KSE100 Closing 12253.39 (63.02 points)

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Pakistan Research
Cement | Co. update

Lucky Cement review: Painting a bright picture

'BUY' maintained @Rs74/sh

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Good earnings surprise…

In the midst of political and economic turmoil, declining exports and cement glut in the domestic market, the financial year end of Lucky Cement, fighting all odds, displayed a bright picture. The company yielded an EPS of Rs12.28/sh (showing y-o-y growth of 26.6%) and also declaring a dividend of Rs4/sh, as being anticipated by us.

P & L a/c Rs '000	FY10	FY11	% Chg
Gross sales	29,052,901	31,767,053	9.3%
Net sales	24,508,793	26,017,519	6.2%
COS	(16,529,932)	(17,306,400)	4.7%
GP	**7,978,861**	**8,711,119**	**9.2%**
Distribution Cost	(3,433,047)	(3,236,425)	-5.7%
Administrative exp.	(303,244)	(313,389)	3.3%
PBIT	4,242,570	5,161,305	21.7%
Finance Cost	(569,184)	(517,788)	-9.0%
Other charges	(257,774)	(325,482)	26.3%
Other income	1,902	2,486	30.7%
PBT	3,417,514	4,320,521	26.4%
Taxation	(280,057)	(350,121)	25.0%
PAT	**3,137,457**	**3,970,400**	**26.5%**
EPS	**9.70**	**12.28**	**26.6%**

Source: KSE announcement

LUCK closing	Rs73.40/sh
High	Rs74.50
Low	Rs73.27
Chg	0.38%
52 week hi	Rs79.98/sh
52 week low	Rs59.55/sh
Beta	1.27
Total # of sh.	323.38mn
Free float	129.35mn

The gross profit increased by 9.2% against same period last year chiefly due to increase in local sales revenue by 47.4% on account of increase in local sales volume by 11% and hike in prices as a result of increased production cost.

Sales in tons	FY10	FY11	% Chg
Local sales	3,119,107	3,464,300	11.1%
Export sales			
Cement			
*Bagged	1,685,845	1,804,375	7.0%
*Loose	1,670,424	513,899	-69.2%
Sub-total	3,356,269	2,318,274	-30.9%
Clinker	153,814	37,099	-75.9%
Total Export	3,510,083	2,355,373	-32.9%
Grand Total	**6,866,352**	**4,673,647**	-31.9%

Source: KSE announcement

*ACCA (affiliate)

This increased production cost mainly comprised of fuel and power component that increased by 23% even though the company was provided cheap electricity through the waste heat recovery plants. The main cause behind it is the hike in international coal prices (a 40% increase) and an increase in raw material cost owing to increase in diesel prices (12%) and packaging material cost (15%).

Operating profit rose by 21.7% ostensibly owing to fall in distribution cost by 5.7%.

The decline in distribution expense mainly occurred due to a drop in export sales volumes by 33% on account of declining export of loose cement in Middle East countries, shifting of export volume to domestic markets, sluggish construction activities and supply glut. The export revenue declined by 15.6%, as compared to same period last year.

As far as PBT is concerned it is seen that an increase of 26.4% was witnessed owing to spiked PBIT margin i.e. 19.84%, combined with decreased finance cost i.e. -9%.

The PAT margin turned out to be 15.3% which is 19.2% higher than the same period last year resulting in an EPS of Rs12.28/sh displaying an increase of 26.6% as against the prior year.

The margins exhibited by the company are as follows:

Margins	FY10	FY11	% Chg
GP margin	32.6%	33.5%	2.8%
PBIT margin	17.3%	19.8%	14.6%
PBT margin	13.9%	16.6%	19.1%
PAT margin	12.8%	15.3%	19.2%

Source: KSE announcement & StandardCapital Research

We expect LUCK to further improve its performance in FY12 and earn high revenues as the company has decided to set up a 1mn tons p.a. green field cement plant in Democratic Republic of Congo as a joint venture with a local partner.

Project details…

Total estimated project cost: US$175mn

Financed through: 46% equity (to be contributed equally by both parties)

54% debt to be raised from multilateral institutions/international DFIs

LUCK would contribute US$40mn towards 50% share of its equity in the project.

Electricity supply to HESCO…

LUCK had signed an agreement with HESCO to supply 20MW of electricity (could be improved to 49MW) to HESCO and earn a revenue of Rs608mn (tax effects may reduce the figure accordingly).

The grid station installation and interconnection of electricity supply lines with national grid is in progress and is in accordance with the schedule and the company is expected to commence the supply of electricity to HESCO by the end of CY11.