Earning Review

FCCL: 3QFY23 EPS clocked in at Rs0.77, up 21% YoY

Event

- Fauji Cement Company Limited (FCCL PA) profitability clocked in at Rs1.89bn (EPS Rs0.77), up 21% YoY in 3QFY23, as compared to profit of Rs1.56bn (EPS Rs0.64) in 3QFY22. This takes 9MFY23 profitability to Rs6.97bn (EPS Rs2.84, up 30% YoY) as compared to profit of Rs5.35bn (EPS Rs2.18).
- The result is below our expectation given higher finance cost due to exchange loss of Rs800mn relates to expansion project financial liability.

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. By 4QFY23 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 Rs90/ton on cement production.
- FCCL revenue increased by 40% YoY in 3QFY23. 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 inclined by 222bps YoY to 25.9% in 3QFY23, due to higher cement retention prices, in our view.
- FCCL finance cost inclined by 530% YoY in 3QFY23 due to exchange loss of Rs800mn that relates to expansion projects financial liability, which can't be capitalized under IFRS9 and increase in interest rates.
- Among other major heads admin cost increased by 46% YoY in 3QFY23, and distribution cost inclined by 16% YoY due to increase in exports, in our view.
- To highlight, FCCL effective tax rate clocked in at 29.9% in 3QFY23 (down 8.2ppt 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

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Fig 01: FCCL 3QFY23 Key Financial Highlights (Rs mn)

	3QFY23	3QFY22	YoY	QoQ	9MFY23	9MFY22	YoY
Net Sales	18,234	13,062	40%	-4%	51,907	38,408	35%
Cost of sales	13,505	9,964	36%	-3%	37,848	28,111	35%
Gross Profit	**4,730**	**3,098**	53%	-8%	**14,060**	**10,297**	37%
Admin Expenses	383	263	46%	-11%	1,135	958	18%
S&D expense	156	134	16%	13%	423	405	4%
Other expense	167	186	-10%	-28%	635	604	5%
Other Income	284	258	10%	107%	621	628	-1%
Finance cost	1,612	256	530%	233%	2,510	856	193%
PBT	**2,695**	**2,518**	7%	-32%	**9,978**	**8,102**	23%
Tax	807	960	-16%	-33%	3,010	2,756	9%
PAT	**1,888**	**1,558**	21%	-32%	**6,968**	**5,346**	30%
EPS	0.77	0.64			2.84	2.18	
Gross margins	25.9%	23.7%			27.1%	26.8%	
Net margins	10.4%	11.9%			13.4%	13.9%	
Effective tax rate	29.9%	38.1%			30.2%	34.0%	

Source: Company Accounts, Foundation Research, April 2023

Important disclosures:

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If

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