

January 22, 2010

## Pakistan Market

## Lucky: Resilient EPS of Rs6.1 for 1HFY10/'Buy'

MORNING BRIEFING



KSE100 Index: Closing 9753.84 ↓ (-150.90)

Despite substantially low retention prices during 2QFY10, Lucky Cement (LUCK) on the back of decline in coal prices and financial costs is expected to record resilient earnings for the 1HFY10. The company is expected to post earnings of Rs2.0bn (EPS Rs6.1) compared to profits of Rs1.9bn (EPS Rs6.0) in the corresponding period last year, up 1%YoY. Despite the relatively robust earnings in 1QFY10, the second quarter is expected to post earnings of Rs854mn (EPS Rs2.6), down 13%YoY. The board meeting for announcing the first half results is scheduled for Jan 25, 2010.

## 1HFY10: EPS expected at Rs6.1

We expect net sales for the company to decline by 4%YoY to Rs11.9bn primarily because of lower retention prices during 1HFY10, particularly in 2QFY10. Though break in price consensus amongst the cement manufacturers in mid August 2009 led to an approximately 23% decline in cement prices, higher anticipated dispatches is likely to support the top-line of the company. Moreover, accumulation of coal by the company at lower prices is expected to counter the fall in cement prices to a certain degree. As a result, gross margin is expected to decline by 439bps to 35%. Additionally, lower financial cost (down 65%YoY) on the back of reduced debt levels and lower interest rate is expected to add to the resilience in Lucky Cement's performance. Therefore, we expect the company to post earnings of Rs2.0bn (EPS of Rs6.1) as against Rs1.9bn (EPS of Rs6.0) in the corresponding period last year, up 1%YoY.

After a strong 1QFY10, the company is expected to post earnings of Rs854mn in 2QFY10, down 13%YoY. The decline in profitability is mainly due to contraction in gross margins by 504bps led by lower retention prices (down 37%YoY). However, 73% lower financial charges are expected to provide some solidity to the bottom-line.

## Outlook: 'Buy' maintained

Improving macro fundamentals and increased government focus on infrastructure development spending are likely to

stimulate cement demand locally, while identification of new export markets in the African continent will help provide the required stability to export sales. Lucky Cement's ability to accommodate the anticipated rise in local demand and its geo-strategic edge in catering to foreign markets has placed itself in a superior position relative to others. Moreover, initiatives taken to procure coal locally and sale of excess power to KESC are likely to augment its bottom-line, going forward. Sharp rebound in energy prices and delays in foreign funding remain key downside risks to our valuation.

With the scrip currently trading at FY10E PE of 5.6x, discount of 45% and 57% to the regional and local cement companies respectively, we reiterate our 'Buy' stance on Lucky with a target price of Rs84.

Table: Lucky 1HFY10 earnings estimates

(Rs mn)	1HFY10E	1HFY09A	Δ%
Net Sales	11,892	12,407	-4%
Cost of Sales	7,732	7,523	3%
Gross Profit	4,159	4,884	-15%
Gross margin	35%	39%	
Distribution costs	1,354	1,100	23%
Administrative exp.	88	84	4%
Operating profit	2,718	3,699	-27%
Finance cost	290	826	-65%
Other income	3	1	NM
Other charges	189	662	-71%
PBT	2,242	2,213	1%
Tax	286	275	4%
PAT	1,956	1,938	1%
EPS	6.05	5.99	1%

Source: JS Research &amp; Company accounts

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Lucky Cement	
<b>Market Price:</b> Rs65.89	<b>Kats Code:</b> LUCK
<b>Market Cap:</b> Rs21.3bn (US\$252mn)	<b>Bloomberg Code:</b> LUCK PA
<b>1-yrs Avg. Daily Volume:</b> 4.9mn shares, Rs317.7mn (US\$3.8mn)	<b>Reuters Code:</b> LUCK.KA
<b>1-year High/Low:</b> Rs85.16/27.00	

## Also in focus

## Agri-credit disbursement of Rs106bn in 1HFY10

Agricultural credit disbursement by commercial & specialized banks reached Rs106bn in the first half of the fiscal year, up 7% YoY. Loans given out by the five major commercial banks stood at Rs55bn, up 14% compared to the corresponding period while Zarai Taraqiati Bank Limited, the largest specialized bank, lent Rs30bn. Total Agri disbursement in FY09 stood at Rs233bn, while the target for the current fiscal year stands at Rs260bn.

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