

Flash Note

Friday, 28 October 2016

Cements

FCCL: Closure of Line II dented earnings during 4QFY16 & 1QFY17

- Fauji Cement Company Limited (FCCL) announced its 1QFY17 and FY16 financial results.
- For 1QFY17, company's reported profitability showed a steep decline of 45%YoY to PKR 609mn (EPS PKR 0.44) as compared to PKR 1.10bn (EPS PKR 0.80) reported in corresponding period last year. For 4QFY16, earnings dropped by 30%YoY to PKR 1.03bn (EPS PKR 0.75) as compared to PKR 1.47bn (EPS PKR 1.01) witnessed in 4QFY15.
- The 4QFY16 result was accompanied by cash dividend of PKR 1.00/share, taking total payout to PKR 2.75/share for FY16.
- Revenue for 1QFY17 remained relatively unchanged at PKR 4.39bn. For 4QFY16, revenues depicted a decline of 7%YoY to PKR 4.85bn, taking FY16 total revenue to PKR 20.04bn (up by +8%YoY) compared to PKR 18.64bn in FY15.
- Gross Margin plunged by 19%YoY in 1QFY17, which in our view is due to a) increase in power cost owing to closing of 12MW WHR plant, b) lower efficiency of line I, and c) higher cost due to clinker purchase.
- Effective tax rate surged to 42% in 4QFY16 compared to 23% observed in 4QFY15 due to super tax charge.

Recommendation

The scrip is currently trading at FY17E P/E of 11.5x and with our Jun-17 TP of PKR 53/share, the stock offers upside of +53%. We maintain our 'Buy' call on the scrip.

Exhibit: Financial Highlights (1QFY17)

PKR mn	1QFY17	1QFY16	YoY	4QFY16	QoQ
Revenue	4,392	4,381	0%	4,849	-9%
Gross Profit	1,047	1,879	-44%	2,085	-50%
Selling and Admin	112	107	5%	150	-25%
Other Expenses	61	113	-46%	132	-54%
Finance Cost	78	198	-61%	89	-12%
PBT	831	1,530	-46%	1,770	-53%
Tax	222	427	-48%	740	-70%
Net profit	609	1,103	-45%	1,030	-41%
EPS	0.44	0.80		0.75	
DPS	1.00	1.50		1.00	
<i>Key Ratios</i>					
Gross Margin	24%	43%		43%	
Net Margin	14%	25%		21%	
Effective Tax Rate	27%	28%		42%	

Source: IGI Research, Company Financials

Exhibit: Financial Highlights (4QFY16)

PKR mn	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Revenue	4,849	5,225	-7%	20,044	18,642	8%
Gross Profit	2,085	2,234	-7%	9,165	7,027	30%
Selling and Admin	150	108	38%	521	413	26%
Other Expenses	132	142	-7%	579	706	-18%
Finance Cost	89	123	-28%	503	191	163%
PBT	1,770	1,911	-7%	7,831	5,680	38%
Tax	740	444	67%	2,464	1,564	58%
Net profit	1,030	1,467	-30%	5,367	4,116	30%
EPS	0.84	1.06		3.98	2.91	
DPS	1.00	1.50		2.75	2.50	
<i>Key Ratios</i>						
Gross Margin	43%	43%		46%	38%	
Net Margin	21%	28%		27%	22%	
Effective Tax Rate	42%	23%		31%	28%	

Source: IGI Research, Company Financials

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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Time Horizon: Jun - 2017

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

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