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Insight Securities

Pakistan Cement

FCCL PA: 2QF23 Analyst briefing takeaways

Fauji Cement Company Limited has conducted its 2QFY23 analyst briefing to discuss financial results and future outlook. We have summarized key takeaways from the briefing.

- Company posted a PAT of PKR2.76bn (EPS:PKR1.13) in 2QFY23 against PAT of PKR1.68bn (EPS:PKR0.69) reported in SPLY, up by 64%. The increase in profitability is attributable to higher retention price and improved gross margins led by a better fuel mix. To note, 2.05MT capacity expansion at Nizampur has been commissioned in Oct'22, taking company's total capacity to 8.4MTPA.
- FCCL's fuel mix constitutes ~5% Imported coal, ~50% Darra and ~45% Afghan. To note, Afghan coal prices are hovering ~PKR50-53k/ton whereas, local coal is around PKR33-35k/ton and imported is trading at PKR60-62k/ton. Currently, Company holds 2-3 months of coal inventory having cost around ~PKR42-43k/ton. Whereas, in 2QFY23, realized coal inventory cost was ~PKR38k/ton.
- FCCL's power mix stands at 58% national grid and 42% from own generation. While, grid tariff for the company costs around PKR28/KwH.
- Company is also installing 11MW solar power plant at Nizampur which requires capex of PKR1.6bn. Along with that, management is also adding 7MW WHRP at Nizampur.
- Regarding DG khan expansion, management stated that project cost has overrun due to PKR devaluation to PKR38bn from PKR32.5bn. The composition of TERF/LTFF was PKR9bn in overall debt of PKR20bn, However, company only manages to secure 4bn TERF while LTFF was not disbursed. As a result, the company had to resort to a KIBOR-based loan, resulting in higher financing cost.
- Management stated that devaluation of PKR has made cement export viable. Hence, company is exporting cement to Afghanistan taking advantage of its close proximity to border. However, management commented that sea exports are not feasible for southern players due to high freight costs.
- On demand front, management expects cement demand to decline by 12-15% in FY23. Whereas, 5%-10% gradual recovery is expected in next fiscal year.
- As per the management, PKR7.4bn loan from parent company, is a subordinated debt and has the option to be converted into equity.

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- Discounted cash flow (DCF)
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Frequently Used Acronyms

TP	Target Price	**DCF**	Discounted Cash Flows	**FCF**	Free Cash Flows
FCFE	Free Cash Flows to Equity	**FCFF**	Free Cash Flows to Firm	**DDM**	Dividend Discount Model
SOTP	Sum of the Parts	**P/E**	Price to Earnings ratio	**P/Bv**	Price to Book ratio
P/S	Price to Sales	**EVA**	Economic Valued Added	**BVPS**	Book Value per Share
EPS	Earnings per Share	**DPS**	Dividend per Share	**DY**	Dividend Yield
ROE	Return on Equity	**ROA**	Return on Assets	**CAGR**	Compounded Annual Growth Rate

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