) mainly due to reducing long term finance which has been replaced by the short term borrowings

Cash conversion cycle...

The cash conversion cycle of the company is gradually deteriorating from 24.78 days in FY06 to 63.52days in FY11 owing to increased inventory and receivable days which override the positive effect of increase in payables days from 63.16days to 74.73days.

ACTIVITY RATIOS

Inventory turnover

FY09	3.49x/104.71days
FY10	3.58x/101.86days
FY11	2.84x/128.43days
FYE12	2.07x/176.12days
FYE13	1.68x/216.78days

Receivable turnover

FY09	26.50x/13.78days
FY10	23.96x/15.24days
FY11	37.17x/9.82days
FYE12	42.43x/8.60days
FYE13	38.33x/9.52days

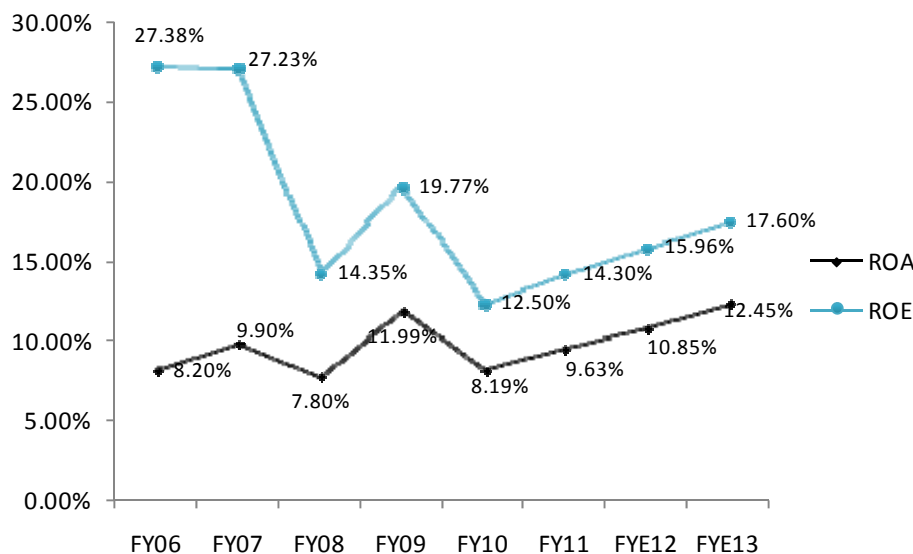
Payables turnover

FY09	5.31x/68.79days
FY10	5.78x/63.16days
FY11	4.88x/74.73days
FYE12	4.44x/82.19days
FYE13	4.26x/85.69days

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ROE and ROA...

The relationship and trend between Return on Equity (ROE) and Return on Asset (ROA) of the company is displayed below:



FUTURE OUTLOOK

Tyre Derived Fuel (TDF)...

The company's Waste Heat Recovery Plant in Pezu successfully commenced in October 2010 which enabled Lucky to reduce its electricity cost. However, the reduction in cost was not sufficient and the company has invested in Tyre Derived Fuel (TDF) Plant which would enable it to further reduce its energy and production cost resulting in greater GP margins.

Greenfield Cement Manufacturing Plant...

Although Lucky has been struggling with its exports it has planned on increased its export dispatches by focusing on Afghanistan, Iraq and African countries.

Infact, Lucky has decided to invest in a Greenfield cement manufacturing plant with a production capacity of 1.18mn tons per annum in Democratic Republic of Congo. This project is a joint venture between Lucky Cement and Groupe Rawji, with an estimated cost of US\$175mn, and is located in west Africa with an close to the sea port, which will not only help Lucky increase its sales in the continent but would also provide it with an opportunity to reach its neighbouring countries.

HESCO...

Moreover, the company is expecting the commencement of the supply of 20MW of electricity to HESCO by the end of CY11, which would help it earn a revenue of Rs608mn (tax effects may reduce the figure accordingly).

Cash conversion cycle

FY09	49.7days
FY10	53.94days
FY11	63.52days
FYE12	102.53days
FYE13	140.61days

Total asset turnover

FY09	68.68%
FY10	63.97%
FY11	63.14%
FYE12	64.96%
FYE13	68.38%

Fixed asset turnover

FY09	86.39%
FY10	77.95%
FY11	81.91%
FYE12	92.06%
FYE13	102.07%

EPS FYE12 Rs15.28/sh

PE FYE12 5.43x

DCF FV Rs100.7/sh

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