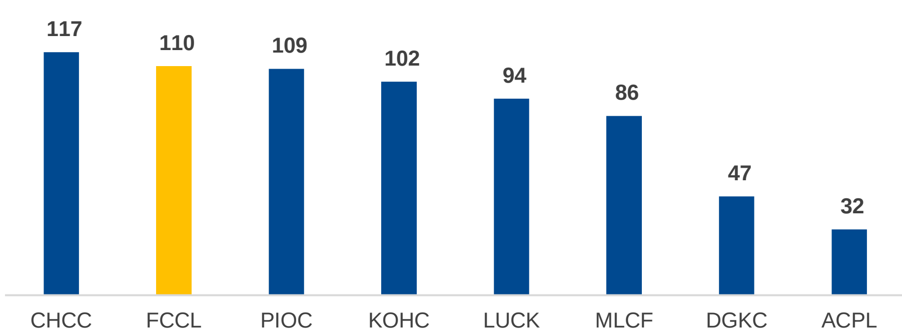
FCCL: Cost optimization focus to keep the stock in spotlight

- Fauji Cement Company Limited (FCCL) conducted its Corporate Briefing yesterday to discuss FY24 results and outlook of the company. The company has been pulling off a stable gross level performance due to better cost management in recent quarters.
- FCCL currently has one of the highest operating profit/bag, and it is working on further optimizing its fuel and power arrangements. FCCL has enhanced its green captive power capacity over the years, installing a 12.5MW solar plant in FY24, with an additional 15MW solar expansion this year (5MW by Oct-2024, 10MW by Feb-2025) at a projected CapEx of Rs1.5bn.
- FCCL is now the third largest cement producer in the country as the Greenfield capacity expansion at DG Khan has taken FCCL's capacity to 10.6mn tons, positioning the company to avail the higher market share once overall demand improves.
- With strong earnings growth potential ahead, we maintain our Buy recommendation on FCCL with a target price of Rs35. We anticipate the company's core business to remain resilient, driven by management's focus on enhancing cost efficiencies.

Strong operating profits amid subdued local demand

Fauji Cement Company Limited (FCCL) conducted its Corporate Briefing yesterday to discuss FY24 results and outlook of the company. The company's operating profit/bag stands among the best in our Cement sector universe and it continues to invest in strategies aimed at improving cost efficiencies. The company's undertaken initiatives are expected to yield benefits in the coming quarters. Management anticipates local demand to remain subdued throughout the year and the recent improvement in macroeconomic indicators is expected to take time to reflect, with potential recovery in volumetric sales starting from Mar-2025. FCCL's current cement retail price ranges between Rs1,420-1,450/bag, with retention prices hovering around Rs860-880/bag. FCCL's reported 23% YoY growth in exports in FY24. Exports are reasonably well compared to last year during the recent quarter and a YoY improvement is anticipated during the remainder FY25.

FY24: Operating profit (Rs/bag)



Source: Company accounts, JS Research 'Based on installed capacity'

FCCL expands Green energy and packaging solutions

FCCL has increased its green captive power generation ability over the years through the addition of solar plants. The company installed a 12.5MW solar plant during FY24. Management shared that from the recent 15MW solar plant

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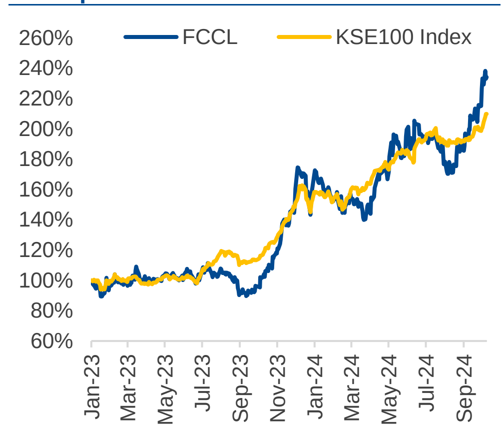
Bloomberg Code: FCCL PA
Target Price: Rs35
Market Price: Rs27.52
Market Cap: Rs68bn, US$243mn
1-yr ADTO: 9.2mn shares**,** Rs191mn, US$0.7mn
1-yr High / Low: Rs28.00 / 12.03
Estimated free float: 858mn shares (35%)

FCCL performance relative to KSE100



Source: PSX, JS Research

expansion plan, 5MW will come online by end of Oct-2024 whereas 10MW solar plant expected to be commissioned by Feb-2025. The estimated CapEx for the solar project is Rs1.5bn.

