

Lucky Cement: Impressive

Re-initiating coverage

LUCK is Richie rich (as we estimate nearly Rs30bn cash in FY16) wherein company is the largest supplier of cements in Pakistan. LUCK supplies cements from its northern & southern zone.

During 9MFY16, LUCK supplied 5.1mn tons showing slight increase from last year. LUCK has two cement plants with the combined capacity of 7.75mn ton/annum. During 9MFY16, LUCK has operated at around 90% capacity (as per our estimations). During FY16, LUCK export sales represent 16% of total revenue.

Core standalone earnings increasing...

We expect NPAT of Rs 13.32 bn (EPS: Rs 41.20/sh) in FY16 as against Rs.12.43bn (EPS: Rs. 38.44/sh) reported last year; with the premise of 9% increase in sales (given traditional 4Q jump in local dispatches to on-going construction projects & visible leaner balance sheet structure wherein there is no long term debt thus entailing negligible impact of financial charges).

Valuation: Got to believe....

We expect LUCK could give full year cash dividend of Rs9.65/sh as against Rs9/sh paid last year (taking preceding pay-out ratios as proxy). LUCK delineate FY16 PE of 16x (the enterprise value is set to cross Rs220bn in FY16 with per share value is estimated at around Rs680/sh).

LUCK P&L

| Rs mn | FY16E | FY15 | Chg |
|------------------------|--------|--------|-----|
| Net Sales | 48,987 | 44,761 | 9% |
| Gross Profit | 23,250 | 20,183 | 15% |
| Profit Before taxation | 19,595 | 15,912 | 23% |
| Net Profit | 13,325 | 12,432 | 7% |
| EPS (Rs /sh) | 41.20 | 38.44 | 7% |
| DPS (Rs /sh) | 9.65 | 9.00 | 7% |

Standard Capital Research

Success reported during operations...

During 9MFY16, LUCK sales volume remained 5.11mn tons as against 5.03mn tons reported last year. We see improvement in the gross margin 47% in FY16 (in the wake of firmed up cement bag prices & consistent decrease in commodity prices wherein coal price range remained on the lower side alongside) versus 44% posted last year. We estimate LUCK to post net margin of 30% in FY16 (with greater tax cut could show are anticipated profits of Rs13.3bn thus nevertheless deciphers great margin story for the most efficient cement player.

This above could also be envisaged from the fact that LUCK sales per ton is 9% higher than FY15 wherein cost per ton is around 5% (company reported 6% during 9MFY16).

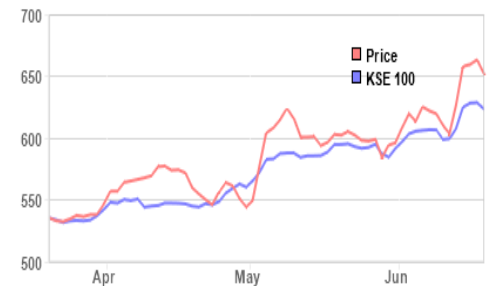
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LUCK Statistics

| | |
|-------------------------|---------|
| Price Rs | 658 |
| change Rs | 10 |
| Avg Volume (12m) | 375,900 |
| 52 Weeks low | 440 |
| 52 Weeks High | 666 |
| Market Cap (Rs bn) | 211 |
| Beta | 1 |
| Face Value (Rs/sh) | 10 |
| Total no shares in (mn) | 323 |

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Price relative index



- LUCK holds 18% market share of Cement industry
- DR Congo construction work is in process by the planning, to achieve COD* in October 2016.
- LUCK has 2 plants outside the country which is located in Iraq and DR Congo; these plants are for their domestic consumption. The total capacity of these two plants is 2.25mn ton/annum.
- In last 10 months LUCK dispatches are about 5.70mn tons, which is 1.4% higher than last year FY15
- Reduction in cost of production during 9MFY16

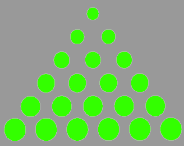
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Cost reduction elaborated...

COGS decreased in 9MFY16 by 6% as against last year given decrease in coal and oil prices in international market and wherein devaluation of currencies against USD in prime export market also contributed. LUCK conserves energy via WHR plant (Pezu & Karachi).

During 9MFY16 capacity utilization of LUCK is around 90% of its capacity, wherein the sales volume of cement increases by 21.9% in local market while the decline in export market by 33% as against last year FY15.

LUCK projects - could be reflected in consolidated accounts

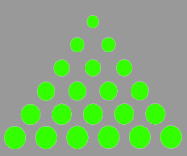
| Name of project | Time line |
|--|--|
| Green field cement plant | Jun-16 Acquisition of land in Punjab stated to be completed in Jun 2016 |
| Electricity supply to PESCO | Tariff updation |
| 10 MW WHR* at pezu plant -klin | Dec-16 |
| Investment in 660MW Coal Based Power Project | 100% indirectly owned by subsidiary of the company - consolidated accounts |
| Joint venture investment cement plant DR congo COD** | Oct-16 50% share of Net Asset of DR Congo reflected in the consolidated accounts |
| Equity investment in 50MW wind farm COD** | Jun-16 Associated company |

source: LUCK report

*Waste Heat Recovery

**Commercial Operation Date

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