

Fauji Cement Company Limited
Result Review

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

Pakistan Research

FCCL: 2QFY22 EPS came in at PKR 1.07, up 62% YoY and 8% QoQ

- FCCL reported its 2QFY22 results today wherein the company's profitability grew by 62% YoY and 8% QoQ to PKR 1.07/share. This takes 1HFY22 earnings to PKR 2.05/share compared to PKR 1.16 in 1HFY21. The result was slightly higher than our expectation likely due to higher than anticipated cement retention price.
- Topline of the company grew by 36% YoY to settle at PKR 8.3bn during 2QFY22 compared to PKR 6.1bn in 2QFY21. This growth is primarily on the back of 41% YoY improved cement retention price of PKR 470/bag, despite the fact that company's dispatches went down by 4% YoY.
- FCCL's gross margin settled at 28.4% in 2QFY22, up 3ppts compared to 2QFY21 mainly due to higher cement retention prices.
- Selling & admin expense surged by 40% YoY to PKR 276mn in 2Q owing to higher transportation expenses.
- The company reported finance income of PKR 126mn in 2Q, which also supported the bottomline growth.
- On a sequential basis, earnings of the company remained higher by 8% QoQ supported by higher local cement dispatches of 10% QOQ along with improved retention prices of 13% QoQ. The gross margin of the company shrunk by 2ppts QoQ due to rising cost of production.
- We have a 'BUY' recommendation on FCCL with our Dec-22 price target (PT) of PKR 28/share, providing an upside of 62% from current levels.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	28
Current Price (PKR)	17
Upside/(Downside) (%)	+ 62%
Dividend Yield (%)	-
Total Return (%)	+ 62%
12-month High (PKR)	26.7
12-month Low (PKR)	15.9
Outstanding Shares (mn)	1,379.8
Market Cap (PKR mn)	24,078
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	6,110	8,309	36%	11,611	15,245	31%
Cost of Sales	4,580	5,951	30%	8,893	10,777	21%
Gross Profit	1,529	2,358	54%	2,718	4,467	64%
Admin & Selling Expense	197	276	40%	347	477	37%
Other Income	9	35	307%	17	44	155%
Other Expense	92	154	68%	162	291	80%
Finance cost	33	31	-5%	63	58	-7%
Finance Income	20	126	519%	30	231	661%
Share of loss of associate	-	4	NM	-	4	NM
Profit before tax	1,216	1,931	59%	2,163	3,685	70%
Taxation	332	584	76%	592	1,084	83%
Net Income	905	1,470	62%	1,600	2,828	77%
EPS	0.66	1.07	62%	1.16	2.05	77%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	2.0	(0.0)	2.5	3.3	4.6	4.6
EPS Growth	-18%	NM	NM	32%	37%	1%
DPS	1.50	0.00	0.00	0.00	0.00	0.00
PER	8.5	NM	6.9	5.2	3.8	3.8
Dividend Yield	8.6%	-	-	0.0%	0.0%	0.0%
EV/EBITDA	4.08	15.35	3.63	3.84	3.39	2.35
P/B	1.2	1.2	1.0	0.9	0.7	0.6
ROE	13.5%	NM	14.9%	16.5%	18.5%	15.7%

Source: Company Accounts, Akseer Research

Saqib Hussain

saqib.hussain@akseerresearch.com

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 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 28/share. Our price target provides total return of 62%. Our investment case on FCCL is based on (1) higher cement dispatches following election year and resumption in export activities and 2) improved retention prices.

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 estimate decline in cement prices (4) prolonged pandemic situation (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)						
	FY19A	FY20F	FY21A	FY22E	FY23F	FY24F
Net sales	20,798	17,232	24,271	32,991	34,994	39,037
Cost of sales	15,475	16,583	18,207	25,772	24,108	27,905
Gross Profit	5,323	649	6,064	7,219	10,886	11,132
SG & A	626	673	714	757	816	891
Operating Profit	6,217	1,705	7,079	8,018	12,038	13,666
Other income	148	85	245	722	855	1,139
Other charges	327	1	378	485	663	670
Finance cost	107	234	110	131	1,252	1,606
Profit before tax	4,412	(173)	5,108	6,568	9,009	9,103
Taxation	1,588	(114)	1,636	1,970	2,703	2,731
Profit after tax	2,824	(59)	3,471	4,597	6,307	6,372

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20F	FY21A	FY22E	FY23F	FY24F
PPE	23,203	22,065	21,422	30,269	46,389	44,315
Other LT assets	87	99	87	87	88	89
Non-Current Assets	23,290	22,225	21,613	30,428	46,535	44,450
Current assets	5,676	7,153	12,439	15,790	16,956	24,024
Total Assets	28,965	29,377	34,052	46,218	63,491	68,474
Non-Current liabilities	4,315	4,390	4,630	12,119	20,989	18,886
Current liabilities	3,752	5,182	6,147	6,226	8,322	9,037
Total Liabilities	8,067	9,573	10,777	18,346	29,311	27,922
Equity	20,899	19,804	23,276	27,873	34,180	40,552
Total Equity & liabilities	28,965	29,377	34,053	46,219	63,491	68,474

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20F	FY21A	FY22E	FY23F	FY24F
Net Income	2,824	(59)	3,471	4,597	6,307	6,372
Non-cash Charges	1,520	1,729	1,729	1,556	1,968	3,425
Operating Cash flows	5,460	809	1,549	5,293	8,042	10,040
FCFF	3,429	238	509	(5,000)	(9,156)	9,826
Net borrowings	(1,075)	1,036	(94)	7,029	11,096	(2,024)
FCFE	2,286	1,193	340	1,937	1,063	6,677
Net change in cash	(129)	158	340	1,937	1,063	6,677
Closing cash	403	561	901	2,838	3,901	10,579

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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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@alfaadhi.net