Foundation Alert

LUCK: Analyst Briefing Key Takeaways

Event

- Lucky Cement Limited (LUCK PA) held its analyst briefing today to discuss FY21 results and the future outlook of the company. Following are the key takeaways of the briefing:

Impact

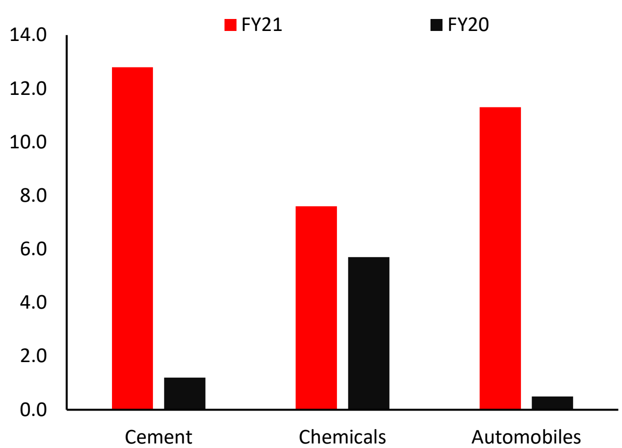
- LUCK FY21 profitability clocked in at Rs22.8bn (EPS of Rs70.69, up 273% YoY). Management attributes increase in company's profitability to (1) higher sales of cement amid better retention prices in north market, (2) higher profitability contribution of Lucky Motor Corporation, (3) lower energy input cost due to decline in coal requirement, (4) lower fixed cost contribution per unit amid better utilization and increased efficiencies of new plant and (5) improved profitability of Congo and Iraq plants.
- Management has also disclosed that LUCK's cement dispatches in domestic/export market clocked in at 7.6/2.4mn ton in FY21 (up 38/12% YoY). Furthermore, LUCK domestic contribution in total dispatches increased by 4.1ppt YoY to 75.8% in FY21.
- Furthermore, LUCK management also discussed capacity utilization of its both plants and disclosed that avg clinker capacity utilization at Karachi/Pezu plant stands at 86/73% during FY21. To highlight, LUCK clinker plant capacity utilization at its Karachi/Pezu plant decreased/increased by 8/4ppt QoQ to 83/78% in 4QFY21.
- LUCK avg retention prices in domestic market increased by 19.6% to Rs6,535/ton in FY21, while retention prices in export market declined by Rs514/ton. To highlight, current domestic cement retention prices are above Rs7,000/ton.
- LUCK management has also shared details of energy saving due to decline in coal consumption and lower landed cost of coal. LUCK has saved 4kg per ton, amounting to Rs490mn in FY21, on account of coal consumption due to better efficiencies and Rs1,121/ton due to decline in coal rate in FY21.
- On current gas shortage scenario management has said that its Pezu plant is now operating at furnace oil due to lower gas flows and as a result its energy cost increased by Rs480mn in FY21.
- Furthermore, LUCK management also discussed significant decrease/increase in its admin/other operating cost and disclosed that its admin expense declined due to reclassification of provision for WPPF/WWF in 4QFY21. While, increase in other expenses is due to disallowance of certain expenses for Lucky Electric Power Company as capital expenditures.
- On foreign investments front, management has shared its sales volume increased by 31/29% at Iraq/Congo plant due to increased market size amid economic recovery. While its new plant in Iraq is now operating at ~70-80% utilization level and achieved sales of 0.3mn ton since its COD in Mar'21 and generated EBITDA of US$9.2mn tons.
- Moreover, EBITDA of old plants at Iraq/Congo increased by 23/15% YoY to 27.9/41.7% in FY21. However, net margins in Congo declined in second half of FY21 due to ending of 5 year tax holiday in Jan'21.
- Furthermore, management has shared that recent uptick in construction activity has been contributed by both retail and infrastructure projects. Moreover, any development on Naya Pakistan Housing Program (NPHP) and mega infrastructure projects may further increase the product demand. However, trend for FY22 will be based on demand for 1QFY21.

- LUCK management also discussed expansion of its Line-II and disclosed that total cost of the project would be ~Rs25-26bn and 50% of its will be financed through debt (including TERF facility) and remaining through internal cash generation. LUCK new plant is expected to achieve COD in Dec'22.
- Furthermore, management also discussed the key profitability highlights of its other divisions and shared that its automobile segment operating profit increased by 22.6x to Rs11.3bn while chemical segment operating profitability increased by 33% to Rs7.6bn in FY21.
- Furthermore, Lucky Electric Power Company 660MW coal based power generation plant construction work is delayed due to outbreak of COVID in China that caused construction and supply contracts interruptions. The company is following up with CPPA, NTDC and PPIB for the earliest availability of an interconnection facility which is essential for COD of the project. To highlight, company expects to achieve COD of its 660MW in Oct'21. Furthermore, LUCK's is expected to further invest Rs3-4bn in order to achieve COD in Oct'21.

