

# Lucky Cement (LUCK)

2QFY18 EPS Rs12.6, -6% YoY (6% QoQ); 1HFY18 EPS Rs24.5, -3% YoY

Better than expectations

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## Lower effective tax rate arrests profitability decline

<b>LUCK: Financial highlights (Consolidated)</b>							
<b>Rsmn</b>	<b>2QFY18</b>	<b>2QFY17</b>	<b>YoY</b>	<b>QoQ</b>	<b>1HFY18</b>	<b>1HFY17</b>	<b>YoY</b>
Sales	24,172	23,241	4%	7%	46,754	43,056	9%
Cost of sales	17,094	15,052	14%	4%	33,588	27,896	20%
Gross profit	7,078	8,189	-14%	16%	13,167	15,161	-13%
Administrative exp	821	533	54%	32%	1,442	1,038	39%
Selling and distribution exp	1,140	1,119	2%	13%	2,152	2,132	1%
Other operating exp	712	837	-15%	79%	1,111	1,323	-16%
Other Income	973	867	12%	-20%	2,197	1,741	26%
Profit from Operations	5,377	6,567	-18%	2%	10,658	12,408	-14%
Finance Cost	149	171	-13%	-9%	315	364	-14%
Profit/(Loss) before Tax	5,228	6,396	-18%	2%	10,343	12,044	-14%
Taxation	818	1,698	-52%	-14%	1,766	3,304	-47%
Profit/(Loss) after Tax	4,409	4,698	-6%	6%	8,577	8,740	-2%
<b>Attributable to:</b>							
Owners of Hold. Company	4,067	4,342	-6%	6%	7,914	8,123	-3%
Non-Controlling Interests	342	356	-4%	7%	663	617	7%
EPS	12.6	13.4			24.5	25.1	

**Source: PSX, Company Accounts, Topline Research**

- In 2QFY18, LUCK reported 4% YoY growth in consolidated net sales, mainly owing to 17% higher sales reported by its subsidiary, ICI Pakistan (ICI), which contributed 50% to total revenues. While ICI's 'Soda Ash' and 'Chemicals & Agri Sciences' business did not do well, 'Polyester' and 'Life Sciences' segments posted robust performance.
- Sales from cement operations were down 6% YoY in 2QFY18 owing to 4% decline in volume and 3% decline in net retention price. Discounted cement prices in North region and higher Federal Excise Duty (FED) lowered net retention by Rs9/bag YoY in 2QFY18, we estimate. While local cement sales were up 12% YoY, 44% decline in export volume affected total sales.

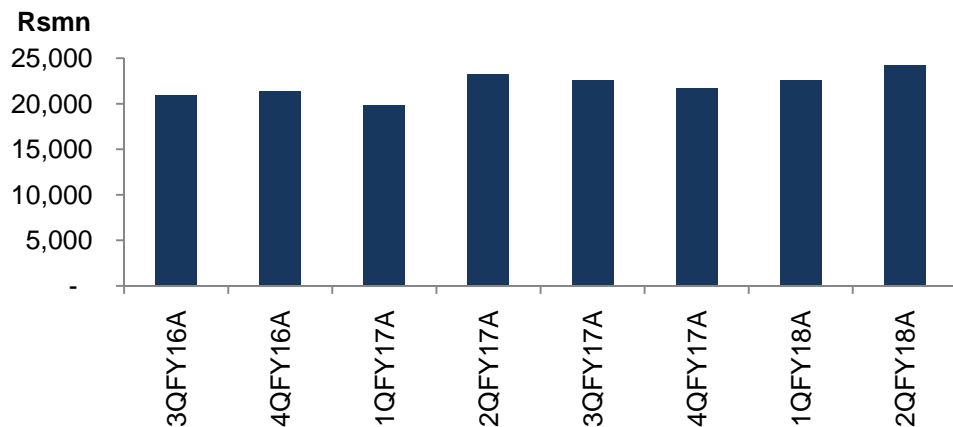
## Lower effective tax rate arrests profitability decline

- Consolidated gross margins shrank by 6ppts YoY to 29% in 2QFY18, mainly owing to 9.4ppts fall in margins from cement operations. Cement margins squeezed due to 1) higher coal cost and 2) lower local net retention. However, on sequential basis, gross margins of cement operations fared better than expectations. As per channel checks, LUCK incurred maintenance expense that understated its margins in 1QFY18.
- LUCK's consolidated other income grew 12% YoY in 2QFY18 on the back of higher income from 1) bank deposits and 2) equity accounted investments.
- While pretax profits of the company recorded 18% YoY decline during the outgoing quarter, net earnings were down 6% owing to lower effective tax rate, down 11ppts. Apart from getting some tax relief on Shariah compliance, LUCK availed tax credit on setting up a Brownfield cement line (became operational in Dec 2017) in 2QFY18, as per channel checks.
- The company along with the result has also disclosed that, while seeking Govt.'s approval for setting up a 2.3mn tons per annum of Greenfield cement line in Punjab region, the management is also evaluating Brownfield expansion of the same capacity in KPK region. This is because the Punjab Govt. is tightening up regulatory framework for new expansions in the region owing to environmental concerns.
- We flag 1) price competition, 2) higher than anticipated decline in exports, 3) unanticipated increase in gas and coal prices, 4) delay in installation of 660MW coal power plant and 5) delay in commencement of LUCK's upcoming capacities as key risk for the company.

