

August 06, 2009

**Pakistan Market****LUCK: FY09 EPS of Rs14.2, up 72%/ 'Buy' maintained** KSE100 Index: Closing 7834.69 ↑ (+38.47)**MORNING BRIEFING**

Lucky Cement (LUCK) announced its full year FY09 result yesterday. The company posted earnings of Rs4.6bn (EPS Rs14.2) for FY09 as against profits of Rs2.7bn (diluted EPS Rs8.3) in FY08, a massive jump of 72%YoY. Higher export dispatches along with superior local retention prices soared up revenues by 55% which in turn drove profits up for the company.

Along with the result, the company announced an impressive Rs4.0/share (40%) final cash dividend. Trading at an FY10F P/E of 5.4x, we reiterate our liking for LUCK at current levels.

**Export sales and local prices drive up sales by 55%**

Lucky cement posted record net sales of Rs26.3bn versus Rs17bn in FY09, a tremendous jump of 55%. Robust export sales and higher local retention prices were key drivers behind record revenues. Hearty export growth of 29% along with rupee depreciation of 20% helped exports sales to jump to Rs15.9bn (60% of total sales), up 72%YoY. Moreover, higher local retention prices (up 46%YoY) more than compensated for declining local dispatches (down 14%YoY) as revenues at the local front rose to Rs10.6bn, up 38%YoY. Resultantly, with a capacity utilization of 90%, total dispatches witnessed a growth of 6.3% to 5.9mn tons during the period. Consequently, Lucky Cement increased its market share to 19.2% from 18.4% in FY08 with export's contribution to its sales composition rising to 58%.

**Cost pressures during the year check down profits**

Cost of goods sold (COGS)/ton in FY09 rose by 26% amid inflated raw material prices and energy costs resulting in COGS rising by 31%. However, with revenue growth outpacing cost, gross profit of LUCK rose by 125%YoY to Rs9.8bn while gross margins increased by 1,063bps to 37%. That said surge in distribution and finance cost toned down the impact of impressive revenue growth on the bottomline. Distribution costs for the period rose by 110% at the back of higher freight cost on exports amid increased oil prices. Moreover, finance cost rose by 876% to Rs1.2bn due to high

interest rate scenario and losses on cross currency swaps in the first quarter.

**4QFY09: Blessed qtr. for cement manufacturers**

In 4th quarter alone, Lucky posted profit of Rs1.5bn (EPS Rs4.7) versus earnings of Rs663mn (diluted EPS Rs2.1), up 130%YoY. This quarter saw cement manufacturers reap the benefits of high local retention prices along with lower coal prices and strong dispatches due to seasonality.

**Outlook: 'Buy' maintained**

Favorable budgetary measures (record PSDP allocation and reduction in excise duty by Rs10/bag) and declining interest rate scenario is expected to provide stability to Lucky Cement's profitability going forward. Moreover, any materialization of investment plans in Africa will serve as a key trigger for Lucky Cement and help compensate for expected decline in exports to the Middle East. However, we await further details and confirmation from the company before incorporating African investment plan into our financial models. LUCK is currently trading at FY10F P/E of 5.4x which is at a discount of 24% to the market. Hence, we reiterate our 'Buy' recommendation on the scrip.

Profitability snapshot (Rs mn)	FY09	FY08	Δ%
Net Sales	26,330	16,958	55%
Cost of Goods Sold	16,519	12,601	31%
Gross Profit	9,811	4,357	125%
<i>Gross Margin</i>	37%	26%	
Administration & Distribution exp	2,594	1,281	103%
Operating profit	7,217	3,076	135%
	27%	18%	
Finance cost	1,237	127	876%
Other charges	827	644	28%
Profit Before Taxation	5,177	2,306	124%
Taxation	580	(371)	NM
Profit After Taxation	4,596	2,677	72%
Diluted Earning per share (Rs)	14.2	8.3	72%

Source: KSE Notice

Lucky Cement	
<b>Market Price:</b> Rs77.60	<b>Kats Code:</b> LUCK
<b>Market Cap:</b> Rs25.1bn (US\$302mn)	<b>Bloomberg Code:</b> LUCK PA
<b>1-yrs Avg. Daily Volume:</b> 4.2mn shares, Rs243mn (US\$2.9mn)	<b>Reuters Code:</b> LUCK.KA
<b>1-year High/Low:</b> Rs77.60/26.50	

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**Also in focus****SBP may change policy rate structure**

According to a news report SBP has decided to end the single policy rate regime by introducing a new mechanism for liquidity management in order to meet the IMF conditions. Under the new proposed interest rate regime the central bank would set two different rates for repo and reverse repo. According to the report repo rate is likely to be 200-250bps higher than the reverse repo rate.

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