The company added a 7MW Waste Heat recovery (WHR) plant at Nizampur in FY23 and another WHR plant with the latest expansion to save up on power costs. WHR units at all sites now total to around 64.5MW with 12MW added during FY24.

For FY24, FCCL's power mix consisted of approximately 48% from its own generation, with reliance on the national grid accounting at nearly 52%. National grid unit costs around Rs45/kWh. Management has indicated a goal of achieving 55% of power generation from captive sources in FY25.

The company also plans to setup a Polypropylene (PP) bags plant with an investment of Rs1bn, which is expected to meet 90% of its packaging needs. The project will have a payback period of 4-5 years.

Partial pass-on of the royalty impact

Cement companies in the Punjab region, including FCCL, have obtained a stay order from Lahore High Court (LHC) against the 6% royalty imposed by the Punjab government on the ex-factory price of cement bags. Because of the stay order, there is no cashflow impact. Although cement prices have seen an increase since the notification, companies are yet to fully pass on the full impact to consumers. FCCL management, in the briefing held yesterday, shared that the total impact of royalty comes out to be Rs90/bag and the company has passed on 50% of the impact. We expect this to impact margins to some extent in the upcoming quarterly results.

For background, the Punjab government had circulated a notice on August 1, 2024, according to which rates of royalty on raw material for cement manufacturers had been determined at 6% of the ex-factory sale price of cement. The notice mentioned limestone and argillaceous clay used for cement manufacturing.

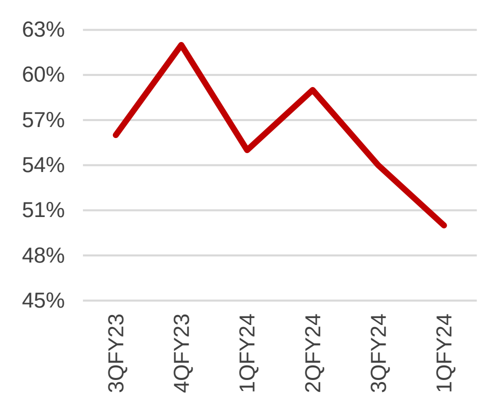
FCCL - third largest cement company

FCCL has become the third largest cement player in Pakistan (based on capacity) with the last expansion during FY24. The company's capacity increased from 3.6mn tons to 6.4mn tons post the merger executed in FY22, whereas the number of plant locations rose from one to three. The addition of 2mn tons at Nizampur took capacity to 8.4mn tons. Whereas the latest Greenfield capacity expansion at DG Khan, has taken FCCL's capacity to 10.6mn tons positioning the company to avail the higher market share once overall demand improves. The expansion at DG Khan can also help the company expand FCCL's reach to the Southern market as well covering South Punjab, Balochistan and Sindh.

Potential remains intact; Reiterate Buy

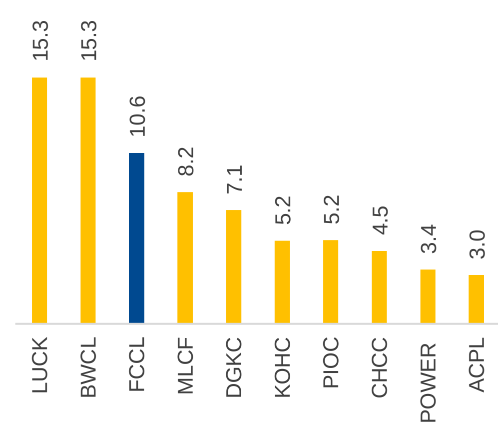
We maintain an Overweight stance on Fauji Cement (FCCL) with attractive upside from current levels to Target Price of Rs35. The company has been able to consistently pull off a stable gross level performance due to better cost management. We expect the company's core business performance to remain stable because of management's cost efficiency prioritization.

FCCL's Debt to Equity



Source: Company Accounts, JS Research

Capacity (mn tons)



Source: Company Accounts, JS Research

FCCL: Key statistics

(Rs mn)	FY23A	FY24A	FY25E
Sales	68,069	80,026	89,490
YoY Growth	25%	18%	12%
Gross Margin	30%	32%	32%
PAT	7,440	8,223	12,118
YoY Growth	5%	11%	47%
EPS (Rs)	3.03	3.35	4.94
DPS (Rs)	0.00	1.00	1.50
P/E (x)	4.10	4.98	5.57
DY	0%	6%	6%

Source: Company accounts, JS Research

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