LUCK: Key Numbers					
	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	30.1	36.8	42.5	46.0	50.2
Earnings Growth	43%	22%	16%	8%	9%
PE at Rs666.6	22.2	18.1	15.7	14.5	13.3
Dividend Yield	1%	1%	2%	2%	2%
ROE	24%	24%	23%	18%	17%
PBV	5.2	4.3	3.5	2.6	2.2

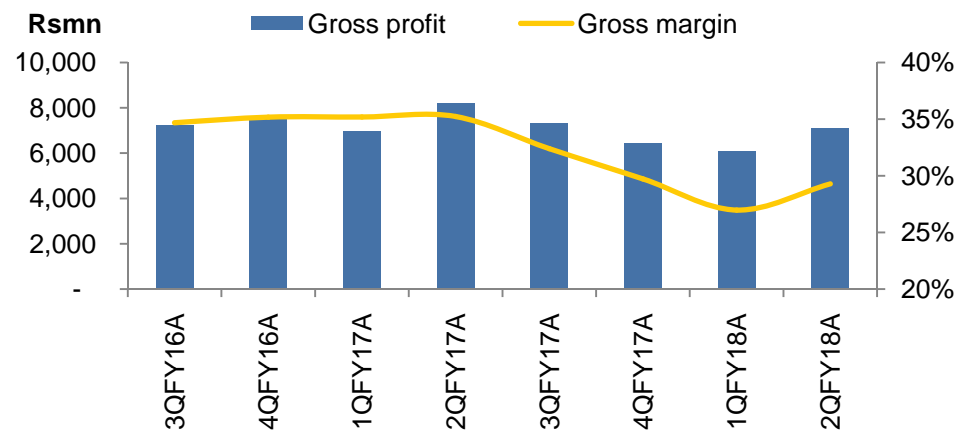
Source: Company Accounts, Topline Research

### LUCK: Quarterly Sales



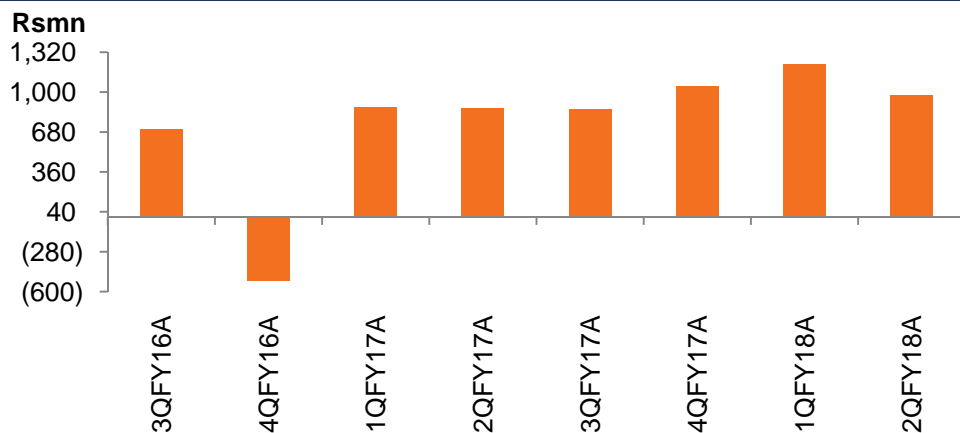
Source: Company Accounts, Topline Research

### LUCK: Quarterly Gross Profit & Gross Margins



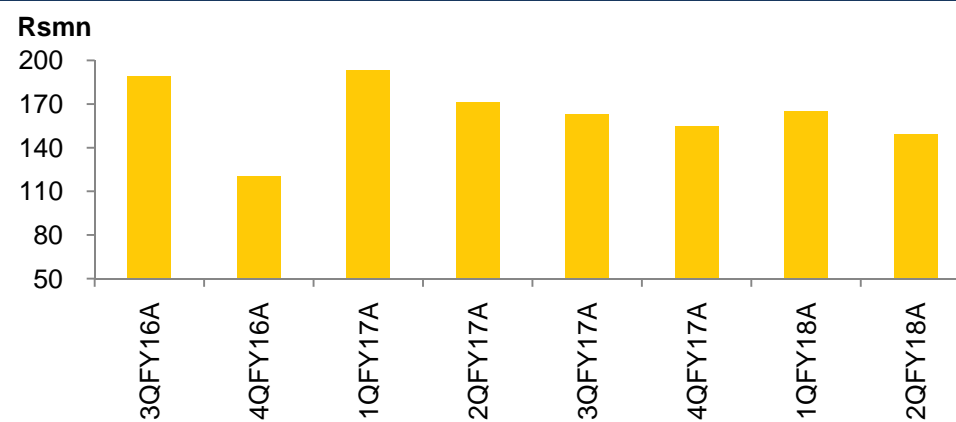
Source: Company Accounts, Topline Research

### LUCK: Quarterly Oil Production



Source: Company Accounts, Topline Research

### LUCK: Quarterly Gas Production



Source: Company Accounts, Topline Research

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