

**Fauji Cement Company Limited**  
Result Preview

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Pakistan Research

**FCCL: 4QFY22 EPS is expected to clock in at PKR 0.60, down 4% YoY**

- FCCL is scheduled to announce its 4QFY22 financial result on 20th September 2022, where we expect the company to report an EPS of PKR 0.60, down 4% YoY compared to an EPS of PKR 0.62 in 4QFY21. This will take full year EPS to PKR 3.54/share, up 41% YoY in FY22.
- Net revenue of the company is expected to report at PKR 9.3bn, up 37% YoY in 4Q. Higher revenue can be attributable to 51% YoY surge in cement prices. This is despite a decline in local cement despatches by 4% YoY.
- The company's gross margins are likely to reach 25% during 4QFY22 vs 23% SPLY. Despite hike in coal prices by 83% YoY, company has managed to improve its gross margins successfully by passing on its cost.
- Other income is anticipated to grow by 204% YoY to PKR 278mn during 4Q due to higher contribution from short term investment.
- Despite a 69% YoY increase in PBT, the company's bottom-line is expected to decline by 4% YoY in 4Q. This is due to the super tax imposed by the government in the FY23 budget. Effective tax rate of the company is expected to reach 64% in 4QFY22 compared to 36% in 4QFY21.
- We have a 'BUY' recommendation on FCCL with our June-23 price target (PT) of PKR 25/share, providing an upside of 64%.

**Key Data**

|                         |        |
|-------------------------|--------|
| PSX Ticker              | FCCL   |
| Target Price (PKR)      | 25     |
| Current Price (PKR)     | 15     |
| Upside/(Downside) (%)   | 64%    |
| Dividend Yield (%)      | 0%     |
| Total Return (%)        | 64%    |
| 12-month High (PKR)     | 12.5   |
| 12-month Low (PKR)      | 22.1   |
| Outstanding Shares (mn) | 1,380  |
| Market Cap (PKR mn)     | 20,697 |
| Year End                | June   |

Source: Company Accounts, Akseer Research

**Financial estimates (PKR mn)**

|                          | 4QFY21       | 4QFY22F      | YoY        | FY21         | FY22F        | YoY        |
|--------------------------|--------------|--------------|------------|--------------|--------------|------------|
| Net Sales                | 6,743        | 9,259        | 37%        | 24,271       | 32,183       | 33%        |
| Cost of Sales            | 5,159        | 6,902        | 34%        | 18,207       | 23,409       | 29%        |
| <b>Gross Profit</b>      | <b>1,584</b> | <b>2,357</b> | <b>49%</b> | <b>6,064</b> | <b>8,773</b> | <b>45%</b> |
| Admin & Selling Expense  | 201          | 190          | -6%        | 714          | 864          | 21%        |
| Other Expense            | 101          | 141          | 41%        | 378          | 566          | 50%        |
| Finance cost             | 20           | 16           | -20%       | 110          | 92           | -16%       |
| Other Income             | 91           | 278          | 204%       | 245          | 758          | 209%       |
| <b>Profit before tax</b> | <b>1,354</b> | <b>2,288</b> | <b>69%</b> | <b>5,108</b> | <b>8,010</b> | <b>57%</b> |
| Taxation                 | 493          | 1,464        | 197%       | 1,636        | 3,121        | 91%        |
| <b>Net Income</b>        | <b>861</b>   | <b>823</b>   | <b>-4%</b> | <b>3,471</b> | <b>4,889</b> | <b>41%</b> |
| EPS                      | 0.62         | 0.60         | -4%        | 2.52         | 3.54         | 41%        |
| DPS                      | -            | -            | -          | -            | -            | -          |

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

|                | FY19A | FY20A | FY21A | FY22F | FY23F | FY24F |
|----------------|-------|-------|-------|-------|-------|-------|
| EPS            | 2.0   | (0.0) | 2.5   | 3.5   | 2.9   | 3.0   |
| EPS Growth     | -18%  | -102% | -     | 41%   | -19%  | 5%    |
| DPS            | 1.50  | -     | -     | -     | -     | -     |
| PER            | 7.3   | -     | 6.0   | 4.2   | 5.2   | 5.0   |
| Dividend Yield | 10.0% | -     | -     | -     | -     | -     |
| EV/EBITDA      | 3.54  | -     | 3.16  | 2.68  | 4.24  | 3.58  |
| P/B            | 1.0   | 1.0   | 0.9   | 0.7   | 0.6   | 0.6   |
| ROE            | 13.5% | -     | 14.9% | 17.4% | 12.3% | 11.4% |

Source: Company Accounts, Akseer Research

**Altamash Hemani**  
[altamash.hemani@alphacapital.com.pk](mailto:altamash.hemani@alphacapital.com.pk)

### 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 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

### Investment Thesis

We have a 'Buy' recommendation on the stock based on our June-23 PT of 25/share. Our price target provides an upside of 64%. Our investment case on FCCL is based on (1) improvement in retention prices and (2) Recent Merger with Askari Cement.

