FCCL: Expanding scale, sustaining margins; Buy

- We reiterate our Buy rating on FCCL with a DCF-based TP of Rs70, offering 34% upside from current levels and a 3.4% FY27F dividend yield, underpinned by strong margins from cost efficiencies, higher dispatch growth than the industry and strategic acquisition of ACPL (Rs0.62/sh contribution in FY27F). The stock trades also trade at attractive forward PE of 6.8x.
- The company plans to add another 10MW of solar along with 50MW BESS at its Nizampur and Jhang Bahtar plants, taking total solar capacity to 84.3MW, including 4MW already commissioned in FY27. The project is expected to generate savings of Rs4-5/bag (~Rs0.15/sh), as per management. Renewable energy accounted for 51% of the company's power mix in FY26.
- Management expects 8–10% dispatch growth in FY27 though geopolitical landscape can alter this projection.

Healthy margins and strong offtakes to drive growth; Buy

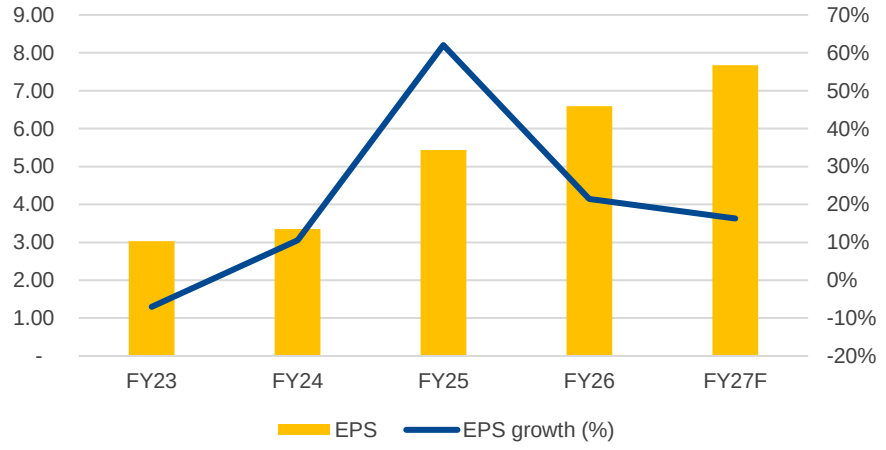
We reiterate our Buy rating on FCCL with a DCF-based TP of Rs70, offering 34% upside from current levels and a 3.4% FY27F dividend yield, underpinned by 1) healthy margins amid strong renewable capacity (51% renewable energy contribution in power mix) and cost efficiencies 2) higher domestic dispatch growth (+12%) vs industry's (+9.6%) in FY26, 3) strategic acquisition of ACPL (46% stake), giving the company presence in the south region and contributing Rs0.62/sh to our FY27F EPS. Additionally, the stock trades also trade at attractive forward PE of 6.8x.

In addition, despite the ~Rs21bn acquisition of a 46% stake in ACPL, the company's balance sheet remains relatively clean, with debt-to-equity expected to decline to 25% in FY27F from 29% in FY26. Meanwhile, the acquisition loans were funded at SOFR+3%, ~3ppts below the current 6M KIBOR of 12.38%, supporting lower finance costs in FY27F.

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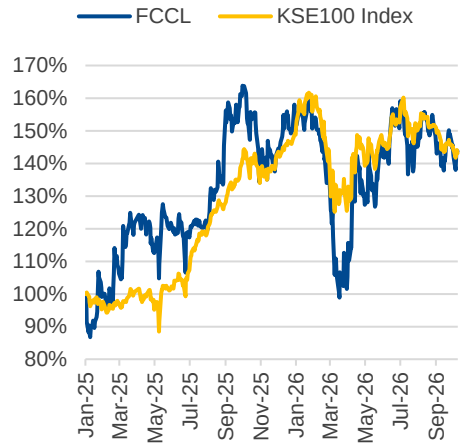
Bloomberg Code: FCCL PA
Target Price: Rs70
Market Price: Rs52.07
Market Cap: Rs128bn, US$461mn
1-yr ADTO: 7.5mn shares, Rs401mn, US$1.4mn
1-yr High / Low: Rs59.91 / 36.87
Estimated free float: 858mn shares (35%)

