FCCL on expansion course I Post merger numbers are big…

Transfer of coverage… | Accredited higher sales after merger with ACL… | Long term play…

We have covered Fauji Cement (FCCL) in our universe. Now we re-initiate our coverage in FCCL which is after recent amalgamation with Askari Cement (ACL) & after expansion could become 2nd largest cement manufacturer in the north zone and 3rd largest cement producer in Pakistan in 2024 onwards as being claimed by company books. The merger in FY22 and expansion of 3rd line in Nizmpur have led to an increase in FCCL annual capacity albeit four different sites spread across Pakistan. After green filed project completion the capacity could be 10.4mn tons in 2024.

FCCL already has a legacy branding advantage specially in northern region and recent expansion will help it to increase its market share in central & southern region. While diluting its escalating fixed cost which perhaps, reflected in FY22 financial results where FCCL reported highest ever gross revenue of PKR 54bn & also an adj.EPS of PKR 2.9/sh. FCCL was already yielding lowest EV/ton among its peer i.e. post merger ~PKR 4,268/ton.

Expansion Plan: Installed capacity 10.4mn tons by 2024…

To increase production capacity, and its presence around Pakistan and bringing cost efficiency to become the lowest cost producer. FCCL has completed its brownfield Nizampur project in 1QFY23 (having capacity of 6,500 tons per day clinker production), which increases FCCL's production capacity as per Oct 27, 2022 notice at PSX.

Another Green field expansion project at Shadan Lund, Dera Ghazi Khan with a capacity of 6,500 tons per day clinker production, will come online in 2QFY24, as per books.

Financial Cost: LTFF rates increased…

FCCL *Debt to equity* increases to 34% as a result of two new cement expansion projects. However, FCCL's long term loan is at fixed subsidized rate (a portion of which is at variable rate) under LTFF and TERF, will help to mitigate higher financial cost. The combined cost of the projects is approximately PKR 60bn (including a debt component of PKR 37.4bn). This may be used to increase production capacity to 10.4mn tons per annum by 2024.

Economic concerns: Demand contraction in medium term…

Current economic depression has negatively impacted cement consumption owning to increased inadequate reserves that have postponed new construction projects. The cost plus inflation has propelled cost employed in projects. Simultaneously, increased coal prices during 1HFY23 squeezed margins. The latest update from All Pakistan Cement Manufacturer Association (APCMA) for 1HFY22-23 and December 2022 showed the sector has been affected by a slowdown in the local construction industry and also unviable exports due to situation in neighbouring Afghanistan and an unfriendly India.

Outlook : Economy of scale to unleash earning potential going forward

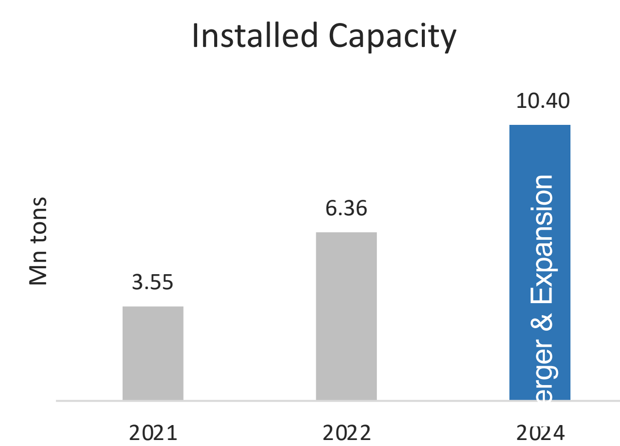
We assume the production utilisation will remain lower until there is control over inflation and resumption of development plans. We still see FCCL a better long term pick among peers given 'economy of scale' in 2024. At present with current market share we see FCCL may absorb market share via commencement of Niazampur plant in the ongoing quarter as per FCCL directors report. FCCL is yielding post merger EV/ton of PKR 4,268/ton and also EBITDA/ton of PKR 20.6k/ton in lieu of 5.6mn tons dispatches taken during FY22.

FCCL	PKR 10.53
Mkt Cap	25.82bn
Avg vol. (12m)	2.67mn
Paid up	21.80bn
Premium on share issue	17.8bn
Beta	1.32
52 Weeks Lo	PKR 10.4
52 weeks HI	PKR 18.80
BVPS as per Sep30	PKR 35.46

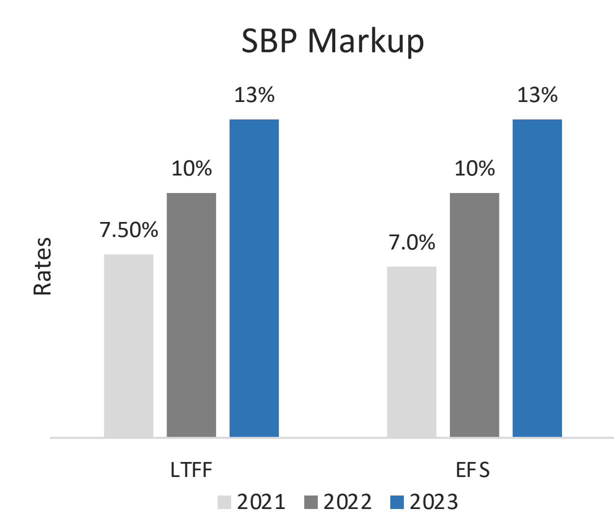
Source: scstrade.com

2024 Probable Plant Capacity (mn tons)	
LUCK	12.15
FCCL	10.40
BWCL	10.27
CHCC	8.85

Source: company's financials, Scs Research



Source: Company financials, Scs Research



Source: sbp.org.pk/smefd/circulars/2022/C13.htm

	FY21	FY22
EV/ton	6,897	4,268
EBITDA/ton	1,940	20,649
Debt To Equity	0%	34%
ROE	14.9%	12.3%
PBT/Fixed Assets	24%	6%
Price to Book Value	0.93	0.30

Source: Company's Financial, Scs Research

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