

Lucky Cement Limited

Overflowing with Value

Cements

BUY

Target Price	1,359.2
Last Closing	792.2
Upside (%)	71.6
PSX Code	LUCK
Bloomberg Code	LUCK PA

Shares

Market Cap (USD m)	1,608
Outstanding Shares (m)	323.4
Free Float (%)	40.0
12M Avg. Daily Turnover (m)	1.0
12M High Low (PKR)	792.2 310.3
Major Shareholders	Directors and Spouse

Key Metrics

	FY20A	FY21E	FY22F
PAT (PKR bn)	6.1	24.4	38.8
EPS (PKR)	19.0	75.3	120.1
P/E (x)	41.78	10.52	6.60
DPS (PKR)	-	10.0	16.0
Div Yield (%)	0%	1%	2%

Stock Performance



Source: Bloomberg

Analyst

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We revise upwards our SoTP-based Dec'21 target price for Lucky Cement Limited (LUCK) to PKR 1,359/share, offering a massive upside of 72% from last closing, we recommend BUY. Our thesis is premised on improving fundamentals including i) addition of a new 3.15mn tons line at the North (Pezu) plant, taking the company's capacity to nearly 15mn tons (currently at 11.7mn tons as per APCMA, ii) gradual restoration of pricing confidence in North, and iii) robust automobile demand with KIA expected to launch new vehicles within the ongoing year; Kia Sorento on 19th Feb 21 and Kia Cerato (our assumption) whose announcement may materialize before Jun'21. In addition, LUCK's well-diversified portfolio unlocks potential for a higher multiple and shields against operational risks in the cement business. We project the company's profitability to arrive at PKR standalone earnings to attain a 5-yr forward CAGR of 68% to FY25.

Market Leader Position under No Threat

As per the All Pakistan Cement Manufacturers Association (APCMA), LUCK's current cement capacity is set at 11.7mn tons (6.8mn tons in North and 4.9mn tons in South). With local fundamentals signaling at a period of high demand, and dispatches growth set to achieve a 15% jump in FY21, we forecast industry utilization to cross 85% in the next year. Historically, new expansions have been planned once utilization exceeds 80%, hence several players have already shown interest in expanding. LUCK too has announced a brownfield 3.15mn addition at its Pezu plant, taking its total capacity to nearly 15mn tons. Pertinently, the company has already applied for financing of PKR 10bn (PKR 5bn via the Temporary Economic Refinance Facility – TERF and PKR 5bn through Long Term Finance Facility - LTFF) while we estimate the remainder ~PKR 13-15bn to be generated internally. We have assumed the plant will come online half-way through FY23 and therefore, we do not foresee any threats to LUCK's market leader status.

Pricing Confidence to Contain the Impact of Rising Coal Prices

To recall, reopening of the economy after a dreaded coronavirus-induced hiatus, brought some confidence on the pricing front; players in North have particularly been quick to jack up retail prices. While cut in FED to PKR 1,500/ton from PKR 2,000/ton in FY20 bought some stability post Budget, improving demand has allowed local manufacturers to pass on the impact of rising coal prices, which have undergone a jump to USD 80/ton from USD 50/ton (FOB) in 1QFY21. Since the end of last quarter, prices in North have observed a jump of PKR 50/bag, while local demand too has sprung up (unaffected by the hike in prices) to 4.03mn tons in Jan'21 by 23.67% (7MFY21: +16.98% to 27.65mn tons).

Kia: The latest Gem in LUCK's Portfolio

LUCK formed an automobile partnership with Kia (a South Korean giant), which has been touted as a dream-team, to say the least. Due to high demand resulting from low interest rates and improving economic fundamentals, LUCK's PKR 20bn auto plant has been operating at a double-shift capacity (50,000 unit's p.a.) since Jan'21. The company has started posting operating profits and we believe with the introduction of Kia Sorento (direct competitor of Toyota Fortuner) on 19th Feb 21, and Kia Cerato (our assumption) within the ongoing year, Lucky Motors can churn out a bigger bottom-line than LUCK's standalone cement earnings in upcoming years. As per company management, Kia Sorento (7 seater SUV) will be offered in 3 variants: 2.4L AWD (All Wheel Drive), 2.4L FWD (Forward Wheel Drive) and 3.5L FWD. It will be available in 7 colours and have 6

airbags. Other features include: LED head and tail lamps, auto boot, Hankook 18" tyres, 8" multimedia system, wireless car charger, panoramic sunroof, rear AC and two options for interior color. Assuming the company sells 500 units per month in FY22, company revenue will grow by PKR 35bn annually, by PKR 71bn if it sells 1,000 units per month and PKR 106bn if it sells 1,500 units per month (at an estimated price of PKR 7.5mn). Meanwhile contribution to operating profit will be PKR 2.9bn (500 units), PKR 6.2bn (1,000 units) and PKR 9.5bn (1,500 units). This will be the highest power (3,500cc) locally assembled vehicle in Pakistan and given the expected reception we foresee (current backlog of orders is about 2-3 months), we have revised our Dec'21 DCF-based value of the company to PKR 307/share, contributing 23% to LUCK's target price.

A Portfolio like No Other

LUCK's strategic divergence to various sectors has been parallel to none. With a footprint in North and South of Pakistan and expansion beyond borders in DR Congo (1.2mn tons) and Iraq (2.9mn tons; of this, 1.2mn tons clinker facility in the city of Samawah, is expected to come online this month), LUCK's cement dominance remains undisputable. Whereas the company's 54% share in ICI Pakistan Limited - a listed chemical company – also augments value of the portfolio. Finally, the company's 100% owned 660MW coal power plant (Jun'21), a project of national importance, is targeted to achieve COD in Aug'21, and solidify LUCK's presence in the energy sector. Please find breakup of the sum of the parts based target price below.

Sum of the Parts	Value	Per share
Core	161,045	498
ICI Pakistan Limited	52,580	163
Iraq Project	21,570	67
Congo Project	13,702	42
Lucky Electric Power Company Ltd	89,584	277
Yunus Energy Ltd	1,840	6
Lucky Motors Corporation Ltd	99,284	307
	439,605	1,359

Source: AHL Research

Earnings Projection

Incorporating the aforementioned, we expect the company to post standalone earnings of PKR 10,950mn (EPS: PKR 33.86) in FY21 against PKR 3,344mn (EPS: PKR 10.34) in SPLY. While consolidated earnings are forecast at PKR 24,351mn (EPS: PKR 75.30). Check below.

LUCK Earnings breakup	FY21E	FY22F	FY23F
PKR mn			
LUCK's unconsolidated PAT	10,907	17,722	23,553
Dividend in other income	2,471	7,134	8,134
LUCK's PAT ex-dividend	8,436	10,588	15,419
ICI's PAT	5,414	7,564	11,285
LUCK's stake	55%	55%	55%
LUCK's share	2,978	4,160	6,207
LUCK's PAT + ICI	11,414	14,748	21,625
Congo's adjusted PAT (50%)	2,383	2,481	2,815
Iraq's adjusted PAT (50%)	2,761	4,153	4,384
Coal power plant PAT (100%)	0	5,775	12,013
Kia's adjusted PAT (71.55%)	7,793	11,680	14,105
LUCK's consolidated PAT	24,351	38,837	54,942
LUCK's consolidated EPS	75.30	120.10	169.90

Source: AHL Research

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Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec'21. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% from last closing of market price(s)

* Upside for Power Generation Companies (Ex. KEL) is upside plus dividend yield.

Equity Valuation Methodology

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

- **Discounted Cash Flow (DCF)**
- **Dividend Discount Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

Risks

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

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

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