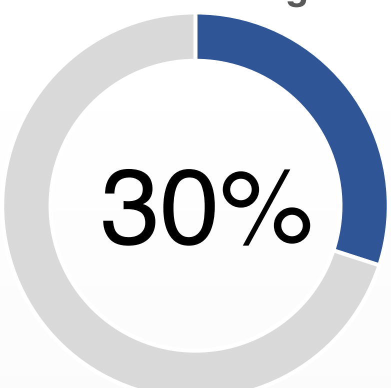
Fauji Cement "FCCL" CBS Takeaways | FY23

See our dividend note at the end…

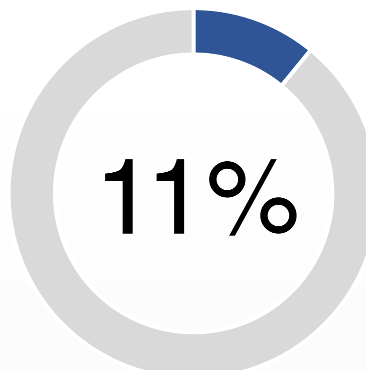
The 3rd largest cement producer FCCL, **conducted its FY23 Corporate briefing today. FCCL closed its book at EPS of PKR 3.16/sh Vs PKR 3.02/sh last year. Following are the takeaways from its briefing.**

Gross Margin



A notable increase of 42%yoy in FCCL margins owning to increase in price of local cement bag (PKR 1,123/bag in northern zone & PKR 1,166/bag in southern zone) and surge in export sales mainly to Afghanistan. Furthermore, measures towards cost reduction has significantly improved cost efficiency of FCCL. Alternative energy sources helped company to reduce production cost on an average of PKR 472/ton of cement production.

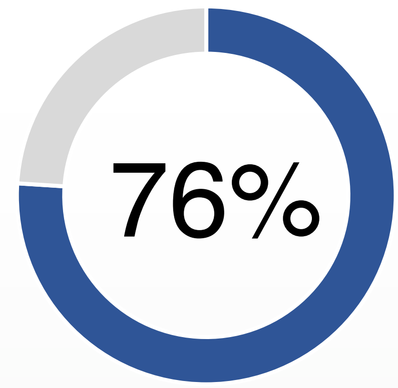
Net Margin



Given on lower offtakes (Utilization 65% Vs 85% last year),inflated petrol and diesel prices, Kibor rate and imposition of 10% super taxes have eaten away FCCL's net income. Furthermore, LCs restriction and massive devaluation of local currency have deteriorated exports feasibility.

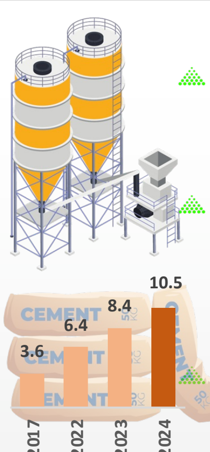
During the year FCCL's cost of production increases 42%yoy.

OPEX Ratio



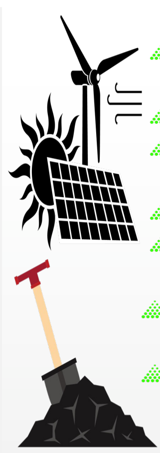
FCCL's distribution cost increases due to inclusion of freight component into this head. Company holds 45 to 60days inventory and cost of current coal inventory is 45k.

FCCL yields FY23 PE of 3.3x whilst EV-EBITDA of 3.8x. Also FCCL yields EV/ton $30. FCCL is Long Term Proposition



Capacity Expansion

- FCCL's Nizampur line (6,825 tpd) is set to come online by the month of November.
- DG khan expansion (6,825 tpd) is planned in 2QFY24, total investment earmarked is of PKR 39bn out of which PKR 35 is incurred.
- The total debt is PKR37bn, PKR 12bn is at subsidized rates.



Alternative Power

- Captive power generation reaches to 49% from 42%.
- FCCL solar capacity reaches to 40MW.
- Addition of 7MW WHRP at Nizampur took its capacity to 48MW.
- Current WAPDA tariff is of PKR37.5/unit
- FCCL is saving around PKR 475/ton of cement production
- FCCL uses local coal of ~50% i.e. Darra, remaining is Afghan coal.
- Local coal prices trades around PKR38-40K/ton. Afghan coal is 48-50k per ton. And South African is of 52K per ton.

