

FCCL

1HFY22 Result Review: Stance Reiterated to BUY

Equity Research | Cement | Monday, 21 February, 2022



FCCL has announced its 1HFY22 result where it posted a profit after tax of Rs2.82bn (EPS: Rs1.30) as compared to a profit after tax of Rs1.60bn (EPS: Rs0.73) in the same period last year, up by 76.7% YoY.

The company has posted a revenue of Rs15.24bn against Rs11.61bn in SPLY, recording a growth of 31.3% YoY. We note that this growth is attributed to the increase in volumetric sales and improved retention prices. The gross margin has been improved to 29.3% as compared to 23.4% in SPLY.

SG&A expenses have been increased by 37.2% while the other income and finance cost has been decreased by 7.9% YoY and 375% YoY respectively during the period.

FCCL is currently trading at a FY22E P/E of 7.87x. Furthermore, the scrip is also trading at a FY22E P/B of 1.17 which offers a discount of 20.6% relative to its historical 3-year average of 1.48x. We have a **BUY** stance on the scrip with a DCF based Dec-22 TP of Rs 22 which provides an upside potential of 26%.

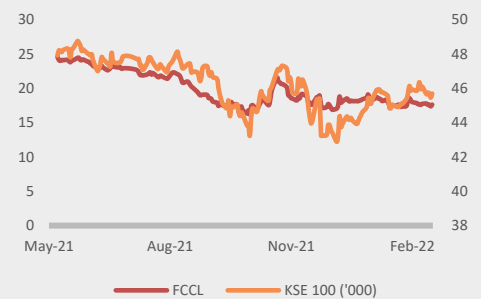
Rupees' millions	2QFY22	2QFY21	YoY	1HFY22	1HFY21	YoY
Net Sales	8,309	6,110	36.0% ▲	15,245	11,611	31.3% ▲
Cost of Sales	-5,951	-4,580	29.9% ▲	-10,777	-8,893	21.2% ▲
Gross Profit	2,358	1,529	54.2% ▲	4,467	2,718	64.4% ▲
SG&A Expenses	-276	-197	40.5% ▲	-477	-347	37.2% ▲
Other Expenses	-158	-91	72.9% ▲	-295	-162	82.3% ▲
Operating Profit	1,923	1,241	54.9% ▲	3,696	2,209	67.4% ▲
Other Income	35	29	20.6% ▲	44	47	7.9% ▼
Finance Cost	95	-33	388.2% ▼	173	-63	375.4% ▼
Profit Before Taxation	2,053	1,237	66.0% ▲	3,912	2,193	78.4% ▲
Taxation	-584	-332	75.8% ▲	-1,084	-592	83.0% ▲
Profit After Taxation	1,470	905	62.3% ▲	2,828	1,601	76.7% ▲
Earnings Per Share	0.67	0.42	62.3% ▲	1.30	0.73	76.7% ▲
Dividend	0.00	0.00		0.00	0.00	
Bonus	0.00	0.00		0.00	0.00	
Gross Margin	28.4%	25.0%	3.3% ▲	29.3%	23.4%	5.9% ▲
SG&A Expenses to Sales	-3.3%	-3.2%	0.1% ▲	-3.1%	-3.0%	0.1% ▲
Other Income to Sales	0.4%	0.5%	0.1% ▼	0.3%	0.4%	0.1% ▼
Ex. Gain / (Loss) to Sales	-3.3%	-3.2%	0.1% ▲	-3.1%	-3.0%	0.1% ▲
Effective Taxation	-28.4%	-26.8%	1.6% ▲	-27.7%	-27.0%	0.7% ▲
Net Margin	17.7%	14.8%	2.9% ▲	18.6%	13.8%	4.8% ▲

Source: ACPL Research, Company Financials

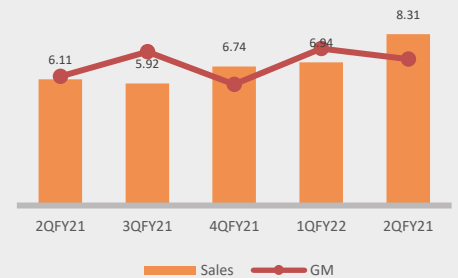
Key Statistics

Symbol	FCCL
TP - Dec 22	22.00
LDCP	17.90
Upside (%)	26
Free Float ('mn)	759
Market Cap. (Rs.'mn)	24,160

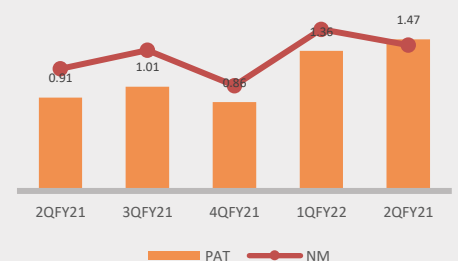
FCCL vs KSE 100



Sales (Rs'Bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

Muhammad Nauman Naeem

Phone: (+92) 42 38302028; Ext: 116

Email: nauman@abbasiandcompany.com

Financial Projections

Rupees' millions	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Net sales	20,798	17,232	24,271	36,735	41,319	45,397	48,558
Cost of sale	15,475	16,583	18,207	28,347	31,233	34,145	35,771
Gross profit	5,323	649	6,064	8,388	10,085	11,252	12,787
Selling and promotion expenses	210	204	190	268	302	331	354
Administration expenses	416	469	525	793	892	981	1,049
Other operating expenses	327	1	378	511	481	501	491
Operating Profit	4,370	- 24	4,972	6,815	8,410	9,439	10,893
Other operating income	148	85	85	92	103	113	121
Finance cost	107	234	- 51	302	224	191	163
Profit before taxation	4,412	- 173	5,108	6,606	8,290	9,361	10,852
Taxation	1,588	- 114	1,636	1,734	2,186	2,479	2,886
Profit after taxation	2,824	- 59	3,471	4,872	6,104	6,882	7,966
EPS	1.30	- 0.03	1.59	2.23	2.80	3.16	3.65

