

Fauji Cement Company Limited
Result Review

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

Pakistan Research

FCCL: 3QFY22 EPS came in at PKR 0.89, up 22.16% YoY

- FCCL announced its 3QFY22 results today wherein the company's profitability grew by 22.16% YoY to 1.23bn (EPS PKR 0.89). This takes 9MFY22 earnings to PKR 2.94/share compared to PKR 1.89/share in 9MFY21.
- Topline of the company grew by 30% YoY to PKR 7.6bn in 3QFY22 compared to PKR 5.9bn in 3QFY21. This growth is primarily on the back of 31% YoY improved cement retention price to PKR 481/bag, despite the fact that company's dispatches went down by 1% YoY.
- FCCL's gross margin settled at 25.4% in 3QFY22, down 4ppts compared to 3QFY21 mainly due to escalating coal price.
- Selling & admin expense surged 19% YoY to PKR 197mn in 3QFY22 from 166mn in the SPLY.
- FCCL finance income grew to 163mn in 3QFY22 compared to PKR 15mn in 3QFY21, while its financial cost declined by 32% YoY, supporting the bottom line.
- On a sequential basis, the company reported a decline in earnings by 16.1%, primarily due to lower gross margin by 3% QoQ. This can be attributable to abrupt rise in coal prices. On the other hand, cement dispatches of the company declined by 10% QoQ, further restricting the bottomline growth.
- We have a 'BUY' recommendation on FCCL with our Dec-22 price target (PT) of PKR 28/share, providing an upside of 63% from current levels.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	28
Current Price (PKR)	17
Upside/(Downside) (%)	+ 63%
Dividend Yield (%)	-
Total Return (%)	+ 63%
12-month High (PKR)	25.1
12-month Low (PKR)	16.0
Outstanding Shares (mn)	1,379.8
Market Cap (PKR mn)	24,078
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
Net Sales	5,918	7,679	30%	17,528	22,924	31%
Cost of Sales	4,155	5,730	38%	13,048	16,507	27%
Gross Profit	1,763	1,949	11%	4,480	6,416	43%
Admin & Selling Expense	166	197	19%	513	674	31%
Other Income	91	44	-52%	108	87	-19%
Other Expense	115	133	16%	277	424	53%
Finance cost	27	18	-32%	90	76	-15%
Finance Income	15	163	952%	46	394	760%
Share of loss of associate	-	-	NM	-	4	NM
Profit before tax	1,546	1,643	6%	3,708	5,719	54%
Taxation	551	573	4%	1,144	1,657	45%
Net Income	1,010	1,234	22.16%	2,610	4,062	55.6%
EPS	0.73	0.89	22%	1.89	2.94	55.62%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	2.0	(0.0)	2.5	3.6	4.6	4.6
EPS Growth	-18%	-102%	NM	44%	27%	1%
DPS	1.50	0.00	0.00	0.00	0.00	0.00
PER	8.3	NM	6.8	4.7	3.7	3.7
Dividend Yield	8.8%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	3.98	14.99	3.55	3.46	3.31	2.28
P/B	1.1	1.2	1.0	0.8	0.7	0.6
ROE	13.5%	-0.3%	14.9%	17.6%	18.3%	15.6%

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 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 63%. 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	25,191	24,108	27,905
Gross Profit	5,323	649	6,064	7,800	10,886	11,132
SG & A	626	673	714	757	816	891
Operating Profit	6,217	1,705	7,079	8,599	12,038	13,666
Other income	148	85	245	734	880	1,165
Other charges	327	1	378	526	665	672
Finance cost	107	234	110	131	1,252	1,606
Profit before tax	4,412	(173)	5,108	7,120	9,032	9,128
Taxation	1,588	(114)	1,636	2,136	2,710	2,738
Profit after tax	2,824	(59)	3,471	4,984	6,323	6,389

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20F	FY21A	FY22E	FY23F	FY24F
PPE	20,798	17,232	24,271	32,991	34,994	39,037
Other LT assets	15,475	16,583	18,207	25,191	24,108	27,905
Non-Current Assets	5,323	649	6,064	7,800	10,886	11,132
Current assets	626	673	714	757	816	891
Total Assets	6,217	1,705	7,079	8,599	12,038	13,666
Non-Current liabilities	148	85	245	734	880	1,165
Current liabilities	327	1	378	526	665	672
Total Liabilities	107	234	110	131	1,252	1,606
Equity	4,412	(173)	5,108	7,120	9,032	9,128
Total Equity & liabilities	1,588	(114)	1,636	2,136	2,710	2,738

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20F	FY21A	FY22E	FY23F	FY24F
Net Income	2,824	(59)	3,471	4,984	6,323	6,389
Non-cash Charges	1,520	1,729	1,729	1,556	1,968	3,425
Operating Cash flows	5,460	809	1,549	5,673	8,065	10,057
FCFF	3,429	238	509	(4,621)	(9,133)	9,843
Net borrowings	(1,075)	1,036	(94)	7,024	11,101	(2,024)
FCFE	2,286	1,193	340	2,311	1,092	6,694
Net change in cash	(129)	158	340	2,311	1,092	6,694
Closing cash	403	561	901	3,212	4,304	10,999

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.

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%

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