Flash Note

LUCK – Analyst Briefing Takeaways

We Invest in Relationships ™

Aug 10, 2022

- LUCK held its Analyst briefing on Aug 5, 2022. LUCK posted unconsolidated earnings of PKR 47.31/share for FY22 up 9% (PAT of PKR 15.3bn versus PKR 14.1 bn SPLY). As per management the YoY surge in profitability is mainly attributed to incentives provided by the Government to boost construction activities in the country.
- During FY22, the company grabbed 15.3% market share down by 27bps against 15.7% SPLY. The Export market share for the company has improved by 830bps stood at 34.1% vs 25.8% in FY21.
- Other income recorded at PKR 7.4 bn; highest from deposits due to higher interest rates (2.1bn); followed by sale of electricity (1.8bn), dividend from ICI (2bn), lucky motors (1.1 bn) and other small subsidiaries.
- During FY22, LEPCL did not perform well with less contribution in profitability owing to exchange differences but management expects profitability to pass on next year.
- Volumetric sales from LUCKY Motor Corporation (LMC) remained more or less same compared to last year but due to currency devaluation profitability from LMC squeezed.
- ICI has announced divestment of 26.5% of its shareholding in Nutrico Morinaga.
- Retention price for cement plants remained on average PKR 12,000/ton. However, 3 times surge in coal prices (from USD 105/ton to USD 315/ton), along with increasing minimum wage, higher limestone and FO prices might squeeze the company's margins; but because of support from proactive procurement of coal (Afghan coal) and operational efficiencies, pressure on margins was averted.
- Circular debt receivables are overdue amounting to PKR 30 bn from power generation plant; with the investment of US$ 210 mn, lUCK is generating ROE of 29% (USD terms). GoP pays mark-up on receivable based on KIBOR. Management expects circular debt to lower as GoP addressed structural issues by raising electricity tariffs.
- By July 2023, lucky cement plants will run fully on Thar Coal. right now, lucky cement is getting Thar coal on as and when basis which is mixed with imported coal. Lucky cement plant is actually designed to run on indigenous Thar coal.
- Lucky plant coal requirement is 10,000 tones of coal per day.

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- On consolidated basis, company posted highest ever profits (excluding non controlling interest) of approx. Rs. 36 billion.
- Total cement capacity is 70 million tons per annum, currently LUCK is operating to produce 15 million tons (20 million new capacity from plants coming up out of which 10 million this year). Present domestic demand is 40-45 million tons, so cement plants will operate at 50-60% capacity in the near future.
- Cement utilization because of slack demand is less while clinker utilization higher as lucky proactively boosted up clinker production/storage in expectation of gas price increase.
- Domestic Cement Sales reduced partially (-1%YoY) owing to reduction in local demand while exports improved comparatively to industry average partly because plant is located in South and some dedicated facilities are available to them.
- **Foreign operations:** Basra (Iraq) EBITDA decreased owing to reduced sales volume and shrinking margins while Congo EBITDA improved further.
- **Local Operations:** Inventory of coal is on weighted avg basis. Till 3QFY22, those batches were used which were procured at lower prices (averaging Rs. 35,000/ton) impacting positively on margins. Whereas new imported procurement of coal is currently hovering around Rs. 55,000/ ton for 4QFY22 and beyond that will squeeze margins unless cement prices rise further by 300-400/bag in order to sustain the profitability.
- Unlike in the past, now six different types of coals are used: Pakistani, Irani, Afghani, 2 South African varieties, Australian and Indonesian.
- Company management expects negative 5% to 10% annual growth for coming FY23 unless there are any PSDP demand policy changes. Moreover, rising commodity prices and furnace oil prices remain key concerns for the company.
- Exports will not see growth owing to cost related and low demand factors owing to 100 margin LC requirements, some expansions will extend beyond their deadlines so LUCK will use this opportunity to gain market share.

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Potential to target price	
Buy Upside	More than +15% from last closing price
HOLD	In between -15% and +15% from last closing price
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Equity Valuation Methodology

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

Risks

The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk