

Pakistan

FCCL PA **Outperform**

Price (LDCP)	Rs	19.2
Jun-22 Target Price	Rs	27.6
Upside/Downside	%	43.7
12M Target Price	Rs	29.2

- Discounted Cashflows

Sector		Cements
Market cap	Rs bn	26.5
30-day avg turnover	\$ m	0.2
Market cap	\$ m	154.0
Freet float	m	758.9
Shares issued	m	1,379.8

Investment fundamentals

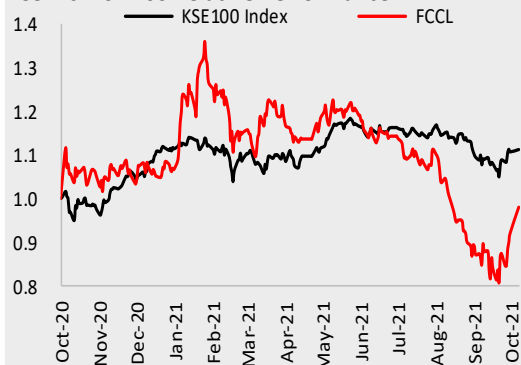
Year end Dec		2021A	2022E	2023E	2024E
Net Revenues	mn	24,271	30,895	32,638	32,638
EBITDA	m	6,640	7,789	9,918	10,861
EBITDA growth	%	14	17	27	10
PBT	m	5,108	6,409	8,761	6,646
Recurring prof.	m	3,471	4,542	6,283	4,776
Net Profit	m	3,471	4,542	6,283	4,776

EPS reported	Rs	2.5	3.3	4.6	3.5
Revenue Growth	%	16.7	27.3	5.6	-
EPS growth	%	na	30.9	38.3	(24.0)
PE	x	7.6	5.8	4.2	5.6

DPS	Rs	-	-	-	2.7
DY	%	-	-	-	14.3

ROA	%	11.4	11.6	11.7	7.6
ROE	%	15.7	17.8	20.3	13.4
EV/EBITDA	x	3.6	4.2	4.1	3.7
Payout Ratio	%	-	-	-	79.5
Price to Book	x	1.1	1.0	0.8	0.7
Price to Sales	x	1.1	0.9	0.8	0.8

FCCL vs. KSE 100 Relative Performance



Analysts

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Foundation Securities (Pvt) Ltd

Friday, October 29, 2021

Fauji Cement Company Limited

The New Crown Prince in North

Event

▪ Post amalgamation of Askari cement with and into FCCL and dual expansion of 4.1mn tons (2.05mn ton each by FCCL and Askari) would allow FCCL to become second biggest player in North region. Furthermore, company would benefit from (1) increased demand from public sector as infrastructure projects would gain momentum before election year, (2) prime beneficiary of hike in cement prices due to ~100% utilization level, (3) strong private sector demand due to construction package amid increasing inflows of RDA, (4) disbursement of subsidy under NPHP and (5) decline in coal prices.

▪ We maintain our Outperform stance on the scrip with Jun-22 TP of **Rs27.6/sh**. Incorporation of aforementioned amalgamation into our valuation would provide upside potential to our valuations.

Impact

▪ **Askari amalgamation and dual expansion to make FCCL second largest North player:** FCCL market share after, Askari amalgamation along with combined capacity addition of 4.1mn ton, is expected to increase by 6.5ppt to 13.2% (10.5mn tons capacity) in FY24.

▪ With increased market share FCCL would benefit from higher demand from private/public sector as we expect domestic demand to increase by 7.7/10.0/6.1% YoY in FY22/FY23/FY24. However, post COD of 4.1mn tons option to export cement production would depend upon economic recovery of Afghanistan.

▪ **Debt free balance sheet and TERF/LTFF facility to keep interest rate risk on lower side:** On current debt matrix, FCCL has the lowest debt/ton that would allow it to avail debt at lower markup rates. Company total debt stand at Rs1.1bn at the end of Sep'21 and would increase to Rs20bn in FY24 due to 2.05mn Greenfield expansion (Rs32bn expansion cost). To highlight, FCCL has already secured Rs10bn TERF/LTFF facility to finance its Rs20bn debt component of the expansion.

