

Earning Review

FCCL: 2QFY22 EPS clocked in at Rs1.07, up 63% YoY

Event

- Fauji Cement Company Limited (FCCL PA) profitability clocked in at Rs1,473mn (EPS Rs1.07, up 63/8% YoY/QoQ) in 2QFY22 as compared to profit of Rs905mn in 2QFY21. This takes 1HFY22 profitability to Rs2,832mn (EPS of Rs2.05, up 77% YoY) as compared to profit of Rs1,601mn (EPS of Rs1.16) in 1HFY21.

Impact

- We attribute increase in FCCL profitability to (1) ~41/10% YoY/QoQ increase in cement retention prices in domestic market, (2) higher other income given strong cash position of the company and (3) increased domestic mix in overall sales.
- FCCL sales increased by 36/20% YoY/QoQ in 2QFY22 due to ~41/10% YoY/QoQ increase in domestic cement retention prices as dispatches declined by 4% YoY in 2QFY22 due to 70% YoY decline in exports given slowdown of economic activity at export destinations. Moreover, on sequential basis company dispatches increased by 3% QoQ in 2QFY22.
- Furthermore, FCCL gross margins increased by 3.3ppt YoY to 28.4% in 2QFY22 due to better cement retention prices in domestic market, in our view. However, on sequential basis margins declined by 2.0ppt QoQ due to higher fuel/energy cost.
- FCCL finance cost decreased/increased by 5/17% YoY/QoQ in 2QFY22.
- Among other major heads admin/distribution cost increased by 44/28% YoY in 2QFY22.
- FCCL other operating expenses increased by 69/13% YoY/QoQ in 2QFY22 due to higher provision for WPPF/WWF given better profitability of the company.
- Furthermore, FCCL other income increased by 5.6x YoY in 2QFY22 due to higher interest income on cash held by the company.
- To highlight, FCCL effective tax rate clocked in at 28.4% in 1QFY22.

Outlook

- We have Outperform stance on the scrip with Dec-22 target price of Rs30.5/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 amid decline in demand growth.
- However company would benefit from (1) favorable Gov't policies for construction sector, (2) continuous increase in consumer housing finance and (3) increased demand from public sector given pre-election spending.

Analyst

Usman Arif
+92 21 3561 2290-94

usman.arif@fs.com.pk
Ext 339

Fig 01: FCCL 2QFY22 Key Financial Highlights (Rs mn)

	2QFY22	2QFY21	YoY	QoQ	1HFY22	1HFY21	YoY
Net Sales	8,309	6,110	36%	20%	15,245	11,611	31%
Cost of sales	5,951	4,580	30%	23%	10,777	8,893	21%
Gross Profit	2,358	1,529	54%	12%	4,467	2,718	64%
Admin Expenses	218	151	44%	45%	367	254	45%
S&D expense	59	46	28%	16%	109	93	17%
Other expense	154	91	69%	13%	291	162	80%
Other Income	161	29	456%	43%	274	47	478%
Finance cost	31	33	-5%	17%	58	63	-7%
PBT	2,057	1,237	66%	11%	3,916	2,193	79%
Tax	584	332	76%	17%	1,084	592	83%
PAT	1,473	905	63%	8%	2,832	1,601	77%
EPS	1.07	0.66			2.05	1.16	
Gross margins	28.4%	25.0%			29.3%	23.4%	
Net margins	17.7%	14.8%			18.6%	13.8%	
Effective tax rate	28.4%	26.8%			27.7%	27.0%	

Source: Company accounts, Foundation Research, February 2022

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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