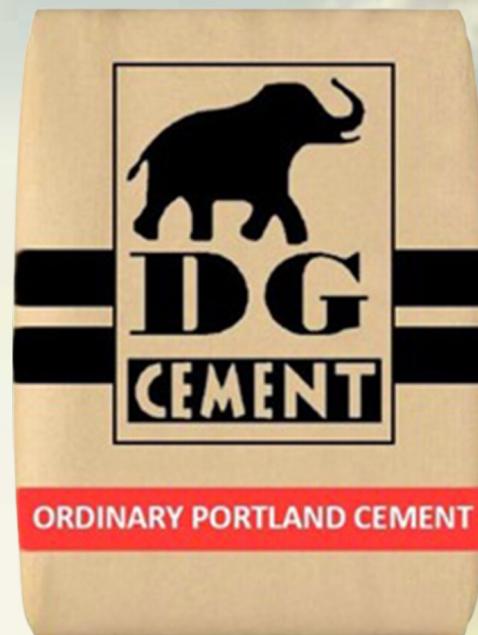


Vs



The declining prices of commodities at international market will not only reduce trade balance but big cement players would gear up exports in the adjacent locations viz. Iraq, UAE, KSA market. We are seeing decrease in Richard Bay coal price below \$100/ton which will help Pakistani cement players to stand out in attaining competitive prices above \$50/ton.

Coal Prices Cooling Off

Richards Bay coal is a significant energy source for cement production, used as a fuel in kilns to generate the high temperatures necessary for clinker formation.

Cement companies rely on a steady supply of coal to meet their energy needs. Fluctuations in Richards Bay coal prices immensely impact production costs and the profitability of cement companies.

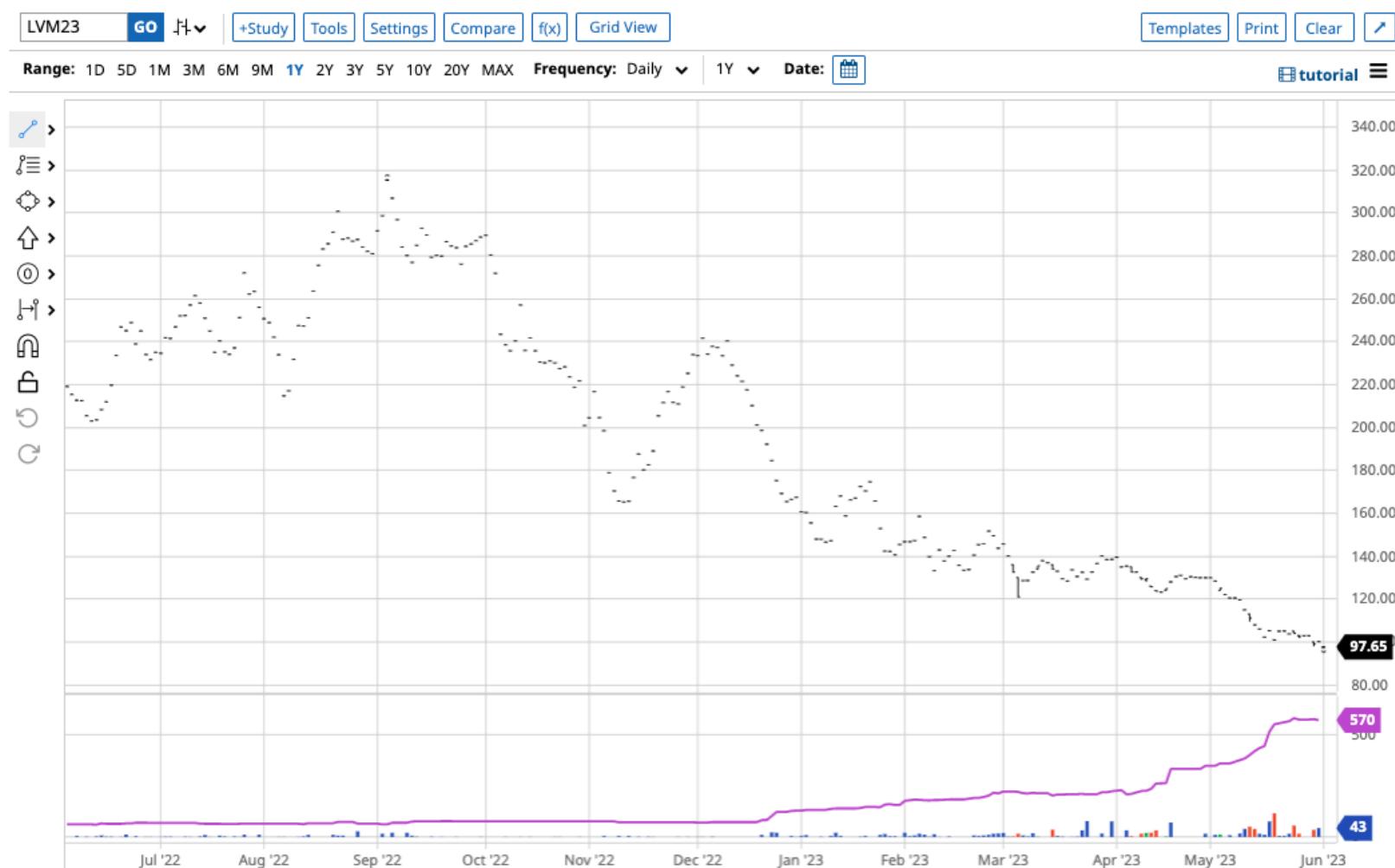
A decrease in Richards Bay coal prices can have several effects on cement companies:

