

Thursday January 26, 2012

DAY BREAK

Bloomberg code: **LUCK PA**
 Price Target: **PKR 100.00**
 Last Close: **PKR 85.77**
 Recommendation: **BUY**

LUCK- 1H FY12 EPS to increase two-folds to PKR 9.49

Daily Summary

Equities

	KSE100	Turnover All Shares (mn)	Market Cap All Shares (PKR bn)
25.01.12	11,949.75	124.85	3,103.49
24.01.12	11,991.38	200.06	3,113.51
Change	(41.63)	(75.21)	(10.02)

Forex (PKR/USD)

Bid	Offer	O/N	6-month
90.18	90.23	10.25	11.83

Money Market Repo (%)

Board Meetings

Date	Time	Company
26.01.12	10:30	Fauji Fertilizer Bin Qasim Ltd
01.02.12	10:30	Attock Refinery Ltd
02.02.12	1:30	Pakistan Oilfields Ltd

KSE : Top Five Volume (mn Shares)

Scrip	Volume	Change	Rate (PKR)	Change
JSDL	14.96	-15.38	6.00	-0.61
DGKC	13.89	5.25	23.18	1.07
BAFL	7.61	-9.49	12.29	0.14
LOTPA	7.44	-2.48	10.04	0.01
ENGRO	4.34	-2.29	114.10	-1.99

Commodity Prices

	Price	Change
WTI (USD/bbl)	99.13	0.38
Gold (USD/oz)	1,710.58	44.89

Foreign Investors Portfolio Investment (FIPI)

	Gross Buy (USD mn)	Gross Sell (USD mn)	Net flow (USD mn)
25.01.12	3.27	(1.52)	1.75

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

Revenue, Costs, EBITDA & Margins (PKR)

	1H FY12 E	1H FY11 A
Revenue/ MT	5,617	4,287
Cash Cost/ MT	3,085	2,597
EBITDA/ MT	1,628	987
Gross Margin	45%	39%
EBITDA Margin	29%	23%
Net Margin	19%	12%

Source: Company Accounts, IGI Research

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- LUCK is scheduled to announce its 1H FY12 results on Jan30'12. 2Q profits of the company are likely to grow two-fold to clock in at PKR 1,564mn (EPS: PKR 4.84), compared to PKR 734mn (EPS: PKR 2.27) in the comparable period last year. This will take cumulative 1H FY12 profit to PKR 3,070mn (EPS: PKR 9.49), up 113% from PKR 1,461mn (EPS: PKR 4.52) in 1H FY11.
- Dispatches are likely to remain 2.83mn MT in 1H FY12, depicting flattish growth of 1% over 2.81mn MT in 1H FY12. We anticipate LUCK's local:export mix to change to 59:41 in 1H FY12 from 54:46 in 1H FY11, which is going to be favorable for its top-line growth due to all time high cement prices in the local market.
- Historically, LUCK's distribution expenses have spiked during 2Q every year, and hence we anticipate EBITDA per MT to decline by 2% QoQ in 2Q FY12. However on a YoY basis, EBITDA is likely to depict a growth of 65% YoY in 1H FY12 to PKR 1,628 per MT, led by higher retention prices and a lower cost coal inventory at USD 105 per MT.
- In an environment where regulatory risk has heightened and CCP has taken note of the collusive price arrangement by cement manufacturers in the north, LUCK remains our cement sector top pick as it stands out with earnings growth of 50% YoY even in adversity.
- We reiterate our BUY stance on LUCK (Jun12 PT PKR 100 per share) as it trades at an attractive FY12 PE multiple of 4.6x, and offers an upside of 17% and FY12 dividend yield of 5% to take the total stock return to 22% from current levels.

Lucky Cement is scheduled to announce its 1H FY12 results on Jan30'12. 2Q profits of the company are likely to grow two-fold to clock in at PKR 1,564mn (EPS: PKR 4.84), compared to PKR 734mn (EPS: PKR 2.27) in the comparable period last year. This will take cumulative 1H FY12 profit to PKR 3,070mn (EPS: PKR 9.49), up 113% from PKR 1,461mn (EPS: PKR 4.52) in 1H FY11. On a sequential basis, subtle improvement in earnings is likely at 4%QoQ, on the back of higher retention prices in the local market.

