

Day Break

Friday, 19 October 2018

Company Update

Exhibit: FCCL's 1QFY19 total dispatches have declined by 11%QoQ amid slowdown in demand in North region

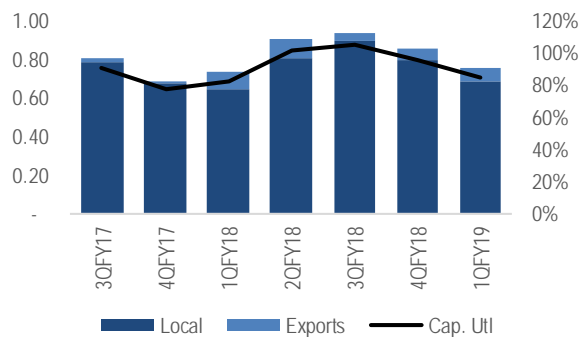


Exhibit: Coal prices have risen sharply over the comparative period, increasing cost of production thereby

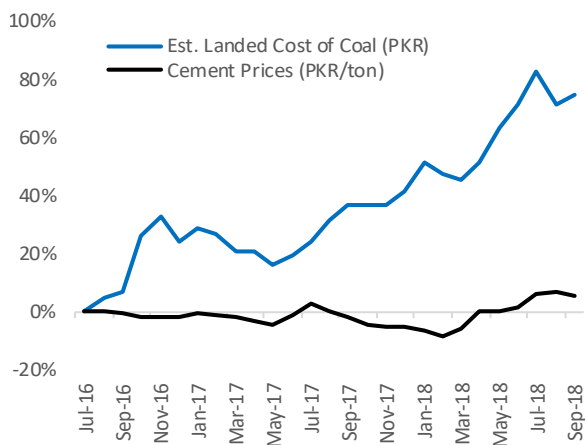
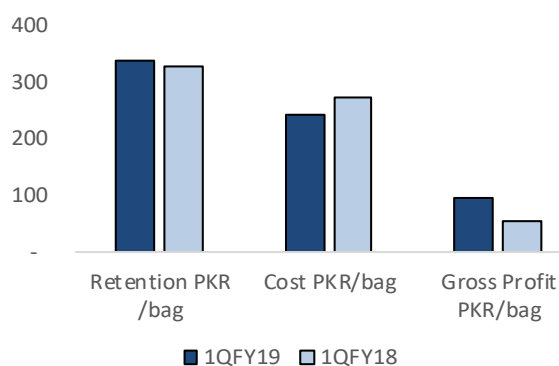


Exhibit: Rehabilitation of Production Line II has improved YoY margins of FCCL.



Source: Company Accounts, Bloomberg & IGI Research

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Cements

FCCL 1QFY19 results preview; Earnings down by 37%QoQ amid declining sales volumes

- The Board of Directors meeting of Fauji Cement Company Limited (FCCL) is scheduled to take place on 22nd Oct-18 wherein we expect the Company to report 1QFY19 earnings of PKR 821mn (EPS: PKR 0.60), up by +85%YoY.
- However, on a sequential basis, earnings are expected to shy away by a notable 37%QoQ, largely due to a) 11%QoQ fall in dispatches of the Company; and b) non-recurrence of tax credit on rehabilitation of production line II and positive deferred tax implications recognized in 4QFY18.
- We downgrade our call to 'HOLD' based on a Jun-19 target price of PKR 21.6/share for the scrip. The scrip currently trades at a FY19F P/E of 7.8x and offers a dividend yield of 10.4%.

FCCL: 1QFY19 earnings expected at PKR 0.60/share, up by +85%YoY...

The Board of Directors meeting of Fauji Cement Company Limited (FCCL) is scheduled to take place on 22nd Oct-18 to consider and approve financial results for 1QFY19. We expect the Company to report earnings of PKR 821mn (EPS: PKR 0.60) in the quarter under review as against PKR 444mn (EPS: PKR 0.32) in the same period last year, marking a sharp incline of +85%YoY.

The substantial year over year increase in earnings is owed to operationalization of the Company's production line II (recommencement date: 15th Oct 2017) resulting in recovery of margins as against comparative period during which the Company relied on expensive clinker sources from regional players in order to maintain its market share.

...however earnings are expected to fall by 37%QoQ on a sequential basis

On a sequential basis however, earnings are expected to shy away by a significant 37%QoQ, largely due to a) 11%QoQ fall in dispatches of the Company, b) notable rise in cost of producing cement; and c) non-recurrence of tax credit on rehabilitation of production line II and positive deferred tax implications recognized in 4QFY18.

Exhibit:

FCCL Result Highlights

Period end (JUN) - PKRmn	1QFY19	1QFY18	YoY	4QFY18	QoQ
Net Sales	5,098	4,794	6%	5,347	-5%
Gross Profit	1,445	793	82%	1,386	4%
Sell. / Dist. & Admin	179	115	56%	196	-9%
Non-Operating Income	35	12	2.9x	32	8%
EBIT	1,214	645	88%	1,139	7%
Financial Charges	36	32	14%	27	33%
Pre-tax Profits	1,177	613	92%	1,112	6%
Taxation	356	169	2.1x	(196)	n/m
Post-tax Profits	821	444	85%	1,307	-37%
EPS	0.60	0.32		0.95	
DPS	-	-		1.00	
Key Ratios					
Gross Margin (%)	28.3	16.5		25.9	
Net Margin (%)	16.1	9.3		24.5	
Effective Tax Rate (%)	30.2	27.6		n/m	

Source: Company Accounts, IGI Research

No. of Shares : 1380mn

Recommendation

We have rolled over our target price for FCCL to Jun-19 and have incorporated changes in our assumptions based on recent developments that include a) reversal of monetary cycle – increase in SBP policy rate, b) sharp devaluation of PKR against the USD, c) lowered dispatches figures based on 1QFY19 provisional numbers and expected fiscal curtailment; and d) changes in cements sales price assumptions for FY19 and onwards.

Accordingly we downgrade our call to '**HOLD**' based on a Jun-19 target price of PKR 21.6/share for the scrip. The scrip currently trades at a FY19F P/E of 7.8x and offers a dividend yield of 10.4%.

Exhibit:

FCCL Earnings projections

	2016A	2017A	2018A	2019E	2020F	2021F
EPS	3.89	1.89	2.49	2.75	2.59	2.45
DPS	2.75	0.90	2.00	2.25	2.00	2.00

Source: IGI Research, Company Accounts

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Time Horizon: Jun – 2019

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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