- Lower Production Costs
- Competitive Advantage and
- Increased Market Demand.

The current trend of power mix is of local and Afghan coal. The use of local coal is 80% to 90%. Where realized coal prices for Q3 was in the range between 38,000 to 45,000 per ton.

Global Economic slowdown has melted prices of International Commodities!

Exhibit Richards Bay coal prices.



Source: barchart.com, Scs Research

▲ Cooling off coal prices offer an opportunity for cement companies to enhance profitability by increasing their export in international market. The demand for cement will get boost both locally and internationally.

▲ Furthermore, the recent cement dispatch number shows year on year increase in local dispatches of 19%~3.97mn tons, whereas the export numbers have massive increase of 210%~0.53mn tons.

▲ Pakistan, which reportedly imported 70% of its coal from South Africa to run its cement, steel and Chinese-built power plants, was facing an energy crisis since last two years owing to increased coal prices. South African coal prices have increased because of higher demand from Europe (Ukraine invasion disturbs global supply chain). Now Richard Bay Coal has breached \$100/ton which could bode well for importers.

Exhibit Cement exports in metric tons



▲ The dispatches numbers bring some hopes in construction activities, this also depicts that revival of cement demand may be spurred by government. The upcoming budget may incentivize private groups to restart housing schemes before and after impending elections.

▲ Many even hope government to increase PSDP spending in upcoming budget, or spending via outgoing lawmakers which could also bode well in turn cement players extended plant capacities into revenue cash flows.

