

# Day Break

Monday, 20 April 2020

## COMPANY UPDATE

### Fauji Cement Company Limited

Cement

<b>Recommendation</b>	<b>SELL</b>
Target Price: Dec/20	14.6
Last Closing: 17-Apr-20	16.9
Upside:	- 13.6
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 8M

#### 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)	23.4   151.4
Exchange	KSE 100
<b>Price Info.</b>	90D 06M 12M
Abs. Return	1.8 28.2 <span style="color: green;">▲</span> #N/A
Lo	14.7 12.6 12.5
Hi	18.5 18.5 20.5

#### Key Company Financials

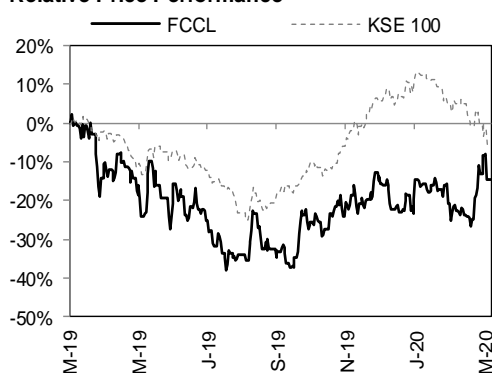
Period End: Jun

PKRbn	2020e	2021f	2022f	2023f
Total Revenue	15.4	13.1	17.2	19.5
Net Income	(0.1)	0.2	1.0	1.9
EPS (PKR)	(0.0)	0.2	0.7	1.4
DPS (PKR)	-	0.3	0.5	1.0
Total Assets	26.5	25.2	26.2	27.5
Total Equity	18.8	19.0	19.7	20.9

#### Key Financial Ratios

ROE (%)	17.5	13.6	(0.3)	1.2
P/E (x)	- 416.5	102.4	22.7	12.2
P/B (x)	1.1	1.1	1.2	1.2
DY (%)	-	1.5	3.0	5.9

#### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Cements

### FCCL: Substantial decline in retention prices to present loss of PKR (0.07)/share in 3QFY20

- ✓ Fauji Cement Company Limited's (FCCL) board meeting is scheduled today to announce financial result for 3QFY20, wherein we expect the company to post a net loss of PKR 93mn (LPS: PKR 0.07) compared to a net profit of PKR 616mn (EPS: PKR 0.45) in the same period last year.
- ✓ The decline in earnings is ascribed primarily to substantial drop in retention prices of the Company to PKR 266/bag during the quarter under review as against PKR 367/bag in the comparative quarter, down by almost 27% YoY, amid intense competition in the domestic market.

### FCCL to present loss of PKR (0.07)/share in 3QFY20E

Fauji Cement Company Limited's (FCCL) board meeting is scheduled today to announce financial result for 3QFY20, wherein we expect the company to post a net loss of PKR 93mn (LPS: PKR 0.07), down by almost -0.2xYoY, compared to a net profit of PKR 616mn (EPS: PKR 0.45) in the same period last year. This will bring 9MFY20E earnings to PKR 96mn (EPS: PKR 0.07), down by a massive 94% YoY, as against PKR 1.64bn (EPS: PKR 1.19) reported in the similar period of the preceding year. The decline in earnings is ascribed primarily to substantial drop in retention prices of the Company to PKR 266/bag during the quarter under review as against PKR 367/bag in the comparative quarter, down by almost 27% YoY, amid intense competition in the domestic market. During the quarter, average cement sales price in North remained at PKR 505/bag as against PKR 601/bag in similar period of the preceding year. 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 2% as against 21% recorded in the comparative quarter.

#### Exhibit: FCCL Result Highlights

Period end (JUN) - PKRmn	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	3,929	5,213	-25%	9,243	10,302	-10%
Gross Profit	70	1,098	-94%	462	2,727	-83%
Sell. / Dist. & Admin	162	165	-2%	367	304	20%
Non-Operating Income	29	38	-23%	53	114	-54%
EBIT	(68)	906	-0.1x	138	2,366	-94%
Financial Charges	60	22	2.8x	113	46	2.5x
Pre-tax Profits	(128)	884	-0.1x	26	2,320	-99%
Taxation	(35)	267	-0.1x	(70)	681	-0.1x
Post-tax Profit/ (Loss)	(93)	616	-0.2x	96	1,639	-94%
EPS	(0.07)	0.45		0.07	1.19	
DPS	-	-		0.25	0.75	
<b>Key Ratios</b>						
Gross Margin (%)	1.8	21.1		5.0	26.5	
Net Margin (%)	(2.4)	11.8		1.0	15.9	
Effective Tax Rate (%)	27.0	30.3		(270.4)	29.4	

Source: Company Accounts, IGI Research

No. of Shares : 1380mn

**Recommendation:** We recommend a sell call on FCCL, with a Dec-20 Target Price of PKR 14.6/share depicting a capital downside of 14%.

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