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Pakistan Research | Cements

Fauji Cement to yield growth in the wake of German Plant...

Fauji Cement Company (FCCL) is one of the largest cement producers in Pakistan with 8% market share in terms of production. The company has annual production capacity of 3.4mn tons of cement at Fatehjang near Islamabad and also spongy KP province. The company also maintains a better position in terms of installing RDF processing plant to reduce cost. The plant had capacity utilization of around 62% in FY12. However, we envisage a fledgling hike in fair value if the plant runs in full capacity including the new German Plant.

Rise in Input Prices is a key challenge to face….

Cost push inflation remains key challenge for every industry in the economy these days and cement sector is therefore not an exception. It could be figured out the growth in input from Table 1.1 which illustrates the apparent price increases. Besides, devaluation of local currency is also a threatening factor for raw material imports which could result shrinking margins which could be offset by increased sales both in terms of growth in selling prices and increased sales as part of export to Afghanistan, India and other African countries.

Table 1.1

Financial Year	Furnace oil (Rs./Ton)	Coal-R.Bay (US$/Ton)	Electricty (Rs./KWH)	Gas (Rs./MMBTU) Cement	Gas (Rs./MMBTU) Captive	Diesel (Rs./Litre)	Petrol (Rs./Litre)	Paper Bag (Rs./Bag)	Inflation (%)	US $ Exch Rate
FY12	60,380	116.3	8.2	590.9	421.2	93.2	85.9	20.7	12.0	87.1
FY11	47,317	108.2	7.1	536.4	382.4	81.4	75.5	19.0	14.0	86.0
FY10	39,137	75.9	6.2	495.7	353.3	69.3	66.8	16.6	11.7	85.5

Source: All Pakistan Cement Manufacturers Association

FCCL triggers: Diamer Bhasha dam dream could materialize…

FCCL is passing through one of the better times since it is poised to go full throttle i.e. usage of its both new and old plant once local dispatches would regain its pace in the northern zone. The progress over Diamer Bhasha dam is one of the key triggers for FCCL which is expected to start with the help of US government help since other donors have backed out owing to flimsy reasons. FCCL people envisage nearly 5.0mn annual consumption in this dam construction project where FCCL foresee lion's share (may be 1.0mn tons annually).

During 1QFY13, FCCL achieved capacity utilization of 66% as compared to 50% (based on 11,445 TPD) in the corresponding period last year. Moreover, local dispatches in 1QFY13 stood at 424,719 tons as compared to 288,759 tons during the corresponding period last year whereas export dispatches stood at 141,960 tons as compared to 138,196 tons realizing 3% growth over corresponding period last year.

Cement sector albeit seems to have promising FY13…..

The cement sector as a whole is poised for a promising FY13, with favorable budgetary policies, such as an enhancement of PSDP expenditures (already disbursement of Rs111bn had taken place till Dec) and reduction in FED. Besides a staggering local sales performance mainly coming on the heels on PSDP spending spree, rise in retention prices coupled with the slump in coal prices in the last one year have proved to be a boon for the sector by considerably improving its operating environment.

Valuation

FCCL is yielding lowest P/E in the sector i.e 7.2x as against industry average of 11.7x. We expect FCCL target price of Rs.17/sh provided the plant runs on full capacity or more than 90% capacity. (Full report is lined up)

Board meeting for 1HFY13 is lined up on Feb 19 wherein we envisage EPS of Re0.67 – Re 0.70. Buy

Mubeen Diwan

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