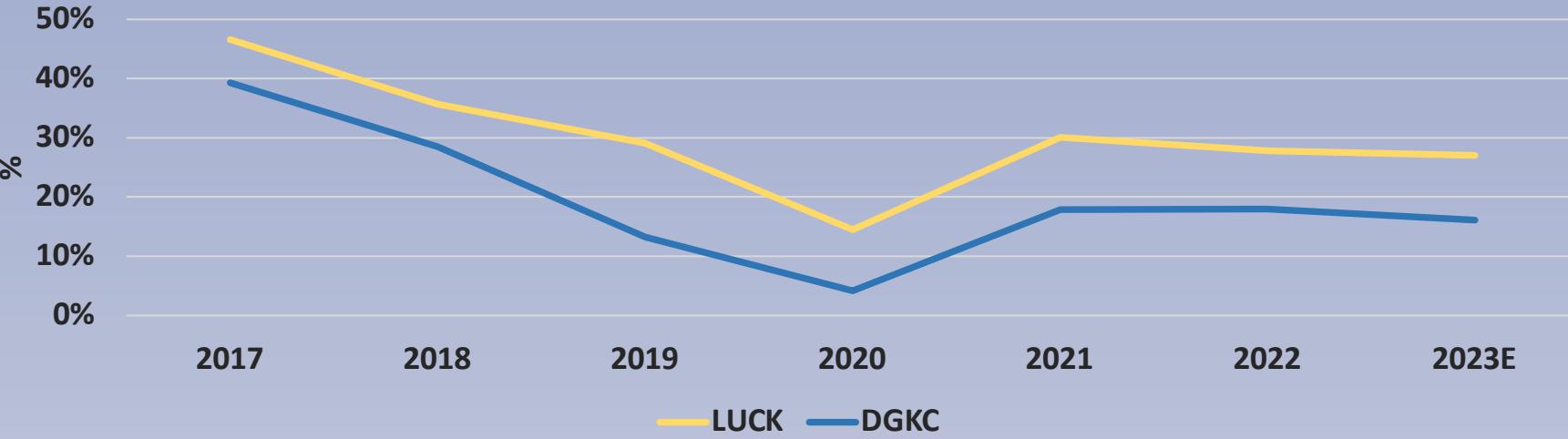
Exhibit : Pakistan's yoy change in cement export



▲ The lower prices of international commodities will also cool down the hyper inflation in the country in conjunction to reversing back interest rates. These development will turn in favour of all listed companies in 2024.

▲ We see, LUCK and DGKC to be most opportunistic players based on their strategic locations and also competitive pricing.

Gross Margin



EBITDA Margin



EPS



▲ LUCK's operational efficiency helps company to mitigate rising costs. As of recent financials LUCK's gross profit increases 27%yoy to PKR 6.5bn in 9MFY23.

▲ While DGKC is prone to higher energy cost hence company's gross margin remain lower compare to LUCK.

▲ LUCK progressive expansions in line with cost effective major helps company to keep increasing its EBITDA earnings.

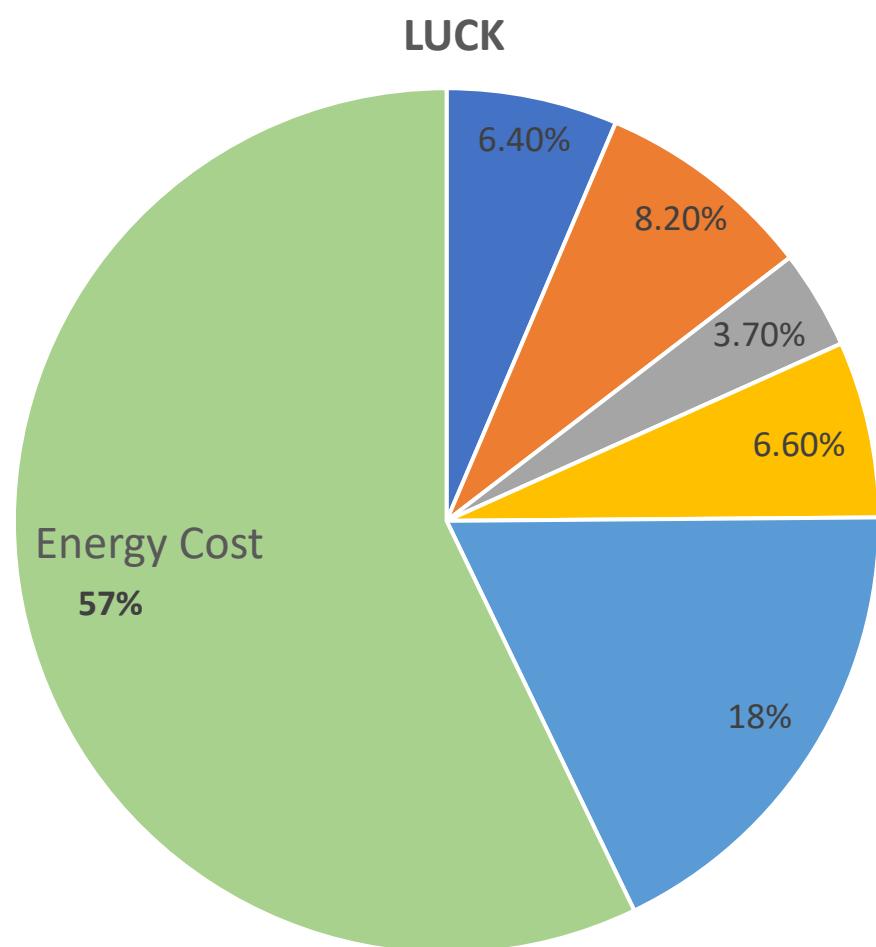
▲ DGKC due to higher cost of production remain at lower EBITDA margin.