LUCK - Financial Highlights

(PKR mn)

	1H FY12 E	1H FY11 A	YoY	2Q FY12E	2Q FY11A	YoY
Dispatches	2.83	2.81	1%	1.45	1.41	2%
Net Revenues	15,902	12,028	32%	8,406	6,444	30%
Cost of Goods (exc. Dep)	8,734	7,285	20%	4,554	3,806	20%
Gross Profit	7,168	4,743	51%	3,852	2,638	46%
Selling & Admin Exp.	2,560	1,974	30%	1,518	1,227	24%
EBITDA	4,608	2,769	66%	2,333	1,411	65%
EBIT	3,805	1,994	91%	1,932	1,009	91%
Finance Cost	161	294	-45%	80	151	-47%
PAT	3,070	1,461	110%	1,564	734	113%
EPS (PKR)	9.49	4.52	110%	4.84	2.27	113%

Source: Company Accounts, IGI Research

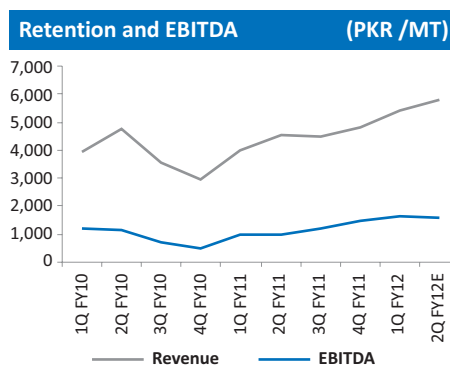
Higher retention to drive top line growth amidst flattish dispatches

Dispatches are likely to remain 2.83mn MT in 1H FY12, depicting flattish growth of 1% over 2.81mn MT in 1H FY11. We anticipate LUCK's local:export mix to change to 59:41 in 1H FY12 from 54:46 in 1H FY11, which is going to be favorable for topline growth due to all time high cement prices in the local market. A decline in exports dispatches is likely because 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% in 1H FY12.

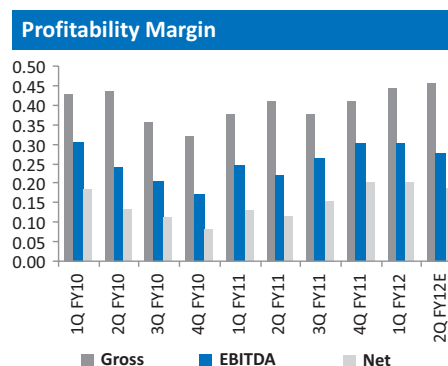
Local cement prices depicted further improvement of 6% on a QoQ basis during 2Q FY12. LUCK's retention is anticipated to prop up by 6.9% QoQ to PKR 5,799 per MT, on the back of higher export price and PKR depreciation. Historically, LUCK's distribution expenses have spiked during 2Q every year, hence we anticipate EBITDA to decline by 2% QoQ in 2Q FY12. However on a YoY basis, EBITDA is likely to depict a growth of 65% YoY in 1H FY12 to PKR 1,628 per MT, led by higher retention prices and a lower cost coal inventory at USD 105 per MT. As per company guidance, LUCK's coal inventory is likely to have lasted through 1H FY12. Moreover, as coal prices have come off from peak of USD 128 per ton, LUCK stands at an advantage to peers who had replenished their coal inventories at higher prices of USD 125 per ton during 1H FY12.

LUCK- trading at FY12 PE of 4.6x; Maintain BUY!

In an environment where regulatory risk has heightened and Competition Commission of Pakistan (CCP) has taken note of the collusive price arrangement by cement manufacturers in the north, LUCK remains our cement sector top pick as it stands out even in adversity. We feared this regulatory action since quite a few months now and reiterated time and again in our research notes that the price risk had heightened and a further increase in prices from highest ever levels of PKR 425 per bag is not justified. Even though we have assumed average retail price of PKR 360 per bag in 2H FY12, and our FY12E EPS for LUCK is ~14-25% lower compared to street estimates, it still presents earnings growth of 50% YoY in FY12. We reiterate our BUY stance on LUCK (Jun12 PT PKR 100 per share) as it trades at an attractive FY12 PE multiple of 4.6x, and offers an upside of 17% and FY12 dividend yield of 5% to take the total stock return to 22% from current levels.



Source: Company Reports, IGI Research



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News in Focus

Mobilink to take part in 3G Auction

Pakistan's largest telecom service provider, Mobilink, on Wednesday announced to participate in the auction for third generation (3G) telecommunication services. The base price for each 3G license would be USD 210 mn with bid earnest money of USD 31.5 mn. The licence will be through multiple rounds and open outcry method. Three licences of 3G would be offered for a period of 15 years to both new and current players in the market.

Market Comment

After alternate bouts of losses and gains the market ended on a negative note for a second consecutive session yesterday at 11950, down 41 points. Index heavy-weight oils were prominent among the laggards with OGDC PA dragging the index lower by 40 points followed by PPL PA down 14 points, attributed to lower payout of Rs 5.00, despite a 21% YoY growth in earnings for the 1HFY12. Blue chip Banks (UBL PA and MCB PA) and Fertilizers (FFBL PA and ENGRO PA) were next among the major losers, while NESTLE PA and FFC PA were prominent among the key movers. 93.80mn shares were traded (value USD 48.40mn). Top three volumes were: JSCL PA 14.95mn, DGKC PA 13.90mn and BAFL PA 7.60mn.