

## Earning Review

### FCCL: 1QFY23 EPS clocked in at Rs0.94, up 10% YoY

#### Event

- Fauji Cement Company Limited (FCCL PA) profitability clocked in at Rs2.3bn (EPS Rs0.94), up 10% YoY in 1QFY23, as compared to profit of Rs2.1bn (EPS Rs0.86) in 1QFY22.

#### Impact

- We attribute increase in company profitability to (1) better retention prices in domestic market due to multiple price hikes and (2) increased reliance on Afghan/domestic coal for fuel requirements.
- FCCL revenue increased by 27% YoY in 1QFY23. We attribute increase in revenue to 68/18% YoY/QoQ higher retention prices as dispatches declined by 25/21% YoY/QoQ in 1QFY23.
- Furthermore, FCCL gross margins declined by 97bps YoY to 28.7% in 1QFY23, due to higher fuel/energy cost and increase in fixed cost component due to decline in utilization levels, in our view.
- FCCL finance cost inclined by 89% YoY in 1QFY23 due to higher interest rates, in our view.
- Among other major heads admin cost increased by 15% YoY in 1QFY23.
- FCCL other operating expenses increased by 17% YoY in 1QFY23 due to higher provision for WPPF/WWF given better profitability of the company.
- To highlight, FCCL effective tax rate clocked in at 30.2% in 1QFY23 (up 6.2ppt YoY).

#### Outlook

- FCCL would become the second biggest player in North region after dual expansion of 4.1mn tons. Moreover, company would benefit from (1) higher concessionary debt (TERF/LTFF) taken for both expansion, and (2) procurement of afghan coal at competitive prices due to its geographical position.
- However, near term profitability growth of the company is expected to remain muted given sector's inability to completely pass on the impact of rise in fuel/power and other overhead costs amid decline in demand.

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Fig 1: FCCL 1QFY23 Key Financial Highlights (Rs mn)

|                     | 1QFY23       | 1QFY22       | YoY |
|---------------------|--------------|--------------|-----|
| Net Sales           | 14,700       | 11,578       | 27% |
| Cost of sales       | 10,487       | 8,146        | 29% |
| <b>Gross Profit</b> | <b>4,213</b> | <b>3,431</b> | 23% |
| Admin Expenses      | 319          | 277          | 15% |
| S&D expense         | 129          | 129          | 0%  |
| Other expense       | 236          | 201          | 17% |
| Other Income        | 200          | 162          | 24% |
| Finance cost        | 415          | 219          | 89% |
| <b>PBT</b>          | <b>3,315</b> | <b>2,767</b> | 20% |
| Tax                 | 1,000        | 662          | 51% |
| <b>PAT</b>          | <b>2,315</b> | <b>2,104</b> | 10% |
| EPS@ 2,452.8mn sh   | 0.94         | 0.86         | 10% |
| Gross margins       | 28.7%        | 29.6%        |     |
| Net margins         | 15.7%        | 18.2%        |     |
| Effective tax rate  | 30.2%        | 23.9%        |     |

Source: Company accounts, Foundation Research, October 2022

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