

Fauji Cement Company Limited
Result Review

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

Pakistan Research

FCCL: 2QFY23 EPS clocked in at PKR 1.1, up 64% YoY

- FCCL announced its 2QFY23 financial results today, wherein the company reported an EPS of PKR 1.1, up 64% YoY compared to an EPS of PKR 0.7 in SPLY. This takes 1HFY23 earnings to PKR 2.1/share, up 34% YoY. The result came in higher than our expectation largely due to lower effective tax rate.
- Net revenue of the company stood at PKR 18.9bn, up 38% YoY. The increase in revenue can be attributed to spike in retention prices to PKR 707/bag.
- Gross margin of the company declined slightly to 27.0% in 2QFY23 vs 27.4% in 2QFY22. During this period, coal prices escalated by 53% YoY, however cement prices also rose in tandem with coal prices, resulting in stable margins.
- Finance cost grew by 27% YoY to PKR 0.48bn mainly on account of elevated borrowings and higher interest rates.
- The company recorded an effective tax rate of 30% vs 40% during 2QFY22, further supporting the bottomline growth.
- On sequential basis, the earnings grew by 20% QoQ largely due to a 26% growth in dispatches.
- We have a 'BUY' recommendation on FCCL with our Dec-23 price target (PT) of PKR 15/share, providing an upside 29%.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	15
Current Price (PKR)	12
Upside/(Downside) (%)	29%
Dividend Yield (%)	0%
Total Return (%)	29%
12-month High (PKR)	19
12-month Low (PKR)	10
Outstanding Shares (mn)	2,452
Market Cap (PKR mn)	28,330
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Net Sales	13,768	18,973	38%	25,346	33,673	33%
Cost of Sales	10,001	13,856	39%	18,147	24,343	34%
Gross Profit	3,767	5,116	36%	7,198	9,330	30%
Admin & Selling Expense	560	570	2%	966	1,018	5%
Other Income	63	137	119%	224	337	50%
Other Expense	214	230	8%	414	466	12%
Finance cost	381	483	27%	600	898	50%
Profit before tax	2,674	3,970	48%	5,441	7,285	34%
Taxation	1,134	1,203	6%	1,797	2,203	23%
Net Income	1,682	2,767	64%	3,787	5,082	34%
EPS	0.7	1.1	64%	1.5	2.1	34%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	(0.0)	2.5	3.3	2.9	1.5	4.2
EPS Growth	-102%	NM	30%	-12%	-48%	178%
DPS	-	-	-	-	-	-
PER	NM	4.6	3.5	4.0	7.7	2.8
Dividend Yield	-	-	-	-	-	-
EV/EBITDA	NM	2.49	2.62	2.01	3.83	1.83
P/B	0.8	0.7	0.3	0.2	0.2	0.2
ROE	NM	14.9%	12.3%	10.9%	5.4%	13.0%

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 29%. Our investment case on FCCL is based on (1) improvement in retention prices, (2) Recent Merger with Askari Cement and, (3) upcoming brownfield and greenfield expansion of 4.1mn tons.

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, 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	FY23E	FY24F	FY25F
Net sales	17,232	24,271	54,243	60,652	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	15,746	12,796	20,970
SG & A	673	714	1,838	2,032	2,391	2,549
Operating Profit	1,705	7,079	16,841	17,952	15,062	24,005
Other income	85	245	977	512	319	165
Other charges	1	378	809	727	377	1,049
Finance cost	234	110	1,202	2,959	4,875	2,329
Profit before tax	(173)	5,108	11,527	10,540	5,472	15,209
Taxation	(114)	1,636	4,416	3,478	1,806	5,019
Profit after tax	(59)	3,471	7,111	7,062	3,666	10,190

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	22,065	21,422	74,126	74,126	79,289	95,291
Other LT assets	99	87	11,156	11,156	11,118	11,119
Non-Current Assets	22,225	21,613	85,481	85,481	90,464	106,456
Current assets	7,153	12,439	28,217	28,217	27,037	26,104
Total Assets	29,377	34,052	113,698	113,698	117,500	132,560
Non-Current liabilities	4,390	4,630	29,241	29,241	32,133	32,434
Current liabilities	5,182	6,162	26,721	26,721	20,569	31,662
Total Liabilities	9,573	10,792	55,962	55,962	52,702	64,096
Equity	19,804	23,276	57,736	57,736	64,798	68,464
Total Equity & liabilities	29,377	34,052	113,698	113,698	117,500	132,560

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	(59)	3,471	7,111	7,062	3,666	10,190
Non-cash Charges	1,729	1,729	2,706	4,238	4,657	5,584
Operating Cash flows	809	1,549	5,793	13,210	6,314	15,819
FCFF	238	509	(48,918)	5,868	(11,069)	15,397
Net borrowings	1,036	(79)	23,700	(993)	10,637	(14,700)
FCFE	1,193	356	(25,959)	2,892	(3,698)	(863)
Net change in cash	158	340	1,406	2,892	(3,698)	(863)
Closing cash	561	901	2,307	5,199	1,501	638

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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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