Outlook

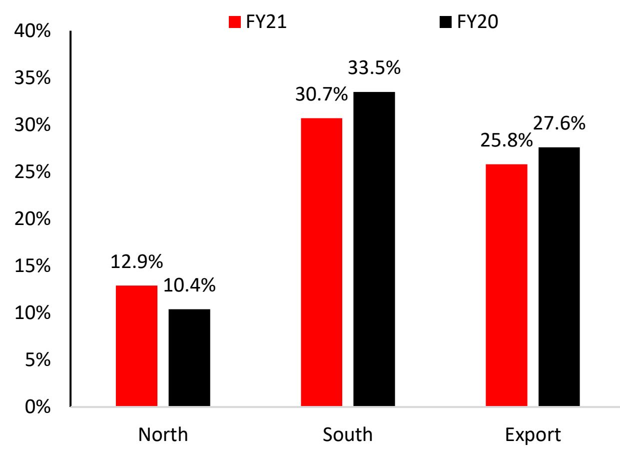
- High growth trajectory of cement business along with diversification in earnings and higher expected liquidity would play in company's favor. However, better utilization level given higher cement demand would allow gradual increase in cement prices in FY22/23, in our view.

Fig 01: Automobile delivered record op profit (Rs bn)



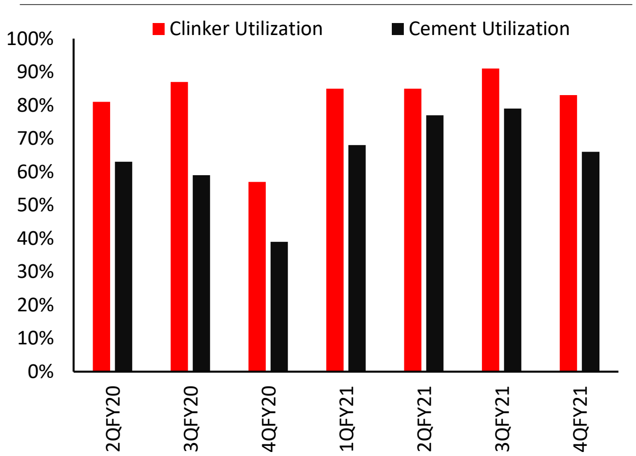
Source: Company, FSL Research, August 2021

Fig 02: Market share increased in north



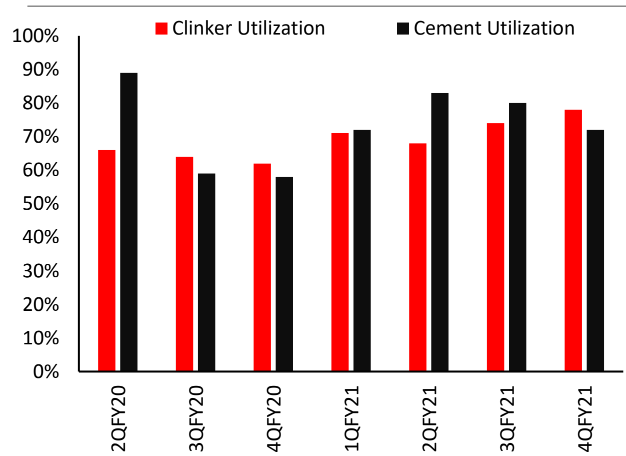
Source: Company, FSL Research, August 2021

Fig 03: Utilization at Pezu plant declined in 4QFY21..



Source: Company, FSL Research, August 2021

Fig 04: …and in South too



Source: Company, FSL Research, August 2021

Fig 1: LUCK 4QFY21 Consolidated key Financial Highlights (Rs mn)

	4QFY21	4QFY20	YoY	QoQ	FY21	FY20	YoY
Net Sales	50,364	29,334	72%	-17%	207,159	123,768	67%
Cost of sales	38,026	25,133	51%	-17%	159,614	104,811	52%
Gross Profit	**12,338**	**4,201**	**194%**	**-18%**	47,545	18,957	**151%**
Admin Expenses	368	1,036	-64%	-83%	5,509	4,222	30%
Selling and Distribution Expenses	3,037	1,849	64%	31%	10,022	7,649	31%
Operating Profit	8,933	1,316	579%	-15%	32,014	7,087	352%
Other operating expenses	3,448	600	475%	398%	4,915	1,203	308%
Other operating income	2,047	1,348	52%	2%	7,367	5,415	36%
EBIT	**7,532**	**2,065**	**265%**	**-37%**	34,466	11,298	**205%**
Financial Charges	357	352	2%	3%	1,464	2,367	-38%
PBT	7,175	1,713	319%	-38%	33,002	8,931	270%
Tax	1,100	78	1311%	-39%	4,773	1,614	196%
PAT	**6,075**	**1,635**	**271%**	**-37%**	28,229	7,317	**286%**
NCI	1,443	154	835%	-22%	5,371	1,185	353%
PAT att to parent shareholders	4,632	1,481	213%	-41%	22,858	6,132	273%
EPS@323.4mn sh	**14.32**	**4.58**			**70.69**	**18.96**	
Gross margins	24.5%	14.3%			23.0%	15.3%	
EBIT margins	15.0%	7.0%			16.6%	9.1%	
Net margins	12.1%	5.6%			13.6%	5.9%	
Effective tax rate	15.3%	4.6%			14.5%	18.1%	

Source: Company accounts, Foundation research, August 2021

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If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.