May 2008

CEMENT
PAKISTAN

PAKISTAN CEMENT SECTOR REVIEW

Industry Update

IGI Securities

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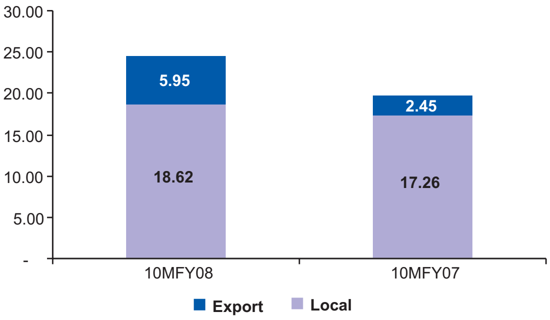
CONTENTS

All prices are as of May 19, 2008

Industry Overview

Cement Dispatches 10mo FY08 (mn MT)



Source: APCMA & IGI Research

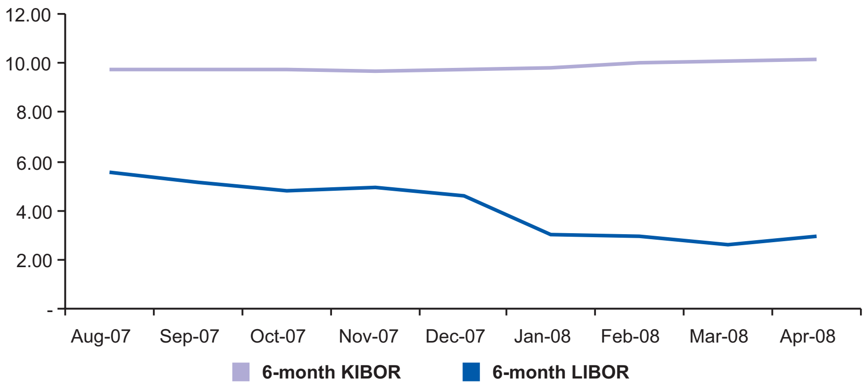
Supply-demand dynamics

Pakistan is likely to meet its local demand at 30.4mn MT in FY08. Consequently the exportable surplus is expected to rise to 6.6mn MT. Cumulative dispatches for 10MFY08 show an increase of 25% over the corresponding period last year. As a result of an increase in domestic construction and development projects, local dispatches registered growth of 8%YoY in the period under review. Exports for 10mo FY08 surged by 142% as the global construction boom led to increased exports to the UAE, India, Afghanistan and South Africa. Total Apr08 dispatches grew by 22.76%YoY to 2.68mn MT, as a consequence of rising local and regional demand. Total domestic consumption of cement grew by 1%YoY in the period under review to reach 1.89mn MT. Exports, mainly driven by the cement shortage in the region, were recorded at 0.79mn MT, marking a drastic increase of 157%YoY. On MoM basis, domestic consumption declined by 18% and exports declined by 11% as a result of a cyclical seasonal slow down in the construction period due to limited labor. We expect prices to rise further in 4QFY08 on account of demand pressure as the construction season commences.

Rising interest rates and soaring coal costs depleting bottom lines

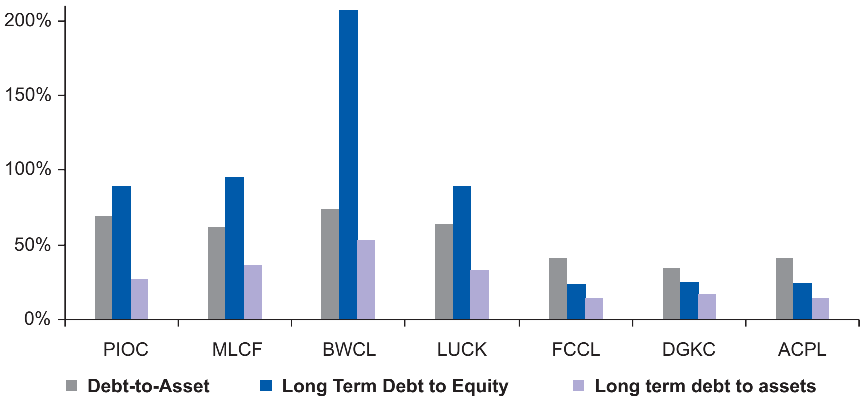
With capacity expansions set to bring the total capacity up to 51mn MT by FY10, the sector has been exposed to massive financial leverage in the recent years. The long term debt usually carries a floating interest rate pegged to the 6-month KIBOR. With the industry debt-to-asset ratio averaging around 60%, and long term debt to assets varying around 38%, the volatility in interest rates is likely to affect the finance costs significantly, and as a result, erode the cement manufacturer's bottom-lines. However, some companies, including DGKC, LUCK and MLCF have entered into cross currency interest rate swap agreements linked to LIBOR. With LIBOR having declined by 267bps following the Fed rate cut, payments falling due in FY08 will be lower than anticipated for these companies, offsetting some impact of the rising KIBOR.

