

Fauji Cement Company Limited

Key Takeaways

PSX: FCCL

Bloomberg: FCCL: PA

Reuters: FAUC: KA

Pakistan Research**FCCL: 2QFY23 Corporate Briefing Key Takeaway**

- FCCL held its analyst briefing today, wherein the management discussed its 2QFY23 financial results and status on the ongoing projects. Main points discussed during the call are presented below.
- Just to recall, FCCL posted a PAT of PKR 2.77bn (EPS of PKR 1.1), up 64% YoY, this growth in profitability can be credited to higher cement retention prices.
- During the meeting, the management deliberated on the forthcoming project at DJ Khan and reviewed the outlook for cement dispatches. The management conveyed that the cost of the DJ Khan project has experienced a significant increase from PKR 32bn to PKR 38bn due to currency devaluation and a recent hike in interest rates.
- As per the company's CFO, the capital structure for the new plant will consist of 60% debt and 40% equity, with a loan of approximately PKR 20bn and equity of PKR 18bn. Additionally, the management has communicated that out of the PKR 20bn, PKR 9bn is a long-term financing facility (LTFF) and a temporary economic refinance facility (TERF). However, the management has been unable to secure PKR 5bn due to the State Bank of Pakistan's stringent measures.
- Furthermore, the management has reported that 60% of the plant and equipment has been installed and they anticipate that commercial operations of the plant will commence in the 2QFY24.
- The company emphasized the significance of hydropower and dam projects in Pakistan, as they actively supply cement to these projects. This has resulted in a decline in the company's dispatches by 14%, which is comparatively less than other companies that have experienced a decline of approximately 18% to 20%.
- Additionally, the management provided an update on the current prices of cement bags, stating that the maximum retail price (MRP) for cement bags is presently at 1,050, having increased from the previous price of 960.
- FCCL currently maintains a coal inventory that typically covers a period of 2 to 3 months, with a mix of local and Afghan coal. The current cost of Afghan coal is PKR 52,000 per ton, while local coal is priced at around PKR 33,000 per ton.
- The management acknowledged that they are heavily reliant on national grid and are looking to incorporate 11MW of solar power to their current energy mix. The current solar capacity stands at 29MW and the company consumes 42% of energy from national grid.
- In conclusion, the company anticipates a decline of approximately 12% to 15% in their dispatches, with a corresponding decrease in margins of 2% to 3%.
- We have a 'BUY' recommendation on FCCL with our Dec-23 price target (PT) of PKR 15/share, providing an upside of 35% from current levels.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	15
Current Price (PKR)	11
Upside/(Downside) (%)	35%
Dividend Yield (%)	-
Total Return (%)	35%
12-month High (PKR)	19
12-month Low (PKR)	10
Outstanding Shares (mn)	2,452
Market Cap (PKR mn)	27,962
Year End	June

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 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-23 PT of PKR 15/share. Our price target provides an upside of 35%. Our investment case on FCCL is based on (1) improvement in retention prices, (2) Recent Merger with Askari Cement and brownfield expansion and, (3) upcoming greenfield expansion.

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 Highlights - FCCL

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	17,232	24,271	54,243	62,235	60,992	67,689
Cost of sales	16,583	18,207	39,844	44,906	48,196	46,720
Gross Profit	649	6,064	14,399	17,329	12,796	20,970
SG & A	673	714	1,838	2,032	2,391	2,549
Operating Profit	1,705	7,079	15,267	19,535	15,062	24,005
Other income	85	245	977	571	391	220
Other charges	1	378	809	833	382	1,052
Finance cost	234	110	1,202	2,959	4,875	2,329
Profit before tax	(173)	5,108	11,527	12,076	5,539	15,260
Taxation	(114)	1,636	4,416	3,985	1,828	5,036
Profit after tax	(59)	3,471	7,111	8,091	3,711	10,224

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	22,065	21,422	74,126	79,289	95,291	91,698
Other LT assets	99	87	11,156	11,118	11,119	11,120
Non-Current Assets	22,225	21,613	85,481	90,464	106,456	102,855
Current assets	7,153	12,439	28,217	28,066	27,178	25,931
Total Assets	29,377	34,052	113,698	118,529	133,634	128,785
Non-Current liabilities	4,390	4,630	29,241	32,133	32,434	23,153
Current liabilities	5,182	6,162	26,721	20,569	31,662	25,870
Total Liabilities	9,573	10,792	55,962	52,702	64,096	49,024
Equity	19,804	23,276	57,736	65,827	69,538	79,762
Total Equity & liabilities	29,377	34,052	113,698	118,529	133,634	128,785

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(59)	3,471	7,111	8,091	3,711	10,224
Non-cash Charges	1,729	1,729	2,706	4,238	4,657	5,584
Operating Cash flows	809	1,549	5,793	14,183	6,415	15,853
FCFF	238	509	(48,918)	6,840	(10,967)	15,431
Net borrowings	1,036	(79)	23,700	(993)	10,637	(14,700)
FCFE	1,193	356	(25,959)	3,865	(3,597)	(829)
Net change in cash	158	340	1,406	3,865	(3,597)	(829)
Closing cash	561	901	2,307	6,172	2,574	1,746

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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