

Thursday, 22 September 2022

Fauji Cement: FY22 First Amalgamated Result Announced....

Fauji Cement (FCCL), in line with our estimations of amalgamated accounts vide our report dated 16th of June, 2022 announced its FY22 result **with EPS of PKR 3.26/sh against FY21 EPS of PKR 2.52/sh**. FCCL sales doubled to PKR 54bn given impact of 5.5mn tons capacity impact in lieu of post amalgamation benefit wherein Profit Before Tax (PBT) increased 2 times.

FCCL also announced a bonus issue of 12.5% with book closure date of 14th of Oct, 2022. We see this as a good omen since we expect FCCL to regain its reputation of doling cash dividends from FY23 onwards given lessening of leverage burden. Hence we expect double digit annual dividend yield going forward from FY23 onwards.

Amalgamation is the story...

FCCL successfully completed the amalgamation process with Askari Cement (ACL) where the company reported an increase in revenue by 123% to PKR 54 bn.

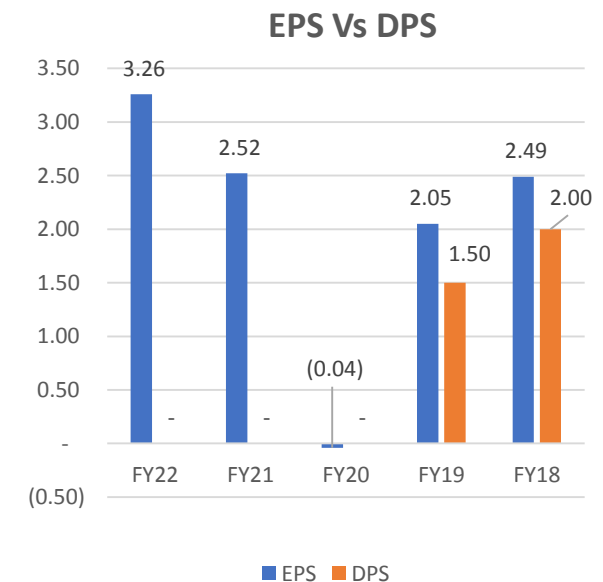
Our liking for FCCL and MLCF in the Northern Zone cement companies...

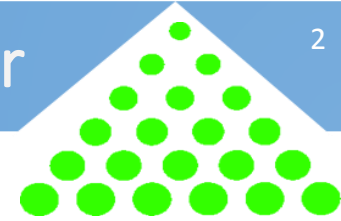
The FCCL effective tax rate has increased by 6% (from 32% to 38%). The incorporation of super tax been incorporated resulted in attrition in EPS (profit before tax is 3 times i.e. PKR 11.5bn) otherwise actual EPS could have crossed PKR 4/sh. At this recurring EPS, FY22 actual PE could have been 3.8x. We now see FCCL is in league with MLCF. MLCF's new 2.1mn tons capacity may commence as per industry vibes.

Matrix	FY22	FY21	FY20	FY19	FY18
EPS (PKR/sh)	3.26	2.52	(0.04)	2.05	2.49
DPS (PKR/sh)	-	-	-	1.50	2.00
PE (x)	4.7	6.1	nm	7.5	6.1
Dividend yield (%)	0%	0%	0%	10%	13%

Source: SCS Research, company books

FCCL	PKR 14.85
52 Weeks Hi	PKR 22.09
52 Weeks Lo	PKR 12.45
Avg Volume (12M)	2,696,750
Paid Up Capital	21.8 bn
No. of Shares	2.2 bn
Free Float	758.9 mn
Market Cap	33.40 bn
EPS FY21	PKR 2.49
EPS FY22	PKR 3.26





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Given amalgamation, FCCL now stand with one of the biggest cement producers albeit annual production capacity of 6.2 mn tons. Market is waiting for FCCL's FY22 transmission report for a probable expansion news. This may actually throw a spanner on our 'good dividend story' in FCCL.

FCCL dispatched elevated due to amalgamation...

FCCL dispatches declined by 12% yoy to 5.5mn ton in FY22. In commensurate with this, the combine dispatches of both ACL and FCCL decreased from 6.26 mn tons reported in FY21 to 5.5 mn tons in FY22.

The FCCL is unable to distribute dividend due to acquisition and ongoing expansion project however, we are expecting the FCCL may be relisted as dividend yielding entity in FY23. However, announcement of any expansion / new capacity may lessen dividend paying capacity.

