

Fauji Fertilizer Bin Qasim Limited

Result Review

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

Pakistan Research

FFBL: 2QCY24 EPS clocked in at PKR 4.84, up 13x YoY

- FFBL announced its 2QCY24 results today, wherein the company reported an unconsolidated EPS of PKR 4.84, up 13x YoY. This took the 1HCY24 EPS to PKR 8.18 against an LPS of PKR 3.83 during 1HCY23.
- Topline for 2QCY24 increased by 43% YoY to PKR 50.3bn, due to increase in fertilizer prices along with higher urea and DAP offtakes.
- FFBL's gross margins clocked in at 23% during the 2Q compared to 13% SPLY. The increase in margin can be attributed to 1) higher fertilizer prices, and 2) lower phosphoric acid prices.
- Other income for the quarter increased by 83% YoY, which we believe is due to higher dividend from PMP, and higher return on investments.
- For 2QCY24, other expenses increased by 5.3x YoY to PKR 822mn.
- Finance cost for the 2Q decreased by 61% YoY to PKR 1.1bn due to lower borrowings.
- FFBL reported a tax expense of PKR 5.0bn for 2QCY24, taking the effective tax-rate for the quarter to 44% as compared to the effective tax-rate of 76% SPLY.
- We recommend 'BUY' on FFBL with a Dec-24 price target (PT) of PKR 52/share, offering an upside of 23% along with a dividend yield of 11%.

Key Data

PSX Ticker	FFBL
Target Price (PKR)	52
Current Price (PKR)	42
Upside/(Downside) (%)	+23%
Dividend Yield (%)	11%
Total Return (%)	34%
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 Highlights (PKR mn)

	2QCY23	2QCY24	YoY	1HCY23	1HCY24	YoY
Net Sales	35,235	50,332	43%	66,758	96,856	45%
Cost of Sales	30,689	39,000	27%	59,967	76,748	28%
Gross Profit	4,546	11,332	2.5x	6,790	20,108	196%
Dist. & Admin. Exp.	1,890	2,587	37%	2,850	5,379	89%
Other Income	2,541	4,659	83%	3,439	8,684	153%
Other Charges	156	822	5.3x	4,777	1,549	-68%
Finance Cost	2,837	1,102	-61%	5,325	2,122	-60%
Unwinding of GIDC payable	137	32	-77%	300	91	-69%
Profit Before Tax	2,010	11,263	5.6x	(3,079)	19,459	-732%
Taxation	1,531	5,009	3.3x	1,871	8,899	376%
Net Income	479	6,254	13x	(4,950)	10,560	NM
EPS	0.37	4.84	-	(3.83)	8.18	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	4.9	1.8	3.4	15.6	6.7	6.7
EPS Growth	110.9%	-63.6%	89.1%	357.5%	-57.2%	0.0%
DPS	0.0	0.0	1.0	4.8	2.8	3.3
PER	8.5	23.4	12.4	2.7	6.3	6.3
Dividend Yield	0.0%	0.0%	2.4%	11.2%	6.5%	7.7%
EV/EBITDA	2.5	3.8	0.6	1.0	2.4	2.5
P/B	2.7	2.4	2.0	1.4	1.2	1.1
ROE	31.3%	10.2%	16.3%	50.5%	19.2%	17.5%

Source: Company Accounts, Akseer Research

Saman Sarfaraz
saman.sarfaraz@akseerresearch.com

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%, a beta of 1.0, and a market risk premium of 6% to arrive at a cost of equity of 21.0%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-24 PT of 52/share. Our PT offers an upside of 23% along with dividend yield of 11%. Our investment case on FFBL is based on higher fertilizer prices, and volumes sustainability.

Risks

Downside risks to our investments thesis are: 1) lower than anticipated fertilizer demand, and 2) higher 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	CY24E	CY25F	CY26F
Net sales	110,452	159,226	193,064	203,529	203,270	198,039
Cost of sales	88,301	133,641	159,954	159,524	177,126	172,186
Gross Profit	22,152	25,585	33,110	44,005	26,144	25,853
SG & A	7,241	8,189	11,208	10,682	13,126	13,307
Operating Profit	14,911	17,396	21,901	33,323	13,018	12,547
Other income	9,111	6,342	9,435	10,783	9,298	8,958
Other charges	2,548	7,776	7,865	3,683	3,294	3,344
Finance cost	2,338	5,144	8,828	4,459	4,893	4,034
Unwinding of GIDC payable	1,254	891	498	914	0	0
Profit before tax	11,525	8,505	14,145	35,050	14,128	14,126
Taxation	5,134	6,177	9,742	14,905	5,510	5,509
Profit after tax	6,391	2,328	4,403	20,145	8,618	8,617

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	100,860	95,480	87,219
Total Assets	115,210	149,863	145,872	136,268	130,930	122,711
Non-Current liabilities	25,696	22,950	15,699	13,138	6,977	3,637
Current liabilities	69,083	104,190	103,081	83,238	78,993	69,694
Total Liabilities	25,696	22,950	15,699	13,138	6,977	3,637
Equity	20,431	22,722	27,091	39,892	44,959	49,380
Total Equity & liabilities	115,210	149,863	145,872	136,268	130,930	122,711

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net Income	6,391	2,328	4,403	20,145	8,618	8,617
Non-cash Charges	964	982	874	910	924	928
Operating Cash flows	26,627	(30,268)	57,356	(13,136)	9,540	9,470
FCFF	27,636	(29,220)	59,567	(11,525)	11,559	10,961
Net borrowings	(6,151)	20,034	(20,103)	(1,444)	(7,104)	(6,506)
FCFE	21,443	(10,066)	37,214	(14,619)	(3,529)	(3,006)
Net change in cash	21,523	(10,102)	37,180	(21,964)	(7,080)	(7,203)
Closing cash	46,572	36,469	73,650	51,686	44,606	37,403

Source: Company Accounts, Akseer Research

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Valuation Methodology

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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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alpha Capital (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH
 Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alphacapital.com.pk