

**Fauji Cement Company Limited**  
Result Review

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

Pakistan Research

**FCCL: 3QFY23 EPS clocked in at PKR 0.77, up 21% YoY**

- FCCL announced its 3QFY23 financial results today, wherein the company reported an EPS of PKR 0.77, up 21% YoY compared to an EPS of PKR 0.64 in SPLY. This takes 9MFY23 earnings to PKR 2.8/share, up 30% YoY. On QoQ basis, EPS declined by 32% possibly due to higher depreciation charged as well as higher finance cost.
- Net revenue of the company stood at PKR 18.2bn, up 40% YoY. The increase in revenue can be attributed to improvement in overall retention prices by 41% YoY.
- Gross margin of the company improved to 26% in 3QFY23 vs 24% in 3QFY22. Higher margins are due to greater use of local coal vs more expensive imported coal, as well as steep increase in retention prices.
- The finance cost of the company increased by 5.3x YoY to PKR 1.6bn, primarily due to higher interest rates and increased borrowing. Furthermore, it is probable that the company has recognized the borrowing cost for the brownfield project as an expense, which was previously treated as a capital expenditure.
- We have a 'BUY' recommendation on FCCL with our Dec-23 price target (PT) of PKR 16/share, providing an upside 29%.

**Key Data**

PSX Ticker	FCCL
Target Price (PKR)	16
Current Price (PKR)	12
Upside/(Downside) (%)	+29%
Dividend Yield (%)	0%
Total Return (%)	29%
12-month High (PKR)	19
12-month Low (PKR)	10
Outstanding Shares (mn)	2,452
Market Cap (PKR mn)	28,330
Year End	June

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	3QFY22	3QFY23	YoY	9MFY22	9MFY23	YoY
Net Sales	13,062	18,234	40%	38,407	51,907	35%
Cost of Sales	9,964	13,505	36%	28,111	37,848	35%
<b>Gross Profit</b>	<b>3,098</b>	<b>4,730</b>	<b>53%</b>	<b>10,296</b>	<b>14,060</b>	<b>37%</b>
Admin & Selling Expense	397	539	36%	1,363	1,557	14%
Other Income	258	284	10%	628	621	-1%
Other Expense	186	167	-10%	600	635	6%
Finance cost	256	1,612	530%	856	2,510	193%
<b>Profit before tax</b>	<b>2,518</b>	<b>2,695</b>	<b>7%</b>	<b>8,105</b>	<b>9,978</b>	<b>23%</b>
Taxation	960	807	-16%	2,756	3,010	9%
<b>Net Income</b>	<b>1,558</b>	<b>1,888</b>	<b>21%</b>	<b>5,345</b>	<b>6,968</b>	<b>30%</b>
EPS	0.64	0.77	-	2.18	2.84	-

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	(0.0)	1.4	2.9	3.7	1.5	3.3
EPS Growth	-102%	-5949%	105%	29%	-59%	116%
DPS	-	-	-	-	-	-
PER	NM	8.1	3.9	3.0	7.4	3.4
Dividend Yield	-	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	NM	2.45	3.07	2.15	3.62	1.97
P/B	0.8	0.7	0.3	0.2	0.2	0.2
ROE	NM	14.9%	12.3%	13.7%	5.3%	10.3%

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 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

### Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-23 PT of PKR 16/share. Our price target provides an upside of 29%. Our investment case on FCCL is based on (1) improvement in retention prices, (2) Recent Merger with Askari Cement and, (3) recent brownfield and upcoming 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, 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net sales	17,232	24,271	54,243	70,757	69,516	77,201
Cost of sales	16,583	18,207	39,844	51,054	57,230	59,669
<b>Gross Profit</b>	<b>649</b>	<b>6,064</b>	<b>14,399</b>	<b>19,704</b>	<b>12,286</b>	<b>17,532</b>
SG & A	673	714	1,838	2,028	2,387	2,546
<b>Operating Profit</b>	<b>1,705</b>	<b>7,079</b>	<b>15,267</b>	<b>21,444</b>	<b>14,404</b>	<b>20,231</b>
Other income	85	245	977	413	330	306
Other charges	1	378	809	944	388	837
Finance cost	234	110	1,202	3,446	4,211	2,318
<b>Profit before tax</b>	<b>(173)</b>	<b>5,108</b>	<b>11,527</b>	<b>13,698</b>	<b>5,630</b>	<b>12,137</b>
Taxation	(114)	1,636	4,416	4,520	1,858	4,005
<b>Profit after tax</b>	<b>(59)</b>	<b>3,471</b>	<b>7,111</b>	<b>9,178</b>	<b>3,772</b>	<b>8,132</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	22,065	21,422	74,126	83,512	96,673	92,684
Other LT assets	99	87	11,156	11,118	11,119	11,120
Non-Current Assets	22,225	21,613	85,481	94,687	107,838	103,840
Current assets	7,153	12,439	28,217	26,808	23,801	24,693
<b>Total Assets</b>	<b>29,377</b>	<b>34,052</b>	<b>113,698</b>	<b>121,496</b>	<b>131,638</b>	<b>128,534</b>
Non-Current liabilities	4,390	4,630	29,241	32,133	32,434	23,153
Current liabilities	5,182	6,162	26,721	22,449	28,519	26,563
<b>Total Liabilities</b>	<b>9,573</b>	<b>10,792</b>	<b>55,962</b>	<b>54,582</b>	<b>60,953</b>	<b>49,716</b>
Equity	19,804	23,276	57,736	66,914	70,686	78,817
<b>Total Equity &amp; liabilities</b>	<b>29,377</b>	<b>34,068</b>	<b>113,698</b>	<b>121,496</b>	<b>131,638</b>	<b>128,534</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	(59)	3,471	7,111	9,178	3,772	8,132
Non-cash Charges	1,729	1,729	2,706	3,769	4,505	5,245
<b>Operating Cash flows</b>	<b>809</b>	<b>1,549</b>	<b>5,793</b>	<b>14,109</b>	<b>11,595</b>	<b>13,428</b>
<b>FCFF</b>	<b>238</b>	<b>509</b>	<b>(48,918)</b>	<b>3,339</b>	<b>(3,238)</b>	<b>13,734</b>
Net borrowings	1,036	(79)	23,700	213	5,967	(11,314)
<b>FCFE</b>	<b>1,193</b>	<b>356</b>	<b>(25,959)</b>	<b>1,243</b>	<b>(93)</b>	<b>868</b>
Net change in cash	158	340	1,406	1,243	(93)	868
<b>Closing cash</b>	<b>561</b>	<b>901</b>	<b>2,307</b>	<b>3,549</b>	<b>3,457</b>	<b>4,324</b>

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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