

Foundation Alert

FCCL board approves 5:1 swap ratio for Askari cement amalgamation with and into FCCL

Event

- Fauji Cement Company Limited (FCCL PA) board has approved scheme of arrangement for the amalgamation of Askari Cement Limited (ACL) with and into FCCL.

Impact

- FCCL board has approved scheme of arrangement for the amalgamation of ACL with and into FCCL. Furthermore, as per scheme, company has calculated swap ratio of 5:1 (5 shares of FCCL for every 1 share of ACL).
- FCCL has also disclosed that after complete execution of scheme, ACL will be dissolved without winding up and ACL entire undertaking along with all its properties, assets, rights, trademarks, patents, liabilities and obligations will be transferred to and will vest in FCCL.
- To highlight, ACL current number of shares stand at 160.1mn as per company website and after issue of ~800.5mn new share under amalgamation scheme FCCL outstanding shares will be increased to 2,180.3mn shares.
- FCCL shares would increase by 37% after completion of this transaction, while company capacity will be increased by 44% to 6.4mn tons. However, we wait for further disclosures by the company to calculate the financial impact on FCCL.
- Furthermore, FCCL current market share stands at 6.7% in north region and would increase to 11.9% after amalgamation of ACL with and into FCCL. To highlight, FCCL and ACL are also undergoing capacity expansion of 2.05mn tons each that will allow FCCL to become second largest player in north region post COD of capacity addition and amalgamation of ACL with capacity of 10.5mn tons and 13.2% market share.

Outlook

- 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. We wait for further disclosures by the company to calculate the financial impact of Askari Cement amalgamation with and into FCCL.

Analyst

Usman Arif
 +92 21 3561 2290-94

usman.arif@fs.com.pk
 Ext 339

Important disclosures:

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