

FCCL - FY21 earnings clocked in at PKR 2.52/share; no payout

- FCCL announced its FY21 result today where the company reported net earnings of PKR 2.52/share for FY21 compared to a net loss of PKR 0.04/share in FY20.
- The company did not announce any dividend along with results in contrast to our expectation of PKR 1.00/share.
- Turnaround in earnings has mainly emerged from better cement prices (+26% YoY) followed with higher dispatches (+12% YoY) which led to gross margin accretion of 21pps to settle at 25% in FY21 compared to gross margins of 3.8% in FY20.
- Finance cost of the company witnessed attrition of 53% YoY due to lower interest rates and reduced borrowings in FY21.
- Selling and admin expenses increased by 6% YoY and settled at PKR 714mn on the back of 13% YoY growth in local dispatches during FY21.
- Other expenses of the company came in at PKR 378mn in FY21 compared to mere PKR 1mn in FY20 on the back of higher contribution for workers welfare funds.
- During 4QFY21, the company reported earnings of PKR 0.62/share. The earnings came in lower than our expectations mainly due to lower than expected gross margins (likely due to higher coal cost) and higher effective tax rate.
- We have a 'BUY' recommendation on FCCL with a Dec-21 price target (PT) of PKR 28/share, providing a potential upside of 39%.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	28
Current Price (PKR)	20.28
Upside/(Downside) (%)	+ 39%
Dividend Yield (%)	0%
Total Return (%)	+ 39%
12-month High (PKR)	27.61
12-month Low (PKR)	18.31
Outstanding Shares (mn)	1379.82
Market Cap (PKR mn)	28,010
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20	4QFY21	YoY	FY20	FY21	YoY
Net Sales	3,750	6,743	80%	17,232	24,271	41%
Cost of Sales	3,979	5,159	30%	16,583	18,207	10%
Gross Profit	(229)	1,584	NM	649	6,064	834%
Selling & Admin. Exp	160	201	25%	673	714	6%
Other Income	11	107	877%	85	245	188%
Other Charges	(14)	101	NM	1	378	66557%
Finance cost	84	35	-58%	234	110	-53%
Profit before tax	(449)	1,354	NM	(173)	5,108	NM
Taxation	(118)	493	NM	(114)	1,636	NM
Net Income	(331)	861	NM	(59)	3,471	NM
EPS	(0.24)	0.62		(0.04)	2.52	
DPS	-	-		-	-	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F
EPS	2.49	2.05	-0.04	2.52	3.07	4.36
EPS Growth	31%	-18%	NM	NM	22%	42%
DPS	1.00	1.50	0.00	0.00	1.25	1.75
PER	9.63	11.69	-556.33	8.07	6.61	4.65
Dividend Yield	4.2%	6.3%	0.0%	0.0%	6.2%	8.6%
EV/EBITDA	6.01	5.52	20.59	4.07	4.16	3.63
P/B	1.61	1.58	1.67	1.20	1.02	0.88
ROE	16.7%	13.5%	-0.3%	14.9%	15.4%	18.9%

Source: Company Accounts, Akseer Research

Mohammad Raza

mohammad.raza@akseerresearch.com

Valuation Basis

Our PT for Fauji Cement Company Limited (FCCL) has been computed using Free cash flow to equity (FCFE) 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 PT of 28/share. Our price target provides a potential upside of 39%. Our revised investment case on FCCL is based on (1) normalcy in economic activity (2) boom in construction sector.

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)						
	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F
Net sales	21,161	20,798	17,232	24,271	28,463	30,409
Cost of sales	16,125	15,475	16,583	18,207	21,422	20,677
Gross Profit	5,036	5,323	649	6,064	7,041	9,732
SG & A	583	626	673	714	817	887
Operating Profit	7,906	10,001	5,248	5,870	6,217	1,705
Other income	104	148	85	245	242	298
Other charges	420	579	291	311	327	1
Finance cost	148	107	234	110	56	43
Profit before tax	4,098	4,412	(173)	5,108	5,968	8,474
Taxation	669	1,588	(114)	1,636	1,731	2,457
Profit after tax	3,429	2,824	(59)	3,471	4,237	6,016

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
PPE	22,624	23,203	22,065	24,357	34,161	43,463
Other LT assets	87	87	99	100	101	102
Non-Current Assets	22,711	23,290	22,225	24,506	34,300	43,596
Current assets	6,338	5,676	7,153	6,568	9,956	8,727
Total Assets	29,049	28,965	29,377	31,073	44,257	52,323
Non-Current liabilities	4,302	4,315	4,390	4,094	12,770	15,182
Current liabilities	4,259	3,752	5,182	3,703	3,974	5,337
Total Liabilities	8,561	8,067	9,573	7,798	16,744	20,518
Equity	20,489	20,899	19,804	23,276	27,513	31,805
Total Equity & liabilities	29,049	28,965	29,377	31,073	44,257	52,323

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	3,429	2,824	(59)	3,471	4,237	6,016
Non-cash Charges	1,417	1,520	1,729	1,481	1,789	1,825
Operating Cash flows	3,773	5,460	809	6,014	6,055	7,465
FCFF	1,859	3,429	238	2,328	(5,488)	(3,623)
Net borrowings	900	(1,075)	1,036	(1,970)	8,515	3,630
FCFE	2,636	2,286	1,193	284	2,988	(25)
Net change in cash	14	(129)	158	284	2,988	(1,749)
Closing cash	532	403	561	845	3,832	2,083

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

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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH

Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.net