

## Equity Research Pakistan

## In Focus

Construction & Materials  
Marketweight

## LUCK- BUY

TP Dec-12: PKR 110

Current Price: PKR 86

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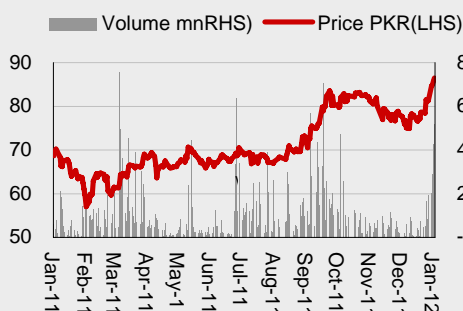
## Stock Statistics

Ticker		LUCK
Mkt Cap	USD mn	314
12M ADT	mn shares	1.0
Shares Outstanding	mn	323

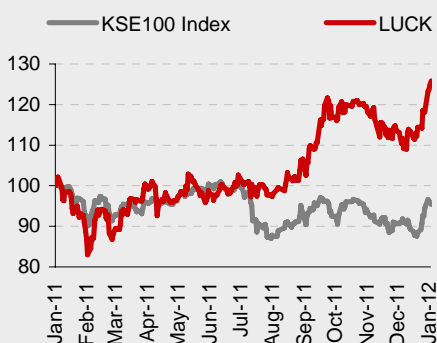
## Stock Performance

	1M	3M	12M
Absolute %	11%	8%	26%
Relative to KSE %	6%	4%	30%

## Price and Volume Graph



## LUCK vs KSE100 Relative Index Chart



## Cement: Life after CCP raid and LUCK 1HFY12 preview

- Based on our recent discussion with the cement industry we downplay the risk of any sudden fall in local cement prices due to major factors including persistent increase in cost pressures of local components
- Resultantly, we believe that despite no major uptick in dispatches, local cement prices would continue to remain at current levels of PKR410-425 per bag in 2HFY12 as well, thus contributing into double digit growth for cement sector in FY12
- We expect Lucky's bottom line to remain in tune of PKR3.05bn (EPS PKR9.50) compared to PKR1.46bn (EPS PKR4.52) in the same period last year
- Moreover, 2QFY12 is expected to conclude in more optimistic note as we expect the company to post profit of PKR1.55bn (EPS PKR4.80) up 112% compared to PKR734mn (EPS PKR2.27) in the corresponding period last year

## Cement Sector: Life after CCP raid

Soon after the CCP raid on APCMA office over indications of price consensus, the risk for another FY10-like scenario re-emerged, when along with a massive fine of PKR6.3bn imposed on cement sector, local cement prices declined by 21% in the following months. This was also highlighted to our investors in our report titled "CCP raids APCMA offices" dated January 17, 2012 in which we advised our investors to remain cautious over upcoming developments in cement sector.

However based on our recent discussion with the cement industry we downplay the risk of any sudden fall in local cement prices on account of persistent increase in cost pressures of local components (electricity and distribution exp.) and any fine by CCP would be challenged in apex court as witnessed in FY10.

Resultantly, we believe that despite no major uptick in dispatches, local cement prices would continue to remain at current levels of PKR410-425 per bag in 2HFY12 as well, thus contributing into double digit growth for cement sector in FY12.

## Lucky Cement: EPS likely to double to PKR9.5 in 1HFY12

With the result season in full swing, Lucky Cement (LUCK) is expected to announce 1HFY12 results on January 30, 2012 with almost doubled profitability, thanks to all-time high local cement prices and improvement in export retentions. We expect Lucky's bottom line to remain in tune of PKR3.05bn (EPS PKR9.50) compared to PKR1.46bn (EPS PKR4.52) in the same period last year. Moreover, 2QFY12 is expected to conclude in more optimistic note as we expect the company to post profit of PKR1.55bn (EPS PKR4.80) up 112% compared to PKR734mn (EPS PKR2.27) in the corresponding period last year.

## Local prices: Lead the party

Thanks to all time high local cement prices over indication of price discipline despite no major uptick in total cement dispatches during 1HFY12, Lucky's bottom line is expected to more than double to PKR3.05bn. With local cement prices averaging around PKR390/bag (up 19% YoY) along with some improvement in export prices,

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the net sales for Lucky is expected to expand by 26% to PKR15.1bn during 1HFY12 compared to PKR12.0bn during 1HFY11.

**Coal prices: Not to affect margins**

Though coal prices started to fall since beginning of 2QFY11, they still managed to remain higher by 18% YoY to average around USD125/ ton (Australian) during 1HFY12 compared to USD107/ton in same the period last year. Coal prices rallied on the back of severe floods in Australia and the impact was further magnified by Japan nuclear crisis witnessed soon after that. However amid better local and export prices, gross margins would improve by a hefty 600bps to 39%, thus offsetting the impact of rising coal prices.

**Easing finance cost**

Benefiting from low markup on SBP's export refinance scheme and reduced financing needs amid improved cash position, Lucky's finance cost is expected to decline by 40% to PKR178mn during 1HFY12 compared PKR295mn in the same period last year.

**Outlook: Reiterate 'Buy'**

We maintain our 'Buy' stance on Lucky with TP of PKR110/sh, trading at FY12 and FY13 PE of 4.3x and 4.0x respectively.

**Glossary**

- *TP: Target Price*
- *EPS: Earning per share*
- *PER: Price to earnings ratio*
- *PBV: Price to Book ratio*
- *DY: Dividend Yield*