

Fauji Fertilizer Bin Qasim Limited

Result Review

PSX: FFBL Bloomberg: FFBL: PA Reuters: JORD: KA

Pakistan Research

FFBL: 4QCY23 EPS clocked in at PKR 4.11; DPS PKR 1.00

- FFBL announced its 4QCY23 financial result today, wherein, the company reported an unconsolidated EPS of PKR 3.14, compared to PKR 0.48 in 4QCY22. This took the CY23 EPS to PKR 3.41 against an EPS of PKR 1.80 during CY22. Company has also announced a final cash dividend of PKR 1.00/share for CY23.
- Net sales for the quarter decreased by 14% YoY to PKR 56.2bn, due to lower DAP and Urea offtake despite higher fertilizer prices compared to SPLY. FFBL Urea offtake clocked in at 83k tons, down 47% YoY, while DAP offtake settled at 227k tons, down 16.0% YoY during the 4QCY23.
- FFBL's gross margin clocked in at 28.4% during the 4Q compared to 11.6% in SPLY, which we believe is due to lower phos-acid prices despite higher fuel cost.
- Distribution and admin came in at PKR 5.5bn, up 76% due to the higher inflated transportation cost.
- Other charges for the quarter came in at PKR 2.8bn. The increase is due to higher company's profitability.
- Finance cost decreased by 51% YoY to PKR 1.1bn for the quarter under review on the back of lower borrowing, down 51% YoY.
- For 4QCY23, the company recorded a tax expense of PKR 6.0bn, due to imposition of super tax at the rate of 10%.
- We recommend 'BUY' on FFBL with Dec-24 price target (PT) of PKR 40/share, offering an upside of 34%.

Key Data

PSX Ticker	FFBL
Target Price (PKR)	40
Current Price (PKR)	30
Upside/(Downside) (%)	+34%
Dividend Yield (%)	8%
Total Return (%)	42%
12-month High (PKR)	32
12-month Low (PKR)	11
Outstanding Shares (mn)	1,291
Market Cap (PKR mn)	38,582
Year End	December

Source: Company Accounts, Akseer Research

Financial Summary (PKR mn)

	4QCY22	4QCY23	YoY	CY22	CY23	YoY
Net Sales	65,725	56,237	-14%	159,226	193,064	21%
Cost of Sales	58,075	40,275	-31%	133,641	159,954	20%
Gross Profit	7,651	15,962	109%	25,585	33,110	29%
Distri. & Admin. Exp.	3,183	5,512	76%	8,189	11,208	37%
Other Income	1,012	3,148	211%	6,342	9,435	49%
Other Charges	(286)	2,769	NM	7,776	7,865	1%
Finance Cost	2,338	1,143	-51%	5,144	8,828	72%
Unwinding of GIDC payable	188	86	-54%	891	498	-44%
Profit Before Tax	1,863	10,050	439%	8,505	14,145	66%
Taxation	1,249	6,001	381%	6,177	9,742	58%
Net Income	614	4,048	559%	2,328	4,403	89%
EPS	0.48	3.14	559%	1.80	3.41	89%
DPS	0.0	1.0	NM	0.0	1.0	NM

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
EPS	4.9	1.8	3.4	5.7	7.1	9.2
EPS growth	110.9%	-63.6%	89.1%	66.9%	24.9%	29.5%
DPS	0.0	0.0	1.0	2.3	2.8	5.5
PER	3.4	9.2	4.9	2.9	2.3	1.8
Dividend Yield	0.0%	0.0%	6.0%	13.5%	16.5%	33.1%
EV/EBITDA	0.4	2.0	1.5	2.0	2.0	1.9
P/B	1.1	0.9	0.8	0.7	0.6	0.5
ROE	31.3%	10.2%	17.0%	24.2%	25.5%	29.2%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Fauji Fertilizer Bin Qasim Limited (FFBL) has been computed using some of the parts (SOTP) method, while FCFE is used to calculate the value of core fertilizer business. We have used a risk free rate of 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-24 PT of 40/share. Our PT offers an upside of 34%. Our investment case on FFBL is based on 1) higher DAP margins, and 2) volumes sustainability.

Risks

Downside risks to our investments thesis are: 1) gas supply curtailment, 2) lower than anticipated fertilizer demand, and 3) lower than expected fertilizer prices.

Company Description

Fauji Fertilizer Bin Qasim is engaged in manufacturing, purchasing and marketing of fertilizers. Fauji Fertilizer Bin Qasim Limited has investment in other fertilizers, chemical, other manufacturing, energy generation, food processing and banking operations.

Financial Highlights - FFBL

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
Net sales	110,452	159,226	193,064	161,496	162,819	176,872
Cost of sales	88,301	133,641	159,954	130,036	132,056	142,925
Gross Profit	22,152	25,585	33,110	31,460	30,763	33,946
SG & A	7,241	8,189	11,208	13,601	14,292	15,025
Operating Profit	14,911	17,396	21,901	17,859	16,471	18,922
Other income	9,111	6,342	9,435	10,372	10,733	9,557
Other charges	2,548	7,776	7,865	4,479	3,575	2,377
Finance cost	2,338	5,144	8,828	10,736	8,586	6,626
Unwinding of GIDC payable	1,254	891	498	973	0	0
Profit before tax	11,525	8,505	14,145	12,043	15,042	19,476
Taxation	5,134	6,177	9,742	4,697	5,867	7,596
Profit after tax	6,391	2,328	4,403	7,346	9,176	11,880

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
PPE	10,575	9,953	9,996	10,040	10,083	10,127
Other LT assets	29,228	29,558	25,726	25,726	25,726	25,726
Non-Current Assets	39,803	39,511	35,722	35,766	35,809	35,853
Current assets	75,407	110,351	92,059	78,102	72,891	69,846
Total Assets	115,210	149,863	127,782	113,867	108,700	105,698
Non-Current liabilities	25,696	22,950	18,847	12,694	6,533	3,193
Current liabilities	69,083	104,190	83,055	70,853	66,221	61,781
Total Liabilities	25,696	22,950	18,847	12,694	6,533	3,193
Equity	20,431	22,722	25,880	30,321	35,946	40,724
Total Equity & liabilities	115,210	149,863	127,782	113,867	108,700	105,698

Source: Company Accounts, Akseer Research

Cashflow Statement(PKR mn)						
	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
Net Income	6,391	2,328	4,403	7,346	9,176	11,880
Non-cash Charges	964	982	952	956	961	965
Operating Cash flows	26,627	(30,268)	4,346	4,626	11,505	10,232
FCFF	27,636	(29,220)	6,098	10,175	15,738	13,265
Net borrowings	(6,151)	20,034	(1,319)	(7,425)	(5,747)	(3,975)
FCFE	21,443	(10,066)	2,529	(7,826)	(246)	249
Net change in cash	21,523	(10,102)	1,284	(10,731)	(3,797)	(6,853)
Closing cash	46,572	36,469	37,754	27,022	23,225	16,372

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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