

Fauji Cement Company Limited
Result Preview

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

Pakistan Research

FCCL: 3QFY23 EPS is expected at PKR 0.88, up 75% YoY

- FCCL is scheduled to announce its 3QFY23 financial result on 19th April 2023, wherein we expect the company to report an EPS of PKR 0.88, up 75% YoY compared to an EPS of PKR 0.50 in 3QFY22. This will take 9MFY23 EPS to PKR 2.95, up 44% YoY.
- Net revenue of the company is expected to increase by 1.5x YoY to PKR 19.5bn, during the 3Q. Higher revenue can be attributable to extraordinary increase in cement prices up 51% YoY, as along with 68% YoY volumetric growth in dispatches. Growth in dispatches is due to the amalgamation with Askari Cements and commencement of 2.1mn tons of FCCL's new cement capacity. Post commencement of new capacity the company north market shares have risen to 14%.
- Gross margins are likely to reach 24% during 3QFY23 vs 25% SPLY. Lower gross margins are result of accelerated depreciation resulting from commencement of FCCL new capacity.
- FCCL's finance cost is likely to clock in PKR 664mn up 35x YoY, higher finance cost can be attributed to upward revision in policy rates and higher borrowings.
- We have a 'BUY' recommendation on FCCL with our Dece-23 price target (PT) of PKR 16/share, providing an upside of 36%.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	16
Current Price (PKR)	12
Upside/(Downside) (%)	+36%
Dividend Yield (%)	0%
Total Return (%)	36%
12-month High (PKR)	19
12-month Low (PKR)	10
Outstanding Shares (mn)	2,452
Market Cap (PKR mn)	29,041
Year End	June

Source: Company Accounts, Akseer Research

Financial estimates (PKR mn)

	3QFY22	3QFY23F	YoY	9MFY22	9MFY23F	YoY
Net Sales	7,679	19,453	153%	33,025	53,126	61%
Cost of Sales	5,730	14,842	159%	23,878	39,185	64%
Gross Profit	1,949	4,611	137%	9,147	13,941	52%
Admin & Selling Expense	197	608	208%	1,164	1,626	40%
Other Income	44	169	287%	268	506	89%
Other Expense	133	236	77%	548	702	28%
Finance cost	18	664	3493%	619	1,562	152%
Profit before tax	1,643	3,272	99%	7,085	10,556	49%
Taxation	573	1,109	94%	2,369	3,312	40%
Net Income	1,234	2,162	75%	5,020	7,244	44%
EPS	0.50	0.88	-	2.05	2.95	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
EPS	(0.0)	1.4	2.9	4.0	1.6	3.3
EPS Growth	-102%	-	105%	39%	-61%	114%
DPS	-	-	-	-	-	-
PER	-	8.1	3.9	2.8	7.4	3.4
Dividend Yield	-	-	-	-	-	-
EV/EBITDA	10.41	2.45	3.07	2.14	3.57	1.94
P/B	0.8	0.7	0.3	0.2	0.2	0.2
ROE	-	14.9%	12.3%	14.6%	5.3%	10.2%

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 16/share. Our price target provides an upside of -. Our investment case on FCCL is based on (1) improvement in retention prices and (2) Recent merger with Askari Cement (3) Recent brownfield expansion (4) 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 Estimates - FCCL

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	17,232	24,271	54,243	70,541	69,516	77,201
Cost of sales	16,583	18,207	39,844	51,054	57,230	59,669
Gross Profit	649	6,064	14,399	19,488	12,286	17,532
SG & A	673	714	1,838	2,028	2,387	2,546
Operating Profit	1,705	7,079	15,267	21,228	14,404	20,231
Other income	85	245	977	456	380	343
Other charges	1	378	809	1,016	391	839
Finance cost	234	110	1,202	2,159	4,211	2,318
Profit before tax	(173)	5,108	11,527	14,740	5,677	12,172
Taxation	(114)	1,636	4,416	4,864	1,873	4,017
Profit after tax	(59)	3,471	7,111	9,876	3,803	8,155

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	22,065	21,422	74,126	83,512	96,673	92,684
Other LT assets	99	87	11,156	11,118	11,119	11,120
Non-Current Assets	22,225	21,613	85,481	94,687	107,838	103,840
Current assets	7,153	12,439	28,217	27,507	24,530	25,446
Total Assets	29,377	34,052	113,698	122,194	132,368	129,287
Non-Current liabilities	4,390	4,630	29,241	32,133	32,434	23,153
Current liabilities	5,182	6,162	26,721	22,449	28,519	26,563
Total Liabilities	9,573	10,792	55,962	54,582	60,953	49,716
Equity	19,804	23,276	57,736	67,612	71,415	79,570
Total Equity & liabilities	29,377	34,068	113,698	122,194	132,368	129,287

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(59)	3,471	7,111	9,876	3,803	8,155
Non-cash Charges	1,729	1,729	2,706	3,769	4,505	5,245
Operating Cash flows	809	1,549	5,793	14,815	11,619	13,451
FCFF	238	509	(48,918)	3,182	(3,214)	13,758
Net borrowings	1,036	(79)	23,700	213	5,967	(11,314)
FCFE	1,193	356	(25,959)	1,949	(69)	891
Net change in cash	158	340	1,406	1,949	(69)	891
Closing cash	561	901	2,307	4,255	4,186	5,077

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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