▪ **Higher reliance on internal power generation to provide competitive edge:** FCCL reliance on internal power generation to meet its ~70% energy requirement would hold positive for the company as national grid rates are expected to increase due to resumption of IMF program. However, company fuel cost would remain on higher side as coal prices are expected to remain elevated till 4QFY22.

Earnings Upward Revision

▪ We have revised our EPS estimates for FY22/23 by \uparrow 37/20% and our TP by 15.5% from Rs23.9/sh to Rs27.6/sh due to revised retention prices assumption.

Price Catalyst

▪ June- 22 TP: Rs27.6/sh based on DCF methodology.

▪ Catalyst: (1) better retention prices, (2) increased private sector demand, (3) public sector spending before election year and (4) demand from NPHP.

▪ Risks: (1) prolonged commodity cycle boom and (2) start of price war.

Outlook

▪ We have 'Outperform' stance on the scrip with June-22 TP of Rs27.6/sh.

FCCL to become second biggest player in North with 10.5mn tons of capacity

New expansion cycle to bring industry capacity closer to 100mn tons

FCCL is set to become second biggest cement player in North after amalgamation of Askari cement with and into FCCL and expansions of 2.05mn tons each at D.G Khan and Nizampur site. Furthermore, FCCL market share in North would increase from current 6.7% (11.9% including Askari) to 13.2% which would be second highest after BWCL market share of 19.2% in north region. To highlight, we have only incorporated impact of FCCL Greenfield expansion of 2.05mn tons as we wait for further disclosure of Askari amalgamation transaction to incorporate this in our valuation. To highlight, post amalgamation synergies would provide further upside to our FCCL Jun-22 TP of Rs27.6/sh.

Table 01: Upcoming expansions to come with significant cost escalation

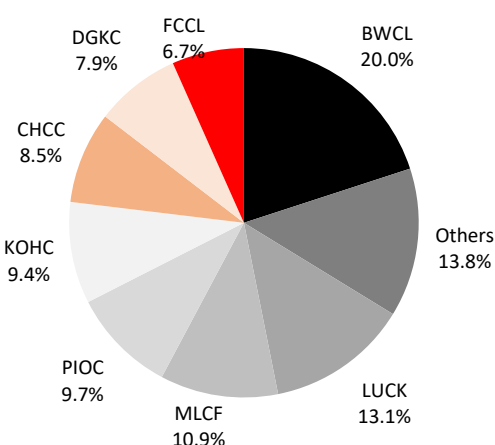
	Capacity (Mn tons)	Additions (Mn tons)					Capacity (Mn tons)	Additions (Mn tons)					Capacity (Mn tons)
	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY25		
Northern plants													
Bestway Cement	8.5	0.2	0.1	2.0	-	10.7	-	2.3	2.3	-	15.2		
Fauji Cement*	6.2	-	0.1	-	-	6.4	-	2.1	2.1	-	10.5		
Lucky Cement	4.2	-	-	-	2.8	7.0	-	1.6	1.6	-	10.2		
Cherat Cement	1.1	1.3	-	2.1	-	4.5	-	-	3.5	-	8.0		
Maple Leaf Cement	3.4	-	-	2.3	-	5.8	-	2.2	-	-	8.0		
D.G Khan Cement**	4.2	-	-	-	-	4.2	-	-	-	3.5	7.7		
Kohat Cement	2.7	-	-	-	2.3	5.0	-	-	2.5	-	7.5		
Pioneer Cement	2.2	-	-	-	3.0	5.2	-	-	-	-	5.2		
Others	4.5	-	0.1	-	-	4.5	-	2.4	-	-	7.0		
Sub-total	37.0	1.5	0.3	6.4	8.1	53.4	-	10.5	11.9	3.5	79.2		
Southern Plants													
Attock Cement	1.8	-	1.2	-	-	3.0	-	-	1.3	-	4.4		
Power Cement	0.6	-	-	-	2.4	3.0	-	-	-	-	3.0		
Lucky Cement	3.6	-	1.6	-	-	5.2	-	-	-	-	5.2		
D.G Khan Cement	-	-	2.8	-	-	2.8	-	-	-	-	2.8		
Others	2.4	-	-	-	-	2.4	-	-	-	-	2.4		
Sub-total	8.4	-	5.6	-	2.4	16.5	-	-	1.3	-	17.8		
Total	45.4	1.5	5.9	6.4	10.6	69.8	-	10.5	13.2	3.5	97.1		

