

# FCCL

## 1HFY21 Result Review: Stance Downgraded to HOLD

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FCCL has announced its 1HFY21 result where it posted a profit after tax of Rs1.6bn (EPS: Rs1.16) as compared to a profit after tax of Rs482mn (EPS: Rs0.35) in the same period last year, up by 232% YoY.

The company has posted a revenue of Rs11.6bn against Rs9.6bn in SPLY, recording a growth of 21.5% YoY. We note that this growth is attributed to the increase in volumetric sales and improved retention prices.

Gross margin has been improved significantly to 23.4% as compared to 10.3% in SPLY.

SG&A expenses have declined by 5.3% YoY to Rs347mn as compared to Rs367mn during SPLY.

Other income and finance cost have been declined by 11.5% YoY and 21.7% YoY respectively.

FCCL is currently trading at a FY21E P/E of 11.24x. Furthermore, the scrip is also trading at a FY21E P/B of 1.66x which offers a discount of 6.4% relative to its historical 5-year average of 1.77x. We have a **HOLD** stance on the script with a DCF based Dec-21 TP of Rs 28 which provides an upside potential of 10%.

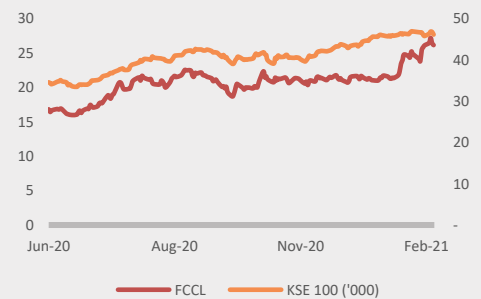
Rupees' millions	2QFY21	2QFY20	YoY	1HFY21	1HFY20	YoY
Net Sales	6,110	5,314	15.0% ▲	11,611	9,557	21.5% ▲
Cost of Sales	-4,580	-4,922	6.9% ▼	-8,893	-8,573	3.7% ▲
<b>Gross Profit</b>	<b>1,529</b>	<b>392</b>	<b>289.7% ▲</b>	<b>2,718</b>	<b>984</b>	<b>176.3% ▲</b>
SG&A Expenses	-197	-205	3.9% ▼	-347	-367	5.3% ▼
Other Expenses	-91	-5	1568.8% ▲	-162	-35	361.5% ▲
<b>Operating Profit</b>	<b>1,241</b>	<b>182</b>	<b>581.0% ▲</b>	<b>2,209</b>	<b>582</b>	<b>279.6% ▲</b>
Other Income	29	24	22.3% ▲	47	54	11.5% ▼
Finance Cost	-33	-52	36.8% ▼	-63	-80	21.7% ▼
Profit Before Taxation	1,237	154	704.7% ▲	2,193	555	294.9% ▲
Taxation	-332	36	1031.7% ▼	-592	-73	709.6% ▲
<b>Profit After Taxation</b>	<b>905</b>	<b>189</b>	<b>378.0% ▲</b>	<b>1,601</b>	<b>482</b>	<b>232.0% ▲</b>
<b>Earnings Per Share</b>	<b>0.66</b>	<b>0.14</b>	<b>378.0% ▲</b>	<b>1.16</b>	<b>0.35</b>	<b>232.0% ▲</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>	
<b>Bonus</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>-</b>	
Gross Margin	25.0%	7.4%	17.6% ▲	23.4%	10.3%	13.1% ▲
SG&A Expenses to Sales	-3.2%	-3.9%	0.6% ▼	-3.0%	-3.8%	0.8% ▼
Other Income to Sales	0.5%	0.4%	0.0% ▲	0.4%	0.6%	0.2% ▼
Ex. Gain / (Loss) to Sales	-3.2%	-3.9%	0.6% ▼	-3.0%	-3.8%	0.8% ▼
Effective Taxation	-26.8%	23.2%	3.7% ▲	-27.0%	-13.2%	13.8% ▲
Net Margin	14.8%	3.6%	11.3% ▲	13.8%	5.0%	8.7% ▲

Source: ACPL Research, Company Financials

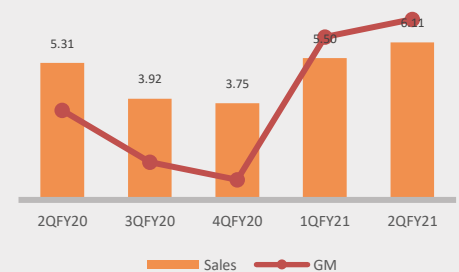
### Key Statistics

Symbol	FCCL
TP - Dec 21	28.00
LDCP	25.50
Upside (%)	10
Free Float ('mn)	759
Market Cap. (Rs.'mn)	35,185

