

Fauji Fertilizer Bin Qasim Limited

Analyst Briefing Takeaways

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

Pakistan Research

FFBL: 1QCY22 Analyst Briefing Key Takeaways

- FFBL conducted its analyst briefing session today to discuss 1QCY22 financial results and future outlook of the fertilizer industry. Earlier, the company had posted an unconsolidated EPS of PKR 1.26, up 28% YoY as against an EPS of PKR 0.98 in 1QCY21. Key highlights of the earnings growth were higher DAP margins, better Urea offtake and increase in net treasury income.
- Regarding the latest news about Urea price capping by the GoP, company rules out any such price decline and informed that the company is in discussion with the government on number of issues regarding urea pricing and previously stuck subsidy and sales tax receivable.
- During 1QCY22, Urea and DAP production increased by 40K tons and 100K tons on the back of continuous gas supply to the company. The management informed that it has no plans of major plant turnaround in CY22.
- FFBL increased its DAP prices by PKR 500/bag to PKR 10,600/bag yesterday and expect it to remain at these levels till June-22. The prices may come down during 2HCY22 following expectation of decline in the international DAP and phosphoric acid prices.
- During 1Q, phosphoric acid prices settled at USD 1550/ton and freight charges have also increased, which led to DAP price hike. Furthermore, the management is anticipating a further hike in phosacid price to USD 2k/ton during the current quarter.
- The company is currently consuming a mix of Afghan, Malaysian, Indonesian and South African coal due to which the effective coal cost of the company is below than the current international prices.
- Management also informed that it had booked a exchange loss of ~PKR 800mn in 1QCY22 along with higher WPPF and WWF expenses.
- The management is considering number of options regarding Fauji Meat Ltd. (FML) restructuring and informed that its losses are decreasing on QoQ basis. Currently, FML is not exporting its products to any country. FFBL is not considering any impairment loss on FML in the ongoing year.
- During 1QCY22, the company did not receive any dividend from its subsidiaries and associates but expects better dividends later in CY22.
- The company is anticipating urea offtake of 6.4mn tons in CY22 while DAP offtake is expected to witness a decline of 10% YoY to settle at 1.6-1.8mn tons owing to its higher pricing.

Key Data	
PSX Ticker	FFBL
Target Price (PKR)	30
Current Price (PKR)	21.73
Upside/(Downside) (%)	39.6%
Dividend Yield (%)	9.2%
Total Return (%)	49%
12-month High (PKR)	28.70
12-month Low (PKR)	20.00
Outstanding Shares (mn)	1,291.25
Market Cap (PKR mn)	28,058.86
Year End	December

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 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 30/share. Our PT offers an upside of 39.6% along with a dividend yield of 9.2%. Our investment case on FFBL is based on 1) higher international primary margins of DAP on the back of rise in global prices, 2) volumes sustainability and 2) attractive dividend yield.

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)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Net sales	66,839	83,234	110,452	167,857	107,019	110,027
Cost of sales	60,955	70,655	88,301	143,280	90,766	95,404
Gross Profit	5,885	12,579	22,152	24,577	16,253	14,623
SG & A	6,767	6,773	7,241	11,045	7,400	7,575
Operating Profit	(883)	5,806	14,911	13,531	8,853	7,048
Other income	4,370	5,184	9,111	7,090	6,453	6,310
Other charges	2,158	312	2,548	2,523	757	677
Finance cost	5,199	4,444	2,338	3,707	4,538	3,738
Unwinding of GIDC payable	-	2,741	1,254	1,375	1,581	973
Profit before tax	(3,869)	4,893	11,525	13,017	8,431	7,970
Taxation	2,052	2,700	5,134	3,959	2,445	2,311
Profit after tax	(5,921)	2,192	6,391	9,058	5,986	5,659

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
PPE	10,428	11,252	10,575	10,698	10,823	10,949
Other LT assets	29,407	31,619	29,228	28,958	28,958	28,958
Non-Current Assets	39,835	42,871	39,803	39,656	39,781	39,907
Current assets	51,332	48,098	75,407	97,663	83,038	74,582
Total Assets	91,167	90,968	115,210	137,318	122,819	114,489
Non-Current liabilities	15,370	29,955	25,696	25,440	19,891	15,677
Current liabilities	68,962	47,054	69,083	84,963	73,577	67,353
Total Liabilities	15,370	29,955	25,696	25,440	19,891	15,677
Equity	6,834	13,959	20,431	26,916	29,351	31,459
Total Equity & liabilities	91,167	90,968	115,210	137,318	122,819	114,489

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Net Income	(5,921)	2,192	6,391	9,058	5,986	5,659
Non-cash Charges	1,667	926	964	991	945	956
Operating Cash flows	(16,295)	24,084	27,880	(6,993)	5,414	(199)
FCFF	(760)	25,334	18,449	(5,736)	7,460	1,265
Net borrowings	11,464	(8,522)	(6,151)	10,111	(1,540)	(6,205)
FCFE	2,748	14,821	11,001	1,795	2,698	(7,594)
Net change in cash	1,605	19,754	11,082	(778)	(852)	(11,145)
Closing cash	5,294	25,048	36,130	35,352	34,500	23,355

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

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