



Fauji Cement: Cost efficacy and expansion projects, enhancing prospects!

FY23 Preview, Expected cash dividend of PKR 0.5/sh

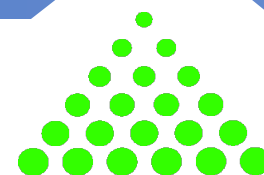
THE 3rd largest cement producer FCCL, in Pakistan is set to announce its FY23 result on August 29, 2023. We expect FY23 EPS of PKR 4/sh and a token cash dividend of PKR 0.5/sh (or a possible bonus payout). FCCL is yielding FY23 PE of 2.8x whilst EV-EBITDA of 3.8x. Also FCCL yields EV/ton \$30.

- ▲ We expect FCCL to close its FY23 books with increased topline by 30%yoy ~ PKR 70bn owing 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 which is also directed to US. However, cement dispatches is expected to be lower around 4.7MN tons vs 5.2mn tons last year, which accounts for lower capacity utilization to 56%.
- ▲ FCCL's cost efficient measures of implementation of solar power on its each plant, local and Afghan coal (97%) in substitution of imported coal, use of alternative fuels and optimization of Heat Recovery plants are helping FCCL to curtail its production cost to an average of PKR 472/ton of cement produced.
- ▲ A slight increase in selling expenses owing to lower cement demand throughout the year.
- ▲ Finance cost will massively hit increase an interest rates by SBP under outgoing government which also erased benefits of ERF rates compared to FY21-22.
- ▲ EPS is expected to be PKR 4/sh. We also expect FCCL to pay FY23 dividend of PKR 0.5/sh.
- ▲ FCCL is yielding PE of 2.8x. While EV/sh is PKR 29.18.

FCCL commitment to become lowest cost cement producer. FCCL rationalized whilst cost effective measures which has resultantly saving around PKR 475/ton of cement production, as per our calculation. Furthermore the timely completion of Expansion- DG (increased capacity by 6,825 tpd by end of 2023) will enhance FCCL outreach into Southern Punjab too. The existing market share of FCCL is 14%.

PKR bn	FY23E	FY22	Δ%	9MFY23	9MFY22
Net Revenue	70.33	54.24	30%	51.90	38.40
Cost of Sales	(51.50)	(39.84)	29%	(37.85)	(28.11)
Gross Profit	18.83	14.40	31%	14.05	10.29
Other income	0.30	0.23	30%	0.19	0.17
Selling and Distribution expense	(0.58)	(0.54)	8%	(0.42)	(0.40)
Administrative Expense	(1.52)	(1.29)	18%	(1.13)	(0.96)
Other expenses	(0.80)	(0.81)	-1%	(0.63)	(0.60)
Operating Profit	16.23	11.99	35%	12.05	8.50
Finance Cost	(4.14)	(1.20)	245%	(2.51)	(0.86)
Finance Income	(0.01)	0.75	-101%	(0.19)	0.44
Sahre of Profit/ Loss, associate	(0.00)	0.00	0%	(0.00)	(0.00)
Profit before taxation	12.08	11.54	5%	9.36	8.09
Income tax expense	(3.82)	(4.42)	-13%	(3.01)	(2.76)
Profit after Taxation	8.26	7.12	16%	6.35	5.33
EPS	4.10	3.26	-	3.02	2.32

Source: Company's Financials, SCS Research



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- $(\text{Target Price, if any} / \text{Current Price} - 1) < -10\%$ Negative
- less than 10% $(\text{Target Price, if any} / \text{Current Price} - 1)$ Hold.
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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