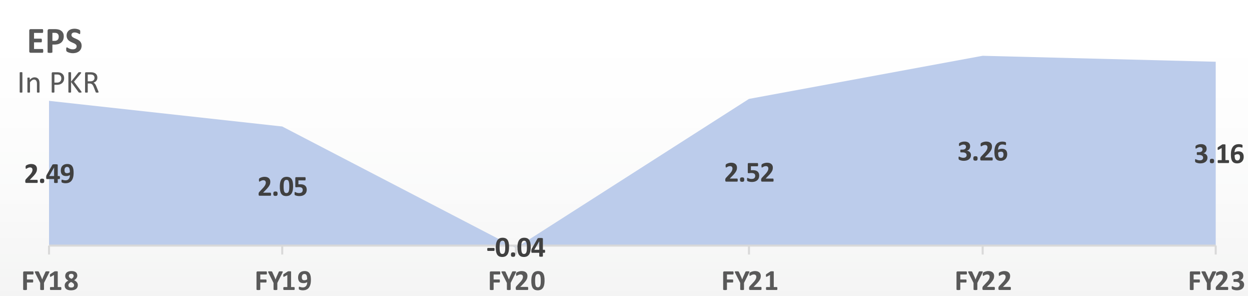
Operation

- PKR 2bn impact of super tax on earnings.
- FCCL realized price is of PKR 760-780/bag. While retailing is of PKR 1,150/bag.
- Alternative Fuel mix is saving around 7% to 8% of cost of coal while company is looking to increase this percentage to 12% - 15%
- FCCL's power mix is of 45% to 55% while Fuel mix is of 40% to 60%

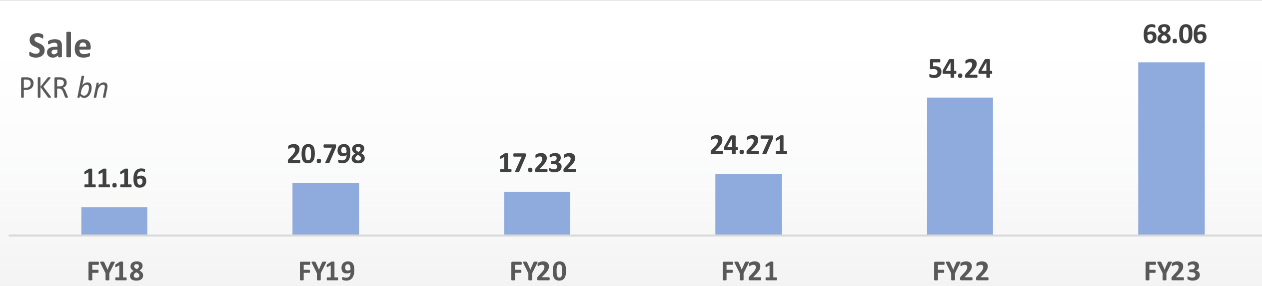
Outlook

- Operation of FCCL's DG khan based plant will open sea exports. This could be directed to US as well.
- FCCL is looking higher offtakes in 1QFY24.
- Reduction in Afghan coal price improves margins & exports.

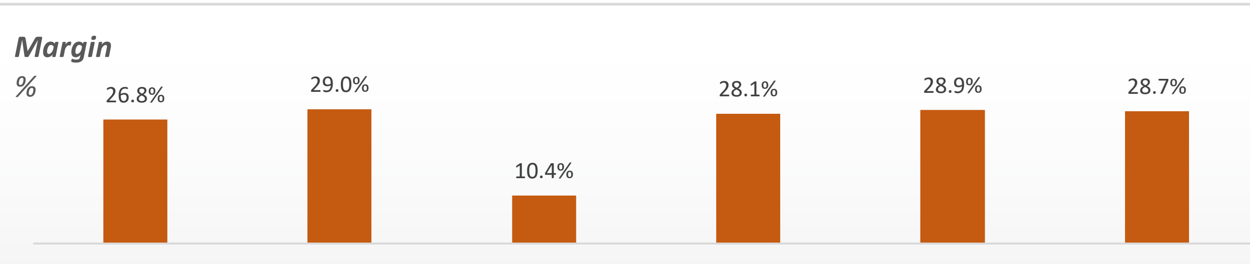
Earning per share
PKR 3.16
FY23



Net Sales
PKR 68bn
FY23



EBITDA Margin
29%
FY23



FCCL FY23 Financials

financial report.

PKR bn	FY23	FY22	Δ%
Net Revenue	**68.06**	**54.24**	**25%**
Cost of Sales	(47.65)	(39.84)	20%
Gross Profit	**20.41**	**14.40**	**42%**
Other Income	0.44	0.23	90%
Selling and Distribution expense	(2.71)	(0.54)	402%
Administrative Expense	(1.38)	(1.29)	7%
Other expenses	(0.75)	(0.81)	-7%
Operating Profit	**16.01**	**11.99**	**33%**
Finance Cost	(3.65)	(1.20)	203%
Finance Income	0.53	0.75	-29%
Share of Profit/ Loss, associate	-	0.00	0%
Profit before taxation	**12.89**	**11.54**	**12%**
Income tax expense	(5.46)	(4.42)	24%
Profit after Taxation	**7.43**	**7.12**	**4%**
EPS	**3.16**	**3.02**	**5%**

Source: Company Financial, Scs Research

Our dividend note….

FCCL while keeping its growth prospects, hasn't announced any cash dividend. During CBS we could not find clue whether FCCL would resume its age-old dividend payment policy. However, we hope that FCCL might restart its semi-annual dividend payments after its expansion gets online at the end of 2023. FCCL is also interested in fuel replacement to solar.

We consider FCCL to be a key company in the Fauji Foundation group.

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Price to earnings & Price to Book, EV-EBITDA multiple
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