

Lucky result review / 'Buy' maintained

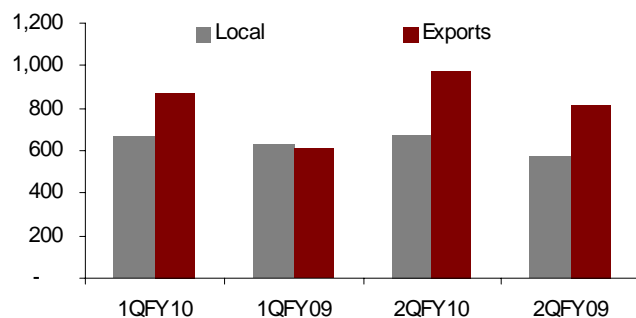
KSE100 Index: Closing 9689.20 ↓ (-88.39)

Lucky Cemen posted 1HFY10 earnings of Rs1.91bn (EPS Rs5.90) as against Rs1.94bn (EPS Rs5.99) in the first half of the last fiscal year. Despite a decline of 2%YoY, the result depicted the company's resilience even in a tough period when significantly low retention prices prevailed and a poor law and order situation persisted. Higher than expected export dispatches (up 29%YoY) and strong local off-take (up 12%YoY) along with lower financial cost drove Lucky's steady performance. With lucky trading at a 44% and 55% discount to local and regional peers on FY10E PE, we re-iterate our 'Buy' recommendation on the scrip.

Off-take up 21% in 1HFY10

Lucky Cement reported 21% jump in off-take led by 29% and 12% rise in export and local dispatches, which in turn improved capacity utilization to 79% from 76% earlier. Robust off-take helped Lucky to maintain last year's net sales level at Rs12bn, even when retention prices were down on both the local and export front - 26% and 16% respectively.

Graph: Lucky's local and export dispatches ('000 tons)



Source: Lucky Cement

Lower coal cost help maintain gross margins

Accumulation of coal at lower prices helped reduce COGS/bag by 17% to Rs119. The gains from cost reduction evaporated as retention prices bottomed out during 2QFY10.

As a result, the gross margins slipped by 202bps to 37% and gross profit stood at Rs4.5bn, down 7%YoY.

Reduced leverage strengthening bottom-line

Significantly lower financial cost helped improve net margins for the company by 12bps to 15.74% despite the 59%YoY surge in distribution and administrative expenses. Early repayment of long-term loans and lower interest rate (average 6M KIBOR down 213bps) helped reduce financial cost while higher freight charges pushed up distribution outlay by 57%YoY. Resultantly, the company posted net profit of Rs1.91bn (EPS Rs5.90) in the 1HFY10, as against Rs1.94bn (EPS Rs5.99) in the corresponding period last year.

2QFY10 profits down only 17%YoY

Despite the decline of 24% in retention prices in the second quarter, Lucky cement reaped the benefits of higher local and export dispatches, both up 19%. Meanwhile, 23% lower COGS/ton helped maintain gross margins at 38%. Resultantly, Lucky managed to post profits of Rs805mn (EPS Rs2.49), down only 17%YoY.

Financial highlights

(Rs mn)	1HFY10	1HFY09	Δ%
Net Sales	12,116	12,407	-2%
Gross Profit	4,525	4,884	-7%
Finance cost	298	825	-64%
Profit After Taxation	1,908	1,938	-2%
Earning per share (Rs)	5.90	5.99	-2%

Source: Company announcements

Outlook: 'Buy' maintained

With the sector's fundamentals on the mend, Lucky is expected to benefit given its ability to accommodate the anticipated rise in domestic demand. Its geo-political edge in catering foreign markets has already placed Lucky in a superior position over peers. Hence, we maintain our 4 year (FY09-12) CAGR for total dispatches at 5% for Lucky. Further, the long-term initiative of acquiring local coal and agreement to sell excess electricity to KESC from next year,

further adds strength to the company's bottom-line. Given a potential upside of 25% to our target price of Rs84 and the scrip trading at a discount of 44% and 55% to local and regional peers on FY10E PE, we reiterate our 'Buy' stance on the scrip.

Lucky - Key statistics

	FY10E	FY11F
Price earning	5.8	4.8
Price to book	0.9	0.8
Dividend Yield	3%	6%
Discount to Market PE	30%	31%
Discount to local peers PE	44%	26%

Source: JS Research

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Also in focus

Engro's Analyst Briefing Key Takeaways

Engro Corporation held its analyst briefing yesterday to discuss its full year 2009 results. The company had posted earnings Rs13.3/share as compared to earnings of Rs14.2/share in 2008 (down 7%). It also payed a full year dividend of Rs6/share with a bonus issue of 10%. Moreover, the management discussed its urea expansion plan which is on track and will start commercial production in 3Q2010. With regard to its food business, the management is confident of earning profits beyond 2010 while their milk business is already in profits. Further talking about Engro Energy, the 220MW power plant is in its testing phase and will start commercial production in February, 2010. We maintain our long term positive outlook on Engro and reiterate our 'Buy' stance on the scrip.

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