▲ The net earning remain in growth trajectory which company's stability and scalability.

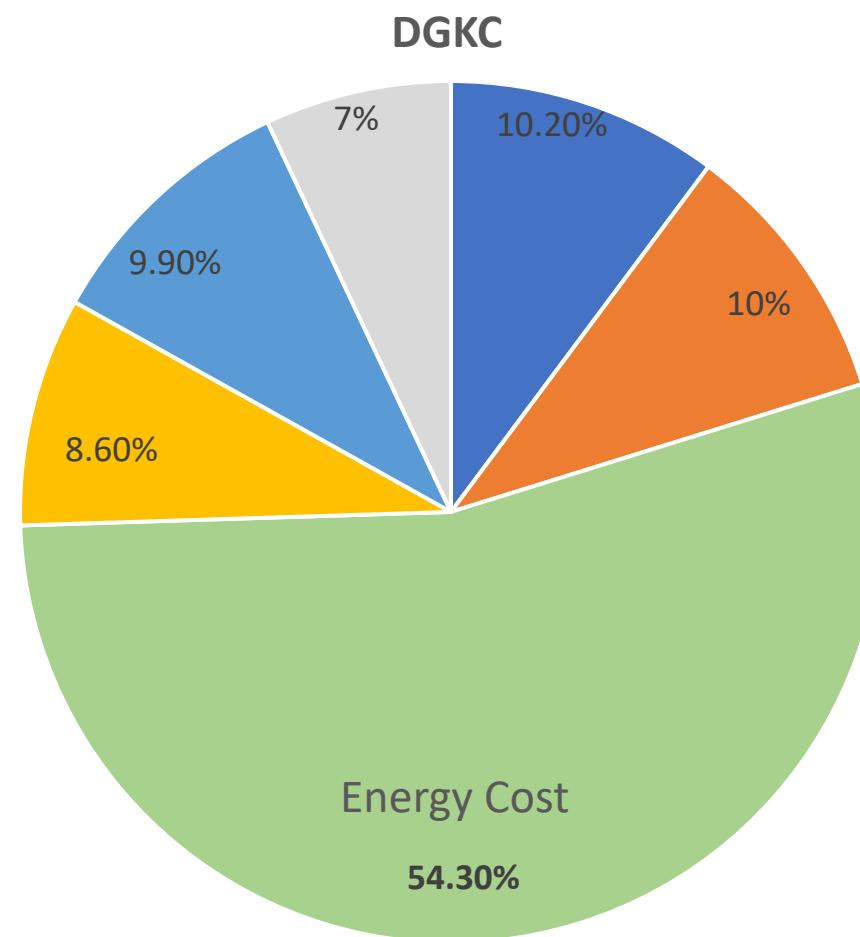
▲ DGKC EPS remained under pressure since 2019 owing to higher production and debt cost. The accumulated debt on company's book is of PKR 41.4bn.

- ▲ Several different types of domestic and foreign raw materials are used by Lucky Cement to make cement. Imported coal, which accounts for 57.2% of the whole cost of sales, is the greatest cost component.
- ▲ The cost of production changes by PKR 14 for every tonne of coal that fluctuates by PKR 100. If there is a 10% or 20% change in foreign exchange rates, the company's cost of sales will go up or down by 1.4% and 2.8%,
- ▲ For DGKC: A fluctuation in coal price of PKR 100/ton affects cost of clinker by PKR 14/ton that ultimately reduces margins.
- ▲ Imported coal is the major fuel for cement production and power generation that accounts for about 40% of manufacturing cost. DGKC imports all its coal from South Africa. Its cost varies in accordance with international market rates and PKR fluctuation against USD.