Interest Rates (%)



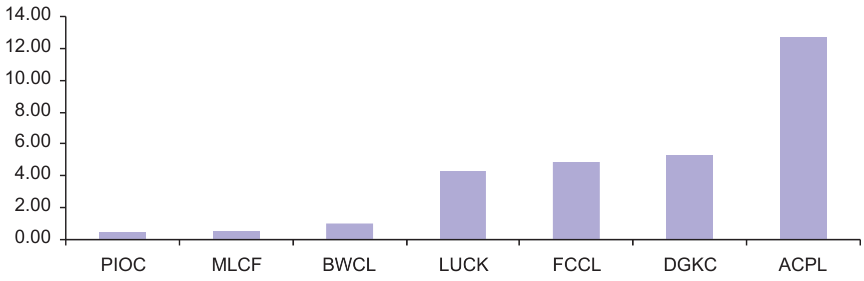
Source: Bloomberg

Leverage



Source: Company Reports & IGI Research

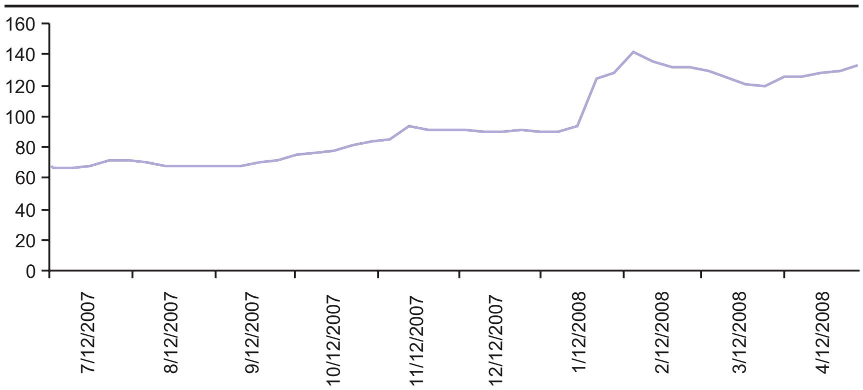
Interest Coverage FY07



Source: Company Reports & IGI Research

Cement prices have increased by 10%-16% in Mar08 to PKR 260 – PKR 285 per 50kg bag from the early February price of PKR 235 - PKR 245 per bag. This price hike has been driven by the increase in international coal prices, which had hit an all time high of USD 142/MT during late February, according to the Newcastle Port Index. Coal and furnace oil prices have increased by 74% and 39% respectively since 1Q FY08. Following that, coal prices have hovered around USD 130 - USD 135/MT. At current levels, fuel, coal and power costs comprise 65% of total production cost on an average. However, margins are expected to remain intact in the short term as manufacturers pass on the impact of rising coal prices to consumers.

Coal Prices (Newcastle Port Index) (USD/MT)



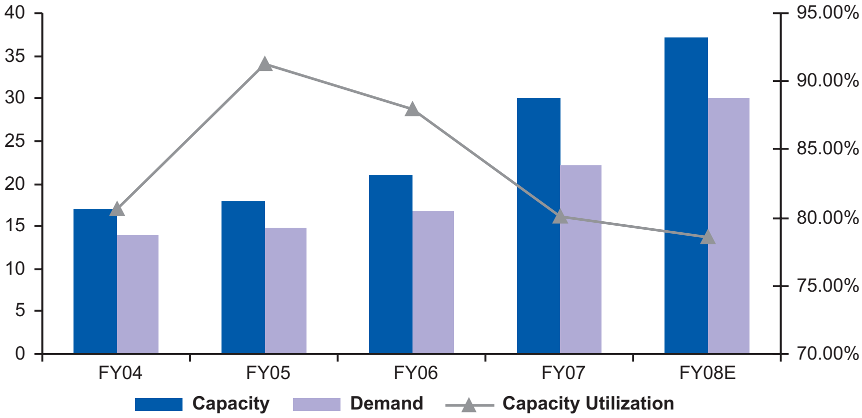
Source: Company Reports & IGI Research

Hike in cement prices: Cartel or inherent production costs

The sudden price increase of PKR 40-45 per 50kg bag during the year has given rise to several rumours concerning the rekindling of the cement manufacturer's Cartel. However, claims have been rejected for the time being, attributing the price hike to rising coal and furnace oil prices along with sector dynamics.

The increasing demand for Pakistani cement in the local and international markets, along with supply additions expected in FY10, give rise to competition within the market players. With a current capacity of 37mn MT and local demand alone expected to reach 30.4mn MT, the quota allocation and collaborative pricing by the Cartel seems like a probable option to drive profitability in the sector. While coal prices have only increased by PKR 32 per bag, cement prices have increased by PKR 45 per bag on an average, indicating an increase in margins for the cement manufacturers. Although, with capacity expansions giving rise to higher financial charges, increased fixed costs and consequently, a higher break-even point, the expectation of a price war is unlikely in the medium term (until FY10).

