

# Day Break

Thursday, 20 February 2020

## COMPANY UPDATE

### Fauji Cement Company Limited

Cements

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec/20	22.4
Last Closing: 14-Feb-20	15.6
Upside:	43.9
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 11M

#### Market Data

Bloomberg Tkr.	FCCL PA
Shares (mn)	1,379.8
Free Float Shares (mn)	758.9
Free Float Shares (%)	55.0%
Market Cap (PKRbn   USDmn)	21.5   139.1
Exchange	KSE 100
<b>Price Info.</b>	90D 06M 12M
Abs. Return	(1.9) 17.1 (30.9)
Lo	15.0 12.6 12.5
Hi	17.5 17.5 22.6

#### Key Company Financials

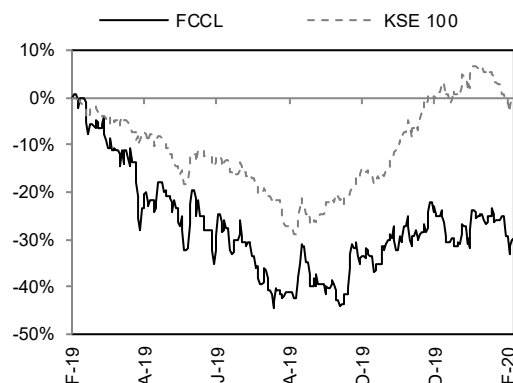
Period End: Jun

PKRbn	2019e	2020f	2021f	2022f
Total Revenue	20.8	18.2	17.9	19.9
Net Income	2.8	1.6	1.7	2.6
EPS (PKR)	2.0	1.2	1.2	1.9
DPS (PKR)	1.5	1.0	1.0	1.5
Total Assets	29.0	27.4	27.4	28.6
Total Equity	20.9	20.5	20.8	22.0

#### Key Financial Ratios

ROE (%)	17.5	13.6	7.9	8.2
P/E (x)	7.6	13.2	12.8	8.1
P/B (x)	1.0	1.0	1.0	1.0
DY (%)	9.6	6.4	6.4	9.6

#### Relative Price Performance



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## Cements

### FCCL: Lower retention prices to drag down 2QFY20E EPS to PKR 0.29, 1HFY20 comes to PKR 0.50

- ✓ Fauji Cement Company Limited's (FCCL) board meeting is scheduled on 21<sup>st</sup> Feb-20 to announce financial result for 2QFY20, wherein we expect the company to post net earnings of PKR 402mn, compared to a net profit of PKR 1.02bn (EPS: PKR 0.74) in the same period last year.
- ✓ We expect the Company to declare a dividend of 0.25/share along with the result.
- ✓ Despite a healthy growth of +14% in overall dispatches, net sales of the Company during 2QFY20E are expected to grow only by 6%YoY, largely due to reduced domestic retention prices.
- ✓ While the Company is expected to display a controlled cost structure, material deterioration in retention prices is expected to decline gross margins to 14% as against 32% recorded in the comparative quarter.

#### 2QFY20E earnings to drop by 61%YoY to PKR 0.29/share

Fauji Cement Company Limited's (FCCL) board meeting is scheduled on 21<sup>st</sup> Feb-20 to announce financial result for 2QFY20, wherein we expect the company to post net earnings of PKR 402mn (EPS: PKR 0.29), down by almost 61%YoY, compared to a net profit of PKR 1.02bn (EPS: PKR 0.74) in the same period last year. This will bring 1HFY20E earnings to PKR 694mn (EPS: PKR 0.50), down by 62%YoY, as against PKR 1.82bn (EPS: PKR 1.32) reported in the similar period of the preceding year. We expect the Company to declare a dividend of 0.25/share along with the result.

Despite a healthy growth of +14% in overall dispatches, net sales of the Company during 2QFY20E are expected to grow only by 6%YoY, largely due to reduced domestic retention prices (decline of ~13%YoY) amid intense competition in the domestic market. While the Company is expected to display a controlled cost structure, this material deterioration in retention prices is expected to substantially decline gross margins to 14% as against 32% recorded in the comparative quarter.

#### Exhibit: FCCL Result Highlights

Period end (JUN) - PKRmn	2QFY20	2QFY19	YoY	1HFY20	1HFY19	YoY
Net Sales	5,412	5,089	6%	9,655	10,431	-7%
Gross Profit	755	1,629	-54%	1,347	3,048	-56%
Sell. / Dist. & Admin	169	139	21%	331	313	6%
EBIT	577	1,460	-60%	1,006	2,628	-62%
Financial Charges	29	24	21%	57	53	6%
Pre-tax Profits	548	1,436	-62%	949	2,575	-63%
Taxation	146	414	-65%	255	751	-66%
Post-tax Profits	402	1,023	-61%	694	1,824	-62%
EPS	0.29	0.74		0.50	1.32	
DPS	0.25	0.75		0.25	0.75	
<b>Key Ratios</b>						
Gross Margin (%)	14.0	32.0		13.9	29.2	
Net Margin (%)	7.4	20.1		7.2	17.5	
Effective Tax Rate (%)	26.7	28.8		26.9	29.2	

Source: Company Accounts, IGI Research

No. of Shares : 1380mn

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**Time Horizon:** Dec – 2020

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):  
(Discounted Cash Flow)

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IGI Finex Securities Limited

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