

# Day Break

Friday, 17 June 2016

## Company Update

### Fauji Cement Company Ltd.

Cement

<b>Recommendation</b>	<b>BUY</b>
Target Price	46.0
Last Closing	35.3
Upside	30%

#### Market Data

Bloomberg Tkr.	FCCL PA
Shares (mn)	1,379.8
Market Cap (PKRbn   USDmn)	48.7   467.1
Exchange	KSE 100

<b>Price Info.</b>	90D	180D	365D
Abs. Return	(15.9)	(2.6)	(3.2)
Low	32.9	32.9	32.3
High	44.7	44.7	44.7

#### Key Company Financials

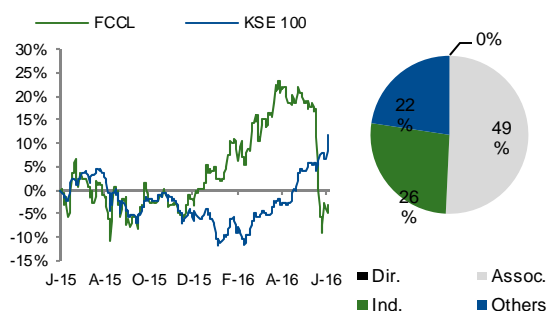
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	18.6	20.6	13.3	22.9
Net Income	4.1	4.8	3.7	6.6
EPS (PKR)	3.0	3.4	2.7	4.8
DPS (PKR)	2.5	2.8	2.0	4.3
Total Assets	29.7	28.3	27.5	29.0
Total Equity	16.6	17.6	18.6	19.2

#### Key Financial Ratios

	FY15A	FY16E	FY17F	FY18F
ROE (%)	25%	27%	20%	34%
P/E (x)	11.8	10.2	13.1	7.4
P/B (x)	2.9	2.8	2.6	2.5
DY (%)	7.1	7.8	5.7	12.2

#### Relative Price Performance & Shareholding



#### About the Company

Fauji Cement Company Limited is a public limited company incorporated in Pakistan on November 23, 1992 and commenced its business w.e.f. May 22, 1993. The principal activity of the company is manufacturing and sale of ordinary portland cement.

Source: Bloomberg, KSE 100 & IGI Research

**Analyst**

**Rashmina Lalani**

rashmina.lalani@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 826

## Fauji Cement Company

### 'BUY' Rating Maintained Despite Plant Damage

- Fauji Cement Company (FCCL) witnessed an accident on 29<sup>th</sup> May-16, where company reported damage to its 25,000ton Raw Meal Silo and Coal mill. According to management disclosure, as a consequence of this incident, cement line of 7,560 tpd would remain close for 5-6 months.
- We have trimmed down our profitability in FY17 PKR 3.7bn or EPS: PKR 2.69 versus initial estimates of PKR 6.9bn of EPS: PKR 5.0 (down by 46%). However insurance proceeds to the tune of PKR 1.0bn (estimated capex requirement of PKR 1.0-1.2bn) are foreseen to contribute PKR 0.51/share (19% of profitability in FY17) to our bottom line.
- We have revised down our Dec-16 target price from PKR 56/share to PKR 46/share, as a result of drop in earning expected in FY17. Despite higher FY16E/FY17F P/E multiple of 10.2x/13.1x, scrip provides capital upside of +30% with dividend yield of 7.8%. Hence we continue to maintain our 'BUY' call on the scrip.

#### Accident on Plant site resulting in Line II closure

Fauji Cement Company (FCCL) witnessed an accident on 29<sup>th</sup> May-16, where company reported damage to its 25,000ton Raw Meal Silo and Coal mill. According to management disclosure, as a consequence of this incident, cement line of 7,560 tpd would remain close for 5-6 months. We await the clarity on the extent of damage and timeline for rebuilding the equipment.