Industry Supply & Demand (mnMT)



Source: Company Reports, APCMA & IGI Research

Capacity utilization of the industry has averaged at 80% during 9mo FY08 on the back of rising cement demand locally and regionally, indicating cement supply has been steady and the manufacturers have not resorted to creating an artificial shortage for the commodity. Presently, it seems the sector is gradually reaching equilibrium and implicit price arrangements by the manufacturers have again penetrated the market.

Export Avenues

India

Currently India has a demand deficit of 8mn MT, which is being partially fulfilled by Pakistani cement imports. Demand push has resulted in a widening price differential between the two countries with cement selling at USD 104 per MT (INR210 per 50kg bag, PKR 330 per 50kg bag) in India. This is 15% higher than domestic prices which range at USD 90 per MT. However capacity expansions in India are likely to curtail the benefit of an exportable surplus as the output gap is expected to end by FY10.

UAE

The government recently removed import duty of 5% on the import of cement and steel, in order to stabilize cement prices, which have escalated as a result of the construction boom. Prices in UAE increased to USD 136 per MT (AED25 per 50kg bag, PKR 427 per 50kg bag) in 3QFY08 from USD 87 (AED16 per 50kg bag, PKR 273 per 50kg bag) in 1QFY08 marking an increase of 56% on the back of cement supply shortfall in the region. Initially cement was being exported to UAE at an FOB price of USD 60-65 per MT, which has now jumped by 15% to USD 70-75 per MT. This is likely to increase as manufacturers demand higher prices as a result of increasing demand for Pakistani cement.

South Africa

South Africa is tilting towards excess demand as construction activities rise with cement demand increasing by 50% to 15-17mn MT per annum. Pakistan's cement exporters can fulfill up to 56% of the total demand amounting to 9mn MT per annum for the next two years. However, Lucky Cement is the only local cement producer that has received an export certificate from the South African Bureau of Standards.

Afghanistan

Afghanistan is also a captive market, however, potential for growth remains limited due to the unstable political scenario. Afghanistan provides advantage in its close proximity to the northern plants.

Sector Outlook

Local demand is expected to grow by 30% during FY08 as infrastructure development programs including housing and dam constructions boost cement dispatches. Export growth is also expected to grow as 10mo FY8 alone has seen export dispatches reaching a record of 5.95mn MT. However, regional demand shows promise till FY10-FY11, when expansions of approximately 231mn MT are expected to come online in the surrounding countries.

The increase in demand coupled with rising coal prices is fuelling higher retail prices, and with the construction season in boom, we expect local cement prices to rise by another 4% by the end of FY08. For local demand however, a downside exists with PSDP expenditure allocation expected below PKR 500bn for FY09. However, with substantial export demand, the decline in local demand can be offset by an increase in higher margin exports.

Valuation Summary

Company	Recomm-endation	Fair Value (PRs)	Current Price	Market Cap. (PRsmn)	Shares Out. (mn)	EPS (PRs)			DPS (PRs)			ROE (%)			BVPS (PRs)			P/E (x)			P/B (x)		
						2006a	2007a	2008e	2006a	2007a	2008e	2006a	2007a	2008e	2006a	2007a	2008e	2006a	2007a	2008e	2006a	2007a	2008e
LUCK	Neutral	126.00	122.01	32,134	263	7.40	7.88	7.92	-	1.00	1.20	27.38	27.20	13.70	26.80	28.90	57.90	16.49	15.48	15.41	4.55	4.22	2.11
MLCF	Buy	23.00	16.91	6,295	372	3.60	(0.22)	(0.98)	2.40	-		14.51	0.47	(4.24)	24.25	24.20	23.00	4.70	-	-	0.70	0.70	0.74
FCCL	Buy	20.00	11.90	8,250	693	1.60	0.90	0.28	1.00			36.67	17.30	2.08	8.90	5.40	13.30	7.44	13.22	43.20	1.34	2.20	0.89

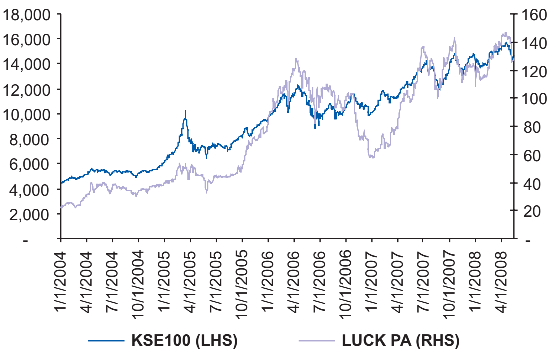
IGI Securities

Lucky Cement

Recommendation	***NEUTRAL***
Fair Value	***PKR 126***

Bloomberg Code	*LUCK PA*
Current Price	*122.01*
Average Price	*112.09*
Average Volume (mn shares)	*10.94*
Paid-up Capital (PKR mn)	*2,633.75*
Shares Outstanding (mn)	*263.38*
Market Capitalization (PKR mn)	*32,135.00*
Index Weightage (%)	*0.84*

