

Fauji Cement: Robust post 1QFY20... |

- In cement sector, Fauji Cements (FCCL) continues to be our pyre pick. FCCL reported mere net earnings of Rs293mn (1QFY20 EPS: Re 0.21) versus corresponding year net earnings of Rs 801mn (1QFY19 EPS: Re 0.58).
 - The decrease in earnings is mainly due to decrease in sales to Rs 4.24bn vs Rs5.34bn reported same period last year. There is a decline in gross margins too despite lower coal prices. Impact of higher energy cost is visible in higher cost.
 - In northern zone, cement prices remained under pressure from last year.
- However, we see macro economic indicators look better off and hence we see government doling out more funds earmarked under Public Sector Development Program (PSDP) which is a good omen for cement consumption in the country. Government is focusing on *Naya Pakistan Housing* whereas work on Mohmand Dam has already started few months back.
- So far big ticket infrastructure projects yet to commence all across country wherein government through *Economic Committee of the Cabinet* (ECC) is vying for many *Special Economic Zones* (SEZ) which would actually culminate second phase of CPEC.
- Given typical situation where we see jump in construction activity hitherto housing projects alongside public sector projects, we also see jump in cement consumption which is hovering in the range of 45mn - 47mn tons during last two years.
- Given FCCL liaison with ever agile FWO construction contractor, we see FCCL dispatches to remained firmed up. We see dispatches of the respective producer companies geared towards Mohmand Dam.
- FCCL reported 1Q dispatches of 705K tons versus 748.7K tons reported in corresponding period last year.
- However, during 2Q we expect spate of dispatches to increase despite some increase in cement bag prices in northern zone (price hovering Rs562-572/bag) only last week.
- FCCL is relatively unleveraged as against other entities.
- We expect jump in net earnings in 3Q & 4Q given more usage.
- FCCL yield FY20PE of 6.2x & cash yield of 9%.

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Ticker	FCCL
Price	15.50
52w High	25.4
52w Low	12.23
Market Cap (bn)	21.33
FY19 Div	1.5
Book Value	15.15

Rs mn	FY19	FY18	%change	1QFY20	1QFY19	%change
SALES	20,798	21,161	-2%	4,243	5,342	-21%
COGS	(15,475)	(16,125)	-4%	(3,652)	(3,945)	-7%
Gross Profit	5,323	5,036	6%	591	1,398	-58%
PBT	4,412	4,098	8%	402	1,139	-65%
TAX	(1,588)	(669)	137%	(109)	(338)	-68%
PAT	2,824	3,429	-18%	293	801	-63%
EPS(adj)*	2.05	2.49		0.21	0.58	
DPS	1.50	2.00				
GP margin	26%	24%		14%	26%	
Net margin	14%	16%		7%	15%	
Long-term DEBT	317.8	636.9		211.9	317.8	
Short-term DEBT	990	1,639		109	990	

*restated # of Shares (1379.8mn)

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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