FCCL: Strong earnings growth outlook



Source: Company accounts, JS Research

FCCL performance relative to KSE100



Source: PSX, JS Research

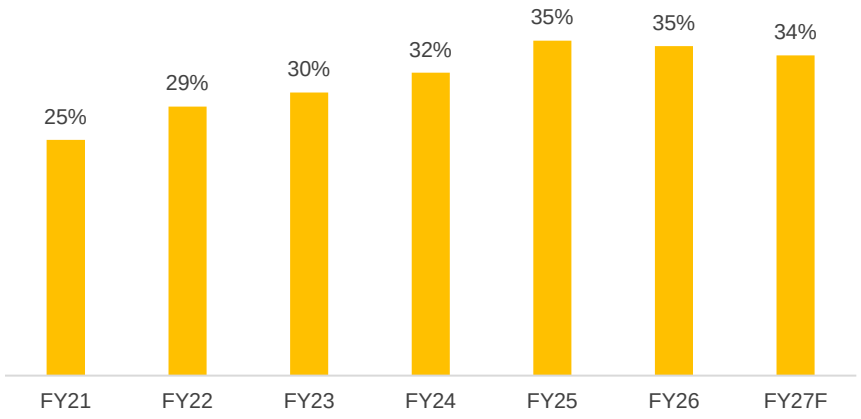
Focus on renewables remains; PP bags capacity expanded

The company plans to add another 10MW of solar along with 50MW BESS at its Nizampur and Jhang Bahtar plants, taking total solar capacity to 84.3MW, including 4MW already commissioned in FY27. The project is expected to generate savings of Rs4-5/bag (~Rs0.15/sh), as per management.

Renewable energy accounted for 51% of the company's power mix in FY26 with the rest being grid. Management apprised that their average grid for FY26 was Rs30-32/kWh, driven down by the incremental unit's scheme.

The company also completed its capacity expansion of polypropylene (PP) bags manufacturing plant at Hattar KPK, bring total capacity to 108mn bags per annum from 72mn bags.

Healthy gross margins amid cost efficiencies



Source: Company accounts, JS Research

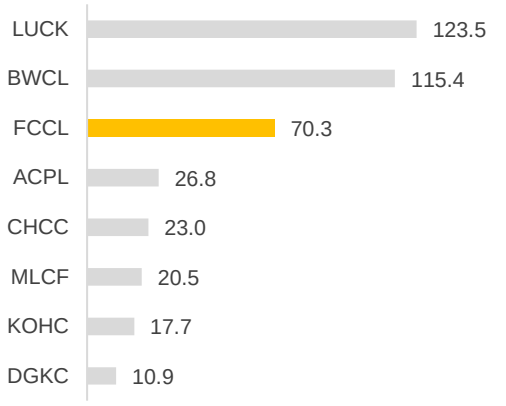
Parent loan remains a key risk

FCCL carries a Rs7.387bn loan from its parent, Fauji Foundation, which was taken to finance the 2.05mn tpa. Nizampur expansion completed in Oct-2022. The loan is repayable on demand with the parent's consent and may be converted into equity on mutually agreed terms. From July 1, 2024, Fauji Foundation began charging 10% annual mark-up on this facility. Nevertheless, we present a sensitivity analysis *in a table on the right,* of potential dilution should the loan be recalled and its impact on EPS and TP.

Other key risks include a sustained coal price above US$120 per ton, decrease in domestic demand and prolonged closure of Afghan border. Company had ~33% market share in total exports to Afghanistan for FY25.

Management indicated that domestic demand is expected to grow by 8–10% in FY27, though the geopolitical landscape could alter this outlook in the near term. Additionally, they expect company's dividend paying policy to continue, recording a 23% payout in FY26.

FY26: Installed renewable capacity (MW)



Source: Company accounts, JS Research

FCCL: Key statistics

(Rs mn)	FY25	FY26	FY27F
Sales	**88,956**	**93,690**	**107,942**
YoY Growth	11%	5%	15%
Gross Margin	35%	35%	34%
PAT	**13,326**	**16,183**	**18,816**
YoY Growth	62%	21%	16%
EPS (Rs)	**5.43**	**6.60**	**7.67**
DPS (Rs)	**1.25**	**1.5**	**1.75**
P/E (x)	6.46	7.89	6.79
DY	4%	3%	3%

Source: Company accounts, JS Research

Sensitivity to Potential Dilution from Parent Co. loan conversion into equity

(Rs)	FY27F EPS	TP
Without Dilution	**7.67**	**70**
Rs 52/sh (Current price)	7.25	66
Rs10/sh (Par value)	5.90	54

Source: JS Research

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'Hold': Stock will perform in line with the average total return of stocks in our universe

'Sell': Stock will underperform the average total return of stocks in our universe

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