Result Preview | Pakistan Research

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FCCL: 4QFY26 EPS expected to clock-in at 1.98, up 24%, YoY

Fauji Cement Company Limited PSX: FCCL | Bloomberg: FCCL PA | Reuters: FAUC.PSX

- FCCL is expected to announce its 4QFY26 results, wherein we expect the company to report an EPS of PKR 1.98, up 24% YoY, taking FY26 EPS to PKR 6.37 (up 17% YoY). We expect the company to also declare a dividend of PKR 1/share for the full year.
- Net sales for 4QFY26 are expected to clock in at PKR 24.2bn, up 11% YoY. The surge in revenue is likely to be driven by a ~9% YoY increase in net retention. The 15% YoY surge in domestic dispatches was fully offset by nil exports due to Afghan border closure, causing total dispatches to decline 2% YoY.
- Gross margins are likely to clock in at 34%, down 5ppts YoY, primarily reflecting a high base effect in SPLY. We believe the elevated SPLY base was partly driven by an understatement of raw material cost, particularly due to royalty booking methodology. Notably, the company recorded raw material costs of PKR 76.9/bag in 4QFY25, compared with PKR 105.7/bag in 3QFY25, suggesting an unusually low-cost base in the quarter.
- The company also completed the acquisition of a 46% stake in Attock Cement Pakistan Limited (ACPL) in 4QFY26. As a result, we expect company to record a pro-rated share of profit from associate of PKR 272mn in 4QFY26.
- Finance costs are expected to decline 13% YoY to PKR 980mn due to the on-going de-leveraging of balance sheet as debt/equity declined to 0.25x in 3QFY26 (from 0.39x in 4QFY25).
- The company is expected to report a one-off deferred tax adjustment due to a likely revaluation of deferred tax liabilities at lower tax rate following a reduction in super tax rate to 8% in FY27 budget. We expect company to post an Effective Tax Rate (ETR) of 21% in 4QFY26 (compared to 38% SPLY). Normalized earnings for the quarter at a 39% ETR are estimated to clock in at PKR 1.53/share, down 4% YoY.
- On a sequential basis, earnings are expected to increase 40% QOQ, primarily reflecting a likely one-off adjustment in taxation, share of profit from associate, and a 5% QoQ decline in finance cost. Net sales are expected to rise 8% QoQ, entirely supported by an ~8% QoQ increase in retention as dispatches remain broadly flat QoQ. Gross margins are expected to compress 2ppts QoQ.

Key Data	
PSX Ticker	FCCL
Target Price (PKR)	80
Current Price (PKR)	58
Upside/(Downside) (%)	38%
Dividend Yield (%)	4%
Total Return (%)	42%
12-month High (PKR)	63
12-month Low (PKR)	36
Outstanding Shares (mn)	2,453
Market Cap (PKR mn)	142,265