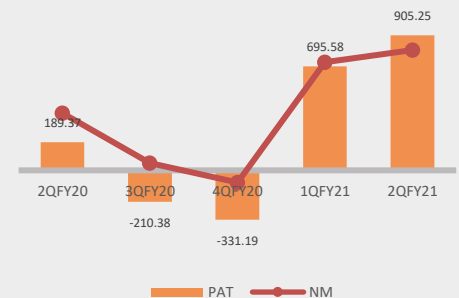
### FCCL vs KSE 100



### Sales (Rs'bn) vs Gross Margin



### PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Net sales	18,642	20,044	20,423	21,161	20,798	17,232	23,129	26,305	28,615
Cost of sale	11,615	10,879	15,986	16,046	15,475	16,583	17,781	19,819	21,263
<b>Gross profit</b>	<b>7,027</b>	<b>9,165</b>	<b>4,438</b>	<b>5,115</b>	<b>5,323</b>	<b>649</b>	<b>5,348</b>	<b>6,486</b>	<b>7,352</b>
Selling and promotion expenses	141	209	166	276	210	204	185	210	229
Administration expenses	272	312	340	386	416	469	507	576	627
Other operating expenses	420	579	291	311	327	1	321	308	321
<b>Operating Profit</b>	<b>6,195</b>	<b>8,066</b>	<b>3,640</b>	<b>4,142</b>	<b>4,370</b>	<b>- 24</b>	<b>4,335</b>	<b>5,392</b>	<b>6,175</b>
Other operating income	191	269	443	104	148	85	95	108	117
Finance cost	706	503	153	148	107	234	127	99	78
Profit before taxation	5,680	7,831	3,930	4,098	4,412	- 173	4,303	5,400	6,215
Taxation	1,564	2,464	1,317	669	1,588	- 114	1,173	1,489	1,726
<b>Profit after taxation</b>	<b>4,116</b>	<b>5,367</b>	<b>2,613</b>	<b>3,429</b>	<b>2,824</b>	<b>- 59</b>	<b>3,129</b>	<b>3,911</b>	<b>4,489</b>
EPS	<b>2.98</b>	<b>3.89</b>	<b>1.89</b>	<b>2.49</b>	<b>2.05</b>	<b>- 0.04</b>	<b>2.27</b>	<b>2.83</b>	<b>3.25</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Net sales	6.3%	7.5%	1.9%	3.6%	-1.7%	-17.1%	34.2%	13.7%	8.8%
Cost of sale	1.5%	-6.3%	46.9%	0.4%	-3.6%	7.2%	7.2%	11.5%	7.3%
<b>Gross profit</b>	<b>15.5%</b>	<b>30.4%</b>	<b>-51.6%</b>	<b>15.3%</b>	<b>4.1%</b>	<b>-87.8%</b>	<b>723.9%</b>	<b>21.3%</b>	<b>13.3%</b>
Selling and promotion expenses	12.7%	48.0%	-20.3%	65.9%	-23.8%	-2.8%	-9.5%	13.7%	8.8%
Administration expenses	20.2%	14.9%	8.9%	13.5%	7.9%	12.7%	8.1%	13.7%	8.8%
Other operating expenses	25.9%	37.8%	-49.7%	6.9%	5.0%	-99.8%	56600.0%	-4.1%	4.1%
<b>Operating Profit</b>	<b>14.7%</b>	<b>30.2%</b>	<b>-54.9%</b>	<b>13.8%</b>	<b>5.5%</b>	<b>-100.6%</b>	<b>17723.7%</b>	<b>24.4%</b>	<b>14.5%</b>
Other operating income	25.8%	40.4%	64.7%	-76.5%	42.5%	-42.7%	11.6%	13.7%	8.8%
Finance cost	-32.3%	-28.7%	-69.6%	-3.4%	-27.8%	119.0%	-45.7%	-21.7%	-21.2%
Profit before taxation	26.0%	37.9%	-49.8%	4.3%	7.7%	-103.9%	-2583.3%	25.5%	15.1%
Taxation	-17.0%	57.6%	-46.6%	-49.2%	137.4%	-107.2%	-1130.4%	26.9%	15.9%
<b>Profit after taxation</b>	<b>56.7%</b>	<b>30.4%</b>	<b>-51.3%</b>	<b>31.2%</b>	<b>-17.6%</b>	<b>-102.1%</b>	<b>5269.9%</b>	<b>25.0%</b>	<b>14.8%</b>
EPS	<b>56.7%</b>	<b>30.4%</b>	<b>-51.3%</b>	<b>31.2%</b>	<b>-17.6%</b>	<b>-102.1%</b>	<b>5269.9%</b>	<b>25.0%</b>	<b>14.8%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
