

Cement Sector: LUCK earnings set fly higher...

Synopsis...

- Earnings are expected to fly higher by 112% to PKR3.10bn (EPS of PKR9.59) in 1HFY12.
- Total volumetric sales are expected to increase by 4% YoY mainly because of growth in local sales.
- Monetary sales are anticipated to post a handsome rise of 28% YoY to PKR15.40bn in 1HFY12.
- Financial charges are likely to witness a sharp drop of 51% YoY to PKR144m in 1HFY12.
- Ongoing work on mega projects, higher retention prices, better volumes and decline in coal prices is expected to bode well for the company and sector.
- We suggest a **BUY** stance - Fair Value **PKR96**.

(PKRm)	1HFY11A	1HFY12E	Chg
Sales	12,028	15,395	28%
Cost of Sales	8,060	9,408	17%
Gross Profit	3,968	5,988	51%
Admin Exp	158	247	56%
S & D exp	1,816	1,917	6%
Financial charges	294	144	-51%
Profit before Tax	1,581	3,457	119%
Taxation	120	355	195%
Profit after tax	1,461	3,102	112%
EPS (Basic)	4.52	9.59	

Source: Company accounts, Summit Capital Research

LUCK expected to earn more than double profit ...

The Board of Directors' of Lucky Cement Limited (LUCK) is scheduled to announce 1HFY12 financial performance of the company on 30th January '12. We expect LUCK to report more than double profit in 1HFY12 as the company is likely to report 112% growth in its Profit After Tax (PAT) to PKR3.10bn translating it into an EPS of PKR9.59 in 1HFY12 as against the PAT of PKR1.46bn in the corresponding period of the last year. The main reason behind the substantial boost in earnings can be attributed to 28% YoY

jump in monetary sales to PKR15.40bn in 1HFY12 as against the sales of PKR12.03bn in same period last year. The expected stupendous boost in monetary sales is mainly because of expected augment in the volumetric sales and higher retention prices. Volumetric sales are expected to grow by 4% YoY to 2.92m tons as against the 2.81m in same period last year, whereas price of the cement were also seen 25%YoY higher to PKR423/bag as against PKR339/bag during the same period last year. Consequently, gross profit would post a huge rise of 51% YoY to PKR5.99bn in 1HFY12 over PKR3.97bn in 1HFY11.

Operating performance expectations...

We expect operating costs to post a rise of 10% YoY to PKR2.17bn as against operating costs of PKR1.98bn in 1HFY11 primarily because of upsurge in distribution cost which is likely to go up due to sharp increase in transpiration charges. Conversely, we anticipate financial charges to decline by 51% YoY to PKR144m in 1HFY12 as against PKR1294m in same period last year. Financial charges are expected to decline because of lower long term debt. Resultantly, we expect LUCK to report a substantial 92% jump in PBT to PKR3.46bn in 1HFY12 as against the PBT of PKR1.82bn in 1HFY11.

Outlook and recommendation...

BY the end of the year LUCK is expected to have two of its major projects online i.e. start of Used Tyres Derived Fuel Plant at Karachi plant which would lower the cost of sales being a cheap alternative of coal and also commencement of supply of electricity to HESCO will also generate added revenue for the company. Moreover, coal prices in international market which were reached to US\$146 in January 2011 have declined to US \$112/ton by now. We expect further decline in international coal prices which would benefit the company in terms of lower cost of production. On the contrary, weakening macro economy remains a threat to the growth in local demand and we also fear that the gloomy economic outlook possess significant risk of extended cut down in PSDP funds.

We recommend a **BUY** stance on LUCK as the stock currently offers an upside potential of 12% to our DCF basis Fair Value of **PKR96**.

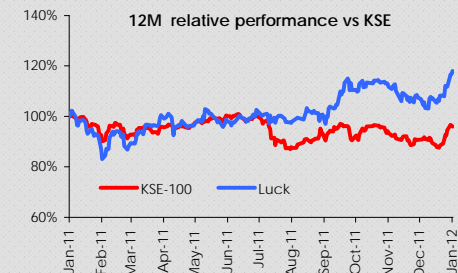
BUY

Market Snapshot

	Index	Chg	%
KSE 30	11132.12	-49.28	-.44
KSE 100	11949.75	-41.63	-0.35
KSE ALL	8279.89	-26.73	-0.32

Key Data (LUCK)

Market Cap(PKR bn)	27.74
Shares Outstanding (m)	323.38
Bloomberg	LUCK.PA
12M Avg. Volume (m)	1.06



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