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Net sales	-1.7%	-17.1%	40.9%	51.4%	12.5%	9.9%	7.0%
Cost of sale	-3.6%	7.2%	9.8%	55.7%	10.2%	9.3%	4.8%
Gross profit	4.1%	-87.8%	834.3%	38.3%	20.2%	11.6%	13.6%
Selling and promotion expenses	-23.8%	-2.8%	-7.2%	41.5%	12.5%	9.9%	7.0%
Administration expenses	7.9%	12.7%	12.0%	51.2%	12.5%	9.9%	7.0%
Other operating expenses	5.0%	-99.8%	66557.1%	35.1%	-5.7%	4.1%	-2.1%
Operating Profit	5.5%	-100.6%	20329.6%	37.1%	23.4%	12.2%	15.4%
Other operating income	42.5%	-42.7%	-0.5%	8.6%	12.5%	9.9%	7.0%
Finance cost	-27.8%	119.0%	-121.8%	-692.5%	-25.8%	-14.6%	-15.0%
Profit before taxation	7.7%	-103.9%	-3047.9%	29.3%	25.5%	12.9%	15.9%
Taxation	137.4%	-107.2%	-1536.8%	6.0%	26.1%	13.4%	16.4%
Profit after taxation	-17.6%	-102.1%	5845.9%	40.3%	25.3%	12.7%	15.8%
EPS	-17.6%	-102.1%	5845.9%	40.3%	25.3%	12.7%	15.8%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
GP Margin	%	25.60	3.77	24.99	22.83	24.41	24.79	26.33
NP Margin	%	13.58	-0.34	14.30	13.26	14.77	15.16	16.41
OP Margin	%	21.01	-0.14	20.49	18.55	20.35	20.79	22.43
ROE	%	13.51	-0.21	11.10	14.92	18.70	21.08	24.40
ROCE	%	173.59	-2.27	140.55	174.25	248.22	320.59	429.14
ROA	%	9.75	-0.20	10.19	14.41	14.25	13.00	12.40
Cost per ton	'mn	5.00	5.32	5.04	8.04	8.48	8.87	8.89
EBITDA per ton	'mn	1.89	0.52	6.36	2.74	3.38	3.79	3.91
Liquidity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Current	x	1.51	1.38	2.02	-0.38	-0.90	-1.19	0.00
Acid-test	x	0.36	0.32	1.11	-1.18	-1.74	-2.06	-0.92
Cash to current liab.	x	0.11	0.11	0.15	-1.38	-1.96	-2.29	-1.16
Activity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Average Inventory	'mn	1,094	1,066	1,188	1,520	1,946	2,135	2,283
Inventory Turnover	x	14	16	15	19	16	16	16
Inventory Days		26	23	24	20	23	23	23
Receivables Days		16	20	25	26	23	23	23
Payables Days		22	26	37	50	50	50	50
Operating Cycle		20	18	13	-4	-4	-4	-4
Utilization	%	85	87	97	55	58	61	38
Export Revenue	%	7	10	10	10	9	9	9
Local Revenue	%	93	90	90	90	91	91	91
Export Market Share	%	9	16	13	13	13	13	13
Local Market Share	%	9	8	8	7	6	5	5
Total Market Share	%	9	8	8	7	6	6	5
Investment Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
EPS		1.30	-0.03	1.59	2.23	2.80	3.16	3.65
DPS		1.50	0.00	0.00	0.00	0.00	0.00	0.00
Div. Yield	%	8.53	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Cover		0.86	0.00	0.00	0.00	0.00	0.00	0.00
BVPS		9.59	12.75	14.35	14.97	14.97	14.97	14.97
Payout	%	115.80	0.00	0.00	0.00	0.00	0.00	0.00
Retention	%	-15.80	100.00	100.00	100.00	100.00	100.00	100.00
No. of Shares	'mn	2,180	2,180	2,180	2,180	2,180	2,180	2,180
P/E		13.58	-645.86	11.05	7.87	6.28	5.57	4.81
Sales per share		9.54	7.90	11.13	16.85	18.95	20.82	22.27
P/BV		1.84	1.38	1.23	1.17	1.17	1.17	1.17
Price to Sales		1.84	2.23	1.58	1.04	0.93	0.84	0.79
Gearing Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Debt to Equity	x	0.08	0.09	0.08	0.09	0.08	0.07	0.06
L.T. Debt to Equity	x	0.02	0.02	0.02	0.01	0.00	0.00	0.00
Interest Cover	x	40.94	-0.10	-97.65	22.59	37.58	49.37	67.03

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com