

Earning Review

LUCK: 2QFY23 EPS clocked in at Rs32.4, up 61% YoY

Event

- Lucky Cement Limited (LUCK PA) profitability clocked in at Rs10.5bn (EPS Rs32.4, up 61/92% YoY/QoQ) in 2QFY23 as compared to profit of Rs6.5bn (EPS Rs20.1) in 2QFY22.
- Moreover, earning is above our expectation given higher cement retention prices and better profitability of foreign operations.

Impact

- Company profitability has increased due to (1) better cement retention prices (2) increased profitability of Lucky Electric Power Company Limited (LEPCL) and (3) higher other income and share of profit from Joint Ventures and associates.
- However, (1) lower cement dispatches in both domestic and export markets, (2) reduced profitability of Lucky Motor Corporation (LMC) and Lucky Core Industries (LCI) and (3) increase in finance cost due to LEPCL and higher interest rates has partially diluted the profitability growth.
- LUCK un-consolidated net sales increased by 24% YoY in 2QFY23 due to better retention prices in domestic market.
- To highlight, LUCK un-consolidated gross margins increased/decreased by 2.8ppt/5.1ppt YoY/QoQ to 25.4% in 2QFY23. We attribute increase in margins to better retention prices and efficient procurement of coal for usage as fuel in 2QFY23.
- LUCK consolidated revenue increased by 39% YoY due to (1) COD of LEPCL, and (2) higher cement retention prices, in our view.
- LUCK consolidated gross margins increased by 2.0/2.0ppt YoY/QoQ in 2QFY23 due to higher margins of LEPCL, in our view.
- LUCK admin cost decreased by 22/5% YoY/QoQ in 2QFY23.
- Among other major heads, LUCK other operating expense decreased by 21/41% YoY/QoQ in 2QFY23.
- Furthermore, LUCK's other income increased by 127/12% YoY/QoQ in 2QFY23 due to increase in interest rates.
- To highlight, LUCK reported Rs2.5bn share of profit from associates in 2QFY23 as compared to share of Rs1.7bn in 2QFY22 due to efficient operations of plant in Iraq and better demand in Congo.
- Company effective tax rate clocked in at 15.2% in 2QFY23 as compared to 16.4% in 2QFY22.

Outlook

- We expect near term profitability of the core business to remain under pressure given inability to completely pass on the impact of rise in fuel cost and inflationary pressures amid slowdown in demand due to economic consolidation. Furthermore, demand from NPHP may decline in future due to restrictions imposed by SBP on new approvals and IMF conditions over subsidy.
- However, company dominant position as largest domestic cement player in ongoing expansion cycle of FY22-24 along with COD of 660MW LEPCL coal fired power plant and increased share of profit from Iraq/Congo cement operations compel us to have an "Outperform" stance on the stock with Target Price of Rs595.4/sh.

Table 01: LUCK 2QFY23 Consolidated key Financial Highlights (Rs mn)

	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Net Sales	94,957	68,398	39%	5%	185,590	123,380	50%
Cost of sales	74,025	54,671	35%	2%	146,526	97,991	50%
Gross Profit	20,932	13,727	52%	15%	39,064	25,388	54%
Admin expense	1,397	1,795	-22%	-5%	2,863	3,426	-16%
S&D expense	2,539	2,969	-14%	-7%	5,263	5,181	2%
Other expense	688	868	-21%	-41%	1,862	1,643	13%
Other Income	1,630	719	127%	12%	3,084	3,356	-8%
Share of profit	2,470	1,683	47%	109%	3,650	2,936	24%
EBIT	20,408	10,496	94%	33%	35,810	21,431	67%
Finance cost	7,231	574	1160%	12%	13,716	914	1401%
PBT	13,177	9,922	33%	48%	22,094	20,517	8%
Tax	2,008	1,627	23%	-12%	4,278	3,363	27%
PAT	11,391	8,295	37%	64%	18,324	17,154	7%
NCI	927	1,799	-48%	-37%	2,410	4,007	-40%
PAT att to parent shareholders	10,464	6,496	61%	92%	15,913	13,147	21%
EPS@323.4mn sh	32.36	20.09			49.21	40.65	
Gross margins	22.0%	20.1%			21.0%	20.6%	
EBIT margins	21.5%	15.3%			19.3%	17.4%	
Net margins	12.0%	12.1%			9.9%	13.9%	
Effective tax rate	15.2%	16.4%			19.4%	16.4%	

Source: Company accounts, Foundation Research, January 2023

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Recommendations definitions

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