

Fauji Cement Company Limited
Result Review

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

Pakistan Research

2QFY19 EPS grew 24% YoY to PKR 0.74 despite lower dispatch growth

- FCCL announced its 2QFY19 financial result today, where the company reported EPS of PKR 0.74/share, an increase of 24% YoY. 1HFY19 EPS settled at PKR 1.32/share, up 44% YoY. The company also announced an interim cash dividend of PKR 0.75/share along with the result. The result was in line with our expectations.
- FCCL topline declined by 7% YoY during 2QFY19 due to 13% decline in total dispatch volumes. The decline was sustained by a 17% YoY increase in North cement prices. 1HFY19 revenues increased by 2% YoY to PKR10.43bn.
- Gross margins for 2QFY19 settled in at 32%, up 5.8pps YoY, which can be attributed to a 17% YoY increase in north cement prices. Gross margins for 1HFY19 settled in at 29.2%, up 7.5pps.
- Other income for 2QFY19 increased by 2.3x YoY likely due to higher return on short term investments on account of higher interest rate during the quarter.
- We have 'BUY' recommendation on FCCL. Our price target (PT) of PKR 24/share provides an upside of 6% along with a dividend yield of 8.8%.

Key Data

PSX Ticker	FCCL
Target Price (PKR)	24
Current Price (PKR)	23
Upside/(Downside) (%)	+ 6%
Dividend Yield (%)	8.8%
Total Return (%)	+ 15%
12-month High (PKR)	33
12-month Low (PKR)	19
Outstanding Shares (mn)	1,379.82
Market Cap (PKR mn)	31,225
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY18	2QFY19	YoY	1HFY18	1HFY19	YoY
Net Sales	5,475	5,089	-7%	10,268	10,431	2%
Cost of Sales	4,039	3,460	-14%	8,040	7,383	-8%
Gross Profit	1,435	1,629	13%	2,228	3,048	37%
Admin & Selling Expense	180	139	-23%	294	313	6%
Other Income	23	76	229%	35	83	137%
Other Expense	92	106	15%	137	190	38%
Finance cost	42	24	-43%	74	53	-28%
Profit before tax	1,144	1,436	25%	1,758	2,575	47%
Taxation	321	414	29%	490	751	53%
Net Income	824	1,023	24%	2,613	3,429	31%
EPS	0.60	0.74	24%	0.92	1.32	44%
DPS	-	0.75	-	-	0.75	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
EPS	3.98	1.89	2.49	2.89	2.57	2.71
EPS Growth	29%	-52%	31%	16%	-11%	6%
DPS	2.75	0.90	2.00	2.00	1.75	2.00
PER	5.7	11.9	9.1	7.8	8.8	8.3
Dividend Yield	12.2%	4.0%	8.8%	8.8%	7.7%	8.8%
EV/EBITDA	3.4	6.2	5.7	3.9	4.2	3.8
P/B	1.7	1.6	1.5	1.4	1.3	1.2
ROE	29.1%	13.3%	16.7%	17.3%	14.9%	14.8%

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 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 24/share. Our price target provides an upside of 6% along with a dividend yield of 8.8%. Our investment case on FCCL is based on (1) recent price correction provides an attractive entry point (2) Installation of WHR to provide savings against rising power cost.

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) and reduction in cement prices from current levels.

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)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
Net sales	20,044	20,423	21,161	24,054	23,182	24,490
Cost of sales	10,879	15,986	16,046	17,307	17,339	18,507
Gross Profit	9,165	4,438	5,115	6,748	5,843	5,982
SG & A	521	506	662	678	708	741
Operating Profit	7,002	7,906	10,001	5,248	5,870	7,557
Other income	269	443	104	173	263	349
Other charges	334	420	579	291	311	416
Finance cost	503	153	148	206	106	83
Profit before tax	7,831	3,930	4,098	5,621	4,927	5,128
Taxation	2,464	1,317	669	1,630	1,380	1,384
Profit after tax	5,367	2,613	3,429	3,991	3,548	3,743

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
PPE	21,701	22,004	22,624	21,968	21,296	20,608
Other LT assets	157	87	87	87	88	89
Non-Current Assets	21,858	22,091	22,711	22,055	21,384	20,697
Current assets	7,500	5,662	6,338	7,696	8,904	10,932
Total Assets	29,358	27,752	29,049	29,752	30,288	31,629
Non-Current liabilities	5,969	5,403	4,302	3,981	3,834	3,793
Current liabilities	4,961	2,669	4,259	2,671	2,567	2,620
Total Liabilities	10,930	8,071	8,561	6,652	6,401	6,412
Equity	18,428	19,681	20,489	23,100	23,888	25,216
Total Equity & liabilities	29,358	27,752	29,049	29,752	30,288	31,629

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
Net Income	5,367	2,613	3,429	3,991	3,548	3,743
Non-cash Charges	1,357	1,316	1,417	1,488	1,523	1,560
Operating Cash flows	5,346	4,119	3,709	6,099	5,252	5,408
FCFF	6,513	2,654	1,819	5,413	4,477	4,597
Net borrowings	(2,441)	(2,289)	964	(1,783)	(318)	(189)
FCFE	3,727	212	2,636	3,484	4,082	4,348
Net change in cash	(631)	(1,148)	14	2,104	1,323	1,933
Closing cash	1,666	518	532	2,636	3,959	5,892

Source: Company Accounts, Akseer Research

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Valuation Methodology

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.

Ratings Criteria

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

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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