Source: PSX, APCMA, Foundation Research, October 2021

*Fauji Cement current capacity and addition is taken after amalgamation of Askari cement

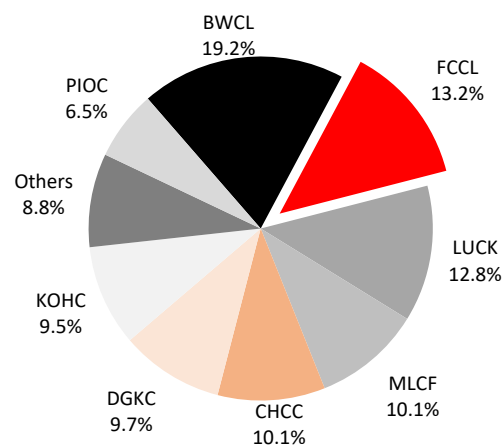
**not yet formally announced by the company

Fig 01: FCCL current market share in North region before merger and dual expansion of 4.1mn tons



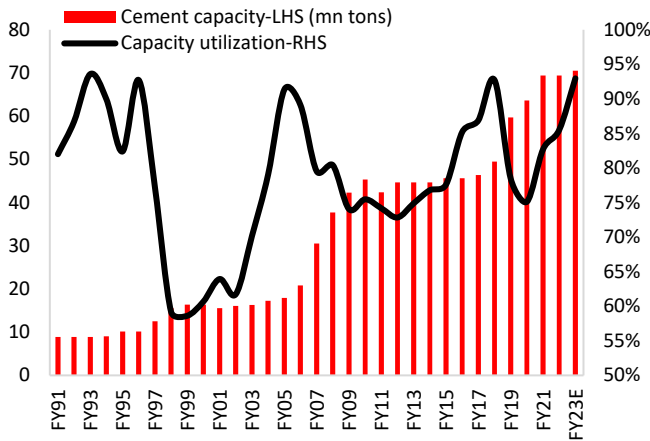
Source: APCMA, Company Accounts, FSL Research, Oct 2021

Fig 02: FCCL expected market share in North region after merger and dual expansion of 4.1mn tons



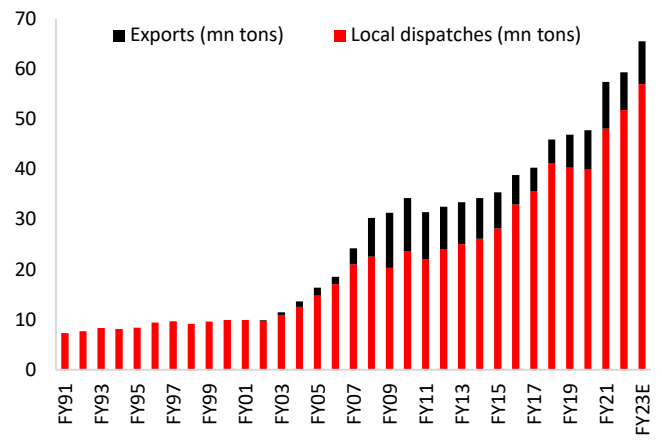
Source: APCMA, Company Accounts, FSL Research, Oct 2021

Fig 03: industry capacity utilization to touch ~93% ahead of new expansions coming online



