

Cements

FCCL: PKR 1.75/share-Highest ever interim Dividend

- Profitability hopped up by a remarkable +57%YoY to PKR 1.6bn (EPS: PKR 1.26) in 2QFY16, taking 1HFY16 earnings to PKR 2.8bn (EPS PKR 2.09), depicting an increase of +67%YoY. FCCL also declared cash dividend of PKR 1.75/share in 2QFY16.
- Revenue grew up by +16%YoY to PKR 5.6bn in 2QFY16, taking 1HFY16 revenue to PKR 10bn, a growth of 11%YoY.
- Gross Margin jumped up by massive +1,034bpYoY (largest in our cement universe so far) in 2QFY16 due to a) higher net retention prices as revenue mix is expected to tilt more towards local sales, b) 12MW WHR plant operational for the 1HFY16, reducing energy cost, and c) lower coal and FO prices.
- Effective tax rate has clocked in at 28% in 2QFY16, as compared to 33% in same period last year, resulting in improved net margin.

Recommendation

The scrip is currently trading at FY16E P/E of 10.8x and with our Dec-16 TP of PKR 56/share, the stock offers upside of +42% and we maintain our **'Buy'** call on the scrip.

Exhibit: Financial Highlights

PKR'mn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	YoY
Net Sales	5,569	4,817	16%	9,950	8,991	11%
Gross Profit	2,699	1,835	47%	4,577	3,167	45%
Selling and Admin	138	103	34%	245	206	19%
Other Income	65	45	44%	133	90	48%
Finance Cost	122	72	69%	320	402	-21%
PBT	2,331	1,588	47%	3,861	2,467	57%
Tax	657	521	26%	1,085	799	36%
Net profit	1,674	1,066	57%	2,777	1,667	67%
EPS	1.26	0.80		2.09	1.25	
DPS	1.75	1.00		1.75	1.00	
Key Ratios						
Gross Margin	48%	38%		46%	35%	
Net Margin	30%	22%		28%	19%	
Effective Tax Rate	28%	33%		28%	32%	

Source: IGI Research, Company Financials

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Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF(Discounted Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure

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