Exhibit : Cost of Sales proposition

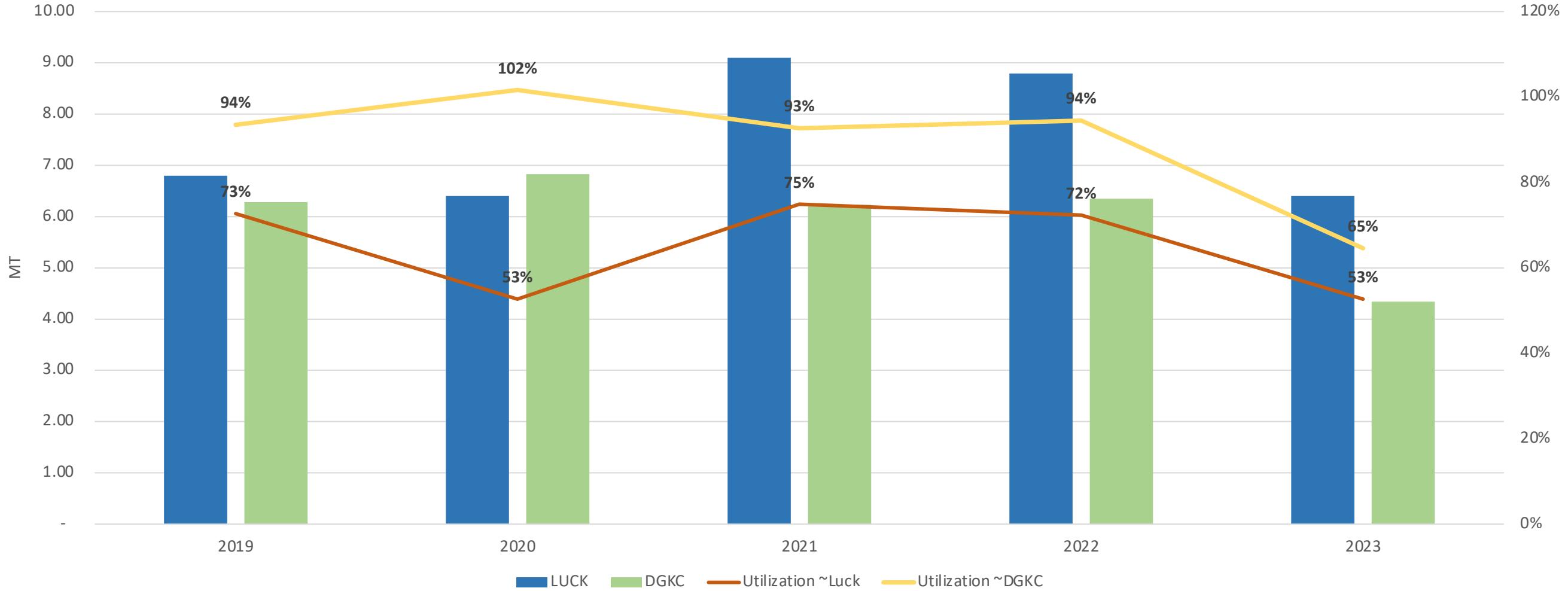


- Raw Material
- Packaging Material
- Stores & Spares
- Fixed Cost & Over heads
- Other Fuel & Power
- Imported Coal



