Fauji Cement (FCCL) results exceeded 1H street estimations…

Wednesday, 26 February 2025

Highlights

- FCCL debt will be reduced by PKR 4.5 bn in FY25. The current legacy principal debt is ~PKR 29bn.
- FCCL debt reduced to PKR 27bn from PKR 29.5bn in 2Q and that's why they haven't paid an interim cash dividend. This was a street consensus also.
- FCCL capacity utilization may reach 60% in FY25.
- FCCL yields FY25 PE of 6.4x.

1H results…

Fauji Cement (FCCL) reported profitability of PKR 4.02bn which is 51% higher than SPLY. This translated into an EPS of PKR 1.64/sh in 2QFY25. Although the revenues jumped by 24% YoY in 2QFY25 whilst PKR 24.8bn vs 20bn posted in 2QFY24.

Beating consensus estimates…

FCCL 1HFY25 EPS surges to PKR 2.96/sh which actually beaten street consensus estimates of PKR 2.88/sh.

FCCL Snapshot

Price (PKR/sh)	41.4
Mkt Cap (PKR)	101.5bn
Avg Vol (12m)	12mn
Paid-up (PKR)	24.5bn
Beta	1.42
Par Value (PKR)	10
52 weeks low	16.2
52 weeks High	44.41

Source: SCS Research

FCCL P&L Estimations

PKR mn	1QFY25	2QFY24	2QFY25	1HFY24	1HFY25	YoY
Revenue	22,956	20,039	**24,888**	40,352	**47,844**	18.6%
COS	15,073	13,502	**15,987**	27,493	**31,059**	13.0%
G.P	7,884	6,537	**8,901**	12,858	**16,785**	30.5%
S&D Exp	693	936	**709**	1,640	**1,403**	-14.4%
Admn Exp	414	384	**435**	741	**849**	14.5%
EBIT	6,777	5,217	**7,757**	10,478	**14,534**	38.7%
Other Income	174	103	**213**	200	**387**	93.5%
OPEX	363	295	**449**	575	**812**	41.2%
Finance Cost	1,675	1,011	**1,329**	2,141	**3,004**	40.3%
Finance Income	320	75	**276**	136	**596**	338.2%
PBT	5,233	4,090	**6,468**	8,098	**11,700**	44.5%
Tax Expense	1,986	1,430	**2,447**	2,824	**4,433**	57.0%
PAT	3,247	2,660	**4,020**	5,274	**7,267**	37.8%
EPS	1.32	1.08	**1.64**	2.15	**2.96**	37.8%

Source: SCS Research

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Repaying debt

As anticipated FCCL hasn't paid any interim cash dividend. We believe cement companies in general may repay their principal debts instead of passing on cash dividend. FCCL is liable to pay ~PKR 4.5 bn principal debt against legacy borrowing of PKR 29bn.

Increase in dispatches

FCCL dispatched 2.81mn tons in 1HFY25 compared to 2.58mn tons in SPLY with an increase of 9% YoY. Although the plant has a capacity of ~10.6mn tons, however, the catch point is its utilization level which may reach ~60% during FY25. This was ~50% during FY24. Hence this depicts a healthy jump as being indicated in the results. We expect that utilization level will continue to increase in 3QFY25 which could be on the back of multiple reasons such as talk of constructing housing schemes. As per newspaper reports, the multilateral agencies anticipating a shortage of 12mn units wherein we see FCCL is major player in the Northern Zone.

Increase in margins

FCCL gross margin has increased by 36% YoY in 2QFY25 with PKR 8.9bn. We expect gross margins can improve and it can go below 30% as their utilization continues to depict a coal mix of Afghan & Darra coal which cost ~PKR 40k/ton.

Decreasing in cost

Another main indicator is decreasing finance cost QoQ by 21% which means FCCL is liable to show improved earnings going forward in the wake of decreasing financial charges in lieu of decreased lending rates.

SCS earnings estimates

We are targeting FCCL to report PKR 6.4/sh in FY25 which translates into leading PE of 6.4x. We remain positive in FCCL based on impending increase in capacity utilization and improved margins on cement bags.

Price Sensitivity model shared Earlier

Total Capacity	10,600,000
Last Utilization	55%
Price per Bag	1480
Gross Margin	30%

Utilization	EPS	P/E
50%	5.4	5.2
55%	6.04	4.6
60%	6.67	4.2
65%	7.31	3.8
70%	7.95	3.5
75%	8.59	3.3

Source: SCS Research

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Following research techniques adopted to calculate target price/recommendation

- Price to earnings & Price to Book, EV-EBITDA multiple
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