LUCK: Price Performance



Source: Bloomberg & IGI Research

Estimates

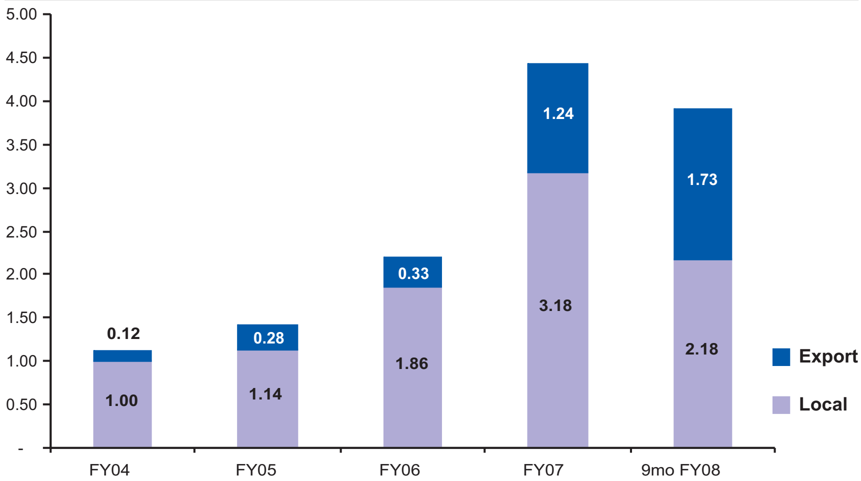
	FY07	FY08E	FY09E	FY10E
Net income	2,547,292	2,560,345	3,300,613	4,035,022
Dividend per share	0.8	1.2	1.8	2.5
EPS (Adjusted)	7.9	7.9	10.2	12.5
Book value per share	28.9	57.9	66.3	76.3
Price/Book	3.3	2.1	1.8	1.6
Price/Earning	12.1	15.4	12.0	9.8
Dividend yield	0.9%	1.0%	1.4%	2.0%
ROE	27.2%	13.7%	15.4%	16.3%
ROA	9.9%	8.1%	10.2%	12.6%

Source: Company Reports & IGI Research

Rising demand for exports

Lucky Cement (LUCK) remains the leader in the market, maintaining 18% of the total market share and a mammoth 6.5mn MT of capacity distributed in the northern and southern regions. Cement exports by LUCK amounted to 1.73mn MT, comprising of 34% of the total industry exports for 10mo FY08. With rising export demand, LUCK's presence in both north and south has put it in a favorable position to fulfill exports by rail and through sea, while saving on inland freight costs of approximately USD 8/MT. During 10mo FY08, LUCK's sales mix comprised of 44% exports and 56% local sales. Going forward, a similar sales mix is expected to continue till FY10 after which exports will gradually decline and domestic consumption is likely to increase. Additionally, LUCK has also entered into a Memorandum of Understanding with Noor Financial Investment Company for supply of 500,000 MT of clinker per year for a period of 5 years, enabling it to guarantee future offt-take and utilization of 8%-10% at current capacity of 6.5mn MT and 7%-8% of post expansion capacity of 7.75mn MT.

LUCK Cement Dispatches (mnMT)



Source: Company Reports & IGI Research

Expansions to boost top line

The planned expansion of 2.5mn MT in its southern plant is expected to come in two phases. One plant of 1.25mn MT is expected to be operational by Dec08, while the other plant's commencement will be announced post the GDR. This expansion will increase the total capacity to 9mn MT and will boost production, thus leading to a surge in sales revenue through volumetric growth. This expansion is expected to cost USD 135mn. In order to curb rising fuel and power prices, LUCK has also initiated efforts to convert its power plants from furnace oil based to a mix of natural gas and furnace oil. Currently, energy costs make up around 65% of total cost of sales; hence a reduction in power costs will increase margins and positively affect LUCK's profitability.

GDR raises USD 109.3mn

The much-awaited GDR offering of Lucky Cement has also been completed, raising additional capital worth USD 109.3mn through 15mn Global Depository Receipts (GDRs), each representing 4 ordinary shares of LUCK. Each GDR was priced at USD 7.28 (PKR 480), translating into a per share price of LUCK at PKR 120. These GDRs are scheduled to be listed on the London Stock Exchange (LSE) on the Professional Securities Market. The company had, however, mentioned a target amount of USD 150mn to be raised through its GDR offering for its 2.5mn MT expansion, out of which the company managed to raise an amount of only USD 109.3mn. We expect the deficit to be raised through debt financing for the 2.5mn MT expansion project.

Valuation & Recommendation

Going forward, a 24% volumetric growth is expected for FY08 as compared to the corresponding period last year, translating into top line growth of 38% YoY. High margin exports are also expected to boost sales on the back of volumetric growth and an increase in prices. Export prices are expected to average at USD 52/MT during FY08 and are expected to grow by 5% to reach USD 55/MT during FY09. Assuming a WACC of 13.55%, a terminal growth rate of 4% and a revised share capital of 323.4mn shares, we hold a NEUTRAL stance on LUCK with a fair value of PKR 126.