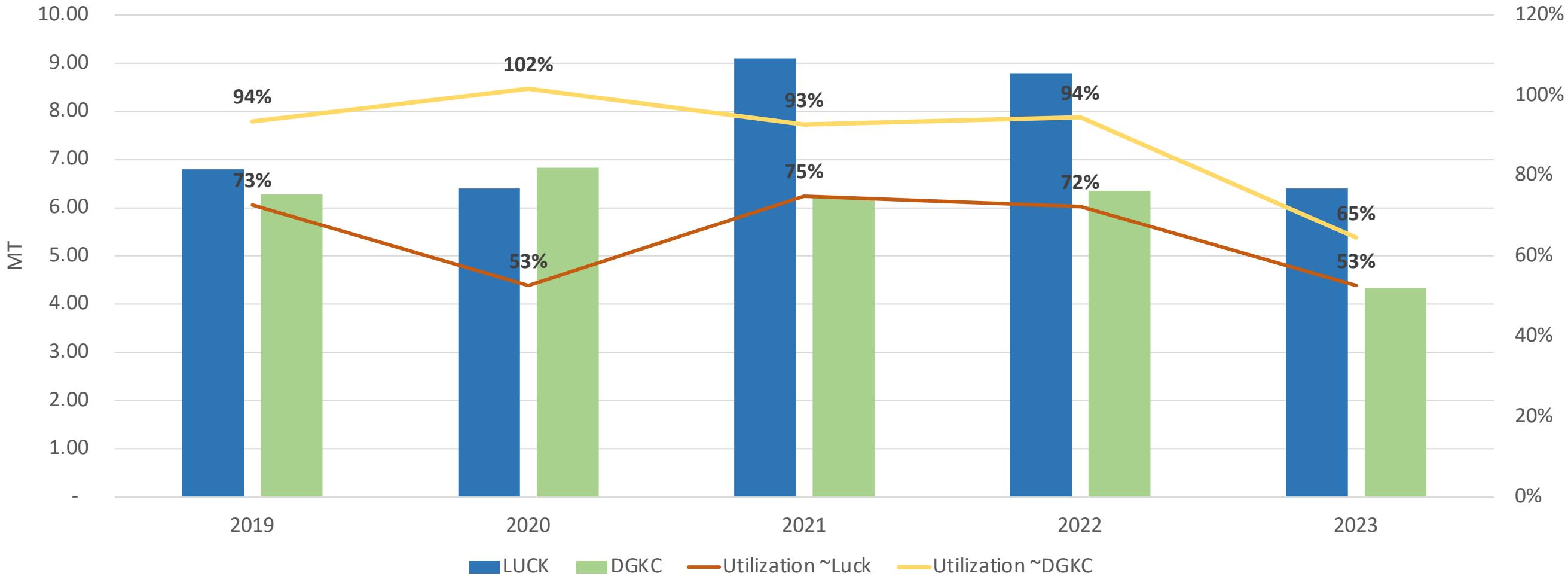
- Raw and Packing Material
- Salaries, Wages and Other Bnefits
- Fuel and Power
- Stores and spares
- Depreciation
- others

Exhibit : Production Capacity & Utilization



- ▲ LUCK holds highest production capacity in the country~ i.e. 12mn in contrary the utilization remains lower an average of 68%, but high selling price kept in sales growth tenacity.
- ▲ The fact that Pakistan’s per capita cement consumption is around 215 kg whereas world average per capita consumption is recorded around 550 kg, more than double the consumption in Pakistan, reflecting an immense potential for growth in cement demand.
- ▲ Since the start of Lucky electric power (660 MW Supercritical Coal-Fired Power Plant (CFPP) using local Thar lignite coal) operations the company dependency on national grid for power consumption will shifted towards it s own power generation, this will help luck to increase their gross margins and net margins too in coming quarters. ~LECPL is wholly owed subsidiary of Lucky Cement.

Exhibit : Production Capacity & Utilization



- ▲ DGKC’s continuous high sales utilization% over the years moreover maintained its market share, this reflects DGKC’s strong branding and competitive advantage.
- ▲ Company added 10MW waste heat recovery power plant last the year and 30MW coal-fired power plant subsequent to the year end at its production site HUB that not only saves valuable power costs but also replaces the fossil fuel consumption and indirectly saving valuable foreign exchange reserves.
- ▲ Bangladesh and Sri Lanka are the highest cement & clinker export destination of DGKC. Additionally, company has secured export orders from USA in line with lower coal prices will make this case more favourable for DGKC.

