

Bloomberg code: **LUCK PA**  
 Price Target Dec12: **PKR 102.00**  
 Last Close: **PKR 91.01**  
 Recommendation: **NEUTRAL**

## LUCK - Time to Look beyond FY12; Downgrade to NEUTRAL

### Daily Summary

#### Equities

	KSE100	Turnover All Shares (mn)	Market Cap All Shares (PKR bn)
17.02.12	12,495.68	233.27	3,257.09
16.02.12	12,404.24	205.54	3,233.37
Change	91.44	27.73	23.72

#### Forex (PKR/USD)

Bid	Offer	O/N	6-month
90.65	90.71	11.54	11.84

#### Money Market Repo (%)

#### Board Meetings

Date	Time	Company
20.02.12	11:00	Fauji Cement Co. Ltd
21.02.12	11:00	MCB Bank Limited
21.02.12	11:00	United Bank Limited
22.02.12	9:30	Indus Motor Co. Ltd

#### KSE: Top five average daily turnover for the week (mn shares)

Scrip	Volume (mn)	Prices in PKR			
		High Price	Low Price	Close Feb17	Close Feb10
JSCL	27.14	9.69	7.22	9.41	7.47
ANL	16.10	7.01	4.71	6.72	4.97
FCCL	10.57	5.10	4.42	4.79	4.55
DGKC	9.25	26.20	24.01	25.16	24.29
LPCL	7.65	2.58	2.18	2.44	2.24

#### Commodity Prices

	Price	Change
WTI (USD/bbl)	103.24	0.93
Gold (USD/oz)	1,723.38	(4.69)

#### Foreign Investors Portfolio Investment (FIPI)

	Gross Buy (USD mn)	Gross Sell (USD mn)	Net flow (USD mn)
17.02.12	4.38	(2.14)	2.24

Source: KSE, NCCPL, SBP, Bloomberg & IGI Research

#### Historic PE Multiples for LUCK

5yr Avg PE	7.7x
4yr avg PE	6.7x
3yr avg PE	5.3x
2yr avg PE	5.8x
<b>FY12E PE</b>	<b>4.6x</b>
<b>FY13E PE</b>	<b>6.2x</b>

Source: IGI Research

Sana Abdullah

sana.abdullah@igi.com.pk  
 (+92-21) 111-234-234 Ext. 835

#### Research Department

Karachi, Pakistan  
 www.igisecurities.com.pk  
 igiresearch@igi.com.pk  
 (+92-21) 0800-2-34-34

- We roll forward our discounting timeline from Jun12 to Dec12, and upgrade our PT to PKR 102 per share for LUCK. Our Dec12 PT still presents an upside of only 12% from current levels. We downgrade our stance to NEUTRAL from BUY, as near term positives seem to have been priced in, with LUCK's share price appreciating by 34% during FY12TD.
- We believe a low FY12 PE is justified as we maintain that price sustainability is key risk to earnings sustainability in FY13. As the collusive price arrangement has surpassed its average age of 1.5-1.8 years, we believe i) a slight deterioration in PSDP moving ahead, ii) a regulatory action and, iii) further decline in exports, could exert pressure on local cement prices in the northern region which are its all time highs at PKR 425 per bag. Keeping in view the risks mentioned above, we believe the FY13E PE of 6.2x is more meaningful, which is higher than both its 2yr and 3yr historic average of 5.8x and 5.2x, hence the stock seems fairly priced at current levels.
- As per management guidance, the company is still in process of installing a grid station and interconnection with the distribution network of HESCO. The setup is likely to be up during 3Q FY12. We had previously estimated revenue of PKR 104mn in 2H FY12 from the electricity sale to HESCO. We now assume income to start pouring in from Mar12 onwards and incorporate other income to the tune of PKR 54mn (net of tax per share impact: PKR 0.14) in FY12.

#### FY12 earnings upgraded by 5%; PT upgraded to PKR 102 (+2%)

We downgrade our stance on Lucky Cement Limited (LUCK) to **NEUTRAL** from **BUY**, as near term positives seem to have been priced in, with LUCK's share price appreciating by 34% during FY12TD. We however, upgrade our FY12 earnings by 5% to PKR 19.62 per share as the local prices continue to remain firm and FY13-FY15 earnings up by 25% on average. Moreover, we roll forward our discounting timeline from Jun12 to Dec12, and upgrade our PT to **PKR 102** per share. Our Dec12 PT still presents an upside of only 12% from current levels.

#### LUCK - Financial Snapshot

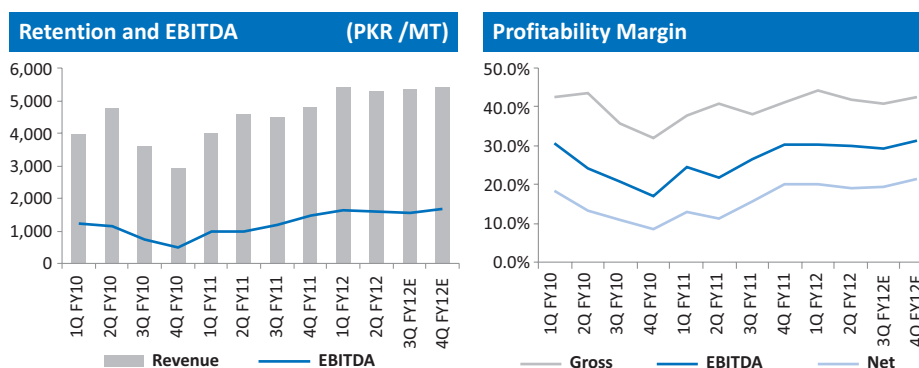
	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
EPS (PKR)	14.21	9.70	12.28	19.62	14.45	13.38
DPS (PKR)	4.0	4.0	4.0	4.5	4.5	5.0
PE (x)	6.3	9.3	7.3	4.6	6.2	6.7
PB (x)	1.25	1.16	1.05	0.89	0.81	0.76
Dividend Yield	4.4%	4.4%	4.4%	5.0%	5.0%	5.5%
ROE	21.9%	13.0%	15.0%	21.0%	13.6%	11.6%
EV/EBITDA (x)	4.7	6.6	5.4	3.5	4.5	4.6
EV/MT (USD)	78.04	65.32	72.65	66.88	64.74	60.20