DCF Valuation

	FY07	FY08E	FY09E	FY10E
EBITDA	4,578,527	4,912,430	6,337,814	7,615,551
Less: Tax	1,182,529	1,273,188	1,681,514	2,054,596
Less: Change in Working Capital	1,622,361	1,133,262	528,758	859,238
Less: Capital Expenditure	1,153,800	2,003,429	1,935,337	238,442
Free Cash Flow	**619,837**	**502,552**	**2,192,204**	**4,463,274**
WACC		13.55%	13.55%	13.55%
PV of Free Cash Flow		494,861	1,900,993	3,408,397
Terminal Value				
Terminal Growth Rate	4.00%			
Terminal WACC	13.55%			
Estimated Terminal Free Cash Flow	6,600,615			
Terminal Value	69,086,563			
PV of Terminal Value today	40,900,930			
DCF Valuation				
Sum of PV of forecasted FCFF	11,565,940			
PV of Terminal Value	40,900,930			
Enterprise Value	52,466,871			
Less: Net Debt	11,569,403			
Equity Value	40,897,468			
No. Shares in '000	323,399			
Per Share Equity Value	**126**			

Source: Company Reports & IGI Research

Lucky Cement Company Ltd. (PKR'000)

Income Statement	FY07	FY08E	FY09E	FY10E
Net Sales	12,521,861	17,300,282	21,590,958	26,297,250
Cost of Goods Sold	8,846,708	12,299,394	15,064,371	18,326,819
Operating Profit	3,066,113	3,978,712	5,254,732	6,420,614
EBITDA	4,578,527	4,912,430	6,337,814	7,615,551
Finance Costs	862,847	384,776	621,494	756,567
Taxation	143,059	853,448	1,100,204	1,345,007
Net Income	2,547,292	2,560,345	3,300,613	4,035,022
EPS - basic & diluted (PKR)	7.88	7.92	10.21	12.48
Balance Sheet				
Current Assets	5,402,678	9,223,819	7,972,595	7,593,676
Operating Assets	20,116,388	19,441,189	22,096,813	23,703,801
Total Fixed Assets	20,318,908	22,322,337	24,257,674	24,496,117
Current Liabilities	6,352,556	6,107,986	8,801,627	5,954,678
Long Term Loans	8,329,012	5,200,206	607,096	223,360
Total Non-Current Liabilities	10,017,655	6,722,571	1,979,811	1,461,389
Total Equity	9,353,550	18,721,703	21,456,368	24,682,893

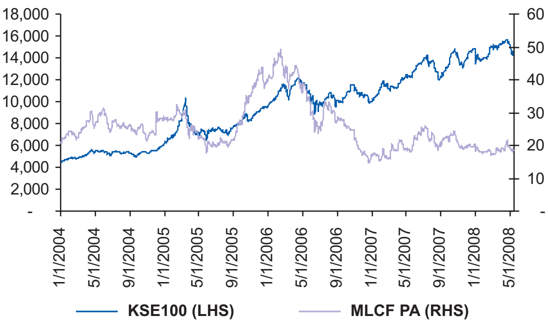
Source: Company Reports & IGI Research

Maple Leaf Cement Factory Limited

Recommendation	***BUY***
Fair Value	***PKR 23.00***

Bloomberg Code	*MLCF PA*
Current Price	*16.91*
Average Price	*19.81*
Average Volume (mn shares)	*2.84*
Paid-up Capital (PKR mn)	*3,722.63*
Shares Outstanding (mn)	*372.26*
Market Capitalization (PKR mn)	*6,294.91*
Index Weightage (%)	*0.17*

MLCF: Price Performance



Source: Bloomberg & IGI Research

Estimates

	FY07	FY08E	FY09E	FY10E
Net income	42,047	(363,910)	155,716	478,913
Dividend per share	-	-	-	-
EPS (Adjusted)	0.11	(0.98)	0.42	1.29
Book value per share	24.2	23.0	23.3	24.5
Price/Book	0.9	0.7	0.7	0.7
Price/Earning	-	-	40.4	13.1
Dividend yield	0.0%	0.0%	0.0%	0.0%
ROE	0.47%	-4.24%	1.79%	5.26%
ROA	0.18%	-1.48%	0.66%	2.02%