LUCK is into buyback spree; LUCK wants to be Adani of Pakistan

- ▲ The ratio screening indicates a healthy investment. LUCK increased production capacity and cost control measures has led them towards EV/sh of PKR 544.95/sh.
- ▲ Similarly LUCK's book value is of PKR 331/sh but since luck have potential growth opportunities in future and its cost control measures will surely convert its revenues into cash flows, this is why investor are ready to pay PKR 544.9/sh which is higher than LUCK's Book value per share.
- ▲ LUCK capex to sales is 17% which indicates the future longevity of its operations. This accredits LUCK on scalable and stables business model.
- ▲ Another factor which assures investor's overconfidence is LUCK's price to sales ratio i.e. 1.7x.
- ▲ The primary ratio (ROCE) is 15% that is again making our analysis bullish, Luck is efficiently using its capital to generating profits.

LUCK's Financial Screening

Capacity (mm tons)	12,150,000
Sales (PKR bn)	95.00
EV/ton	14,504
EV/sh	544.97
Capex/Sales	17.00%
Price to sales	1.70
Book value per share	330.9
Debt To Equity	11.00%
ROCE	16.00%
ROE	12.00%
<i>Source: Company's Financials, Scs Research</i>	



LUCK is into buyback spree; LUCK wants to be Adani of Pakistan

LUCK’s previous 10mn shares buyback and Now LUCK has announced to its further buyback of ~23mn shares. This is in light of recent ‘proposed’ tax measures which could come in coming budget wherein government could put 10% tax on distributable reserves. Companies have already started to increase capital to mitigate their difference between fat reserves and their ‘issued subscribed and paid up capital’.

LUCK has also announced to increase its authorized capital from existing PKR 5bn rupees to PKR 125bn rupees. This means company could give big bonus shares instead of paying big Engro Corp like dividend. We see LUCK’s continuous buyback spree could eventually eat away major free float; this means LUCK is eyeing Gautam Adani like billion dollar market cap and thus international limelight.

LUCK's Financial Screening	
Capacity (mm tons)	12,150,000
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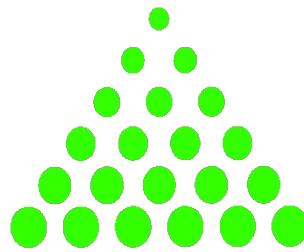
Export door is opening up for DGKC

- ▲ The ratio screening indicates a healthy investment. DGKC's full utilization of its plants indicates how well this brand is perceived in market, additionally their cost control measures (10MW power generation) have driven them towards EV/sh of PKR 146/sh.
- ▲ DGKC has potential growth opportunities in future (Export of alkali cement to US) and its cost control measures will convert its revenues into cash flows.
- ▲ DGKC's capex to sales is 6% which indicates that the company is not spending much of its revenue on capex rather its focus is on clearing off its debt.
- ▲ Another factor is DGKC's Price to sales ratio which is of 0.37x, this reflects more investment opportunity, since DGKC is undervalued and seems attractive for investment.
- ▲ The primary ratio (ROCE) is 11% which indicates as the company is rather focus on paying its debt.
- ▲ In light of recent 'proposed' tax measures which could come in coming budget wherein government could put 40% tax on distributable reserves. Companies have already started to increase capital to mitigate their difference between fat reserves and their 'issued subscribed and paid up capital'. DGKC has also announced to increase its authorized capital from existing PKR 10bn rupees to PKR 60bn rupees. This means the company could give big bonus shares instead of paying dividend.

DGKC'S Financial Screening	
Capacity (tons)	7,500,000
Sales (PKR bn)	61.00
EV/ton	8,503
EV/sh	145.56
Capex/ sales	6.00%
Price to sales	0.37
Book value per share	161.49
Debt To Equity	47.04%
ROCE	11.15%
ROE	4.23%
<i>Source: Company's Financials, Scs Research</i>	



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- (Target Price, if any/Current Price - 1) > 10% Positive
- (Target Price, if any/Current Price - 1) < -10% Negative
- less than 10% (Target Price, if any/Current Price -1) Hold

- The time duration is the financial reporting period of Subject Company.

Valuation method

Following research techniques adopted to calculate target price/recommendation

Price to earnings & Price to Book, EV-EBITDA multiple

Discounted Cash flows or Dividend Discount Model or Enterprise Value