

Fauji Cement Company Limited

Key Takeaways

PSX: FCCL

Bloomberg: FCCL: PA

Reuters: FAUC: KA

Pakistan Research**Corporate Briefing Key Takeaway**

- FCCL held its analyst briefing today where the company discussed its FY22 financial results. Earlier, the company recorded an EPS of PKR 3.26/share during FY22 compared to an EPS of PKR 2.52/share in SPLY.
- During FY22, FCCL acquired Askari Cement (ACL) which has a capacity of 2.8mnt. The management updated that ACL brown field expansion of 2.05 mnt in Nizampur is likely to be completed during November-22. 37% of the plant will be financed through equity and the remainder through debt. From 63% debt, the company will use LTFF and TERF financing upto 58%.
- With regards to FCCL greenfield capacity of 2.05mnt in DG Khan, the management communicated that it is scheduled to be completed during 3QFY24. The company has already opened the LC for the plant and has already booked 3.5mn worth CAPEX. 67% of the plant will be financed through debt and 33% of the plant will be financed through equity. Out of 67% debt, the company will use LTFF and TERF financing 44%.
- By FY24, FCCL will have capacity of 10.5 mnt which will likely make FCCL the third largest cement manufacturing company in Pakistan.
- The management also updated on current cement bag prices, the cement bag MRP currently stands at 960 where it previously had reached 1,010. The company might consider revision in prices of cement bag given the coal prices continues its downward spiral.
- FCCL currently holds coal inventory upto 3 months averaging around USD 190-200/ton. Moreover, the company coal mix mainly comprises of Afghan and Local coal. Moving forward the management believes that the coal prices will likely remain stagnant.
- The management communicated that during FY22, ACL recorded a gross margin of 25% and stressed that ACL is an already established brand, hence management won't undergo the marketing and price adjustments struggles.
- The company also stressed the importance of hydropower projects and dam projects in Pakistan. As the company is actively engaged in providing cements to these projects.
- The company concluded that they are uncertain about the cement demand situation of the country as it will heavily relies on the prices of construction material.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	UR
Current Price (PKR)	14.1
Upside/(Downside) (%)	-
Dividend Yield (%)	-
Total Return (%)	-
12-month High (PKR)	22
12-month Low (PKR)	12
Outstanding Shares (mn)	2,452
Market Cap (PKR mn)	34,683
Year End	June

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

Investment Thesis

We are placing the stock 'under review' and will revisit our stance after reviewing the detailed financial accounts.

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)						
	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
Net sales	20,798	17,232	24,271	54,243	29,443	35,594
Cost of sales	15,475	16,583	18,207	39,844	21,370	26,989
Gross Profit	5,323	649	6,064	14,399	8,073	8,605
SG & A	626	673	714	1,838	1,230	844
Operating Profit	6,217	1,705	7,079	14,117	8,844	10,745
Other income	148	85	245	977	956	426
Other charges	327	1	378	809	441	460
Finance cost	107	234	110	1,202	1,366	1,479
Profit before tax	4,412	(173)	5,108	11,527	5,991	6,248
Taxation	1,588	(114)	1,636	4,416	1,977	2,062
Profit after tax	2,824	(59)	3,471	7,111	4,014	4,186

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	23,009	17,876	18,848
Total Assets	28,965	29,377	34,052	51,899	61,797	66,220
Non-Current liabilities	4,315	4,390	4,630	12,647	18,264	16,998
Current liabilities	3,752	5,182	6,147	8,865	9,132	10,634
Total Liabilities	8,067	9,573	10,777	21,512	27,396	27,632
Equity	20,899	19,804	23,276	30,387	34,401	38,587
Total Equity & liabilities	28,965	29,377	34,053	51,899	61,797	66,220

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	2,824	(59)	3,471	7,111	4,014	4,186
Non-cash Charges	1,520	1,729	1,729	1,556	2,001	2,984
Operating Cash flows	5,460	809	1,549	7,615	4,304	5,928
FCFF	3,429	238	509	(490)	(11,813)	484
Net borrowings	(1,075)	1,036	(94)	8,195	7,885	(609)
FCFE	2,286	1,193	340	6,964	(4,843)	(1,116)
Net change in cash	(129)	158	340	6,964	(4,843)	(1,116)
Closing cash	403	561	901	7,865	3,022	1,905

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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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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