Foundation Securities
A Fauji Foundation Goup Company
REP-095

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Earning Review

FCCL: 3QFY22 EPS clocked in at Rs0.89, up 22% YoY

Event

- Fauji Cement Company Limited (FCCL PA) profitability clocked in at Rs1,234mn (EPS Rs0.89, up/down 22/16% YoY/QoQ) in 3QFY22 as compared to profit of Rs1,010mn in 3QFY21. This takes 9MFY22 profitability to Rs4,066mn (EPS of Rs2.94, up 56% YoY) as compared to profit of Rs2,611mn (EPS of Rs1.89) in 9MFY21.
- The result is in line with our expectations.

Impact

- We attribute increase in FCCL profitability to (1) better cement retention prices, (2) higher other income given strong cash position of the company and (3) decline in finance cost.
- FCCL sales increased by 30% YoY in 3QFY22 due to ~32% YoY increase in domestic cement retention prices as dispatches declined by 3% YoY in 3QFY22 due to 72% YoY decline in exports given slowdown of economic activity at export destinations.
- Furthermore, FCCL gross margins declined by 4.4/3.0ppt YoY to 25.4% in 3QFY22 due to higher fuel/energy cost given significant increase in international coal price amid rupee depreciation, in our view.
- FCCL finance cost declined by 32/41% YoY/QoQ in 3QFY22.
- Among other major heads admin/distribution cost increased by 25/6% YoY in 3QFY22.
- FCCL other operating expenses increased by 16% YoY in 3QFY22 due to higher provision for WPPF/WWF given better profitability of the company.
- Furthermore, FCCL other income increased by 94/28% YoY/QoQ in 3QFY22 due to higher interest income on cash held by the company.
- To highlight, FCCL effective tax rate clocked in at 31.7% in 3QFY22.

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.
- Furthermore, FCCL will now become second biggest player in North region post amalgamation of Askari cement with and into FCCL and dual expansion of 4.1mn tons (2.05mn ton each by FCCL and Askari). Moreover, company would benefit from (1) higher concessionary debt (TERF/LTFF) taken for expansion by both FCCL/ACL post amalgamation, (2) strong private sector demand due to increasing inflows into RDA's, (3) disbursement of subsidy under NPHP and (4) decline in coal prices.

Analyst

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Fig 01: FCCL 3QFY22 Key Financial Highlights (Rs mn)

	3QFY22	3QFY21	YoY	QoQ	9MFY22	9MFY21	YoY
Net Sales	7,679	5,918	30%	-8%	22,924	17,528	31%
Cost of sales	5,730	4,155	38%	-4%	16,507	13,048	27%
Gross Profit	**1,949**	**1,763**	**11%**	**-17%**	**6,416**	**4,480**	**43%**
Admin Expenses	146	117	25%	-33%	513	371	38%
S&D expense	51	48	6%	-13%	161	142	13%
Other expense	133	115	16%	-14%	424	277	53%
Other Income	206	106	94%	28%	481	154	213%
Finance cost	18	27	-32%	-41%	76	90	-15%
PBT	**1,806**	**1,561**	**16%**	**-12%**	**5,719**	**3,754**	**52%**
Tax	573	551	4%	-2%	1,657	1,144	45%
PAT	**1,234**	**1,010**	**22%**	**-16%**	**4,062**	**2,611**	**56%**
EPS	0.89	0.73			2.94	1.89	
Gross margins	25.4%	29.8%			28.0%	25.6%	
Net margins	16.1%	17.1%			17.7%	14.9%	
Effective tax rate	31.7%	35.3%			28.9%	30.5%	

Source: Company accounts, Foundation Research, April 2022

Recommendations definitions

If

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