

FCCL

9MFY20 Result Review: BUY Stance Maintained

Equity Research | Cement | Monday, 20 April, 2020

FCCL has announced its 3QFY20 result where it posted profit after tax of Rs272mn (EPS: Rs0.20) in 9MFY20 as compared to profit after tax of Rs2.4bn (EPS: Rs1.77) in same period last year, down by 88.9% YoY.

The company has posted the revenue of Rs13.5bn against Rs15.6bn in SPLY, recording a decline of 13.8% YoY. We note that this decline is attributed to the slowdown in construction activity owing to economic contractionary phase and winter season.

Gross margin has been squeezed to 6.5% in 9MFY20 as compared to 26.3% in 9MFY19 due to rupee devaluation of around 17% during the period and decrease in retention prices. SG&A expenses have grown by 14.4% YoY to Rs513mn in 9MFY20 as compared to Rs448mn during SPLY.

Lastly, decline in other income by 38.9% YoY, and increase in finance cost by 98.7% YoY caused the bottom-line to plunge. A tax reversal of Rs70mn during 3QFY20 saved the company from going deep into losses.

Going forward, we expect the sales to remain sluggish during fourth quarter owing to COVID-19 crisis. However, the offtake is expected to improve from next fiscal year. FCCL is currently trading at FY21E PE of 32.02x. Furthermore, the script is trading at a FY21E P/B of 1.05x which offers a discount of 13% relative to its historical 5-year average of 1.21x. We maintain our **BUY** stance on the script with a DCF based Dec-21 TP of Rs 20 which provides an upside potential of 18%.

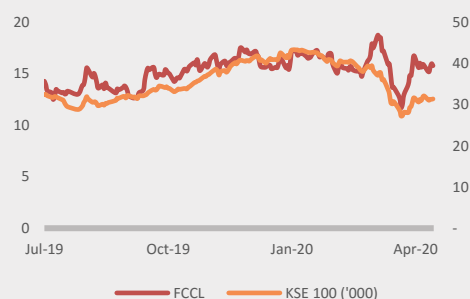
Rupees' millions	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	3,925	5,213	24.7% ▼	13,482	15,644	13.8% ▼
Cost of Sales	-4,030	-4,115	2.1% ▼	-12,604	-11,528	9.3% ▲
Gross Profit	-106	1,098	109.6% ▼	878	4,116	78.7% ▼
SG&A Expenses	-146	-165	11.8% ▲	-513	-448	14.4% ▲
Other Expenses	21	-65	131.7% ▲	-14	-255	94.3% ▼
Operating Profit	-231	868	126.6% ▼	351	3,413	89.7% ▼
Other Income	20	38	46.1% ▼	74	121	38.9% ▼
Finance Cost	-70	-22	217.9% ▲	-150	-75	98.7% ▲
Profit Before Taxation	-280	884	131.7% ▼	275	3,459	92.0% ▼
Taxation	70	-267	126.0% ▼	-4	-1,019	99.6% ▼
Profit After Taxation	-210	616	134.1% ▼	272	2,440	88.9% ▼
Earnings Per Share	-0.15	0.45	134.1% ▼	0.20	1.77	88.9% ▼
Dividend	0.00	0.00		0.00	0.75	
Bonus	-	-		-	-	
Gross Margin	-2.7%	21.1%	23.8% ▼	6.5%	26.3%	19.8% ▼
SG&A Expenses to Sales	-3.7%	-3.2%	0.5% ▲	-3.8%	-2.9%	0.9% ▲
Other Income to Sales	0.5%	0.7%	0.2% ▼	0.5%	0.8%	0.2% ▼
Ex. Gain / (Loss) to Sales	-3.7%	-3.2%	0.5% ▲	-3.8%	-2.9%	0.9% ▲
Effective Taxation	-24.8%	-30.3%	5.4% ▼	-1.3%	-29.4%	28.1% ▼
Net Margin	-5.4%	11.8%	17.2% ▼	2.0%	15.6%	13.6% ▼

Source: ACPL Research, Company Financials

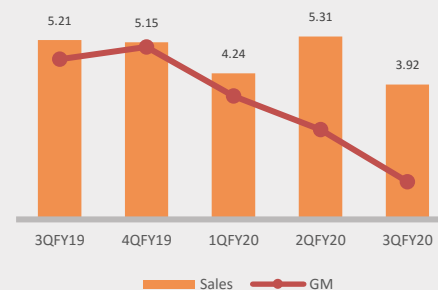
Key Statistics

Symbol	FCCL
TP - Jun 21	20.00
LDCP	16.93
Upside (%)	18.13
Free Float ('mn)	759
Market Cap. (Rs.'mn)	23,360

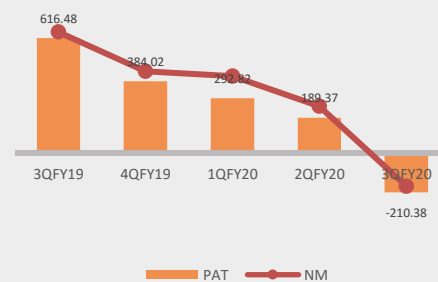
FCCL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

