

## FCCL yield PE of 3.6x after our earning raise in the model | 2QFY24 Forecast

Friday, 29 December 2023

We continue our coverage in Fauji Cement (FCCL). We expect FCCL to report a jump in 2QFY24 earnings in the wake of increase in volume sales. FCCL could report 2QFY24 EPS of PKR 1.44/sh. Here we also take the opportunity to raise our annual EPS forecast from PKR 5.09/sh to PKR 5.51/sh. **This tweak gives expected PE of 3.6x.** This time we have a mute expectation of a token interim cash dividend. FCCL is in limelight after its intimation of completion of new plant at DG Khan location. Also FCCL yield EV/ton of \$29.1/ton whereas MLCF yield EV/ton of \$28.8/ton. We reiterate our 'positive' stance as per our PE methodology.

Scripts	EV PKR mn	Capacity M Ton	EV/Ton PKR	EV/Ton (\$)
FCCL	88,220	10,600,000	8,323	29.1
MLCF	66,720	8,190,000	8,147	28.8

Source: SCS Research, company books

**Activities in construction...** We see construction activities have revived where there is 17.7% increase in domestic sales of cement 2QFY24. Simultaneously, cement price per 50 kg bag have surged because of freight costs and cost of transportation are also rising at the pretext of axle load regime. So for this reason, cement manufacturers are passing costs to their consumers.

**DG Khan plant...** As intimated, D.G Khan project is completed in 2QFY24 and it has increased the production capacity of FCCL. So we expected the production to rise by 12% in 2QFY24 as compared to 1QFY24.

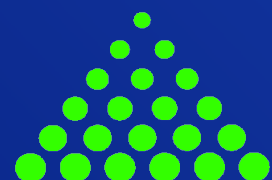
**Model tweaks...** In the amortization schedule, we have considered finance cost to decrease which presents a positive outcome of decreasing interest rate at escalating rate. In addition to that, we have considered the cost of coal with current exchange rate has decreased in COGS. According to sensitivity analysis if cement dispatches increased by 12% and selling price per 50 kg bag is increased by 5.5% then our model churn out EPS of PKR 1.44/sh in 2QFY24. Here we have raised our yearly earning forecast to PKR 5.51/sh after tweaking model assumptions. This delineate exp PE multiple of 3.6x.

PKR in '000'	1QFY24	2QFY24E
Revenue	20,313,087	24,001,944
COGS	(13,991,877)	(16,589,227)
Gross Profit	6,321,210	7,412,716
Expenses		
Selling Expenses	(703,673)	(831,460)
Admin Expenses	(356,836)	(421,637)
Finance cost	(1,130,107)	(898,923)
Finance income	60,469	139,612
Other income	97,167	114,813
Other Expense	(280,499)	(331,438)
Total Expenses	(2,313,479)	(2,229,034)
Profit before tax	4,007,731	5,183,682
Tax	(1,393,729)	(1,646,830)
Profit after tax	2,614,002	3,536,852
EPS	1.07	1.44
Net Margins	12.8%	14.7%

Sensitivity Analysis for EPS (2QFY24)

		% Change in Dispatches						
		10.5%	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%
% Change in Cement Selling Price / 50 kg bag	3.5%	1.39	1.39	1.40	1.41	1.42	1.42	1.43
	4.0%	1.39	1.40	1.41	1.42	1.42	1.43	1.44
	4.5%	1.40	1.41	1.42	1.43	1.43	1.44	1.45
	5.0%	1.41	1.42	1.43	1.43	1.44	1.45	1.46
	5.5%	1.42	1.43	1.43	1.44	1.45	1.46	1.47
	6.0%	1.43	1.43	1.44	1.45	1.46	1.47	1.47
	6.5%	1.43	1.44	1.45	1.46	1.47	1.47	1.48
	7.0%	1.44	1.45	1.46	1.47	1.47	1.48	1.49
	7.5%	1.45	1.46	1.47	1.48	1.48	1.49	1.50

Source: SCS Research



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