

FCCL: 1QFY22 earnings came in at PKR 0.98/share, up 58% QoQ

- FCCL announced its 1QFY22 result today where the company reported above expectations net earnings of PKR 0.98/share for 1QFY22 compared to PKR 0.50/share in SPLY, up 95%/ 58% YoY/ QoQ.
- Turnaround in earnings resulted from lower-than-expected increase in cost of sales, which rose by 12% YoY versus our estimate of 30% YoY in 1QFY22.
- Recent addition of 2.5MW solar plant in the energy mix helped the company in attaining cost efficiencies which led to lesser pace cost of sales accretion and sequential decline of 6pps in 1QFY22.
- Topline of the company surged to PKR 6.9bn in 1QFY22 primarily on the back of higher retention prices as cement MRP prices in north increased to PKR 680/bag in 1QFY22 (+25% YoY). Similarly, net sales grew by 3% on sequential basis due to 8% increase in cement MRP prices over the quarter in North.
- Combination of cost efficiencies and topline growth led to significant gross margin accretion of 9pps to settle at 30% in 1QFY22 compared to 21% in 1QFY21. Similarly, the company managed to attain gross margin accretion of 7pps on sequential basis.
- Finance cost of the company declined to PKR 27mn in 1QFY22 (-10% YoY) due to single digit interest rates over the year.
- Selling and admin expenses increased by 33% YoY possibly due to higher freight and transportation costs.
- The company has announced for consideration of combining Askari cement operations which could take the total capacity of the company to around 5.5mn tons from current capacity of 3.5mn tons. Similarly, the capacity share of the company could potentially rise to 9.5% in FY23.
- We have a 'BUY' recommendation on FCCL with a Jun-22 price target (PT) of PKR 23/share, providing a potential upside of 31%.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	23
Current Price (PKR)	18
Upside/(Downside) (%)	+ 31%
Dividend Yield (%)	0%
Total Return (%)	+ 31%
12-month High (PKR)	27
12-month Low (PKR)	16
Outstanding Shares (mn)	1379.82
Market Cap (PKR mn)	24,299
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QFY21	1QFY22	YoY	4QFY21	QoQ
Net Sales	5,501	6,936	26%	6,743	3%
Cost of Sales	4,313	4,826	12%	5,159	-6%
Gross Profit	1,188	2,110	78%	1,584	33%
Selling & Admin. Exp	151	200	33%	201	-1%
Other Income	18	113	513%	107	6%
Other Charges	70	137	94%	101	36%
Finance cost	30	27	-10%	35	-24%
Profit before tax	956	1,859	94%	1,354	37%
Taxation	261	500	92%	493	2%
Net Income	696	1,359	95%	861	58%
EPS	0.50	0.98	95%	0.62	58%
DPS	-	-	-	-	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	2.05	-0.04	2.52	2.90	2.75	3.78
EPS Growth	-18%	NM	NM	15%	-5%	38%
DPS	1.50	0.00	0.00	0.00	0.00	2.75
PER	8.60	NM	8.07	6.99	7.39	5.37
Dividend Yield	8.5%	0.0%	0.0%	0.0%	0.0%	13.6%
EV/EBITDA	4.12	15.48	4.19	4.32	6.31	3.83
P/B	1.16	1.23	1.20	1.03	0.90	0.77

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ROE	13.5%	-0.3%	14.9%	14.7%	12.2%	14.4%
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Source: Company Accounts, Akseer Research

Valuation Basis

Our PT for Fauji Cement Company Limited (FCCL) has been computed using Free cash flow to Firm (FCFF) method. We have used a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Jun-22 PT of 23/share. Our price target provides a potential upside of 31%. Our revised investment case on CHCC is based on (1) nearing election period (2) higher PSDP releases and (3) improved retention prices.

Risks

Key risks to our investment thesis include (1) higher than anticipated increase in input cost (Coal, FO, Gas), (2) lower than anticipated growth in cement demand (3) higher than estimated decline in cement prices (4) prolonged pandemic situation and (5) increase in interest rates.

Company Description

Fauji Cement Company Limited manufactures and sells ordinary Portland cement in Pakistan. The company also offers sulphate resistant cement. The company also exports its products to Afghanistan, Tajikistan, India, Sri Lanka, East Africa, and South Africa. Fauji Cement Company Limited was incorporated in 1992 and is headquartered in Rawalpindi, Pakistan.

Financial Highlights - FCCL

Income Statement (PKR mn)						
	FY19A	FY20F	FY21A	FY22E	FY23F	FY24F
Net sales	20,798	17,232	24,271	34,305	31,907	35,218
Cost of sales	15,475	16,583	18,207	27,342	24,631	26,018
Gross Profit	5,323	649	6,064	6,964	7,276	9,200
SG & A	626	673	714	769	839	929
Operating Profit	10,001	5,248	5,870	6,217	1,705	7,079
Other income	148	85	245	253	276	231
Other charges	579	291	311	327	1	378
Finance cost	107	234	110	123	724	263
Profit before tax	4,412	(173)	5,108	5,889	5,577	7,672
Taxation	1,588	(114)	1,636	1,887	1,787	2,458
Profit after tax	2,824	(59)	3,471	4,002	3,790	5,214

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20F	FY21A	FY22E	FY23F	FY24F
PPE	23,203	22,065	21,422	28,996	50,195	47,900
Other LT assets	87	99	87	87	88	89
Non-Current Assets	23,290	22,225	21,613	29,155	50,340	48,034
Current assets	5,676	7,153	12,439	16,761	13,367	13,719
Total Assets	28,965	29,377	34,052	45,916	63,707	61,754
Non-Current liabilities	4,315	4,390	4,630	13,244	20,339	16,461
Current liabilities	3,752	5,182	6,147	5,394	12,300	9,011
Total Liabilities	8,067	9,573	10,777	18,639	32,639	25,472
Equity	20,899	19,804	23,276	27,278	31,068	36,283
Total Equity & liabilities	28,965	29,377	34,053	45,917	63,707	61,754

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20F	FY21A	FY22E	FY23F	FY24F
Net Income	2,824	(59)	3,471	4,002	3,790	5,214
Non-cash Charges	1,520	1,729	1,729	1,675	1,710	3,012
Operating Cash flows	5,460	809	1,549	4,837	5,488	8,959
FCFF	3,429	238	509	(4,311)	(16,914)	8,432
Net borrowings	(1,075)	1,036	(94)	7,319	13,939	(7,499)
FCFE	2,286	1,193	340	2,924	(3,468)	754
Net change in cash	(129)	158	340	2,924	(3,468)	754
Closing cash	403	561	901	3,825	357	1,111

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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