

FCCL

FY20 Result Review: BUY Stance Maintained

Equity Research | Cement | Monday, 7 September, 2020

FCCL has announced its 4QFY20 result where it posted a loss after tax of Rs59mn (LPS: Rs0.04) in FY20 as compared to a profit after tax of Rs2.8bn (EPS: Rs2.05) in the same period last year, down by 102.1% YoY.

The company has posted the revenue of Rs17.2bn against Rs20.8bn in SPLY, recording a decline of 17.1% YoY. We note that this decline is attributed to the slowdown in construction activity owing to the economic contractionary phase and COVID-19 annihilations.

Gross margin has been squeezed to 3.8% in FY20 as compared to 25.6% in FY19 due to rupee devaluation during the period and decrease in retention prices. SG&A expenses have grown by 7.5% YoY to Rs673mn in FY20 as compared to Rs626mn during SPLY.

Lastly, a decline in other income by 42.7% YoY, and an increase in finance cost by 119% YoY caused the bottom-line to plunge. A tax reversal of Rs114mn during FY20 saved the company from going deep into losses.

Going forward, we expect the offtake to improve from FY21. FCCL is currently trading at FY21E PE of 32.02x. Furthermore, the scrip is trading at a FY21E P/B of 1.39x which offers a discount of 8.9% relative to its historical 5-year average of 1.53x. We maintain our **BUY** stance on the script with a DCF based Jun-21 TP of Rs 27 which provides an upside potential of 20%.

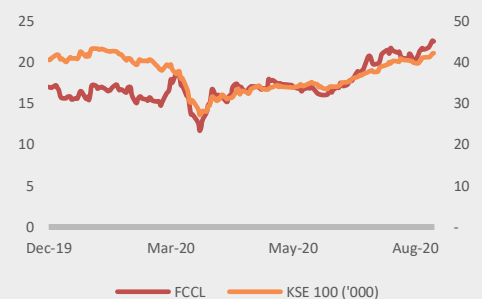
| Rupees' millions | 4QFY20 | 4QFY19 | YoY | FY20 | FY19 | YoY |
|------------------------------|--------------|--------------|-----------------|--------------|--------------|-----------------|
| Net Sales | 3,750 | 5,154 | 27.2% ▼ | 17,232 | 20,798 | 17.1% ▼ |
| Cost of Sales | -3,979 | -3,946 | 0.8% ▲ | -16,583 | -15,475 | 7.2% ▲ |
| Gross Profit | -229 | 1,208 | 118.9% ▼ | 649 | 5,323 | 87.8% ▼ |
| SG&A Expenses | -160 | -178 | 10.0% ▲ | -673 | -626 | 7.5% ▲ |
| Other Expenses | 14 | -72 | 119.3% ▲ | -1 | -327 | 99.8% ▼ |
| Operating Profit | -375 | 958 | 139.2% ▼ | -24 | 4,370 | 100.6% ▼ |
| Other Income | 11 | 27 | 59.7% ▼ | 85 | 148 | 42.7% ▼ |
| Finance Cost | -84 | -32 | 167.4% ▲ | -234 | -107 | 119.0% ▲ |
| Profit Before Taxation | -449 | 953 | 147.1% ▼ | -173 | 4,412 | 103.9% ▼ |
| Taxation | 118 | -569 | 120.7% ▼ | 114 | -1,588 | 107.2% ▼ |
| Profit After Taxation | -331 | 384 | 186.2% ▼ | -59 | 2,824 | 102.1% ▼ |
| Earnings Per Share | -0.24 | 0.28 | 186.2% ▼ | -0.04 | 2.05 | 102.1% ▼ |
| Dividend | 0.00 | 0.75 | | 0.00 | 1.50 | |
| Bonus | - | - | | - | - | |
| Gross Margin | -6.1% | 23.4% | 29.5% ▼ | 3.8% | 25.6% | 21.8% ▼ |
| SG&A Expenses to Sales | -4.3% | -3.5% | 0.8% ▲ | -3.9% | -3.0% | 0.9% ▲ |
| Other Income to Sales | 0.3% | 0.5% | 0.2% ▼ | 0.5% | 0.7% | 0.2% ▼ |
| Ex. Gain / (Loss) to Sales | -4.3% | -3.5% | 0.8% ▲ | -3.9% | -3.0% | 0.9% ▲ |
| Effective Taxation | -26.2% | -59.7% | 33.5% ▼ | -65.7% | -36.0% | 29.7% ▲ |
| Net Margin | -8.8% | 7.5% | 16.3% ▼ | -0.3% | 13.6% | 13.9% ▼ |