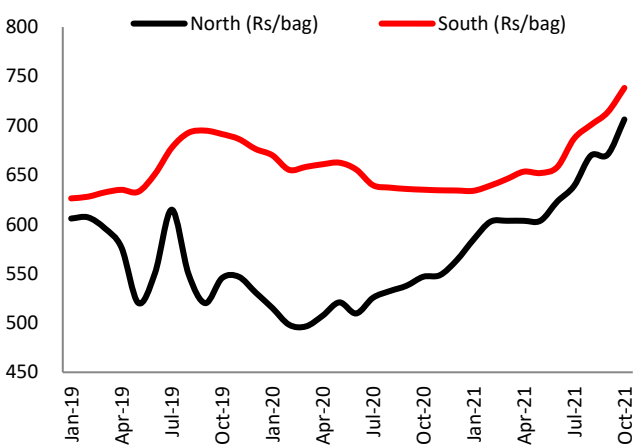
Source: APCMA, Foundation Research, October 2021

Fig 04: Exports to remain restricted in FY22 in both north/south region



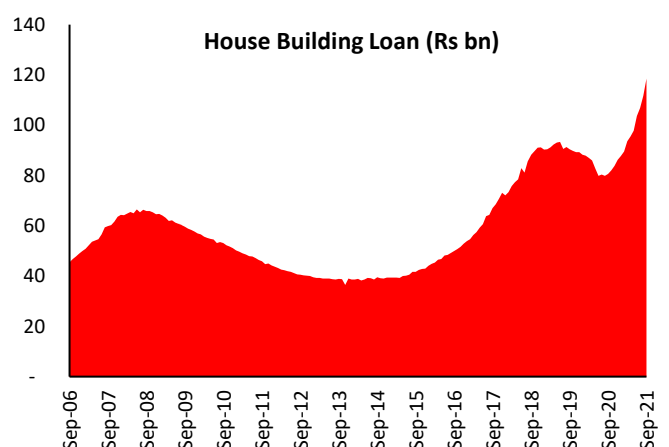
Source: APCMA, Foundation Research, October 2021

Fig 05: Prices to remain stable at these levels as coal prices ↓ from peak for forward contracts (Rs/bag)



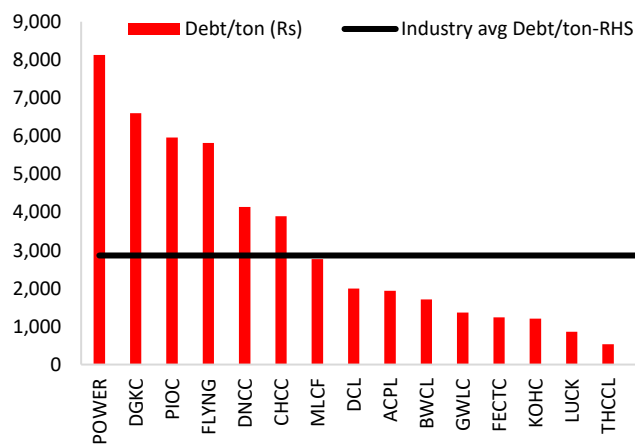
Source: PBS, Foundation Research, October 2021

Fig 06: Housing finance at highest level in Pakistan history due to lower borrowing cost (Rs bn)



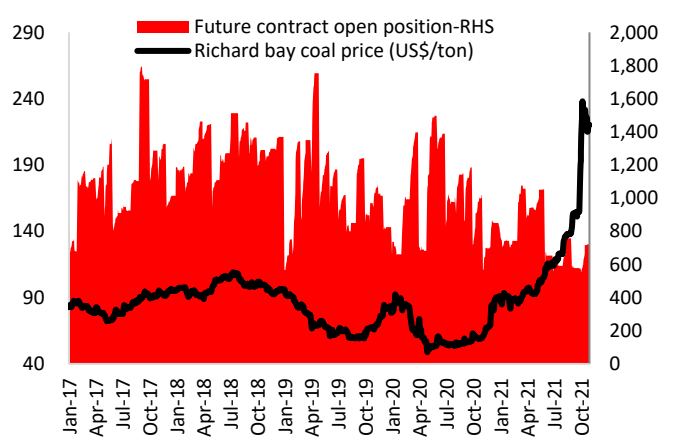
Source: SBP, Foundation Research, October 2021

Fig 07: FCCL debt/ton ranks lowest among its peers that would keep interest rate risk on lower side



Source: Company Accounts, FSL Research, Oct 2021

Fig 08: Coal prices increased due to winter season demand from China/India...



