

Fauji Cement Company Limited

Result Preview

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

Pakistan Research

FCCL: 3QFY24 EPS is expected at PKR 0.74, down 3% YoY

- FCCL is scheduled to announce its 3QFY24 financial result on 23rd April 2024, where we expect the company to report an EPS of PKR 0.74, down 3% YoY compared to an EPS of PKR 0.77 in 3QFY23. This will take 9MFY24 EPS to PKR 2.89, up 2% YoY.
- Net revenue of the company is expected to report at PKR 18.4bn, up 1% YoY in 3Q, as increase in cement retention prices would overshadow effect of lower dispatches.
- We expect local cement retention prices to increase by 14.2% YoY.
- Moreover, we expect company's dispatches to decline by 10.9% YoY in 3QFY24 primarily because of drop of 11.8% in local sales. However, exports are likely to increase by 1.8% YoY for the quarter.
- Gross margins are likely to reach 29% during 3QFY24 vs 25% SPLY. Higher gross margins can be attributed to lower energy prices.
- On energy front we expect coal prices to decrease by 13.6% YoY for 3QFY24 due to significant decline in Afghan coal prices along with ease in local coal prices.
- FCCL's finance cost is likely to clock in at PKR 1.6bn, down by 1% YoY, against PKR 1.6bn expense in 3QFY24.
- We have a 'BUY' recommendation on FCCL with our Dec-24 price target (PT) of PKR 26/share, providing an upside of 29%.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	26
Current Price (PKR)	18
Upside/(Downside) (%)	+29%
Dividend Yield (%)	0%
Total Return (%)	29%
12-month High (PKR)	10.4
12-month Low (PKR)	21.2
Outstanding Shares (mn)	2,452
Market Cap (PKR mn)	49,458
Year End	June

Source: Company Accounts, Akseer Research

Financial estimates (PKR mn)

	3QFY23	3QFY24E	YoY	9MFY23	9MFY24E	YoY
Net Sales	18,234	18,461	1%	51,907	58,813	13%
Cost of Sales	13,505	13,002	-4%	37,848	40,495	7%
Gross Profit	4,730	5,459	15%	14,060	18,317	30%
Admin & Selling Expense	539	1,067	98%	1,557	3,448	121%
Other Income	284	190	-33%	621	526	-15%
Other expense	167	262	57%	635	837	32%
Finance cost	1,612	1,594	-1%	2,510	3,735	49%
Profit before tax	2,695	2,726	1%	9,978	10,824	8%
Taxation	807	900	12%	3,010	3,724	24%
Net Income	1,888	1,826	-3%	6,968	7,100	2%
EPS	0.77	0.74		2.84	2.89	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
EPS	1.4	2.9	3.0	3.6	4.0	4.6
EPS Growth	na	105%	5%	18%	13%	13%
DPS	0.00	0.00	0.00	0.00	1.50	1.75
PER	14.3	7.0	6.7	5.7	5.0	4.4
Dividend Yield	0.0%	0.0%	0.0%	0.0%	7.4%	8.7%
EV/EBITDA	4.16	3.87	3.86	3.25	2.34	1.93
P/B	2.1	0.9	0.8	0.7	0.6	0.6
ROE	14.9%	12.3%	11.4%	11.8%	12.3%	12.8%

Source: Company Accounts, Akseer Research

Abdul Hannan
hannan.khan@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 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-24 PT of 26/share. Our price target provides an upside of 29%. Our investment case on FCCL is based on (1) improvement in retention prices (2) synergies post merger with Askari Cement and (3) brownfield and 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, 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)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net sales	24,271	54,243	68,069	79,240	91,687	97,701
Cost of sales	18,207	39,844	47,651	55,023	64,414	69,051
Gross Profit	6,064	14,399	20,418	24,217	27,273	28,650
SG & A	714	1,838	4,087	4,895	4,714	5,231
Operating Profit	7,079	15,267	19,499	23,274	28,820	29,772
Other income	245	977	964	730	807	1,245
Other charges	378	809	750	1,116	1,114	1,262
Finance cost	110	1,202	3,645	5,595	6,097	5,092
Profit before tax	5,108	11,527	12,900	13,340	16,155	18,309
Taxation	1,636	4,416	5,460	4,586	6,300	7,141
Profit after tax	3,471	7,111	7,440	8,754	9,854	11,169

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
PPE	21,422	74,126	104,425	110,798	106,630	102,401
Other LT assets	87	11,156	11,087	11,091	11,095	11,098
Non-Current Assets	21,613	85,481	115,694	121,935	117,761	113,528
Current assets	12,439	28,217	23,134	25,821	31,418	38,225
Total Assets	34,052	113,698	138,828	147,756	149,180	151,753
Non-Current liabilities	4,630	29,241	45,166	42,518	34,024	28,702
Current liabilities	6,162	26,721	28,487	31,308	35,050	36,070
Total Liabilities	10,792	55,962	73,653	73,826	69,075	64,772
Equity	23,276	57,736	65,176	73,930	80,105	86,981
Total Equity & liabilities	34,068	113,698	138,828	147,756	149,180	151,753

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net Income	3,471	7,111	7,440	8,754	9,854	11,169
Non-cash Charges	1,729	2,706	3,167	3,952	6,261	6,353
Operating Cash flows	1,549	5,793	17,205	9,925	14,037	16,403
FCFF	509	(48,918)	(14,208)	3,408	15,673	17,393
Net borrowings	(79)	23,700	14,974	255	(4,191)	(3,715)
FCFE	356	(25,959)	(1,336)	(8)	7,762	10,572
Net change in cash	340	1,406	(1,336)	(8)	4,083	6,280
Closing cash	901	2,307	970	962	5,045	11,324

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
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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 (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@alphcapital.com.pk