Source: Company Reports & IGI Research

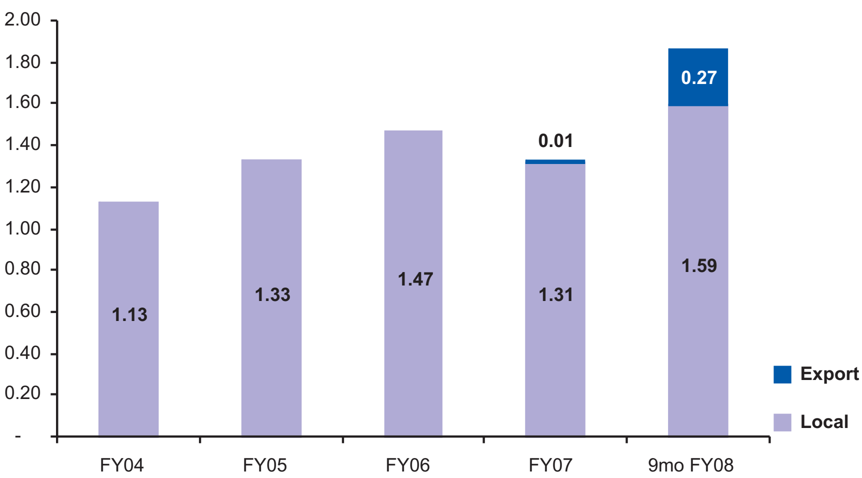
Capacity increases by 134% to 3.69mn MT

Maple Leaf Cement Factory (MLCF) currently enjoys a 10% market share in terms of capacity, after the installation of 6700 MT/day grey clinker production unit. MLCF's total capacity now stands at 3.69mn MT, allowing it to exploit export avenues in Afghanistan and India. 1HFY08 did not bode well for MLCF, as the commissioning of the new plant in Nov07 faced delays due to problems in the unit coupled with a forced closure of 45 days of both the old and the new plant. The soaring coal and furnace oil prices and low retention prices during 1HFY08, followed by increased depreciation on account of the new plant led to a depleting bottom line until Dec07. However 3Q FY08 showed a positive bottom line as increased cement prices and export ventures by the company improved margins.

Sales volume soars as capacity increases

Due to its plant location in Mianwali, MLCF cannot explore export opportunities through sea routes. Hence, till FY07, MLCF's entire cement production was targeted towards the local market. During FY07, MLCF started exporting towards Afghanistan and also obtained the BIS Certification to export cement to India. 9mo FY08 dispatches indicate MLCF's export dispatches have surged to 0.27mn MT as compared to a total of 14,750MT in FY07. Local dispatches have also marked a record increase, as 9mo FY08 dispatches alone rose by 21% as compared to FY07 dispatches. MLCF is likely to benefit further from its three-fold increase in capacity as the top line continues to be driven by volumetric growth in sales.

MLCF Cement Dispatches (mnMT)



Source: Company Reports & IGI Research

MLCF most susceptible to interest rates

MLCF's long term debt to equity ratio stands at 95% and total debt to asset ratio at 37%, indicating high levels of leverage for the company. The interest coverage ratio is recorded at a mere 0.59 which creates an alarming situation for the company in reference to meeting its debt obligations. However, with MLCF hedging for financial risk through cross currency swap agreements pegged to the EURIBOR and declining LIBOR, some of the higher interest charges occurring through a 44bps increase in KIBOR, since Aug07, can be mitigated by these derivative arrangements.

Product diversification creates market niche

MLCF has opted for a product diversification strategy to capture untapped markets requiring high margin products in the country. Currently, MLCF produces OPC, White Cement, SRC, Low Alkali and Oilwell Cement. It also recently underwent an expansion to increase its white cement capacity to 180,000 MT from the earlier 67,500 MT. Although demand for White Cement is on a decline in the local market due to the availability of substitutes, regional demand for the product still exists. Additionally, MLCF is the only manufacturer of Oilwell Cement in Pakistan, a product that was earlier imported to meet local demand.

Valuation & Recommendation

Going forward, we expect an 86% increase in their FY08 revenue as compared to the corresponding period last year, on the back of rising sales volume and improving retention prices. Based on DCF valuation with a WACC of 14.22%, and a terminal growth rate of 3%, we hold a BUY stance on MLCF with a fair price of PKR 23.

DCF Valuation

	FY07	FY08E	FY09E	FY10E
EBITDA	630,708	1,416,852	2,162,323	2,558,105
Less: Tax	63,499	175,661	412,570	538,799
Less: Change in Working Capital	1,055,691	907,393	33,520	477,790
Less: Capital Expenditure	3,246,939	(39,571)	(792,293)	(879,418)
Free Cash Flow	(3,735,421)	373,369	2,508,526	2,420,934
WACC		14.22%	14.22%	14.22%
PV of Free Cash Flow		367,400	2,161,073	1,825,927
Terminal Value				
Terminal Growth Rate	3.00%			
Terminal WACC	14.22%			
Estimated Terminal Free Cash Flow	2,493,563			
Terminal Value	22,219,876			
PV of Terminal Value today	16,758,765			
DCF Valuation				
Sum of PV of forecasted FCFF	4,354,401			
PV of Terminal Value	16,758,765			
Enterprise Value	21,113,166			
Less: Net Debt	12,254,976			
Equity Value	8,858,190			
No. Shares in '000	372,263			
Per Share Equity Value	**23**			

Source: Company Reports & IGI Research

Maple Leaf Cement Factory (PKR'000)

