

Cement: FECTO CEMENT LIMITED - Year Ended 30-06-2006

OVERVIEW (January 09 2007): The financial health of the company has remained robust and it has been able to declare highest dividend in FY06 as compared to last two years. It continues to meet its financial commitments and debt obligations on time.

The year also saw plant upgradation but this has been the reason for plant shutdown for 7 weeks and consequently lower utilisation of capacity as compared to FY05. The year also recorded impressive growth in gross profit due to higher despatches of cement and higher selling prices.

Administrative expenses increased due to inflationary pressure but control on administrative expenses as well as finance cost, despite increase in interest rate, resulted in company earning pretax profit at Rs 637.52 million showing commendable increase of 114.4% as compared to last year.

The directors foresee glut of cement by year 2007-08 as the excess supply of cement is growing rapidly. To meet the future challenges the company is working on various cost saving measures. In this respect, they have signed agreement for the procurement and installation of new coal firing system for plant, which is expected to start operations by June 2007.

Fecto Cement Limited was incorporated in Pakistan on February 28, 1981 as a public limited company having its registered office situated at 35-Darulaman Housing Society, Block 7/8, Shakra-e-Faisal Karachi, it is primarily engaged in the production and sale of cement and its factory is situated in Sangjani, Islamabad.

Its shares are quoted on Karachi, Lahore and Islamabad. Just after Eid-ul-Azha, holidays on January 3, 2007, the closing market price of its share was quoted at Rs 26.95 per share which is very close to three times of the par value. However during the last one year the highest price of its share was quoted at Rs 89.50 per share but the lowest price had gone down to Rs 25 per share. This shows that the recent price is hovering around the lowest price of the year.

As regards its profit distribution record, according to the six years statistics published in the company's Annual Report 2006, the company had declared cash dividends consecutively for the last three years out of six years. The yearly payout rates trended upward from 10% in 2004 to 30% in 2006. The payout trend is encouraging and may be a cause of optimism for the immediate next year ie FY07.

This optimism is sustainable on basically three assumptions. First, the company is more than a quarter century old so should have entrenched and loyal customer base.

Second the ownership of its equity is widely spread among sponsors and financial institutions which provides strength for building formidable strategies.

Third, the glut situation in the cement industry is creeping because of expansion in production capacity year over year basis. Economists have pointed out that recently the correlation has emerged between increase in capacity and decrease in retail prices of cement. Hence a long term projection of cement price is likely to be impacted by expansion in capacity. An interesting discussion has been published about 5-year demand for cement in January 4, 2007 issue of *Daily Business Recorder*. Nevertheless for short term or at least for year 2007, the business situation is more or less like year 2006.

To further elaborate the equity base one may see the pattern of shareholding published in the Annual Report.

The aggregate shareholding of Saudi Pak Industrial and Agricultural Investment Co (Pvt) Ltd and NBP-Trustee Deptt Works out a little more than 14 percent of the company's stock. On the other hand, the company directors and members of their family own about 37% of the company's stock.

As regards the plant's operating performance in FY06 its production capacity has been increased to 645 thousand metric tonnes of clinker from 600 thousand metric tonnes in FY05. But actual output declined to 537.35 thousand metric tonnes as compared to 573.40 thousand metric tonnes in FY05 by 6.11% YoY. Hence capacity utilisation fell in FY06 at 83.3% from 95.6% in the preceding year. The reason for the low capacity utilisation has been attributed to shut down of the plant for upgradation.

FY06 operating performance was lower but the year under review saw robust growth in operating results as compared to last year. Cement despatches increased by 6.7% YoY.

Due to increased despatches and higher selling prices the gross profit in FY06 shot up to Rs 800.92 million from 461.21 million registering impressive growth by 73.7% YoY.

Net sales in terms of value increased by 36.4% to Rs 2.47 billion in FY06 as compared to Rs 1.811 billion in FY05. Net sales were record highest.

Performance Statistics (Million Rupees)

	2006	2005
Share Capital-Paid-up:	456.00	456.00
Reserve & Surplus:	533.21	252.70
Shareholders Equity:	989.21	708.70
L.T. Debts:	304.35	17.93
Deferred Taxation:	209.52	139.12
L.T. Deposits:	12.72	13.18
Current Liabilities:	453.10	611.82
Fixed Assets:	1,025.72	676.29
L.T. Advances & Deposits:	38.38	41.67
Current Assets:	904.80	772.79
Total Assets:	1,968.90	1,490.75
Sales, Profit & Pay out		
Sales-Net:	2,470.19	1,811.02
Gross Profit:	800.92	461.21
Other Income:	9.75	5.22
Finance (Cost):	(13.08)	(45.10)
(Depreciation):	(75.71)	(72.58)
Profit Before Taxation:	637.52	297.30
Profit After Taxation:	417.31	197.96
Earnings Per Share (Rs):	9.15	4.34
Dividend Declared (%):	30.00	15.00
Market Price of Share (Rs) on 30-01-0	26.95	-
Financial Ratios		
Price/Earning Ratio:	2.95	-
Book/Value Per Share:	21.69	15.54
Price/Book Value Ratio:	1.25	-
Debt/Equity Ratio:	24:76	2:98
Current Ratio:	2.00	1.26
Assets Turn Over Ratio:	1.25	1.21
Days Receivables:	6	5
Days Inventory:	6	28
Gross Profit Margin (%):	32.42	25.47
Net Profit Margin (%):	16.89	13.27

R.O.A (%):	21.20	13.28
R.O.C.E (%):	27.53	22.52
Capacity & Production-Clinker (000' Metric Tonnes)		
Rated Capacity:	645.00	600.00
Actual Production:	537.35	573.40
Capacity Utilization (%):	83.31	95.57

"NOTEThe low capacity utilisation is due to shut down of plant for plant upgradation."

COMPANY INFORMATION: Chairman: Mohammed Asad Fecto; Chief Executive: Mohammed Yasin Fecto;
 Director: Abdul Jaleel Shaikh; Secretary: Abdul Aleem FCA; Registered Office: 35, Darulaman, Housing
 Society Block 7/8 Shahrah-e-Faisal Karachi; Website: www.listedcompanies.com.pk/fecto

Factory: Sangjani, Islamabad.