

Fauji Cement Company Limited

Result Preview

PSX: FCCL Bloomberg: FCCL: PA Reuters: FAUC: KA

Pakistan Research

1QFY23 EPS is likely to settle at PKR 0.65, down 4% YoY

- FCCL is scheduled to announce its 1QFY23 financial result on 24th October 2022, where we expect the company to report an EPS of PKR 0.65, up 4% YoY compared to an EPS of PKR 0.62 in 1QFY22.
- Net revenue of the company is expected to reach at PKR 14.0bn, up 102% YoY during 1QFY23. Increase in revenue is largely due to merger with Askari cement resulting in a volumetric growth of 27% YoY, along with hike in local retention price of 60% YoY.
- The company's gross margins are likely to reach 24% during 1QFY23 vs 30% SPLY. The decline in gross margins can be attributed to the recent increase in energy prices along with an abrupt rise in coal prices.
- Selling and admin expenses are likely to augment by 158% to 517mn on the back of increase in transportation expense due to higher dispatches.
- The finance cost of the company is likely to clock in at 712mn in 1QFY23 vs 27mn SPLY, this is largely due to long-term loans acquired from Askari Cement Limited.
- The company is likely to record an effective tax rate of 31% during 1QFY23 vs 27% during 1QFY22, higher tax rate is largely due increase in corporate tax rate announced in FY23 budget
- We have a 'BUY' recommendation on FCCL with our June-23 price target (PT) of PKR 20/share, providing an upside of 40%.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	20.0
Current Price (PKR)	14.6
Upside/(Downside) (%)	40%
Dividend Yield (%)	0%
Total Return (%)	40%
12-month High (PKR)	12.5
12-month Low (PKR)	22.1
Outstanding Shares (mn)	2,453
Market Cap (PKR mn)	35,223
Year End	June

Source: Company Accounts, Akseer Research

Financial estimates (PKR mn)

	1QFY22	1QFY23F	YoY
Net Sales	6,936	14,003	102%
Cost of Sales	4,826	10,710	122%
Gross Profit	2,110	3,292	56%
Admin & Selling Expense	200	517	158%
Other Expense	137	210	53%
Finance cost	27	712	2562%
Other Income	113	183	62%
Profit before tax	1,859	2,037	10%
Taxation	500	630	26%
Net Income	1,359	1,408	4%
EPS	0.62	0.65	4%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
EPS	(0.0)	2.5	3.3	3.2	4.1	7.2
EPS Growth	-102%	-5949%	30%	-1%	25%	77%
DPS	0.00	0.00	0.00	0.00	0.00	3.00
PER	-333.8	5.7	4.4	4.4	3.5	2.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	20.9%
EV/EBITDA	12.85	3.03	2.60	2.34	2.79	1.18
P/B	1.0	0.9	0.3	0.3	0.3	0.2
ROE	-0.3%	14.9%	12.3%	12.1%	13.2%	18.9%

Source: Company Accounts, Akseer Research

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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 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our June-23 PT of PKR 20/share. Our price target provides an upside of 40%. Our investment case on FCCL is based on (1) improvement in retention prices and (2) Recent Merger with Askari Cement (3) upcoming brownfield expansion in Nizampur.

Risks

Key downside risks to our investments thesis are: (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) lower than anticipated decline 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 Estimates - FCCL

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	17,232	24,271	54,243	66,613	70,997	79,647
Cost of sales	16,583	18,207	39,844	50,295	51,816	48,974
Gross Profit	649	6,064	14,399	16,318	19,180	30,673
SG & A	673	714	1,838	2,038	2,394	2,546
Operating Profit	1,705	7,079	16,841	19,264	21,020	33,330
Other income	85	245	977	1,426	1,204	964
Other charges	1	378	809	874	1,096	1,937
Finance cost	234	110	1,202	2,958	2,004	839
Profit before tax	(173)	5,108	11,527	11,873	14,890	26,314
Taxation	(114)	1,636	4,416	3,918	4,914	8,684
Profit after tax	(59)	3,471	7,111	7,955	9,976	17,631

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	22,065	21,422	74,126	78,542	98,066	96,047
Other LT assets	99	87	11,156	11,118	11,119	11,120
Non-Current Assets	22,225	21,613	85,481	89,717	109,231	107,204
Current assets	7,153	12,439	28,217	34,856	29,666	33,108
Total Assets	29,377	34,052	113,698	124,574	138,897	140,311
Non-Current liabilities	4,390	4,630	29,241	42,925	37,092	31,260
Current liabilities	5,182	6,162	26,721	15,959	26,138	15,755
Total Liabilities	9,573	10,792	55,962	58,884	63,231	47,015
Equity	19,804	23,276	57,736	65,690	75,666	93,296
Total Equity & liabilities	29,377	34,068	113,698	124,574	138,897	140,311

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(59)	3,471	7,111	7,955	9,976	17,631
Non-cash Charges	1,729	1,729	4,280	4,984	4,234	5,202
Operating Cash flows	809	1,549	7,367	8,095	10,039	22,671
FCFF	238	509	(48,918)	752	(12,365)	20,058
Net borrowings	1,036	(79)	23,700	10,163	4,398	(15,967)
FCFE	1,193	356	(25,959)	8,933	(9,310)	3,528
Net change in cash	158	340	1,406	8,932	(9,310)	3,528
Closing cash	561	901	2,307	11,239	1,929	5,458

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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JV employs a three- tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

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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