

Fauji Cement Company Limited
Result Review

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

Pakistan Research

FCCL: 3QFY24 EPS clocked in at PKR 0.72, down 6% YoY

- FCCL announced its 3QFY24 financial results today, wherein the company reported an EPS of PKR 0.72, down 6% YoY compared to an EPS of PKR 0.77 in 3QFY23. This takes 9MFY24 earnings to PKR 2.87/share, up 1% YoY.
- Net revenue of the company stood at PKR 19bn, up 4% YoY. The increase in revenue can be attributed to improvement in local cement prices, up by 13% YoY, and higher export prices, up by ~7% YoY in 3QFY24.
- However, dispatches of the company declined by 10.9% YoY primarily because of 11.8% YoY drop in local sales. However, export volumes increased by 2% YoY in 3QFY24.
- Company's cost of sales increased by 1% YoY due to higher depreciation charge as DG Khan expansion commenced commercial operations despite lower coal prices.
- Subsequently, gross margin of the company improved to 28% in 3QFY24 vs 26% in 3QFY23.
- The finance cost of the company increased by 1.2% YoY to PKR 1.6bn, primarily due to higher interest rates.
- We have a 'BUY' recommendation on FCCL with our Dec-24 price target (PT) of PKR 26/share, providing an upside of 29%.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	26
Current Price (PKR)	18
Upside/(Downside) (%)	+29%
Dividend Yield (%)	0%
Total Return (%)	29%
12-month High (PKR)	10.4
12-month Low (PKR)	21.2
Outstanding Shares (mn)	2,452
Market Cap (PKR mn)	49,458
Year End	June

Source: Company Accounts, Akseer Research

Financial estimates (PKR mn)

	3QFY23	3QFY24	YoY	9MFY23	9MFY24	YoY
Net Sales	18,234	19,048	4%	51,907	59,400	14%
Cost of Sales	13,505	13,697	1%	37,848	41,190	9%
Gross Profit	4,730	5,352	13%	14,060	18,210	30%
Admin & Selling Expense	539	1,304	142%	1,557	3,685	137%
Other Income	284	235	-17%	621	571	-8%
Other expense	167	5	-97%	635	581	-9%
Finance cost	1,612	1,632	1%	2,510	3,772	50%
Profit before tax	2,695	2,646	-2%	9,978	10,743	8%
Taxation	807	877	9%	3,010	3,701	23%
Net Income	1,888	1,769	-6%	6,968	7,043	1%
EPS	0.77	0.72		2.84	2.87	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
EPS	1.4	2.9	3.0	3.6	4.0	4.6
EPS Growth	na	105%	5%	18%	13%	13%
DPS	0.00	0.00	0.00	0.00	1.50	1.75
PER	14.3	7.0	6.7	5.7	5.0	4.4
Dividend Yield	0.0%	0.0%	0.0%	0.0%	7.4%	8.7%
EV/EBITDA	4.16	3.87	3.86	3.30	2.34	1.93
P/B	2.1	0.9	0.8	0.7	0.6	0.6
ROE	14.9%	12.3%	11.4%	11.8%	12.3%	12.8%

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 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-24 PT of 26/share. Our price target provides an upside of 29%. Our investment case on FCCL is based on (1) improvement in retention prices (2) synergies post merger with Askari Cement and (3) brownfield and 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)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net sales	24,271	54,243	68,069	79,827	91,687	97,701
Cost of sales	18,207	39,844	47,651	55,718	64,414	69,051
Gross Profit	6,064	14,399	20,418	24,109	27,273	28,650
SG & A	714	1,838	4,087	5,133	4,714	5,231
Operating Profit	7,079	15,267	19,499	22,929	28,820	29,772
Other income	245	977	964	781	812	1,246
Other charges	378	809	750	774	1,114	1,262
Finance cost	110	1,202	3,645	5,633	6,097	5,092
Profit before tax	5,108	11,527	12,900	13,351	16,159	18,310
Taxation	1,636	4,416	5,460	4,594	6,302	7,141
Profit after tax	3,471	7,111	7,440	8,757	9,857	11,169

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
PPE	21,422	74,126	104,425	110,798	106,630	102,401
Other LT assets	87	11,156	11,087	11,091	11,095	11,098
Non-Current Assets	21,613	85,481	115,694	121,935	117,761	113,528
Current assets	12,439	28,217	23,134	25,970	31,424	38,230
Total Assets	34,052	113,698	138,828	147,905	149,185	151,759
Non-Current liabilities	4,630	29,241	45,166	42,518	34,024	28,702
Current liabilities	6,162	26,721	28,487	31,455	35,050	36,070
Total Liabilities	10,792	55,962	73,653	73,972	69,075	64,772
Equity	23,276	57,736	65,176	73,933	80,110	86,987
Total Equity & liabilities	34,068	113,698	138,828	147,905	149,185	151,759

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net Income	3,471	7,111	7,440	8,757	9,857	11,169
Non-cash Charges	1,729	2,706	3,167	3,952	6,261	6,353
Operating Cash flows	1,549	5,793	17,205	9,885	14,083	16,403
FCFF	509	(48,918)	(14,208)	3,391	15,718	17,394
Net borrowings	(79)	23,700	14,974	325	(4,261)	(3,715)
FCFE	356	(25,959)	(1,336)	21	7,738	10,572
Net change in cash	340	1,406	(1,336)	21	4,059	6,280
Closing cash	901	2,307	970	992	5,050	11,330

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

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