Source: PSX, Akseer Research

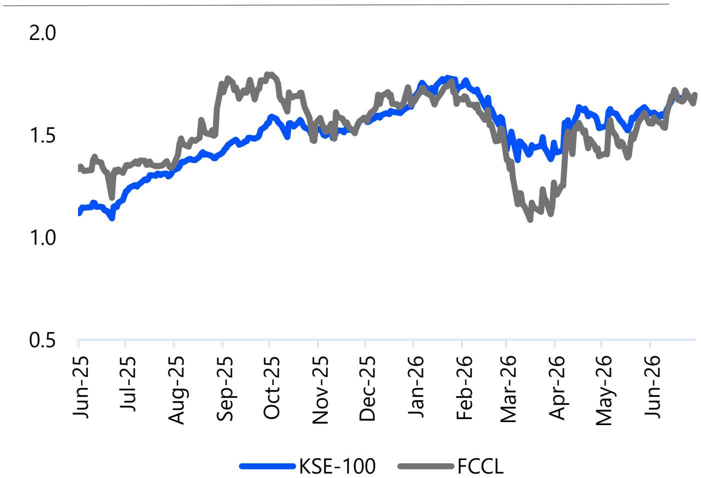
Financial Estimates (PKR mn)	4QFY25A	4QFY26E	YoY	FY25A	FY26E	YoY
Sales	21,802	24,168	11%	88,956	93,952	6%
Cost of Sales	13,285	15,903	20%	57,385	61,956	8%
Gross Profit	8,517	8,265	-3%	31,571	31,996	1%
Selling and Distribution	685	866	26%	2,935	3,271	11%
General and Admin	432	456	6%	1,689	1,917	13%
Other Operating Expenses	436	486	11%	1,479	1,706	15%
Other Income	504	416	-17%	1,830	2,522	38%
Share of profit from associate	0	272	n.m.	0	272	n.m.
Finance Cost	1,132	980	-13%	5,772	4,215	-27%
Profit Before Tax	**6,336**	**6,166**	**-3%**	**21,526**	**23,680**	**10%**
Taxation -Without DTL Adjustment	2,417	2,405	-1%	8,199	9,144	12%
Net Income – Without DTL adjustment	**3,919**	**3,761**	**-4%**	**13,326**	**14,537**	**9%**
EPS (PKR) – Without DTL adjustment	**1.60**	**1.53**	**-4%**	**5.43**	**5.93**	**9%**
Taxation – With DTL Adjustment	2,417	1,317	-45%	8,199	8,056	-2%
Net income – With DTL adjustment	**3,919**	**4,849**	**24%**	**13,326**	**15,624**	**17%**
EPS (PKR) – With DTL adjustment	**1.60**	**1.98**	**24%**	**5.43**	**6.37**	**17%**
DPS (PKR)	1.25	1.00	-20%	1.25	1.00	-20%

Source: Company Accounts, Akseer Research

Key Financial Ratios	FY24A	FY25A	FY26E	FY27F	FY28F	FY29F	FY30F	FY31F
EPS (PKR)	3.4	5.4	6.4	7.3	8.6	10.2	11.9	13.7
EPS Growth	6.0%	62.1%	17.2%	13.9%	18.3%	18.4%	16.9%	15.6%
DPS (PKR)	1.0	1.3	1.0	2.1	2.5	2.9	3.3	3.8
BVPS (PKR)	29.9	34.4	38.5	43.6	49.7	57.0	65.5	75.4
PER	17.3	10.7	9.1	8.0	6.8	5.7	4.9	4.2
Dividend Yield	1.7%	2.2%	1.7%	3.6%	4.3%	5.0%	5.8%	6.5%
P/B	1.9	1.7	1.5	1.3	1.2	1.0	0.9	0.8
ROE	11.9%	16.9%	17.5%	17.7%	18.4%	19.0%	19.4%	19.5%

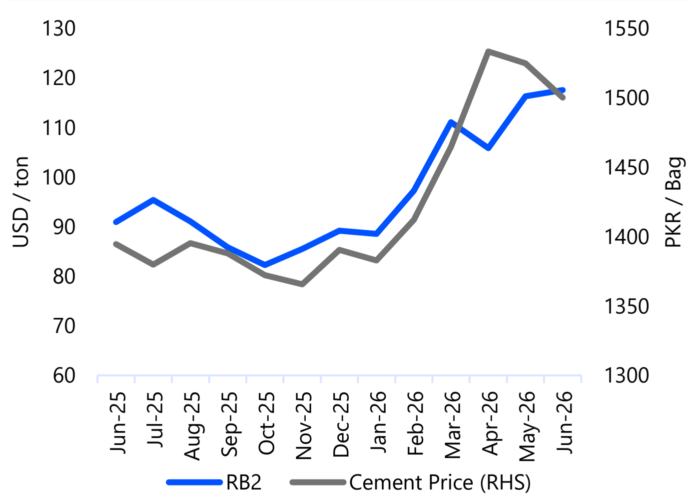
Source: Company Accounts, Akseer Research