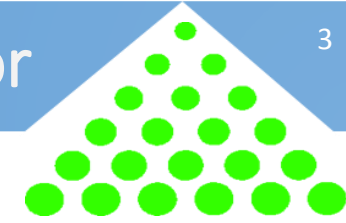
Our thrust on FCCL's dividend outlook is chiefly due to the fact that FCCL may be most successful venture in these tumultuous times wherein other companies in parent Fauji Foundation (FF) group may be facing tough proposition given heightened financial charges in Fauji Fertilizers (FFC), Fauji Bin Qasim (FFBL) & Fauji Foods (FFL) as well as lackluster performance of Askari Bank (AKBL).

Post floods reconstruction effort to sway valuations...

We see reconstruction of roads and bridges in flood affected areas and Frontier Work Organization (FWO) may be the major contractor where we see more FCCL cement bag usage vis a vis other companies supplies. Also KPK & Balochistan government will carry out repair and reconstruction of broken dams and for that FCCL is around for infrastructure quality cement.

In tons	FY22	FY21	%
Askari Wah Local Dispatches	938,655	974,412	-4%
Askari Wah Export Dispatches	57,566	160,222	-64%
	996,221	1,134,634	-12%
Askari Nizampur Local Dispatches	1,231,027	1,312,557	-6%
Askari Nizampur Export Dispatches	133,884	332,698	-60%
Askari Nizampur Clinker Dispatches	5,184	-	100%
	1,236,211	1,645,255	-25%
Fauji Cement Local Dispatches	3,166,325	3,199,597	-1%
Fauji Cement Export Dispatches	112,948	281,328	-60%
	3,279,273	3,480,925	-6%
Total	5,511,705	6,260,814	-12%

Source: All Pakistan Cement Manufacturers Assoc.



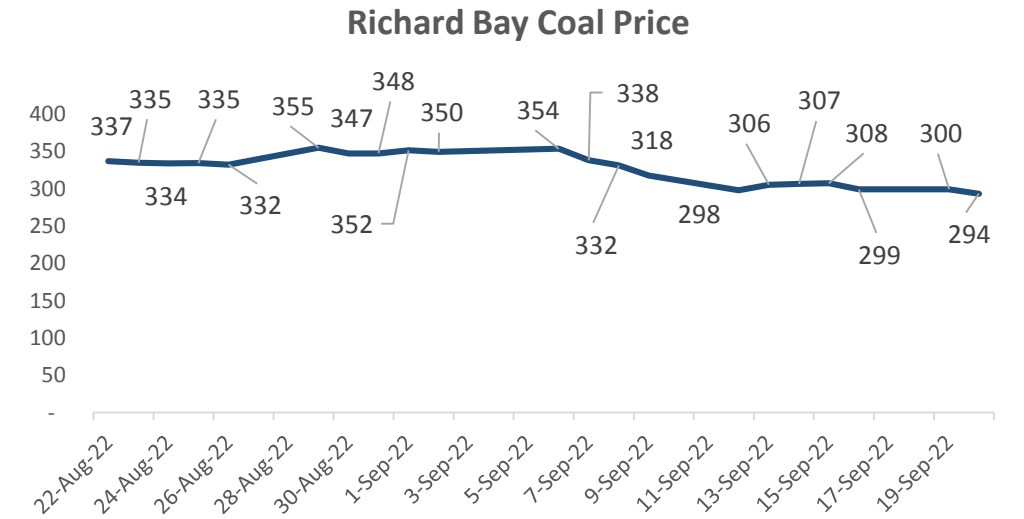
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Fauji Cement: Cost factors | Valuations, EV per ton....

Cost Factors....

The FCCL and other manufacturers in cement industry resorted to use Afghan coal after *Richard Bay Coal* futures went haywire in commodity super cycle era.

Yesterday, *Richard Bay Coal* reported a sharp dip ~\$294/ton. Still many players in northern zone using Afghan coal. We are using combined tariff of ~23/kwh for FCCL in order to remain in line with industry. This tariff is largely swayed towards more coal usage in the energy mix. This tariff is higher from last year but on lower side if we compare it with other industrial sector companies.



Trailing PE valuation vs KSE 100 & Sector....

At present FCCL is available at a trailing PE of 4.7x as compared to KSE 100 trailing PE of 4.65x and cement sector trailing PE of 5.59x.

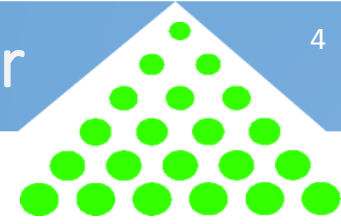
Valuation Via Enterprise value (EV) per ton | Subjective talk...

We have weighed FCCL on enterprise value per ton which could be lowest. For instance FCCL is measured at EV/ton of PKR 5,960/ton compared to other cement manufacturers including CHCC, MLCF and KOHC having EV/ton of PKR 7,439/ton, 8,695/ton, 7,111/ton respectively.

