

Earning Review

FCCL: 2QFY23 EPS clocked in at Rs1.13, up 64% YoY

Event

- Fauji Cement Company Limited (FCCL PA) profitability clocked in at Rs2.8bn (EPS Rs1.13), up 64% YoY in 2QFY23, as compared to profit of Rs1.7bn (EPS Rs0.69) in 2QFY22. This takes 1HFY23 profitability to Rs5.1bn (EPS Rs2.07, up 34% YoY) as compared to profit of Rs3.8bn (EPS Rs1.54)

Impact

- We attribute increase in company profitability to (1) better retention prices in domestic market due to multiple price hikes, (2) increased reliance on Afghan/domestic coal along with alternate fuels for energy requirements and (3) lower effective tax rate.
- Company management has further disclosed that FCCL greenfield expansion at D.G Khan site is expected to be completed by end of this year. In 2QFY24 after commissioning of 11MW of solar power project at Nizampur, company's total solar power generation capacity would increase to 40MW.
- To highlight, this would take 60% of energy reliance on WHR and solar power and will save Rs110/ton on cement production.
- FCCL revenue increased by 38% YoY in 2QFY23. We attribute increase in revenue to higher retention prices as dispatches remained on lower side due to lower demand amid economic consolidation and decline in exports.
- Furthermore, FCCL gross margins declined by 40bps YoY to 27.0% in 2QFY23, due to higher fuel/energy cost and increase in fixed cost component given decline in utilization levels, in our view.
- FCCL finance cost inclined by 27% YoY in 2QFY23 due to record high interest rates.
- Among other major heads admin cost increased by 3% YoY in 2QFY23, while distribution cost declined by 3% YoY due to lower exports, in our view.
- FCCL other operating expenses increased by 7% YoY in 2QFY23 due to higher provision for WPPF/WWF given better profitability of the company.
- To highlight, FCCL effective tax rate clocked in at 30.3% in 2QFY23 (down 10.0ppt YoY).

Outlook

- FCCL would become the second biggest player in North region after COD of 2.05mtpa expansion at D.G Khan site. Moreover, company would benefit from (1) higher concessionary debt (TERF/LTFF) taken for both expansions, and (2) procurement of Afghan coal at competitive prices due to its geographical proximity.
- However, near term profitability growth of the company is expected to remain muted given (1) sector's inability to completely pass on the impact of rise in fuel/power and other overhead costs, (2) slowdown in demand due to economic consolidation and (3) uncertainty over pricing discipline as more expansions are about to come online.

Analyst

Usman Arif usman.arif@fs.com.pk
+92 21 3561 2290-94 Ext 339

Fig 01: FCCL 2QFY23 Key Financial Highlights (Rs mn)

	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Net Sales	18,973	13,769	38%	29%	33,673	25,346	33%
Cost of sales	13,856	10,001	39%	32%	24,343	18,147	34%
Gross Profit	5,116	3,767	36%	21%	9,330	7,199	30%
Admin Expenses	433	419	3%	36%	751	696	8%
S&D expense	138	141	-3%	7%	267	271	-1%
Other expense	232	217	7%	-2%	468	418	12%
Other Income	137	208	-34%	-31%	337	370	-9%
Finance cost	483	381	27%	17%	898	600	50%
PBT	3,967	2,817	41%	20%	7,282	5,584	30%
Tax	1,203	1,134	6%	20%	2,203	1,797	23%
PAT	2,764	1,683	64%	19%	5,079	3,787	34%
EPS	1.13	0.69			2.07	1.54	
Gross margins	27.0%	27.4%			27.7%	28.4%	
Net margins	14.6%	12.2%			15.1%	14.9%	
Effective tax rate	30.3%	40.3%			30.3%	32.2%	

Source: Company accounts, Foundation Research, February 2023

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.