

September 02, 2020



Fauji Cement: FY20 preview

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Fauji Cement board meeting on September 7...| EPS anticipation of Reo.4/sh

Fauji Cement (FCCL) dispatched 3mn tons of cements (2.8bn to local market) and thus utilized 88% of the total capacity of 3.43mn tons. However, it's the retention prices in northern zone which is keeping margins under check. Taking Rs310/bag as proxy (gross margins of 9%) – FCCL can still report FY20 net earnings of Rs500mn-Rs600mn (EPS: Re 0.4/sh vs Rs2.05 in FY19). Given current retention prices, FCCL yield FY21 PE of 11x and thus decipher Hold strategy as per our methodology. We may see probable payout.

We expect FCCL may be above breakeven even after issues persisted in 4Q which was related to lockdown and also dampening exports across Afghanistan (export prices are also not attractive). In 4Q alone, we expected FCCL dispatched 0.6mn tons and hence we see mere profitability of the company in our estimations.

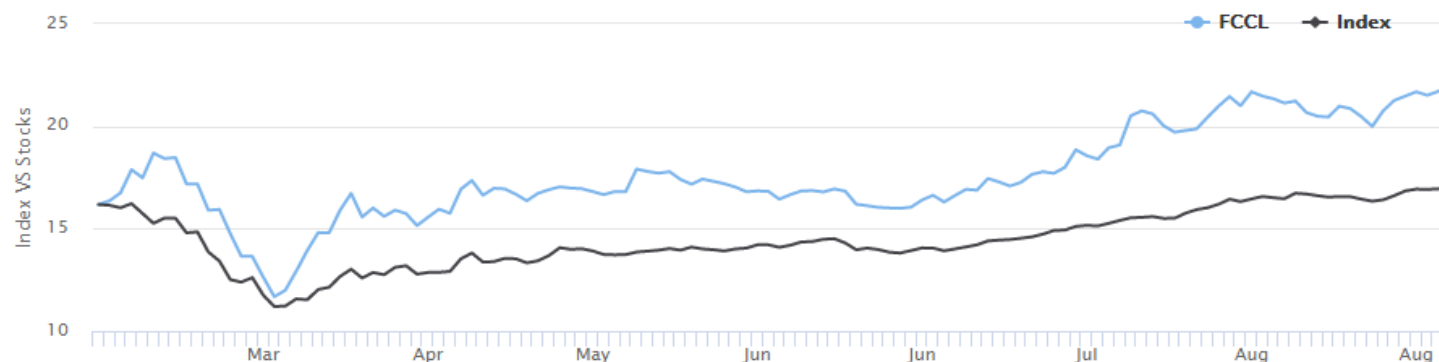
We expect FY21 to be even Stevens despite better capacity utilization ...

We expect retention prices in northern zone to remain under check as government is keeping a watch on that. We expect electricity rates to remain at our model average range of 10.5/kwh alongside slight rise in coal prices. Hence we see FCCL FY21 EPS to remain in range of Rs1.76/sh to Rs2.25/sh depending upon capacity utilization and fluctuations in retention prices. However, governments development agenda will speed up given initiation of work on roads, dams and housing. Also CPEC authority is getting active on existing projects. We do not see any immediate risk to existing northern zone cement producers on issuance of NOCs to certain new players since such plants may not come before FY26. Hence we do not see any supply glut situation. FCCL is also one of the suppliers to FWO projects.

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Ticker	FCCL
Price	22.44
Avg. Volume	6.8mn
52 week hi	11.50
52 week lo	22.17
Paid up in Rs	13.8bn
Market cap Rs	30.96bn
Enterprise Value Rs	34.0bn
EV per share Rs	24.64/sh
Book Value Rs	14.6/sh
FY19 DPS Rs	1.5/sh

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- (Target Price, if any/Current Price - 1) > 10% Positive*
- (Target Price, if any/Current Price - 1) < -10% Negative*
- less than 10% (Target Price, if any/Current Price -1) Hold*

- The time duration is the financial reporting period of Subject Company.

Valuation method

Following research techniques adopted to calculate target price/recommendation

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

Discounted Cash flows or Dividend Discount Model or Enterprise Value