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Foundation Alert

FCCL: Analyst Briefing Takeaways

Event

- Fauji Cement Company Limited (FCCL PA) held its analyst briefing session yesterday to discuss its 1HFY23 financial/operational performance and future outlook of the company. Following are the key takeaways of the briefing.

Impact

- Fauji Cement Company Limited (FCCL PA) profitability clocked in at Rs5.1bn (EPS Rs2.07, up 34% YoY) in 1HFY23 as compared to profit of Rs3.8bn (EPS Rs1.54) in 1HFY22. Management attributes increase in FCCL profitability to (1) better cement retention prices, (2) higher cement dispatches due to merger of Askari Cement, (3) higher use of Afghan/domestic coal to meet fuel requirement and (4) lower effective tax rate.
- FCCL revenue increased by 33% YoY in 1HFY23. Management attributes increase in revenue to better cement retention prices given multiple price hikes by the company in order to pass on the impact of higher fuel/energy cost. To highlight, on sequential basis in 2QFY23 FCCL management has disclosed that company dispatches increased by 30% QoQ as the impact of flooding receded.
- Company management also discussed FCCL power mix and disclosed that company has relied 42% on its own power generation to meet energy requirement as compared to 41% in 1HFY22. To highlight, company currently has 28.6/47.5MW internal solar/WHR power generation capacity and further 11MW solar power generation capacity is currently under construction at Nizampur site.
- FCCL management also shared details of its fuel mix in 1HFY23 and disclosed that company is using 3/97% mix of imported/domestic and Afghan coal as compared to 42/58% mix of imported/domestic and Afghan coal in 2HFY22.
- Company management also discussed progress on its Greenfield expansion of 2.05mn TPA at Dera Ghazi Khan and disclosed that plant is expected to achieve COD by the end of CY23 with estimated cost of Rs38bn. Furthermore, FCCL current debt/equity ratio stand at 32:68.
- On domestic demand front management shared that due to higher commodity prices construction cost increased significantly which is negative for cement sector in the short run. However, lower per capita consumption of cement in Pakistan and increasing rate of urbanization will create sustainable demand for housing and infrastructure.
- Furthermore, management also disclosed that cement exports of north region are on a path of recovery in FY23 and increased by 41% YoY in 1HFY23.
- Moreover, management has shared that FCCL has saved Rs110/ton on cement production on account of HR optimization and other cost saving initiatives measures taken by the company.

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.

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

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If

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Expected return from -10% to +10%	Neutral.
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