Relative Price Performance of FCCL



Source: PSX, Akseer Research

Cement vs Coal Price



Source: Bloomberg, PBS, Akseer Research

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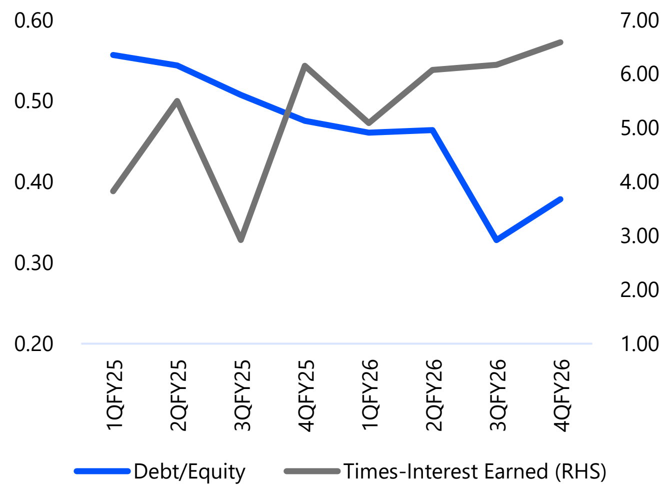
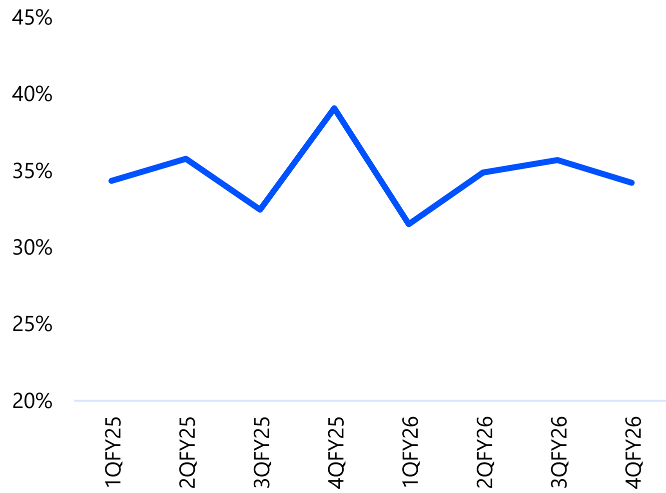
Deleveraging of Balance Sheet and Improving Interest Coverage



Source: Company Accounts, Akseer Research

Stabilizing Gross Margins



Source: Company Accounts, Akseer Research

Valuation Basis

Our PT for Fauji Cement Company Limited (FCCL) has been computed using the Free Cash Flow to Firm (FCFF) method. We have used a risk-free rate of 11.5%, a beta of 1.1, a market risk premium of 6%, and cost of debt of 12.4% to arrive at WACC of 16.4%.

Investment Thesis

We have rolled forward our PT for FCCL to June-27 with a target of PKR 80/share and maintain a 'Buy' recommendation. This implies an upside of 38%, in addition to a dividend yield of 4%. Our investment case is based on (1) one of the highest projected 3-year earnings CAGR of 17% in our cement universe, (2) increasing reliance on renewable sources of energy to control cost, and (3) ACPL acquisition enabling southern and new export market access, making it the only cement player to operate in 3 provinces.

Risks

Key downside risks to our investment thesis include (1) continued closure of Afghan border to disrupt exports (2) increase in international/local coal prices to pressure energy costs and (3) lower than expected offtake in local dispatches.

Company Description

Fauji Cement Company Limited (FCCL) is a Pakistani based cement manufacturer, producing ordinary Portland and various other types of cement. It is backed by the Fauji group, and has an cement production capacity of 10.5mn tons, giving it a ~16% market share in the Northern region.