### 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) |              |              |              |              |              |               |
|---------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
|                           | FY19A        | FY20A        | FY21A        | FY22F        | FY23F        | FY24F         |
| Net sales                 | 20,798       | 17,232       | 24,271       | 32,183       | 29,443       | 35,594        |
| Cost of sales             | 15,475       | 16,583       | 18,207       | 23,409       | 21,370       | 26,805        |
| <b>Gross Profit</b>       | <b>5,323</b> | <b>649</b>   | <b>6,064</b> | <b>8,773</b> | <b>8,073</b> | <b>8,790</b>  |
| SG & A                    | 626          | 673          | 714          | 864          | 974          | 844           |
| <b>Operating Profit</b>   | <b>6,217</b> | <b>1,705</b> | <b>7,079</b> | <b>9,466</b> | <b>9,100</b> | <b>10,930</b> |
| Other income              | 148          | 85           | 245          | 139          | 590          | 233           |
| Other charges             | 327          | 1            | 378          | 566          | 434          | 454           |
| Finance cost              | 107          | 234          | 110          | 92           | 1,366        | 1,560         |
| <b>Profit before tax</b>  | <b>4,412</b> | <b>(173)</b> | <b>5,108</b> | <b>8,010</b> | <b>5,889</b> | <b>6,165</b>  |
| Taxation                  | 1,588        | (114)        | 1,636        | 3,121        | 1,943        | 2,035         |
| <b>Profit after tax</b>   | <b>2,824</b> | <b>(59)</b>  | <b>3,471</b> | <b>4,889</b> | <b>3,946</b> | <b>4,131</b>  |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn)                |               |               |               |               |               |               |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                       | FY19A         | FY20A         | FY21A         | FY22F         | FY23F         | FY24F         |
| PPE                                   | 23,203        | 22,065        | 21,422        | 28,730        | 43,775        | 47,237        |
| Other LT assets                       | 87            | 99            | 87            | 87            | 88            | 89            |
| Non-Current Assets                    | 23,290        | 22,225        | 21,613        | 28,889        | 43,921        | 47,372        |
| Current assets                        | 5,676         | 7,153         | 12,439        | 18,292        | 15,586        | 17,262        |
| <b>Total Assets</b>                   | <b>28,965</b> | <b>29,377</b> | <b>34,052</b> | <b>47,181</b> | <b>59,506</b> | <b>64,634</b> |
| Non-Current liabilities               | 4,315         | 4,390         | 4,630         | 12,647        | 18,264        | 16,998        |
| Current liabilities                   | 3,752         | 5,182         | 6,147         | 6,369         | 9,132         | 11,395        |
| <b>Total Liabilities</b>              | <b>8,067</b>  | <b>9,573</b>  | <b>10,777</b> | <b>19,016</b> | <b>27,396</b> | <b>28,393</b> |
| Equity                                | 20,899        | 19,804        | 23,276        | 28,165        | 32,110        | 36,241        |
| <b>Total Equity &amp; liabilities</b> | <b>28,965</b> | <b>29,377</b> | <b>34,053</b> | <b>47,181</b> | <b>59,507</b> | <b>64,634</b> |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) |              |              |              |                |                 |              |
|-----------------------------|--------------|--------------|--------------|----------------|-----------------|--------------|
|                             | FY19A        | FY20A        | FY21A        | FY22F          | FY23F           | FY24F        |
| Net Income                  | 2,824        | (59)         | 3,471        | 4,889          | 3,946           | 4,131        |
| Non-cash Charges            | 1,520        | 1,729        | 1,729        | 1,556          | 2,001           | 2,984        |
| <b>Operating Cash flows</b> | <b>5,460</b> | <b>809</b>   | <b>1,549</b> | <b>5,856</b>   | <b>3,772</b>    | <b>5,871</b> |
| <b>FCFF</b>                 | <b>3,429</b> | <b>238</b>   | <b>509</b>   | <b>(2,934)</b> | <b>(12,344)</b> | <b>482</b>   |
| Net borrowings              | (1,075)      | 1,036        | (94)         | 7,374          | 8,707           | 167          |
| <b>FCFE</b>                 | <b>2,286</b> | <b>1,193</b> | <b>340</b>   | <b>4,383</b>   | <b>(4,553)</b>  | <b>(396)</b> |
| Net change in cash          | (129)        | 158          | 340          | 4,383          | (4,553)         | (396)        |
| <b>Closing cash</b>         | <b>403</b>   | <b>561</b>   | <b>901</b>   | <b>5,284</b>   | <b>731</b>      | <b>335</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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| 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](mailto:info@akseerresearch.com)

**Alpha Capital (Pvt) Limited** (Formerly: Alfa Adhi Securities (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](mailto:info@alfaadhi.net)