

**Fauji Cement Company Limited**  
Result Review

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

Pakistan Research

**1QFY23 EPS clocked in at PKR 1.06, up 10% YoY**

- FCCL announced its 1QFY23 results today wherein the company reported an EPS of PKR 1.06 compared to an EPS of PKR 0.97. The result came in higher than our expectation largely due to higher net sales and lower finance cost.
- Net revenue of the company stood at PKR 14.7bn, up 27%, on account of higher cement retention price of PKR 13,820/ton vs our expectation of PKR 13,180/ton.
- Gross margin of the company declined slightly to 28.7% in 1QFY23 vs 29.6% in 1QFY22. During this period, coal prices escalated by 51% YoY, however, cement prices also rose in tandem with coal prices by 58% YoY, which resulted in stable margins.
- Selling and admin expenses augmented by 10% YoY to 0.45bn in 1QFY23, this is primarily due to an increase in the transportation expenses led by higher fuel prices.
- Finance cost grew by 89% YoY to PKR 0.42bn. This can be attributable to higher borrowings along with higher interest rates.
- The company recorded an effective tax rate of 30% vs 24% during 1QFY22, higher tax rate is largely due to increase in corporate tax rate announced in the FY23 budget.
- We have a 'BUY' recommendation on FCCL with our June-23 price target (PT) of PKR 20/share providing an upside 37%.

**Key Data**

PSX Ticker	FCCL
Target Price (PKR)	20
Current Price (PKR)	14.6
Upside/(Downside) (%)	37%
Dividend Yield (%)	0%
Total Return (%)	37%
12-month High (PKR)	22
12-month Low (PKR)	12
Outstanding Shares (mn)	2,452
Market Cap (PKR mn)	35,787
Year End	June

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	1QFY22	1QFY23	YoY
Net Sales	11,578	14,700	27%
Cost of Sales	8,146	10,487	29%
<b>Gross Profit</b>	<b>3,431</b>	<b>4,213</b>	<b>23%</b>
Selling & Admin. Exp	406	448	10%
Other Income	162	200	24%
Other Charges	201	236	17%
Finance cost	219	415	89%
Profit before tax	<b>2,767</b>	<b>3,315</b>	<b>20%</b>
Taxation	662	1,000	51%
<b>Net Income</b>	<b>2,104</b>	<b>2,315</b>	<b>10%</b>
EPS	0.97	1.06	10%

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	(0.0)	2.5	3.3	3.2	4.1	7.2
EPS Growth	-	-	30%	-1%	25%	77%
DPS	-	-	-	-	-	3.00
PER	-	5.8	4.5	4.5	3.6	2.0
Dividend Yield	-	-	-	-	-	20.6%
EV/EBITDA	13.04	3.08	2.62	2.35	2.81	1.19
P/B	1.0	0.9	0.3	0.3	0.3	0.2
ROE	-	14.9%	12.3%	12.1%	13.2%	18.9%

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 have a 'Buy' recommendation on the stock based on our June-23 PT of PKR 20/share. Our price target provides an upside of 37%. Our investment case on FCCL is based on (1) improvement in retention prices and (2) Recent Merger with Askari Cement (3) upcoming brownfield and greenfield expansion of 4.1mn tons.

### 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	66,613	70,997	79,647
Cost of sales	16,583	18,207	39,844	50,295	51,816	48,974
<b>Gross Profit</b>	<b>649</b>	<b>6,064</b>	<b>14,399</b>	<b>16,318</b>	<b>19,180</b>	<b>30,673</b>
SG & A	673	714	1,838	2,038	2,394	2,546
<b>Operating Profit</b>	<b>1,705</b>	<b>7,079</b>	<b>16,841</b>	<b>19,264</b>	<b>21,020</b>	<b>33,330</b>
Other income	85	245	977	1,426	1,204	964
Other charges	1	378	809	874	1,096	1,937
Finance cost	234	110	1,202	2,958	2,004	839
<b>Profit before tax</b>	<b>(173)</b>	<b>5,108</b>	<b>11,527</b>	<b>11,873</b>	<b>14,890</b>	<b>26,314</b>
Taxation	(114)	1,636	4,416	3,918	4,914	8,684
<b>Profit after tax</b>	<b>(59)</b>	<b>3,471</b>	<b>7,111</b>	<b>7,955</b>	<b>9,976</b>	<b>17,631</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	22,065	21,422	74,126	78,542	98,066	96,047
Other LT assets	99	87	11,156	11,118	11,119	11,120
Non-Current Assets	22,225	21,613	85,481	89,717	109,231	107,204
Current assets	7,153	12,439	28,217	34,856	29,666	33,108
<b>Total Assets</b>	<b>29,377</b>	<b>34,052</b>	<b>113,698</b>	<b>124,574</b>	<b>138,897</b>	<b>140,311</b>
Non-Current liabilities	4,390	4,630	29,241	42,925	37,092	31,260
Current liabilities	5,182	6,162	26,721	15,959	26,138	15,755
<b>Total Liabilities</b>	<b>9,573</b>	<b>10,792</b>	<b>55,962</b>	<b>58,884</b>	<b>63,231</b>	<b>47,015</b>
Equity	19,804	23,276	57,736	65,690	75,666	93,296
<b>Total Equity &amp; liabilities</b>	<b>29,377</b>	<b>34,068</b>	<b>113,698</b>	<b>124,574</b>	<b>138,897</b>	<b>140,311</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	(59)	3,471	7,111	7,955	9,976	17,631
Non-cash Charges	1,729	1,729	4,280	4,984	4,234	5,202
<b>Operating Cash flows</b>	<b>809</b>	<b>1,549</b>	<b>7,367</b>	<b>8,095</b>	<b>10,039</b>	<b>22,671</b>
<b>FCFF</b>	<b>238</b>	<b>509</b>	<b>(48,918)</b>	<b>752</b>	<b>(12,365)</b>	<b>20,058</b>
Net borrowings	1,036	(79)	23,700	10,163	4,398	(15,967)
<b>FCFE</b>	<b>1,193</b>	<b>356</b>	<b>(25,959)</b>	<b>8,933</b>	<b>(9,310)</b>	<b>3,528</b>
Net change in cash	158	340	1,406	8,932	(9,310)	3,528
<b>Closing cash</b>	<b>561</b>	<b>901</b>	<b>2,307</b>	<b>11,239</b>	<b>1,929</b>	<b>5,458</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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