In terms of Dollar, FCCL is lowest EV/ton proposition i.e. \$27/ton vs \$40/ton for MLCF. During FY17 and around, Dewan Cement's (DCL) Saadi Cement plant at Hattar was up for sale and may have been offered at a much higher EV/ton in Dollar terms. The PKR parity was equivalent to PKR 105 at that time. Now some of the biggest cement producers are yielding a cheap EV/ton value – if we measure that as a subjective debate.

Companies	Enterprise Value (PKR in mn)	Annual Capacity Per Ton	EV/Ton (PKR)	EV/Ton (\$)
Fauji Cement	37,170	6,237,000	5,960	27
Kohat Cement	35,680	5,017,500	7,111	32
Cherat Cement	33,990	4,536,000	7,493	34
Maple Leaf	49,300	5,670,000	8,695	40

Source: SCS Research, company books



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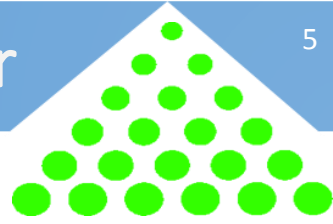
Earnings Snapshot: EPS elevated | Profit before tax increased 2times...

PKR in "ooo"	FY22	% as of Sales	FY21	% as of Sales
Revenue	54,243,118	100%	24,271,285	100%
Cost of Sales	(39,843,851)	-73%	(18,206,880)	-75%
Gross Profit	14,399,267	27%	6,064,405	25%
Other income	230,695	0.4%	81,710	0.3%
Selling Expenses	(539,014)	-1%	(189,537)	-1%
Admin Expenses	(1,299,439)	-2%	(524,709)	-2%
Other Expense	(808,964)	-1%	(377,946)	-2%
	11,982,545	22%	5,053,923	21%
Finance cost	(1,204,612)	-2%	(109,623)	-0.5%
Finance income	745,852	1%	160,543	1%
Net Finance impact	(458,760)	-1%	50,920	0.2%
Share of profit from associate	1,308	0%	2,849	0.0%
Profit before tax	11,525,093	21%	5,107,692	21%
Tax	(4,415,553)	-8%	(1,636,341)	-7%
Profit after tax	7,109,540	13%	3,471,351	14%
EPS	3.26		2.52	
DPS	-		-	
Bonus	12.5%		-	

Source: Announcements at PSX

The performance of the company could not be evaluated in comparison with last financial result based on the fact the company has recently incorporated amalgamated figure. However, we have analyzed the efficiency of the company through a comparison based on sales in FY22 and FY21.

- The FCCL sales increased by 123% as compared to FY21 due to amalgamation between ACL and FCCL, however, the dispatches of both companies in total remain down decrease by 12% annually.
- The gross profit increased by 2% from 25% to 27%. The reason include availability of low price Afghan coal and some synergy effect of both companies.
- The major impact of cost includes finance cost from 0.5% of sales to 2% in FY22. The rising interest rates are the major contributing factor of spike in cost. The interest bearing liabilities includes short term loans of PKR 0.95 bn and PKR 2.27 bn in long term financing. We are waiting for the full transmission to analyze the debt and finance cost of the amalgamated company. This will actually determine whether FCCL is a renewed *Sharia* proposition for Islamic funds.
- The effective tax rate increased by 6% from 32% in FY21 to 38% in FY22. This increase could be the reason of incorporation of supertax of 10%.
- Overall, the PAT of the company decreased by 1% of its sales from 14% in FY21 to 13% FY22.
- FCCL issued bonus issue of 12.5%. We recommend investors to avail bonus issue.



FCCL vs KSE 100 Relative Index | FCCL Price performance...

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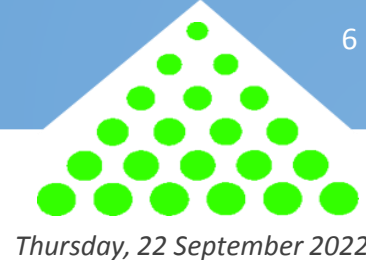


Muhammad Shahzad Khan
 Research Analyst
www.scstrade.com

Performance	1 Month	3 Month	6 Month	1 Year
	2.37 %	1.82 %	-15.59 %	-15.35 %

Business Description about the company...

Fauji Cement Company Limited (FCCL) is a public limited company incorporated in Pakistan on 23 November 1992 under the Companies Ordinance, 1984 (Repealed with the enactment of the Companies Act, 2017). The Company commenced its business with effect from 22 May 1993. The principal activity of the Company is manufacturing and sale of different types of cement.



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