

Fauji Fertilizer Bin Qasim Limited

Result Preview

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

Pakistan Research

FFBL: 2QCY24 EPS likely to clock in at PKR 3.60, up 9.7x

- FFBL is scheduled to announce its 2QCY24 results on 25th July, 2024 wherein we expect the company to post an EPS of PKR 3.60, up 9.7x for 2QCY24 against an EPS of PKR 0.37 in 2QCY23.
- Net sales for 2QCY24 are likely to increase by 37% YoY to PKR 48.2bn, mainly driven by an increase in fertilizer prices along with higher Urea and DAP offtakes.
- Gross margins are anticipated to increase by 2.3x to PKR 10.7bn YoY during 2Q. The increase in margins is attributable to (1) higher fertilizer prices, (2) improved DAP offtakes and (3) lower phosphoric acid prices.
- For the quarter, we expect FFBL Urea and DAP offtake to clock in at 151k tons (Up 63% YoY) and 157k tons (up 7% YoY) respectively.
- We anticipate an increase of 67% YoY and 22% YoY in Urea and DAP prices for 1QCY24.
- Higher cash and short-term investments are likely to increase the company's other income by 12% YoY in 2QCY24.
- On the other hand, finance cost is anticipated to decrease by 49% YoY to PKR 1.4bn for the quarter.
- We expect the company to record a tax expense of PKR 3.0bn, at an effective rate of 39%.
- We recommend 'BUY' on FFBL with Dec-24 price target (PT) of PKR 51/share, offering an upside of 21% along with dividend yield of 10%.

Key Data

PSX Ticker	FFBL
Target Price (PKR)	51
Current Price (PKR)	42
Upside/(Downside) (%)	+ 21%
Dividend Yield (%)	10%
Total Return (%)	31%
12-month High (PKR)	44
12-month Low (PKR)	13
Outstanding Shares (mn)	1,291
Market Cap (PKR mn)	54,581
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QCY23	2QCY24E	YoY	1HCY23	1HCY24E	YoY
Net Sales	35,235	48,224	37%	66,758	94,748	42%
Cost of Sales	30,689	37,536	22%	59,967	75,283	26%
Gross Profit	4,546	10,689	135%	6,790	19,464	187%
Dist. & Admin. Exp.	1,890	3,308	75%	2,850	6,100	114%
Other Income	2,541	2,834	12%	3,439	6,859	99%
Other Charges	156	754	383%	4,777	1,482	-69%
Finance Cost	2,837	1,436	-49%	5,325	2,456	-54%
Unwinding of GIDC payable	137	401	193%	300	460	54%
Profit Before Tax	2,010	7,623	279%	(3,079)	15,819	NM
Taxation	1,531	2,973	94%	1,871	6,863	267%
Net Income	479	4,650	9.7x	(4,950)	8,956	NM
EPS	0.37	3.60	-	(3.83)	6.94	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	4.9	1.8	3.4	14.2	6.7	6.7
EPS Growth	110.9%	-63.6%	89.1%	316.8%	-53.2%	0.0%
DPS	0.0	0.0	1.0	4.3	2.8	3.3
PER	8.5	23.4	12.4	3.0	6.4	6.4
Dividend Yield	0.0%	0.0%	2.4%	10.1%	6.5%	7.7%
EV/EBITDA	2.5	3.8	0.6	1.0	2.4	2.6
P/B	2.7	2.4	2.0	1.4	1.2	1.1
ROE	31.3%	10.2%	16.3%	47.4%	19.6%	17.8%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Fauji Fertilizer Bin Qasim Limited (FFBL) has been computed using Free cash flow to equity (FCFE) method. We have used a risk-free rate of 15.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 21.0%.

Investment Thesis

We recommend 'BUY' on FFBL with Dec-24 price target (PT) of PKR 51/share, offering an upside of 21% along with dividend yield of 10%. Our investment case on FFBL is based on 1) higher fertilizer prices, and 2) volumes sustainability.

Risks

Downside risks to our investments thesis are: 1) lower than anticipated fertilizer demand, and 2), higher than expected gas 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	CY24E	CY25F	CY26F
Net sales	110,452	159,226	193,064	201,421	203,270	198,039
Cost of sales	88,301	133,641	159,954	158,060	177,126	172,186
Gross Profit	22,152	25,585	33,110	43,362	26,144	25,853
SG & A	7,241	8,189	11,208	11,403	13,126	13,307
Operating Profit	14,911	17,396	21,901	31,958	13,018	12,547
Other income	9,111	6,342	9,435	8,946	9,250	8,913
Other charges	2,548	7,776	7,865	3,615	3,292	3,342
Finance cost	2,338	5,144	8,828	4,789	4,885	4,034
Unwinding of GIDC payable	1,254	891	498	1,282	0	0
Profit before tax	11,525	8,505	14,145	31,218	14,091	14,084
Taxation	5,134	6,177	9,742	12,866	5,495	5,493
Profit after tax	6,391	2,328	4,403	18,352	8,595	8,591

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
PPE	10,575	9,953	9,616	9,658	9,700	9,742
Other LT assets	29,228	29,558	25,551	25,751	25,751	25,751
Non-Current Assets	39,803	39,511	35,167	35,409	35,450	35,492
Current assets	75,407	110,351	110,705	99,636	94,677	86,391
Total Assets	115,210	149,863	145,872	135,045	130,127	121,883
Non-Current liabilities	25,696	22,950	15,699	13,138	6,977	3,637
Current liabilities	69,083	104,190	103,081	83,163	79,362	70,063
Total Liabilities	25,696	22,950	15,699	13,138	6,977	3,637
Equity	20,431	22,722	27,091	38,744	43,789	48,183
Total Equity & liabilities	115,210	149,863	145,872	135,045	130,127	121,883

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net Income	6,391	2,328	4,403	18,352	8,595	8,591
Non-cash Charges	964	982	874	910	924	928
Operating Cash flows	26,627	(30,268)	57,356	(14,817)	9,404	9,445
FCFF	27,636	(29,220)	59,567	(12,954)	11,418	10,936
Net borrowings	(6,151)	20,034	(20,103)	(1,567)	(6,981)	(6,506)
FCFE	21,443	(10,066)	37,214	(16,053)	(3,543)	(3,031)
Net change in cash	21,523	(10,102)	37,180	(22,752)	(7,094)	(7,228)
Closing cash	46,572	36,469	73,650	50,897	43,803	36,575

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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