Source: Bloomberg, Foundation Research, October 2021

Table 02: Fauji Cement Company Limited (FCCL PA, 'Outperform', Target Price Rs27.6/sh)

Balance Sheet		FY21A	FY22E	FY23E	FY24E	Profit & Loss		FY21A	FY22E	FY23E	FY24E
PP&E	m	21,537	34,265	47,676	48,838	Net sales	m	24,271	30,895	32,638	30,885
Cash & ST invest	m	3,999	5,017	5,967	6,596	COGS	m	18,207	23,346	22,459	22,016
Inventory	m	1,651	1,808	1,783	2,160	Gross profit	m	6,064	7,549	10,178	8,869
Other assets	m	4,892	5,170	5,464	6,666	Admin expenses	m	525	645	728	788
Total Assets	m	32,080	46,259	60,890	64,260	S&D expense	m	190	254	342	367
LT+ST debt	m	1,082	10,842	19,795	20,198	Other expenses	m	378	506	710	539
Acct. payable	m	1,469	1,877	1,852	2,243	Other income	m	245	316	383	606
Deferred tax	m	4,104	3,633	3,086	2,621	EBIT	m	5,217	6,459	8,781	7,782
Others	m	2,149	2,089	2,056	2,046	Finance cost	m	110	50	20	1,136
Total Liabilities	m	8,804	18,441	26,789	27,107	PBT	m	5,108	6,409	8,761	6,646
Paid-up capital	m	13,798	13,798	13,798	13,798	Tax	m	1,636	1,867	2,478	1,870
Others	m	9,478	14,020	20,303	23,354	PAT	m	3,471	4,542	6,283	4,776
SH'Equity	m	23,276	27,818	34,101	37,152	EPS	x	2.5	3.3	4.6	3.5
L+E	m	32,080	46,259	60,890	64,260	EPS growth YoY	%	na	30.9%	38.3%	-24.0%
						DPS	x	-	-	-	2.7

Q performance		1Q'22A	2Q'22A	3Q'22A	4Q'22A	Key ratios		FY21A	FY22E	FY23E	FY24E
Net sales	m	6,936	8,410	8,109	7,440	BVPS	x	16.9	20.2	24.7	26.9
COGS	m	4,826	6,490	6,382	5,648	EPS	x	2.5	3.3	4.6	3.5
Gross profit	m	2,110	1,920	1,727	1,792	PE	x	7.6	5.8	4.2	5.6
Admin expenses	m	150	157	165	173	PBv	x	1.1	1.0	0.8	0.7
S&D expense	m	51	59	65	80	GP margins	%	25%	24%	31%	29%
Other expenses	m	137	133	117	120	EBITDA margin	%	27%	25%	30%	35%
Other income	m	113	71	67	65	Net margin	%	14%	15%	19%	15%
EBIT	m	1,886	1,642	1,447	1,484	ROE	%	16%	18%	20%	13%
Finance cost	m	27	8	9	7	ROA	%	11%	12%	12%	8%
PBT	m	1,859	1,634	1,438	1,478	Earnings yield	%	13%	17%	24%	18%
Tax	m	500	491	439	437	Payout Ratio	%	0%	0%	0%	79%
PAT	m	1,359	1,143	999	1,041	DY	%	0%	0%	0%	14%
EPS	x	1.0	0.8	0.7	0.8	EV/EBITDA	x	3.6	4.2	4.1	3.7
EPS growth YoY	%	95%	26%	-1%	21%	EV/Ton	US\$	38.6	52.9	65.9	65.6
DPS	x	-	-	-	-	Debt/Equity	%	5%	39%	58%	54%
						Operating cycle	x	15.6	10.2	6.9	8.0

