

May 24, 2021



Fauji Cement: Investment opportunity...

Fauji Cement: Investment opportunity | FY22E PE 6x

In continuation to our earlier report, we stick to FCCL FY21 earnings estimation to ~Rs2.8sh (adjusted) in the wake of

- increase in volume sales &
- slight increase in retention rates in northern zone in general and FCCL in particular as per our estimation.
- FCCL retention rates are slightly lower. However, we see less leveraged balance sheet is yielding lofted earnings.

There is trend of rise in retail prices in northern zone, which will propel earnings estimations of entire cement companies. However, FCCL retail prices are lower from industry. Still we see 4Q to be better off.

Ticker	FCCL
Price	24.28
52 week hi	27.61
52 week lo	15.62
Avg Vol.	5.8mn
Beta	1.41
Exp. BV	Rs 18.0
PE FY21	8.4x

[SCS website](#)

Estimated P&L

Rsmn	FY20	FY21E	FY22E
Sales	17,231	24,387	26,504
COGS	16,582	17,966	17,966
GP	649	6,421	8,537
Finance Cost	185	165	185
PBT	-173.2	5,620	7,776
PAT	-53	3,990	5,521
EPS	-0.04	2.89	4.00
DPS	Nil	2.00	2.50

SCS Research

We also expect FCCL to pay cash dividend in lieu of earnings during FY21. FCCL yields FY21 & FY22 PE of 8.4x and 6.0x respectively.

FCCL is also dividend player. It offers cash yield of 8%.

Fauji Cement: Riding on domestic demand...

FCCL reported EPS of Rs1.89/sh in 9MFY21...

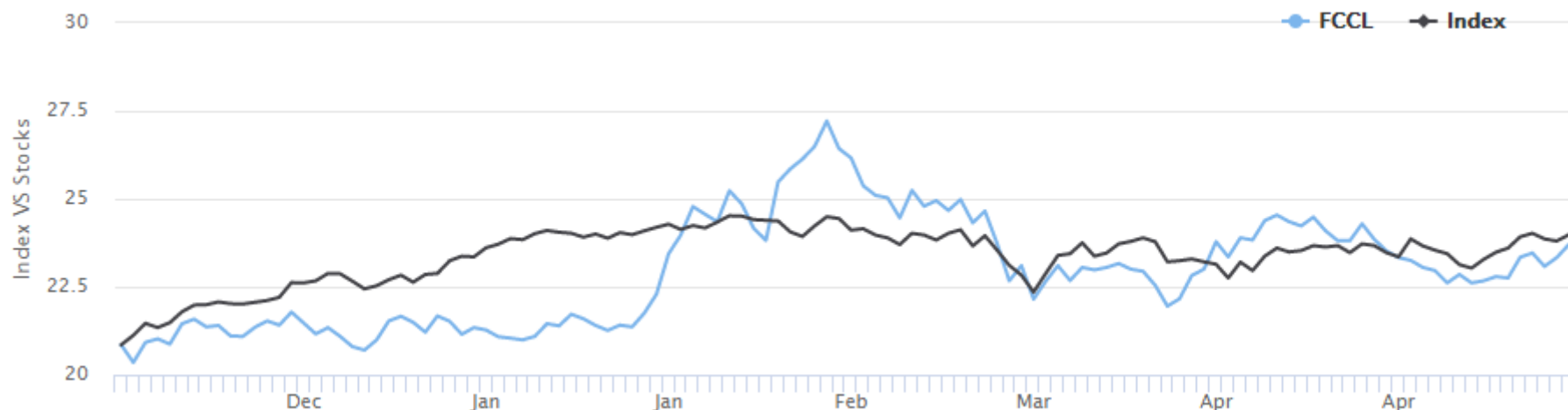
FCCL reported lofted EPS of Rs1.89/sh at the pretext of improved operations, optimum supplies and increasing trend of prices. Previously during 1HFY21, retention prices were hovering above Rs327/50kg bag. We see this increasing in the remaining 2HFY21.

Domestic demand increasing...

Capacity utilization increasing given domestic demand...

We expect FCCL may utilize 100% capacity in FY21 i.e. ~3.3mn tons. During 9MFY21 FCCL dispatched ~2.6mn tons.

We see monthly dispatches from the company is hovering ~300k tons.



Fauji Cement: Major supplier...

We see utilization levels increased alongside northern zone retention prices. The incumbent government initiated housing projects near the vicinity and now in other cities.

Also FCCL continues to remain supplier to FWO projects. FWO is carrying out many major hydroelectric projects (could be seen from its website & fb link) wherein FCCL can also avail great utilization levels.

We expect upcoming FY22 finance bill to be in favor of construction industry since government in its remaining term would continue to support that industry. Hence we see cement capacity utilization would increase. The incumbent finance minister would pursue growth oriented policies which will remain good for cement producers till FY23.

Valuations: FY22 PE 6x...

FCCL yields FY21 & FY22 PE of 8.4x and 6.0x respectively. FCCL is also dividend payer. It offers cash yield of 8%.

1 Month Range

Rs. 22.61 Rs. 23.70



6 Month Range

Rs. 20.35 Rs. 27.21



52 Week's Range

Rs. 15.62 Rs. 27.61



Faisal Shaji

Researchdesk@scstrade.com

111 111 721

Disclaimer

'Research Analyst' Certification: 'Research Analyst' involves in this 'Research Report' certifies that:

- 'Research Analyst' or any of his close relatives do not have a financial interest in the securities of the 'Subject Company' aggregating more than 1% of the value of the 'Subject Company'

- Research Analyst or his close relative has neither served as a director/officer in the past 3 years nor received any compensation from the Subject Company in the previous 12 months

- His compensation will not be related to the recommendations or views given in Research Report

Distribution of 'Research Report'

Standard Capital Securities (Pvt.) Ltd. will distribute Research Report to clients in a timely manner through electronic distribution vide email or through physical distribution such as courier express. Standard Capital will make all efforts; even so it is possible that not all clients may receive Research Report at the same time given technical glitches or breakdown/slowdown of internet during the process of sending emails.

'Research Entity' Disclosures

- Standard Capital Securities (Pvt.) Ltd. or any of its officers and directors does not have a significant financial interest (above 1% of the value of the securities) of the subject company.

- Standard Capital Securities (Pvt.) Ltd. employee including directors, officers or associates has not served the subject company in preceding 36 months.

- Subject Company is not been a client for Standard Capital Securities (Pvt.) Ltd. during the publication of Research Report

- Standard Capital Securities (Pvt.) Ltd. has not managed public offering, take over or buyback of securities for the Subject Company in the past 12 months neither receives any compensation from the subject company for corporate advisory or underwriting services in the past 12 months.

- Standard Capital Securities (Pvt.) Ltd. hasn't recently underwritten/or not in the process of underwriting the securities of an issuer mentioned herein. Standard Capital Securities (Pvt.) Ltd. hasn't have provided/providing advisory services to the issuer mentioned herein.

Risk disclosures impeding target price

The Subject Company is exposed to market risks, such as changes in interest rates, exchange rates, changes in raw material prices. Subject company can also exposed to risk such as derivative transaction or certain regulatory changes from government authorities.

Rating System

- Standard Capital Securities (Pvt.) Ltd. standardized recommendation structure i.e. positive, Hold and negative, based on rating system i.e.

- (Target Price, if any/Current Price - 1) > 10% Positive*
- (Target Price, if any/Current Price - 1) < -10% Negative*
- less than 10% (Target Price, if any/Current Price -1) Hold*

- The time duration is the financial reporting period of Subject Company.

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