Source: ACPL Research, Company Financials

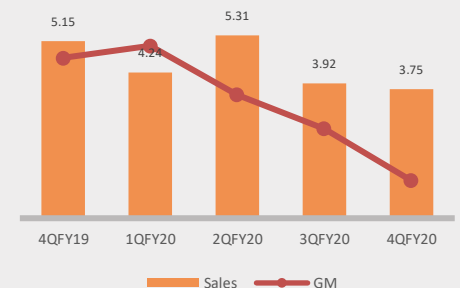
Key Statistics

| Symbol | FCCL |
|----------------------|--------|
| TP - Jun 21 | 27.00 |
| LDPCP | 22.49 |
| Upside (%) | 20 |
| Free Float ('mn) | 759 |
| Market Cap. (Rs.'mn) | 31,032 |

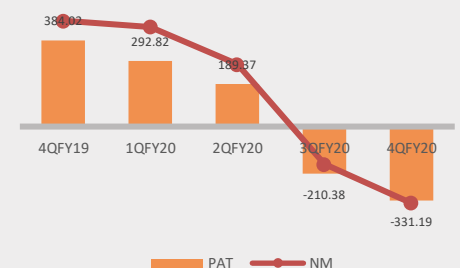
FCCL vs KSE 100



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 | 18,609 | 21,391 | 23,617 |
| Cost of sale | 11,615 | 10,879 | 15,986 | 16,046 | 15,475 | 16,583 | 15,436 | 17,239 | 18,594 |
| Gross profit | 7,027 | 9,165 | 4,438 | 5,115 | 5,323 | 649 | 3,173 | 4,153 | 5,023 |
| Selling and promotion expenses | 141 | 209 | 166 | 276 | 210 | 204 | 205 | 235 | 260 |
| Administration expenses | 272 | 312 | 340 | 386 | 416 | 469 | 486 | 558 | 616 |
| Other operating expenses | 420 | 579 | 291 | 311 | 327 | 1 | 279 | 262 | 279 |
| Operating Profit | 6,195 | 8,066 | 3,640 | 4,142 | 4,370 | - 24 | 2,203 | 3,097 | 3,868 |
| Other operating income | 191 | 269 | 443 | 104 | 148 | 85 | 100 | 116 | 128 |
| Finance cost | 706 | 503 | 153 | 148 | 107 | 234 | 123 | 92 | 77 |
| Profit before taxation | 5,680 | 7,831 | 3,930 | 4,098 | 4,412 | - 173 | 2,181 | 3,121 | 3,918 |
| Taxation | 1,564 | 2,464 | 1,317 | 669 | 1,588 | - 114 | 559 | 817 | 1,040 |
| Profit after taxation | 4,116 | 5,367 | 2,613 | 3,429 | 2,824 | - 59 | 1,622 | 2,304 | 2,878 |
| EPS | 2.98 | 3.89 | 1.89 | 2.49 | 2.05 | - 0.04 | 1.18 | 1.67 | 2.09 |

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% | 8.0% | 15.0% | 10.4% |
| Cost of sale | 1.5% | -6.3% | 46.9% | 0.4% | -3.6% | 7.2% | -6.9% | 11.7% | 7.9% |
| Gross profit | 15.5% | 30.4% | -51.6% | 15.3% | 4.1% | -87.8% | 388.8% | 30.9% | 21.0% |
| Selling and promotion expenses | 12.7% | 48.0% | -20.3% | 65.9% | -23.8% | -2.8% | 0.2% | 15.0% | 10.4% |
| Administration expenses | 20.2% | 14.9% | 8.9% | 13.5% | 7.9% | 12.7% | 3.6% | 15.0% | 10.4% |
| Other operating expenses | 25.9% | 37.8% | -49.7% | 6.9% | 5.0% | -99.8% | 49148.9% | -6.3% | 6.8% |
| Operating Profit | 14.7% | 30.2% | -54.9% | 13.8% | 5.5% | -100.6% | 9009.2% | 40.6% | 24.9% |
| Other operating income | 25.8% | 40.4% | 64.7% | -76.5% | 42.5% | -42.7% | 18.2% | 15.0% | 10.4% |
| Finance cost | -32.3% | -28.7% | -69.6% | -3.4% | -27.8% | 119.0% | -47.5% | -25.4% | -15.9% |
| Profit before taxation | 26.0% | 37.9% | -49.8% | 4.3% | 7.7% | -103.9% | -1358.8% | 43.1% | 25.5% |
| Taxation | -17.0% | 57.6% | -46.6% | -49.2% | 137.4% | -107.2% | -590.9% | 46.2% | 27.3% |
| Profit after taxation | 56.7% | 30.4% | -51.3% | 31.2% | -17.6% | -102.1% | 2731.7% | 42.0% | 24.9% |
| EPS | 56.7% | 30.4% | -51.3% | 31.2% | -17.6% | -102.1% | 2731.7% | 42.0% | 24.9% |

