

FCCL - FY21 earnings to clock in at PKR 2.71/share; PKR 1.0 DPS likely

- FCCL is scheduled to announce its FY21 results on 6th September 2021 wherein we expect the company to post profit after tax of PKR 3.7bn (EPS PKR 2.71), compared to loss of PKR 59mn (LPS PKR 0.04) in the last year.
- The company is also expected to announce cash dividend of PKR 1.0 along with the results.
- Net sales of the company are likely to grow by 42% YoY in FY21 on account of improved local dispatches (+13% YoY) and higher cement prices (+27% YoY).
- During FY21, local cement prices in the north region remained on the higher side on the back of higher utilization levels of 80%.
- Consequently, gross margins of the company are likely to witness accretion of 22pps and settle at 26.2% in FY21 compared to margins of 3.8% in FY20.
- Finance cost for FY21 is likely to narrow down by 71% YoY due to reduction in borrowings due to significant reduction in interest rates by 625bps.
- In 4QFY21 alone, we expect FCCL to report an EPS of PKR 0.82 compared to an LPS of PKR 0.24 in the same period last year. Net sales are anticipated to accelerate by 85% YoY on the back of higher growth in dispatches (+21% YoY) along with inflated cement prices (+52% YoY). Resultantly, gross margins in 4QFY21 would settle at 27.7% compared to negative margins of 6.1% in 4QFY20.
- We have a 'BUY' recommendation on FCCL with a Dec-21 price target (PT) of PKR 28/share, providing a potential upside of 39% along with a dividend yield of 4.9%.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	28
Current Price (PKR)	20.29
Upside/(Downside) (%)	+ 39%
Dividend Yield (%)	+ 4.9%
Total Return (%)	+ 44%
12-month High (PKR)	27.61
12-month Low (PKR)	18.31
Outstanding Shares (mn)	1379.82
Market Cap (PKR mn)	28,010
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20A	4QFY21E	YoY	FY20A	FY21E	YoY
Net Sales	3,750	6,939	85%	17,232	24,467	42%
Cost of Sales	3,979	5,016	26%	16,583	18,064	9%
Gross Profit	(229)	1,922	NM	649	6,403	886%
Selling & Admin. Exp	160	238	48%	673	751	12%
Other Income	11	40	266%	85	167	96%
Other Charges	(14)	70	NM	1	464	81736%
Finance cost	84	15	-82%	234	82	NM
Profit before tax	(449)	1,639	NM	(173)	5,273	NM
Taxation	(118)	386	NM	(114)	1,529	NM
Net Income	(331)	1,254	NM	(59)	3,744	NM
EPS	(0.24)	0.82		(0.04)	2.71	
DPS	-	1.00		-	1.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
EPS	2.49	2.05	-0.04	2.71	3.06	4.32
EPS Growth	31%	-18%	-102%	NM	13%	41%
DPS	1.00	1.50	0.00	1.00	1.25	1.75
PER	9.63	11.69	NM	8.82	7.83	5.54
Dividend Yield	4.2%	6.3%	0.0%	4.9%	5.2%	7.3%
EV/EBITDA	6.01	5.52	20.59	4.56	4.93	4.21
P/B	1.61	1.58	1.67	1.40	1.25	1.08
ROE	16.7%	13.5%	-0.3%	15.9%	16.0%	19.5%

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 equity (FCFE) method. We have used a risk free rate of 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 28/share. Our price target provides a potential upside of 39% along with a dividend yield of 4.9%. Our revised investment case on FCCL is based on (1) normalcy in economic activity (2) boom in construction sector.

Risks

Key risks to our investment thesis include (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) prolonged pandemic situation and (5) increase 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)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Net sales	21,161	20,798	17,232	24,467	28,463	30,409
Cost of sales	16,125	15,475	16,583	18,064	21,422	20,677
Gross Profit	5,036	5,323	649	6,403	7,041	9,732
SG & A	583	626	673	751	817	887
Operating Profit	7,906	10,001	5,248	5,870	6,217	1,705
Other income	104	148	85	167	211	218
Other charges	420	579	291	311	327	1
Finance cost	148	107	234	82	56	43
Profit before tax	4,098	4,412	(173)	5,273	5,940	8,399
Taxation	669	1,588	(114)	1,529	1,722	2,436
Profit after tax	3,429	2,824	(59)	3,744	4,217	5,963

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
PPE	22,624	23,203	22,065	24,357	34,161	43,463
Other LT assets	87	87	99	100	101	102
Non-Current Assets	22,711	23,290	22,225	24,506	34,300	43,596
Current assets	6,338	5,676	7,153	6,828	8,829	7,546
Total Assets	29,049	28,965	29,377	31,333	43,129	51,142
Non-Current liabilities	4,302	4,315	4,390	4,094	12,770	15,182
Current liabilities	4,259	3,752	5,182	3,691	3,974	5,337
Total Liabilities	8,561	8,067	9,573	7,786	16,744	20,518
Equity	20,489	20,899	19,804	23,548	26,385	30,623
Total Equity & liabilities	29,049	28,965	29,377	31,333	43,129	51,142

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Net Income	3,429	2,824	(59)	3,744	4,217	5,963
Non-cash Charges	1,417	1,520	1,729	1,481	1,789	1,825
Operating Cash flows	3,773	5,460	809	6,277	6,045	7,412
FCFF	1,859	3,429	238	2,575	(5,499)	(3,677)
Net borrowings	900	(1,075)	1,036	(1,972)	8,517	3,630
FCFE	2,636	2,286	1,193	545	2,978	(78)
Net change in cash	14	(129)	158	545	1,599	(1,803)
Closing cash	532	403	561	1,106	2,705	902

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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