#### A tough year ahead for Company

Our discussions with industry suggest that construction of silo takes 4-5 months incurring an estimated cost of PKR ~350-400mn, whereas new coal mill will need to be imported with an estimated cost of ~PKR 700-800mn including installation and could easily take 8 months. We have tweaked our earnings estimates for FCCL to reflect the damage, keeping assumptions;

- PKR 1.5bn impairment charge to be recorded in 4QFY16
- Capital expenditure of PKR ~1.0-1.2bn to rebuild silo and coal mill
- PKR 1.0bn Insurance Commitment in 3QFY17
- Line-II 7,200 tpd close for 9MFY17
- Line-I 3,700 tpd to run at full capacity

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- Waste Heat Recovery (WHR) to remain closed for 9MFY17
- No exports until Line II resumes
- 3% Super Tax on Profit adjusted for depreciation

### FY17 to be a Black Year

With above mentioned assumptions, we have trimmed down our profitability in FY17 PKR 3.7bn or EPS: PKR 2.69 versus initial estimates of PKR 6.9bn of EPS: PKR 5.0 (down by 46%). However insurance proceeds to the tune of PKR 1.0bn (estimated capex requirement of PKR 1.0-1.2bn) are foreseen to contribute PKR 0.51/share (19% of profitability in FY17) to our bottom line. In addition we expect company to trim its Dividend for the period FY17 to PKR 2.0/share from our previous estimates of PKR 4.2/share.

#### Exhibit: FCCL Financials for 5 quarters

		4QFY16E	1QFY17F	2QFY17F	3QFY17F	4QFY17F
Dispatches						
Local	000'tons	658	321	321	321	737
Exports	"	69	-	-	-	50
Capex	PKR mn	250	900	500	100	100
Net Income	"	416	430	401	1,075	1,799
EPS	PKR	0.30	0.31	0.29	0.78	1.30
DPS	"	1.00	-	-	-	2.00

Source: IGI Research

### 4QFY16 earnings to clock in at PKR 0.30/share

For 4QFY16 we estimate FCCL to post earnings of PKR 416mn (EPS PKR 0.3) depicting a decline of 72%YoY. Profitability is anticipated to peter out largely due to PKR 1.5bn expense recorded for the loss of PPE and inventory, as a consequence of accident at plant site. We expect company to announce cash dividend of PKR 1.0/share in 4QFY16, taking the total dividend to PKR 2.75/share in FY16.

#### Exhibit: Financial Highlights

PKR mn	4QFY16E	4QFY15A	YoY	FY16E	FY15A	YoY
Revenue	5,416	5,225	4%	20,611	18,642	11%
Gross Profit	2,634	2,234	18%	9,713	7,027	38%
Selling and Admin	112	108	4%	483	413	17%
Other Expenses	1,651	142	1063%	2,098	420	400%
Finance Cost	70	123	-43%	484	706	-31%
PBT	881	1,911	-54%	6,943	5,680	22%
Tax	465	444	5%	2,189	1,564	40%
Net profit	416	1,467	-72%	4,754	4,116	15%
EPS	0.30	1.06		3.45	2.98	
DPS	1.00	1.50		2.75	2.50	
Key Ratios						
Gross Margin	49%	43%		47%	38%	
Net Margin	8%	28%		23%	22%	
Effective Tax Rate	53%	23%		32%	28%	

Source: IGI Research, Company Financials

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### Recommendation

We have revised down our Dec-16 target price from PKR 56/share to PKR 46/share, as a result of drop in earning expected in FY17. Despite higher FY16E/FY17F P/E multiple of 10.2x/13.1x, scrip provides capital upside of +30% with dividend yield of 7.8%. Hence we continue to maintain our '**BUY**' call on the scrip.

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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<sup>^</sup> 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
- Change in Exchange Rate (USDPKR)

## Contact Details

### Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queeshi@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore Stock Exchange Limited | Corporate member of Pakistan Mercantile Exchange Limited

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

#### Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

#### Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,  
Gulberg II, Lahore  
Tel: (+92-42) 35777863-70, 35876075-76  
Fax: (+92-42) 35763542

#### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaquat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area, Islamabad  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road, Rahim Yar Khan  
Tel: (+92-68) 5871653-6, 5871652  
Fax: (+92-68) 5871651