Source: Company Accounts, Foundation Research, October 2021
All figures in Rs unless noted

About the company

Fauji Cement Company Limited is incorporated in Pakistan on 23 November 1992 under the Companies Ordinance, 1984 (Repealed with the enactment of the Companies Act, 2017 on May 30, 2017). The Company commenced its business with effect from 22 May 1993. The shares of the Company are quoted on Pakistan Stock Exchange. The principal activity of the Company is manufacturing and sale of different types of cement.

Factory Locations

FCCL current 3.56mn tons plant	Jhang Bahtar Tehsil Fateh Jang, District Attock
FCCL 2.05mn tons Greenfield expansion	Dera Ghazi Khan
Askari 1.1mn tons plant	Wah, Tehsil Taxila, District Rawalpindi
Askari 1.7mn tons plant	Nizampur, District Nowshera
Askari 2.05mn tons Brownfield expansion	Nizampur, District Nowshera

Registered Office and Head Office

Fauji Towers, Block-III, 68-Tipu Road, Rawalpindi

Auditor: M/s KPMG Taseer Hadi & Co, Chartered Accountants

Fig 09: FCCL Pattern of shareholding and free float as at June 2021 (mn sh)

Pattern of shareholders	Holding	Shares
Associated companies	656.2	48%
General Public Local	384.0	28%
Joint Stock Companies and Pension Funds	85.6	6%
Insurance Companies	78.0	6%
Modarabas and Mutual Funds	71.6	5%
Banks DFIs, NBFCs etc	54.5	4%
General Public Foreign	17.3	1%
Foreign Companies	17.0	1%
Directors, Executives and their spouse and children	4.3	0%
Others	11.3	1%
Free Float	758.9	55%

Source; Company Accounts, Foundation Research, October 2021

Key Personnel

Mr. Waqar Ahmed Malik	Chairman
Mr. Qamar Haris Manzoor	Chief Executive Officer
Maj Gen Naseer Ali Khan, HI(M), (Retd)	Non Executive Director
Maj Gen Abid Rafique, HI(M), (Retd)	Non Executive Director
Dr Nadeem Inayat	Non Executive Director
Mr. Syed Bakhtiyar Kazmi	Non Executive Director
Mr. Sami Ul Haq Khilji	Non Executive Director
Mr. Jawaid Iqbal	Independent Director
Mr. Zafar Iqbal Sobani	Independent Director
Ms. Jahanara Sajjad Ahmad	Independent Director
Brig Abid Hussain Bhatti, SI(M), (Retd)	Company Secretary
Mr Omer Ashraf	Chief Financial Officer

Source; Company Accounts, Foundation Research, October 2021

Abbreviations

YoY	Year on Year
MoM	Month on Month
FY	Fiscal Year
FO	Furnace Oil
Mn	Million
FOB	Free On Board
MRP	Market Retail Price
NAB	National Accountability Bureau
SBP	State Bank of Pakistan
NPHP	Naya Pakistan Housing Program
TERF	Temporary Economic Refinance Facility
LTFF	Long Term Financing Facility
CAGR	Compound Annual Growth Rate
BVPS	Book value per share
FY	Fiscal year
EBITDA	Earnings before interest tax depreciation and amortization
EBIT	Earnings before interest and tax
EPS	Earnings per share
EV	Enterprise Value
LT	Long term
ST	Short Term
PAT	Profit before tax
PBT	Profit after tax
PB	Price-to-Book
PE	Price-to-Earnings
PP&E	Property, plant and equipment
TP	Target Price
SH	Shareholding
ROA	Return on Asset
ROE	Return on Equity
YoY	Year-on-Year
Bn	Billion
Mn	Million
GP	Gross Profit
LDCP	Last Day Closing Price
WCR	Working capital requirement

Important disclosures:

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Recommendations definitions

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