M. Fawad Naveed

Phone: (+92) 42 38302028; Ext: 117
Email: fawad@abbasiandcompany.com

Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Net sales	18,642	20,044	20,423	21,161	20,798	15,074	16,757	18,517	20,435
Cost of sale	11,615	10,879	15,986	16,046	15,475	13,779	14,872	15,981	17,222
Gross profit	7,027	9,165	4,438	5,115	5,323	1,295	1,885	2,536	3,214
Selling and promotion expenses	141	209	166	276	210	166	184	204	225
Administration expenses	272	312	340	386	416	393	437	483	533
Other operating expenses	420	579	291	311	327	23	251	227	242
Operating Profit	6,195	8,066	3,640	4,142	4,370	713	1,012	1,622	2,214
Other operating income	191	269	443	104	148	81	90	100	110
Finance cost	706	503	153	148	107	174	123	92	77
Profit before taxation	5,680	7,831	3,930	4,098	4,412	620	979	1,631	2,247
Taxation	1,564	2,464	1,317	669	1,588	155	250	423	592
Profit after taxation	4,116	5,367	2,613	3,429	2,824	465	730	1,208	1,655
EPS	2.98	3.89	1.89	2.49	2.05	0.34	0.53	0.88	1.20

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Net sales	6.3%	7.5%	1.9%	3.6%	-1.7%	-27.5%	11.2%	10.5%	10.4%
Cost of sale	1.5%	-6.3%	46.9%	0.4%	-3.6%	-11.0%	7.9%	7.5%	7.8%
Gross profit	15.5%	30.4%	-51.6%	15.3%	4.1%	-75.7%	45.6%	34.5%	26.7%
Selling and promotion expenses	12.7%	48.0%	-20.3%	65.9%	-23.8%	-21.2%	11.2%	10.5%	10.4%
Administration expenses	20.2%	14.9%	8.9%	13.5%	7.9%	-5.4%	11.2%	10.5%	10.4%
Other operating expenses	25.9%	37.8%	-49.7%	6.9%	5.0%	-93.1%	1012.1%	-9.9%	6.7%
Operating Profit	14.7%	30.2%	-54.9%	13.8%	5.5%	-83.7%	41.9%	60.4%	36.5%
Other operating income	25.8%	40.4%	64.7%	-76.5%	42.5%	-45.1%	11.2%	10.5%	10.4%
Finance cost	-32.3%	-28.7%	-69.6%	-3.4%	-27.8%	63.1%	-29.5%	-25.4%	-15.9%
Profit before taxation	26.0%	37.9%	-49.8%	4.3%	7.7%	-85.9%	57.9%	66.5%	37.8%
Taxation	-17.0%	57.6%	-46.6%	-49.2%	137.4%	-90.2%	61.1%	69.4%	39.9%
Profit after taxation	56.7%	30.4%	-51.3%	31.2%	-17.6%	-83.5%	56.9%	65.5%	37.1%
EPS	56.7%	30.4%	-51.3%	31.2%	-17.6%	-83.5%	56.9%	65.5%	37.1%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	37.69	45.72	21.73	24.17	25.60	8.59	11.25	13.69	15.73
NP Margin	%	22.08	26.78	12.80	16.21	13.58	3.09	4.35	6.52	8.10
OP Margin	%	33.23	40.24	17.82	19.57	21.01	4.73	6.04	8.76	10.83
ROE	%	23.63	29.13	13.28	16.74	13.51	2.09	3.28	5.42	7.43
ROCE	%	63.03	131.22	175.47	126.93	173.59	35.56	73.18	150.58	229.32
ROA	%	13.48	18.28	9.42	11.81	9.75	1.73	2.68	4.31	5.71
Cost per ton	'mn	4.31	3.76	5.64	4.74	5.00	5.59	5.86	6.11	6.37
EBITDA per ton	'mn	2.81	3.26	1.54	1.60	1.89	0.87	0.92	1.11	1.28
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	1.36	1.51	2.40	1.49	1.51	1.39	1.73	2.20	2.63
Acid-test	x	0.67	0.92	0.96	0.42	0.36	0.39	0.62	0.97	1.33
Cash to current liab.	x	0.49	0.34	0.22	0.12	0.11	0.15	0.35	0.66	1.00
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Average Inventory	'mn	1,149	715	806	1,158	1,094	892	874	941	1,013
Inventory Turnover	x	10	15	20	14	14	15	17	17	17
Inventory Days		36	24	18	26	26	24	21	21	21
Receivables Days		11	11	21	21	16	14	17	17	17
Payables Days		65	66	14	23	22	20	20	20	20
Operating Cycle		-17	-31	26	24	20	18	19	19	19
Utilization	%	75	82	85	96	85	69	71	73	76
Export Revenue	%	15	12	4	8	7	14	13	11	10
Local Revenue	%	85	88	96	92	93	86	87	89	90
Export Market Share	%	9	9	4	9	9	13	12	10	9
Local Market Share	%	9	9	10	9	9	6	6	6	6
Total Market Share	%	9	9	9	9	9	7	6	6	6
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
EPS		2.98	3.89	1.89	2.49	2.05	0.34	0.53	0.88	1.20
DPS		1.75	2.75	0.90	2.00	1.50	0.20	0.32	0.53	0.72
Div. Yield	%	10.34	16.24	5.32	11.81	8.86	1.19	1.87	3.10	4.25
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	16.13	16.13	16.13	16.13
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		5.68	4.35	8.94	6.81	8.27	50.23	32.02	19.34	14.11
Sales per share		13.51	14.53	14.80	15.34	15.07	10.92	12.14	13.42	14.81
P/BV		1.34	1.27	1.19	1.14	1.12	1.05	1.05	1.05	1.05
Price to Sales		1.25	1.17	1.14	1.10	1.12	1.55	1.39	1.26	1.14
Gearing Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Debt to Equity	x	0.37	0.22	0.08	0.13	0.08	0.06	0.04	0.04	0.03
L.T. Debt to Equity	x	0.23	0.08	0.05	0.03	0.02	0.00	0.00	0.00	0.00
Interest Cover	x	8.77	16.02	23.80	28.02	40.94	4.09	8.24	17.70	28.72

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months.

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication.

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

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

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
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

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock/sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com