



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
www.jamapunji.pk

### Today's Daily

#### LUCK: Expanding All-Around

We revisit our investment case on LUCK, rolling forward our Jun'18 SOTP based TP to PkR1,180/share (offering 22% upside), implying a BUY stance. Our recommendation is based on: 1) cost savings through new 10MW WHR (achieved COD in Jan'17), 2) doubling capacity of Iraq's JV to 1.742mn tpa (expected to come online in 1QFY18), 3) 1.18mn tpa Greenfield cement plant in DR Congo that started operations in Dec'16 and 4) earnings growth potential via 1.25mn tpa capacity expansion (expected to come online in 2QFY18). Additionally, LUCK as a conglomerate enjoys indirect exposure to the pharmaceutical business through its subsidiary, ICI that continues to grow (acquisition of certain assets of Wyeth Pakistan Ltd and Pfizer Pakistan Ltd). The setting up of greenfield manufacturing plant of Kia motor vehicles (25-30K p.a. capacity), approval for which is expected soon by Bol, remains a key upside earnings trigger. The stock has returned 11%CYTD in anticipation of inclusion in MSCI EM index with valuations standing at FY18F PE of 20.6x. While trading at a premium of 77% to the AKD cement universe's FY18F PE, we feel it remains justified given LUCK's strong earnings profile (5yr forward earnings CAGR of 14% vs. 12% of AKD cement universe) and various diversification projects, boosting consolidated earnings.

#### KSE100 - Index

Current 52,876.46  
Previous 52,146.97  
Chg. 1.40%

#### Mkt Cap. (PkRbn/US\$bn)

Current 10,446 / 99.62  
Previous 10,320 / 98.42  
Chg. 1.22%

#### Daily Turnover (mn)

Current 606.69  
Previous 323.92  
Chg. 87.3%

#### Value Traded (PkRmn/US\$m)

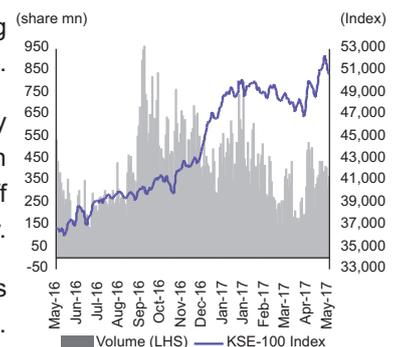
Current 23,699 / 226.01  
Previous 19,621 / 187.12  
Chg. 20.8%

AKD Daily

Thursday, May 25, 2017

### News and Views

- The GoP is set to unveil the Economic Survey of Pakistan for the outgoing FY17 and Annual Plan for the forthcoming FY18 on Thursday (Today).
- The GOP has raised PkR332.2bn through auction held yesterday (Wednesday) of treasury bills. Bids amounting to PkR247.9bn, PkR81.4bn and PkR2.8bn were accepted for 3M, 6M, 12M T-bills, where cut off yields for 3M, 6M, and 12M were 5.99%, 6.01% and 6.04% respectively.
- In a briefing to the Public Accounts Committee (PAC), MoW&P has informed that Pakistan's circular debt currently stands at PkR402.14bn. Of which, outstanding payments for electricity are PkR237bn, while outstanding amounts for oil and gas stand at PkR99bn and PkR11bn, respectively



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**Performance Review:** LUCK's earnings grew by 8%YoY to record NPAT of PkR10.42bn (EPS: PkR32.23) in 9MFY17. Result highlights include: 1) 5%YoY growth in topline to PkR35.24bn as total dispatches grew by 2%YoY to 5.19mn tons, 2) GM increased by 70bpsYoY to 48.1% due to increase in WHR capacity by 10MW in Jan'17 and 3) 6%YoY decline in distribution cost to PkR1.4bn due to 26%YoY slippage in export dispatches.

### Update on expansions:

**1) Brownfield Expansion:** Construction work at LUCK's Brownfield Expansion (installation of additional Line of 1.25mn tpa) at Karachi Plant has entered into its final stage, where the management remains confident on the expansion progress expecting to achieve COD in Dec'17. The expansion is expected to provide much needed organic growth to the company (90%+ capacity utilization in FY16/10MFY17) making room available to catch up with the rising domestic demand, where development projects in Gwadar and private housing projects in Karachi are key growth triggers.

**2) Doubling Iraq JV's capacity:** LUCK has been quick to realize the potential of Iraq's domestic demand (100% utilization of current capacity) as it reels from war affected insurgencies. Iraq's cement deficit stands at 7-8mn tpa which was previously bridged through imports from Iran. However, recent ban on cement imports in Iraq due to unstable security situation

### Target Price contributors

Operations	Jun'18 TP
Core operations	750.0
ICI (55.9% stake)	113.3
Iraq JV (50% stake)	51.2
DR Congo JV (50% stake)	44.8
LEPL (100% stake)	218.0
Yunus Energy (20% stake)	3.0
<b>SOTP-TP</b>	<b>1,180.4</b>

Source: AKD Research & Co. Report

### LUCK: Capacity Utilization

	FY16	FY17F	FY18F
Capacity(mn tpa)	7.75	7.75	8.38
Total dispatches(mn tpa)	6.93	7.18	7.47
Capacity Utilization(%)	89.5%	92.7%	89.2%

Source: APCMA, AKD Research & Co. Report



has opened avenues for domestic industry placing LUCK in a favorable position to mobilize additional output. In this backdrop, LUCK has announced to double its capacity to 1.742mn tpa with project financing (expected US\$35mn) to be done through internally generated cash flows of the existing plant. The first phase of the expansion (50% of the capacity or 0.4355mn tpa) is expected to come online by Aug'17 whereas the remaining 50% is scheduled to come online by Oct'17. The project is expected to contribute incremental earnings of PkR4.06/5.22/sh in FY18/19F to consolidated results assuming 90% utilization after expansion.

**3) DR Congo JV:** LUCK's effort to increase footprint beyond Pakistan has come to fruition with its JV investment in Cement Plant in DR Congo (1.18mn tpa) starting commercial operations in Dec'16. Cement consumption in Congo is estimated around ~1.5mn tpa against the local production of just ~350k tpa. Currently the plant is operating at 50% utilization with a huge growth potential considering Congo's domestic demand and supply situation. We estimate Congo JV to contribute annualized after-tax earnings of PkR3.31/share (at 60% utilization) in FY18F.

**Another 10MW WHR:** As part of its ongoing cost reduction strategy, LUCK has installed another WHR plant of 10MW at Pezu that started operations in Jan'17. In this regard, we estimate 10MW WHR to fulfill ~10% of the company's power requirement and contribute after tax operational savings of PkR0.35/sh annually with GM improvement of around 1.3ppts. With the addition of the new plant, LUCK's total WHR capacity now stands at 45MW that is estimated to fulfill ~45% of company's power requirement from FY18F (at 80% utilization).

**Investment Perspective:** The stock has returned 11%CYTD in anticipation of inclusion in MSCI EM index with valuations standing at FY18F PE of 20.6x. While trading at a premium of 77% to the AKD cement universe's FY18F PE, we feel higher valuations remains justified given LUCK's strong earnings profile (5yr forward earnings CAGR of 14% vs. 12% of AKD cement universe) and various diversification projects, boosting consolidated earnings.

#### Risks

- Rampant expansion without accompanying demand can create supply side pressures.
- Prolonged delay in the upcoming 2.3mn tpa Greenfield cement plant can adversely impact future earnings.
- Sharp rise in coal price can squeeze margins.

Source: AKD Research & Co. Report



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Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
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