Source: Company Accounts, IGI Research

#### Look beyond FY12 earnings; Price sustainability a key risk

We believe a low FY12 PE is justified as we maintain that price sustainability is key risk to earnings sustainability in FY13. As the collusive price arrangement has surpassed its

average age of 1.5-1.8 years, we believe i) a slight deterioration in PSDP moving ahead, ii) a regulatory action and, iii) further decline in exports, could exert pressure on local cement prices in the northern region which are its all time highs at PKR 425 per bag. Capacity utilization of the industry still remains low at 68% and there is an excess capacity of 9-10mn MT in the country. Keeping in view the risks mentioned above, we believe the FY13E PE of 6.2x is more meaningful, which is higher than both its 2yr and 3yr historic average of 5.8x and 5.2x, hence the stock seems fairly priced at current levels. We assume a decline in local cement retention prices by ~10% including the FED reduction of PKR 250 per MT, but a higher capacity utilization ratio of 78% in FY13. Capacity Utilization for LUCK is anticipated at 76% in FY12.



Source: Company Reports, IGI Research

Source: Company Reports, IGI Research

**1H FY12 earnings inline; FY12 to be the best-ever for LUCK**

LUCK posted earnings of PKR 3,018mn (EPS: PKR 9.33) in 1H FY12, depicting growth of 107% over 1H FY11. Earnings growth emanates from 21% YoY higher prices amidst flattish dispatches growth of 2% to 2.87mn MT. LUCK's local: export mix changed to 59:41 in 1H FY12 from 54:46 in 1H FY11, which was favorable for top line growth due to all time high cement prices in the local market. A decline in exports dispatches is on the back of a slump in exports through the sea port in 1H FY12 (-23% YoY), of which LUCK commands ~25% market share. LUCK has however diverted its installed capacity in the south to local sales, and healthy growth in local dispatches in the south on the back of private investment demand has helped LUCK keep its capacity utilization levels at a healthy 84% (southern plant) in 1H FY12. Capacity utilization of the northern manufacturing site remains low at 64%.

LUCK - Financial Highlights (PKR mn)						
	1H FY12A	1H FY11A	YoY	2Q FY12A	2Q FY11 A	YoY
<b>Dispatches (mn MT)</b>	<b>2.87</b>	<b>2.81</b>	<b>2%</b>	<b>1.49</b>	<b>1.41</b>	<b>5%</b>
Net Sales	15,374	12,028	28%	7,878	6,444	22%
Cost of Goods Sold (exc. Dep)	8,754	7,285	20%	4,576	3,821	20%
Gross Profit	6,620	4,743	40%	3,302	2,623	26%
Selling and Admin Exp.	1,982	1,974	0%	940	1,227	-23%
EBITDA	4,455	2,650	68%	2,269	1,336	70%
EBIT	3,650	1,875	95%	1,375	411	234%
Finance cost	170	294	-42%	89	151	-41%
PAT	3,018	1,461	107%	1,513	734	106%
EPS (PKR)	9.33	4.52	106%	4.68	2.27	106%

Source: Company Reports, IGI Research

### **Income from Electricity sale from HESCO to start from Mar12**

As per management guidance, the company is still in process of installing a grid station and interconnection with the distribution network of HESCO. The setup is likely to be up during 3Q FY12. We had previously estimated revenue of PKR 104mn in 2H FY12 (net of tax per share impact: PKR 0.29) from the electricity sale to HESCO. We now assume income to start pouring in from Mar12 onwards and incorporate other income to the tune of PKR 54mn (net of tax per share impact: PKR 0.14) in FY12 from sale of power to HESCO.

## **News in Focus**

### **Oil price fixation every fortnight**

The Ministry of Petroleum and Natural Resources (MNPR) has presented a proposal to set petroleum prices after every fortnight. The summary of the proposal has been approved by Dr. Asim Hussain, special advisor to Prime Minister and would be sent to Economic Committee of the Cabinet (ECC), for final approval. In 2009 Dr Asim Hussain had announced fixation of petroleum prices after 30 days.

## **Market Comment**

Positive momentum continued at the bourse for a fifth straight session on Friday. The market peaked above intraday high of 12,600 during the first half, however as expected profit-taking erased some of the earlier gains going into the close of session with index closing the week at 12,495, up 91 points DoD. Market breadth was positive with advances of 52 against 31 declines. Selective Oils, Banks and Fertilizers (ENGRO +4.80%, PKR 133.99) were the key index movers, while PPL was prominent among laggards. 152.80mn shares were traded (value USD 72.80mn) compared to 117mn in the previous session. Top three volumes were: JSCL 30.6mn, DGKC 27.20mn and 23.66mn.