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 | 3.77 | 17.05 | 19.41 | 21.27 |
| NP Margin | % | 22.08 | 26.78 | 12.80 | 16.21 | 13.58 | -0.34 | 8.72 | 10.77 | 12.19 |
| OP Margin | % | 33.23 | 40.24 | 17.82 | 19.57 | 21.01 | -0.14 | 11.84 | 14.48 | 16.38 |
| ROE | % | 23.63 | 29.13 | 13.28 | 16.74 | 13.51 | -0.27 | 7.29 | 10.35 | 12.93 |
| ROCE | % | 63.03 | 131.22 | 175.47 | 126.93 | 173.59 | -4.54 | 162.69 | 287.27 | 398.70 |
| ROA | % | 13.48 | 18.28 | 9.42 | 11.81 | 9.75 | -0.22 | 5.72 | 7.47 | 8.54 |
| Cost per ton | 'mn | 4.31 | 3.76 | 5.64 | 4.74 | 5.00 | 5.56 | 5.84 | 6.06 | 6.32 |
| EBITDA per ton | 'mn | 2.81 | 3.26 | 1.54 | 1.60 | 1.89 | 0.57 | 1.33 | 1.53 | 1.73 |
| | | | | | | | | | | |
| Liquidity Ratios | | FY15A | FY16A | FY17A | FY18A | FY19A | FY20E | FY21E | FY22E | FY23E |
| Current | x | 1.36 | 1.51 | 2.40 | 1.49 | 1.51 | 1.11 | 2.06 | 3.02 | 3.99 |
| Acid-test | x | 0.67 | 0.92 | 0.96 | 0.42 | 0.36 | 0.09 | 0.89 | 1.71 | 2.60 |
| Cash to current liab. | x | 0.49 | 0.34 | 0.22 | 0.12 | 0.11 | -0.16 | 0.60 | 1.38 | 2.24 |
| | | | | | | | | | | |
| Activity Ratios | | FY15A | FY16A | FY17A | FY18A | FY19A | FY20E | FY21E | FY22E | FY23E |
| Average Inventory | 'mn | 1,149 | 715 | 806 | 1,158 | 1,094 | 978 | 977 | 997 | 1,093 |
| Inventory Turnover | x | 10 | 15 | 20 | 14 | 14 | 17 | 16 | 17 | 17 |
| Inventory Days | | 36 | 24 | 18 | 26 | 26 | 22 | 23 | 21 | 21 |
| Receivables Days | | 11 | 11 | 21 | 21 | 16 | 15 | 17 | 18 | 17 |
| Payables Days | | 65 | 66 | 14 | 23 | 22 | 20 | 20 | 20 | 20 |
| Operating Cycle | | -17 | -31 | 26 | 24 | 20 | 17 | 20 | 19 | 19 |
| Utilization | % | 75 | 82 | 85 | 96 | 85 | 69 | 74 | 80 | 83 |
| Export Revenue | % | 15 | 12 | 4 | 8 | 7 | 14 | 12 | 10 | 9 |
| Local Revenue | % | 85 | 88 | 96 | 92 | 93 | 86 | 88 | 90 | 91 |
| Export Market Share | % | 9 | 9 | 4 | 9 | 9 | 18 | 16 | 15 | 13 |
| Local Market Share | % | 9 | 9 | 10 | 9 | 9 | 6 | 6 | 6 | 6 |
| Total Market Share | % | 9 | 9 | 9 | 9 | 9 | 7 | 7 | 7 | 6 |
| | | | | | | | | | | |
| Investment Ratios | | FY15A | FY16A | FY17A | FY18A | FY19A | FY20A | FY21E | FY22E | FY23E |
| EPS | | 2.98 | 3.89 | 1.89 | 2.49 | 2.05 | -0.04 | 1.18 | 1.67 | 2.09 |
| DPS | | 1.75 | 2.75 | 0.90 | 2.00 | 1.50 | -0.03 | 0.71 | 1.00 | 1.25 |
| Div. Yield | % | 7.78 | 12.23 | 4.00 | 8.89 | 6.67 | -0.11 | 3.14 | 4.45 | 5.56 |
| 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 | | 7.54 | 5.78 | 11.88 | 9.05 | 10.99 | | 19.13 | 13.47 | 10.78 |
| Sales per share | | 13.51 | 14.53 | 14.80 | 15.34 | 15.07 | 12.49 | 13.49 | 15.50 | 17.12 |
| P/BV | | 1.78 | 1.68 | 1.58 | 1.51 | 1.48 | 1.39 | 1.39 | 1.39 | 1.39 |
| Price to Sales | | 1.66 | 1.55 | 1.52 | 1.47 | 1.49 | 1.80 | 1.67 | 1.45 | 1.31 |
| | | | | | | | | | | |
| 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 | -0.10 | 17.94 | 33.80 | 50.17 |

Source: ACPL Research, Company Financials

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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

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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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