GP Margin	%	37.69	45.72	21.73	24.17	25.60	3.77	23.12	24.66	25.69
NP Margin	%	22.08	26.78	12.80	16.21	13.58	-0.34	13.53	14.87	15.69
OP Margin	%	33.23	40.24	17.82	19.57	21.01	-0.14	18.74	20.50	21.58
ROE	%	23.63	29.13	13.28	16.74	13.51	-0.30	14.78	18.48	21.21
ROCE	%	63.03	131.22	175.47	126.93	173.59	-2.27	233.81	389.79	539.96
ROA	%	13.48	18.28	9.42	11.81	9.75	-0.20	9.86	10.95	11.21
Cost per ton	'mn	4.31	3.76	5.64	4.74	5.00	5.32	5.65	5.79	5.96
EBITDA per ton	'mn	2.81	3.26	1.54	1.60	1.89	0.52	1.87	2.00	2.11
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Current	x	1.36	1.51	2.40	1.49	1.51	1.38	2.45	3.50	4.55
Acid-test	x	0.67	0.92	0.96	0.42	0.36	0.32	0.88	1.79	2.76
Cash to current liab.	x	0.49	0.34	0.22	0.12	0.11	0.11	0.55	1.43	2.37
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Average Inventory	'mn	1,149	715	806	1,158	1,094	1,066	1,231	1,347	1,471
Inventory Turnover	x	10	15	20	14	14	16	14	15	14
Inventory Days		36	24	18	26	26	23	25	25	25
Receivables Days		11	11	21	21	16	20	26	24	23
Payables Days		65	66	14	23	22	27	27	27	27
Operating Cycle		-17	-31	26	24	20	16	23	21	21
Utilization	%	75	82	85	96	85	86	88	96	100
Export Revenue	%	15	12	4	8	7	7	6	5	4
Local Revenue	%	85	88	96	92	93	93	94	95	96
Export Market Share	%	9	9	4	9	9	11	10	9	8
Local Market Share	%	9	9	10	9	9	8	8	8	7
Total Market Share	%	9	9	9	9	9	8	8	8	7
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
EPS		2.98	3.89	1.89	2.49	2.05	-0.04	2.27	2.83	3.25
DPS		1.75	2.75	0.90	2.00	1.50	-0.03	1.36	1.70	1.95
Div. Yield	%	6.86	10.78	3.53	7.84	5.88	-0.10	5.34	6.67	7.65
Dividend Cover		1.70	1.41	2.10	1.24	1.36	1.67	1.67	1.67	1.67
BVPS		12.62	13.36	14.26	14.85	15.15	14.35	15.34	15.34	15.34
Payout	%	58.66	70.70	47.52	80.47	73.28	60.00	60.00	60.00	60.00
Retention	%	41.34	29.30	52.48	19.53	26.72	40.00	40.00	40.00	40.00
No. of Shares	'mn	1,380	1,380	1,380	1,380	1,380	1,380	1,380	1,380	1,380
P/E		8.55	6.56	13.46	10.26	12.46	-592.53	11.24	9.00	7.84
Sales per share		13.51	14.53	14.80	15.34	15.07	12.49	16.76	19.06	20.74
P/BV		2.02	1.91	1.79	1.72	1.68	1.78	1.66	1.66	1.66
Price to Sales		1.89	1.76	1.72	1.66	1.69	2.04	1.52	1.34	1.23
Gearing Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Debt to Equity	x	0.37	0.22	0.08	0.13	0.08	0.13	0.06	0.05	0.04
L.T. Debt to Equity	x	0.23	0.08	0.05	0.03	0.02	0.02	0.01	0.01	0.00
Interest Cover	x	8.77	16.02	23.80	28.02	40.94	-0.10	34.17	54.31	78.93

Source: ACPL Research, Company Financials

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

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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

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