

Earning Review

FCCL: 1QFY22 EPS clocked in at Rs0.98, up 95% YoY

Event

- Fauji Cement Company Limited (FCCL PA) profitability clocked in at Rs1,359mn (EPS Rs0.98, up 95/58% YoY/QoQ) in 1QFY22 as compared to profit of Rs696mn (EPS Rs0.50) in 1QFY21.
- The result is above our expectations due to lower fuel/power cost, in our view.

Impact

- We attribute increase in FCCL profitability to (1) ~33% YoY increase in cement retention prices in domestic market, (2) decline in finance cost, (3) higher other income given strong cash position of the company and (4) lower effective tax rate.
- Furthermore, FCCL board has also discussed amalgamation of Askari Cement Limited with and into FCCL and directed the management to start preparation and finalization of relevant documents and calculation of share swap ratio. To highlight, Askari Cement current cement manufacturing stand at 2.8mn tons and after amalgamation FCCL capacity would be increased to 6.4mn tons with market share of 9.2% in current scenario. Furthermore, after COD of 2.1mn tons greenfield expansion FCCL company total capacity would be further increased to 8.4mn tons with market share of 9.3%.
- FCCL sales increased by 26% YoY in 1QFY22 due to ~33% YoY increase in domestic cement retention prices as dispatches declined by 4% YoY in 1QFY22 due to 3/22% decline in domestic/export dispatches.
- Furthermore, FCCL gross margins increased by 8.8/6.9ppt YoY/QoQ to 30.4% in 1QFY22 due to better cement retention prices in domestic market, in our view.
- FCCL finance cost decreased/increased by 10% YoY/QoQ in 1QFY22 due to decline in debt of the company.
- Among other major heads admin/distribution cost increased by 45/6% YoY in 1QFY22.
- FCCL other operating expenses increased by 94/36% YoY/QoQ in 1QFY22 due to higher provision for WPPF/WWF given better profitability of the company.
- Furthermore, FCCL other income increased by 6.1x YoY in 1QFY22 due to higher interest income on cash held by the company.
- To highlight, FCCL effective tax rate clocked in at 26.9% (down 0.3/9.5ppt YoY/QoQ) in 1QFY22.

Outlook

- We have Outperform stance on the scrip with Jun-22 target price of Rs23.9/sh. Furthermore, near term profitability of the company is expected to remain under pressure given sector's inability to completely pass on the impact of rise in fuel/power and other overhead costs.
- However FCCL would benefit from (1) favorable Gov't policies (2) continuous increase in consumer housing finance (up 39.8% YoY to Rs111.7bn in Aug'21) and (3) increased demand from public sector due to early disbursement of PSDP.

Analyst

Usman Arif
+92 21 3561 2290-94

usman.arif@fs.com.pk
Ext 339

Fig 01: FCCL 1QFY22 Key Financial Highlights (Rs mn)

	1QFY22	1QFY21	YoY	QoQ
Net Sales	6,936	5,501	26%	3%
Cost of sales	4,826	4,313	12%	-6%
Gross Profit	2,110	1,188	78%	33%
Admin Expenses	150	103	45%	-3%
Selling and Distribution Expenses	51	48	6%	6%
Operating Profit	1,910	1,038	84%	38%
Other operating expenses	137	70	94%	36%
Other operating income	113	18	513%	24%
Financial Charges	27	30	-10%	36%
Profit before taxation	1,859	956	94%	37%
Taxation	500	261	92%	2%
Profit after Tax	1,359	696	95%	58%
EPS	0.98	0.50		
Gross margins	30.4%	21.6%		
Net margins	19.6%	12.6%		
Effective tax rate	26.9%	27.2%		

Source: Company accounts, Foundation Research, October 2021

Important disclosures:

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.