Financial Highlights – FCCL

Income Statement (PKR Mn)	FY24A	FY25A	FY26E	FY27F	FY28F	FY29F	FY30F	FY31F
Net Sales	80,026	88,956	93,952	108,282	123,223	140,748	160,180	179,676
Cost of Sales	54,346	57,385	61,956	71,276	81,023	93,099	106,627	119,978
Gross Profit	**25,680**	**31,571**	**31,996**	**37,007**	**42,200**	**47,649**	**53,553**	**59,699**
Other Expenses	5,629	6,103	6,894	7,533	8,440	9,446	10,546	11,673
Operating Profit (EBIT)	**20,052**	**25,468**	**25,102**	**29,473**	**33,759**	**38,203**	**43,008**	**48,026**
Other Income	840	1,830	2,522	957	924	1,773	2,869	4,284
Finance Cost	5,537	5,772	4,215	3,875	3,348	2,821	2,295	1,768
Profit before tax (PBT)	**15,354**	**21,526**	**23,409**	**26,555**	**31,336**	**37,155**	**43,582**	**50,542**
Taxation/Levies	7,132	8,199	8,056	10,448	12,361	14,634	17,105	19,780
Profit after tax (PAT)	**8,223**	**13,326**	**15,352**	**16,107**	**18,975**	**22,521**	**26,477**	**30,762**
EPS (PKR)	**3.35**	**5.43**	**6.37**	**7.25**	**8.58**	**10.16**	**11.87**	**13.73**
DPS (PKR)	1.00	1.25	1.00	2.10	2.50	2.91	3.34	3.79

Source: Company Accounts, Akseer Research

Balance Sheet (PKR Mn)	FY24A	FY25A	FY26E	FY27F	FY28F	FY29F	FY30F	FY31F
PPE	110,846	109,579	106,182	108,219	106,843	105,433	103,988	102,507
Other LT assets	11,007	10,794	33,784	34,295	35,165	36,215	37,401	38,733
Non-current assets	121,852	120,373	139,967	142,514	142,008	141,648	141,389	141,240
Current assets	25,784	40,473	31,764	41,349	52,890	67,473	85,379	107,749
Total assets	**147,636**	**160,845**	**171,731**	**183,862**	**194,898**	**209,121**	**226,768**	**248,989**
Non-current liabilities	47,372	45,935	38,026	37,950	34,003	30,056	26,109	23,149
Current liabilities	26,865	30,637	39,328	38,901	38,977	39,370	40,034	40,829
Total liabilities	**74,237**	**76,573**	**77,354**	**76,851**	**72,979**	**69,425**	**66,143**	**63,978**
Equity	73,399	84,272	94,378	107,012	121,919	139,696	160,625	185,010
Total equity & liabilities	**147,636**	**160,845**	**171,731**	**183,862**	**194,898**	**209,121**	**226,768**	**248,989**

Source: Company Accounts, Akseer Research

Cash Flow Statement (PKR Mn)	FY24A	FY25A	FY26E	FY27F	FY28F	FY29F	FY30F	FY31F
Net Income	8,223	13,326	15,624	17,790	21,046	24,917	29,125	33,679
Non-Cash Charges	4,058	4,970	5,212	5,224	5,336	5,457	5,584	5,715
Operating Cash Flows	16,243	18,391	24,954	18,049	21,372	24,461	28,269	32,938
FCFF	**10,723**	**9,883**	**11,323**	**14,879**	**21,035**	**22,808**	**25,016**	**27,772**
Net Borrowings	(4,064)	(3,755)	(4,300)	(1,243)	(5,090)	(5,090)	(5,090)	(4,102)
FCFE	**1,962**	**2,185**	**5,329**	**10,718**	**13,522**	**16,670**	**20,501**	**26,186**
Closing Cash	**2,933**	**2,665**	**2,475**	**8,038**	**15,420**	**24,950**	**37,256**	**54,149**

Source: Company Accounts, Akseer Research

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Valuation Methodology

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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