Income Statement	FY07	FY08E	FY09E	FY10E
Net Sales	3,711,081	6,903,974	7,929,842	9,015,314
Cost of Goods Sold	3,401,188	5,984,717	6,521,028	7,182,207
Operating Profit	155,210	445,380	1,184,169	1,577,056
EBITDA	630,708	1,416,852	2,162,323	2,558,105
Finance Costs	338,453	1,155,457	1,071,192	1,012,999
Taxation	(182,066)	(242,607)	51,905	159,638
Net Income	42,047	(363,910)	155,716	478,913
EPS - basic (PKR) adjusted	0.11	(0.98)	0.42	1.29
EPS - diluted (PKR) adjusted	(0.03)	(1.12)	0.28	1.14
Balance Sheet				
Current Assets	4,051,957	5,211,356	5,209,156	6,005,136
Operating Assets	7,711,462	18,369,455	18,409,153	17,613,512
Total Fixed Assets	19,335,444	19,295,873	18,503,579	17,624,161
Current Liabilities	3,756,487	6,050,273	7,240,183	7,705,128
Long Term Loans	8,576,657	8,701,308	6,618,332	5,650,573
Total Non-Current Liabilities	10,687,450	9,914,704	7,833,198	6,866,854
Total Equity	8,993,037	8,576,333	8,679,255	9,105,374

Source: Company Reports & IGI Research

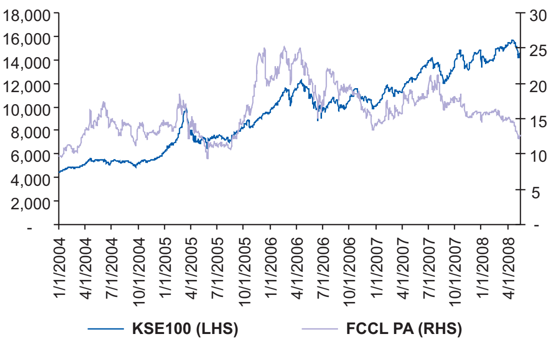
IGI Securities

Fauji Cement Company Limited

Recommendation	***BUY***
Fair Value	***PKR 20.00***

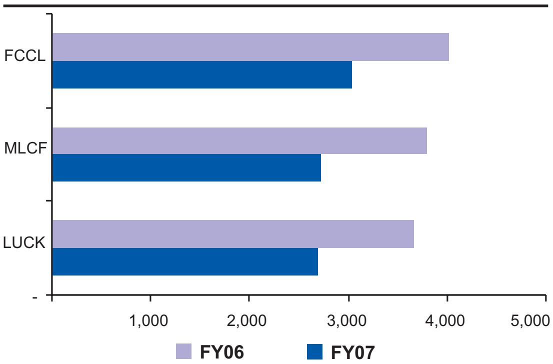
Bloomberg Code	*FCCL PA*
Current Price	*11.90*
Average Price	*16.51*
Average Volume (mn shares)	*5.18*
Paid-up Capital (PKR mn)	*6,932.89*
Shares Outstanding (mn)	*693.29*
Market Capitalization (PKR mn)	*8,250.15*
Index Weightage (%)	*0.22*

FCCL: Price Performance



Source: Bloomberg & IGI Research

Average Retention Rates (PKR/MT)



Source: Company Reports & IGI Research

Estimates

	FY07	FY08E	FY09E	FY10E
Net income	646,323	191,164	247,789	377,317
Dividend per share	(0.0)	(0.0)	(0.0)	(0.0)
EPS (Adjusted)	0.9	0.3	0.4	0.5
Book value per share	5.4	13.3	13.6	14.2
Price/Book	3.5	0.9	0.9	0.8
Price/Earning	20.1	43.2	33.3	21.9
Dividend yield	-0.1%	-0.1%	-0.1%	-0.1%
ROE	17.30%	2.08%	2.62%	3.84%
ROA	10.10%	1.64%	1.26%	1.89%

Source: Company Reports & IGI Research

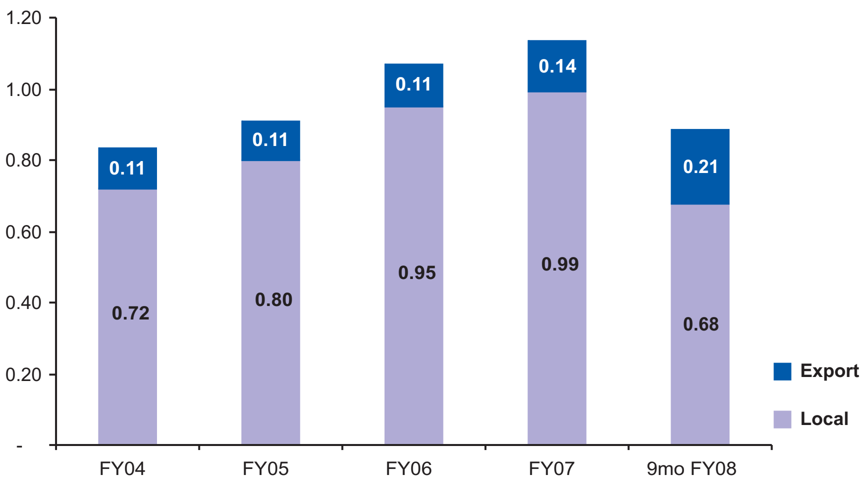
Fauji Cement – a premium brand

Fauji Cement (FCCL) is considered one of the premium brands in the local market, giving rise to brand loyalty and stable demand for their product. As a result, FCCL enjoys the highest retention rates in the market compared to its peers. Currently, the plant has a capacity of 1.2mn MT and only produced grey cement (OPC). In order to cater to the rising cement demand in the region, FCCL's plant has been functioning at 101% of its actual capacity as at 9mo FY08. Retail prices for FCCL have averaged at PKR 4300/MT in the local market and USD 48/MT in the export market during 9mo FY08.

