

Abdul Hannan Khan

hannan.khan@akseerresearch.com

13th August 2024

FCCL: 4QFY24 EPS is expected at PKR 0.73, up 3.82x YoY

Fauji Cement Company Limited

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

- FCCL is scheduled to announce its 4QFY24 financial result on 27th August 2024, where we expect the company to report an EPS of PKR 0.73, up 3.82x YoY compared to an EPS of PKR 0.19 in 4QFY23. This will take FY24 EPS to PKR 3.61, up 19% YoY.
- Net revenue for the company is projected to reach PKR 20.9 billion in the 4QFY24, representing a 29% YoY increase. This growth is attributed to 16% YoY increase in overall dispatches amid expanded production capacity and 13% YoY increase in local cement prices.
- The increase in dispatches is driven by 40% YoY increase in export sales and 14% YoY increase in local sales.
- Gross margins are likely to decline to 27.9% during 4QFY24 vs 39.3% SPLY, largely due to one-off reclassification of freight cost from cost of sales to selling & distribution expense in 4QFY23.
- On the energy front, we expect the company's realized coal cost to decrease by 5% YoY for 4QFY24 due to decline in Afghan coal prices along with ease in local coal prices.
- FCCL's finance cost is likely to clock in at PKR 1.5bn, up 36% YoY in 4QFY24, against PKR 1.1bn in 4QFY23.
- We have a 'BUY' recommendation on FCCL with our Dec-24 price target (PT) of PKR 28/share, providing an upside of 37%.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	28
Current Price (PKR)	20
Upside/(Downside) (%)	+37%
Dividend Yield (%)	-
Total Return (%)	37%
12-month High (PKR)	24.67
12-month Low (PKR)	10.42
Outstanding Shares (mn)	2,452
Market Cap (PKR mn)	49,180

Source: PSX, Akseer Research

Financial Estimates (PKR mn)	4QFY23	4QFY24E	YoY	FY23	FY24E	YoY
Sales	16,162	20,884	29%	68,069	80,284	18%
Cost of sales	9,803	15,065	54%	47,651	56,255	18%
Gross Profit	6,359	5,818	-9%	20,418	24,028	18%
Admin & Selling Expense	2,529	1,416	-44%	4,087	5,101	25%
Other Income	343	235	-31%	964	807	-16%
Other expense	115	137	19%	750	717	-4%
Finance Cost	1,135	1,546	36%	3,645	5,319	46%
Profit before tax	2,922	2,955	1%	12,900	13,698	6%
Taxation	2,450	1,152	-53%	5,460	4,853	-11%
Net Income	472	1,802	282%	7,440	8,845	19%
EPS	0.19	0.73	282%	3.03	3.61	19%

Key Financial Ratios	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
EPS (PKR)	1.4	2.9	3.0	3.6	3.8	5.3
EPS Growth	NM	105%	5%	19%	6%	38%
DPS (PKR)	-	-	-	-	1.3	2.3
PER	14.4	7.0	6.7	5.7	5.3	3.8
Dividend Yield	-	-	-	-	6.1%	11.0%
EV/EBITDA	4.2	3.9	3.8	3.1	2.6	2.0
P/B	2.1	0.9	0.8	0.7	0.6	0.6
ROE	14.9%	12.3%	11.4%	11.9%	11.7%	14.8%

Source: Company Accounts, Akseer Research

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 PKR 28/share. Our price target provides an upside of 37%. 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 Highlights - FCCL

Income Statement (PKR mn)	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net sales	24,271	54,243	68,069	80,284	83,510	100,930
Cost of sales	18,207	39,844	47,651	56,255	57,673	69,002
Gross Profit	6,064	14,399	20,418	24,028	25,837	31,928
SG & A	714	1,838	4,087	5,101	5,511	6,057
Operating Profit	7,079	15,267	19,727	23,470	26,586	32,224
Other income	245	977	964	807	834	873
Other charges	378	809	750	717	835	1,009
Finance cost	110	1,202	3,645	5,319	4,895	4,373
Profit before tax	5,108	11,527	12,900	13,698	15,430	21,363
Taxation	1,636	4,416	5,460	4,853	6,018	8,332
Profit after tax	3,471	7,111	7,440	8,845	9,412	13,031

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
PPE	21,422	74,126	104,425	110,699	106,531	102,302
Other LT assets	87	11,156	11,087	11,091	11,095	11,098
Non-Current Assets	21,613	85,481	115,694	121,836	117,662	113,430
Current assets	12,439	28,217	23,134	24,832	25,732	29,047
Total Assets	34,052	113,698	138,828	146,668	143,395	142,477
Non-Current liabilities	4,630	29,241	45,166	44,004	30,263	21,441
Current liabilities	6,162	26,721	28,487	28,643	32,765	33,157
Total Liabilities	10,792	55,962	73,653	72,647	63,028	54,598
Equity	23,276	57,736	65,176	74,021	80,367	87,879
Total Equity & liabilities	34,068	113,698	138,828	146,668	143,395	142,477

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net Income	3,471	7,111	7,440	8,845	9,412	13,031
Non-cash Charges	1,729	2,706	3,395	4,543	6,261	6,353
Operating Cash flows	1,549	5,793	17,433	13,362	8,704	12,711
FCFF	509	(48,918)	(14,208)	6,115	9,606	13,262
Net borrowings	(79)	23,700	14,974	(2,523)	(3,331)	(4,976)
FCFE	356	(25,959)	(1,336)	158	3,289	5,619
Net change in cash	340	1,406	(1,336)	158	223	100
Closing cash	901	2,307	970	1,128	1,351	1,451

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

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.

Ratings Criteria

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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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



Alpha Capital (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@alphacapital.com.pk



www.jamapunji.pk