

Fauji Fertilizer Company Limited
Analyst Briefing Takeaways

PSX: FFC Bloomberg: FFC: PA Reuters: FAUF: KA

Pakistan Research**Analyst Briefing Key takeaways**

- FFC conducted its analyst briefing session today to discuss CY23 financial results and future outlook of the company. Earlier, the company had reported an EPS of PKR 5.86, up 48% YoY in 4QCY23. Cumulative EPS for CY23 increased by 43% YoY to PKR 23.32 from PKR 15.76 in CY22.
- During CY23, company's cumulative dividend payout came in at PKR 15.49 vs PKR 12.13 in CY22.
- Company has kept its dividend payout low in order to build up reserves for the capital intensive and foreign exchange denominated nodal compression project as well as essential maintenance of the plant.
- Urea production of the company for CY23, increased by 4.9% YoY to 2.5mn tons due to operational efficiency enhancement initiatives.
- Gas prices for the company increased significantly by 75% during the year; however, the company has only passed on a partial impact in urea prices to the farmers.
- Urea selling prices exhibit significant variations in CY23 with FFC offering urea at lower selling prices by around PKR 200-500 per bag. Company's urea prices stood at PKR 3,400 per bag compared to Int'l prices of PKR 6,200 per bag.
- Twenty-five KM out of the total 88KM of gas pipeline under phase-I of gas compression project has been laid. Phase-I is estimated to cost USD 53mn, out of which the company has to bear 48%. Phase-I is likely to be completed by the end of 2025.
- To highlight, FFC along with other fertilizer manufacturers, is undertaking a project with MARI amounting to USD 210mn to ensure smooth gas supply to fertilizer manufacturers. Company would contribute USD 150mn in this project and expects gas supply from MARI till 2030.
- The company is about to kick off phase-II of the Nodal compression project with capital outlay of USD 100mn.
- The company has no planned plant turnaround for this year.
- Freight cost of the company increased by ~45% after the implementation of Axle Weight Regulations.
- Regarding the company's investments, management informed that Fauji Fresh n Freeze's gross profit margins improved to 17% from 12% in CY22. Resultantly, operating profit increased by 5x YoY.
- FFCEL and FWEL's (I &II) net profit increased by 31% YoY due to 26% YoY increase in revenue streams.

Key Data

PSX Ticker	FFC
Target Price (PKR)	159
Current Price (PKR)	114
Upside/(Downside) (%)	40%
Dividend Yield (%)	16%
Total Return (%)	56%
12-month High (PKR)	121
12-month Low (PKR)	91
Outstanding Shares (mn)	1,272
Market Cap (PKR mn)	144,985
Year End	December

Source: Company Accounts, Akseer Research

Key Financial Ratios	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
EPS	17.2	15.8	23.3	28.7	32.3	39.9
EPS Growth	5.2%	-8.4%	48.0%	23.3%	12.3%	23.6%
DPS	14.5	12.1	15.5	21.5	24.3	30.0
PER	7.8	8.5	5.7	4.7	4.2	3.4
Dividend Yield	10.8%	9.1%	11.6%	16.0%	18.1%	22.4%
EV/EBITDA	4.1	4.6	2.5	2.0	2.1	1.8
P/B	3.6	3.4	2.8	2.4	2.1	1.8
ROE	46.1%	39.4%	48.8%	52.1%	51.1%	54.6%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Fauji Fertilizer Company Limited (FFC) 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 15.0%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21.0%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of 159/share. Our price target offers upside of 40% along with a dividend yield of 16%. Our investment case on FFC is based on 1) higher fertilizer prices 2) attractive dividend yield and 3) volumes sustainability.

Risks

Key downside risks to our investments thesis are: 1) gas supply curtailment 2) lower than estimated fertilizer demand and 3) lower than expected fertilizer prices

Company Description

The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers and chemicals, including investment in other fertilizers, chemical, other manufacturing, energy generation, food processing and banking operations.

Financial Highlights - FFC

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25E	CY26E
Net sales	108,651	109,364	159,472	199,370	212,888	228,494
Cost of sales	69,772	69,317	95,220	115,662	126,634	128,824
Gross Profit	38,879	40,046	64,252	83,708	86,254	99,670
SG & A	8,409	10,108	12,684	16,803	18,016	19,737
Operating Profit	30,470	29,939	51,568	66,905	68,239	79,933
Other income	7,919	14,442	17,097	5,850	8,187	12,823
Other charges	2,946	3,037	5,434	5,381	5,732	6,957
Finance cost	2,292	4,868	5,624	4,393	3,375	2,561
Unwinding of GID	2441	2,119	1,160	3,020	0	0
Profit before tax	30,339	33,687	53,547	59,961	67,318	83,238
Taxation	8,443	13,637	23,874	23,385	26,254	32,463
Profit after tax	21,896	20,050	29,673	36,576	41,064	50,775

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25E	CY26E
PPE	23,987	27,631	36,139	46,156	57,604	56,420
Other LT assets	50,750	56,666	55,477	55,482	54,936	54,847
Non-Current Assets	74,737	84,297	91,617	101,639	112,540	111,267
Current assets	126,270	155,825	109,502	101,943	85,341	80,786
Total Assets	201,007	240,122	201,118	203,581	197,881	192,053
Non-Current liabilities	41,323	27,525	12,746	4,103	4,598	5,140
Current liabilities	112,169	161,762	127,548	129,288	112,866	93,868
Total Liabilities	153,492	189,287	140,294	133,391	117,463	99,008
Equity	47,514	50,835	60,824	70,190	80,417	93,045
Total Equity & liabilities	201,007	240,122	201,118	203,581	197,881	192,053

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY21A	CY22A	CY23E	CY24F	CY25F	CY26F
Net Income	21,896	20,050	29,673	36,576	41,064	50,775
Non-cash Charges	2,435	2,415	2,364	3,970	4,969	5,624
Operating Cash flows	37,332	25,994	53,494	31,737	32,695	45,386
FCFF	10,667	13,352	86,352	38,533	31,578	51,501
Net borrowings	7,941	6,605	-62,632	1,526	-1,276	-6,003
FCFE	16,954	17,059	20,604	37,379	28,243	43,936
Net change in cash	1,153	1,190	1,520	2,440	12,608	10,014
Closing cash	1,190	1,520	2,440	12,608	10,014	15,803

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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Rating	Expected Total Return
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Hold	Between -5% and +15%
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