Exports growth offsets stagnant local demand

Exports were recorded at 0.21mn MT for FCCL during 9mo FY08; surpassing total FY07 exports of 0.14mn MT. Domestic consumption on the other hand, declined by 8%YoY to reach 0.68mn MT during 9mo FY08, mainly on the back of restricted production capacity. Currently, 76% of total dispatches are targeted towards local consumption while the remaining 24% comprise of exports. Its location in Fateh Jang, Punjab enables it to export cement to India and Afghanistan through rail routes.

FCCL Cement Dispatches (mn MT)



Source: Company Reports & IGI Research

Plant expansion scheduled for FY10

FCCL is one of the last players to engage in an expansionary project. The new plant that is scheduled to commence operations in 2H FY10, is of European technology and has a capacity of 2.16mn MT, and will increase FCCL's total capacity to 3.27mn MT. FCCL recently issued 87% right shares at a price of PKR 16/share for its expansion project, which raised around PKR 5.06bn. This expansion is scheduled to cost USD 13.5bn and will be financed through a mix of 62% debt and 38% equity. As per our expectations, this expansion is likely to lead to a 45%YoY surge in the top line of the company in FY10 and an increase of 26%YoY in FY11.

Low leverage eases cash flows

Presently, FCCL is the one of the few companies in the industry with low leverage ratios. It currently has a long term debt to equity ratio of 23% and an interest coverage ratio of 4.81 indicating that the company is relatively sound in meeting its financial obligations. FCCL plans to take on additional debt financing of around PKR 8.4bn for its plant expansion, however, payments for the same are expected to be deferred until FY10.

Valuation & Recommendation

We expect brand loyalty for FCCL's product to prevail in the medium term. With their upcoming expansion and an increase in demand, FCCL's sales volume is likely to grow by 38%YoY in FY10 and 20%YoY in FY11. Based on DCF valuation, assuming a WACC of 16.5% and a growth rate of 3%, we recommend a BUY on the scrip with a fair value of PKR 20.

DCF Valuation

	FY07	FY08E	FY09E	FY10E
EBITDA	1,278,739	755,303	827,532	1,155,274
Less: Tax	318,491	144,357	142,002	204,237
Less: Change in Working Capital	623,514	160,287	47,998	808,711
Less: Capital Expenditure	-170,665	2,368,941	2,959,168	2,820,477
Free Cash Flow	507,398	-1,918,282	-2,321,635	-2,678,151
WACC		16.50%	16.50%	16.50%
PV of Free Cash Flow		(1,883,105)	(1,956,266)	(1,937,049)
Terminal Value				
Terminal Growth Rate	3.00%			
Terminal WACC	16.50%			
Estimated Terminal Free Cash Flow	3,339,846			
Terminal Value	24,738,469			
PV of Terminal Value today	17,892,805			
DCF Valuation				
Sum of PV of forecasted FCFF	-2,385,437			
PV of Terminal Value	17,892,805			
Enterprise Value	15,507,368			
Less: Net Debt	1,377,377			
Equity Value	14,048,874			
No. Shares in '000	693,290			
Per Share Equity Value	**20**			

Source: Company Reports & IGI Research

Fauji Cement Company Ltd. (PKR'000)

Income Statement	**FY07**	**FY08E**	**FY09E**	**FY10E**
Net Sales	3,463,283	3,461,495	3,514,381	5,106,344
Cost of Goods Sold	2,371,788	2,924,298	3,016,825	4,364,192
Operating Profit	979,548	444,930	407,755	612,241
EBITDA	1,278,739	755,303	827,532	1,155,274
Finance Costs	207,105	212,160	134,019	83,363
Taxation	141,857	47,791	61,947	177,561
Net Income	646,323	191,164	247,789	377,317
EPS - basic (PKR) adjusted	0.93	0.28	0.36	0.54
EPS - diluted (PKR) adjusted	0.92	0.26	0.35	0.53
Balance Sheet				
Current Assets	1,953,527	4,793,842	9,898,031	7,283,533
Operating Assets	4,181,454	4,740,141	6,351,810	9,172,286
Total Fixed Assets	4,392,450	6,761,391	9,720,560	12,541,036
Current Liabilities	1,442,287	1,563,948	1,542,041	1,392,528
Long Term Loans	875,000	583,467	8,415,645	8,415,645
Total Non-Current Liabilities	1,223,195	861,117	8,693,294	8,693,294
Total Equity	3,735,206	9,196,179	9,452,329	9,838,007

Source: Company Reports & IGI Research

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Analyst Certification

I, Sarah Junejo, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject, securities and issuers. I also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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