

Fauji Fertilizer Bin Qasim Limited

Analyst Briefing Takeaways

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

Pakistan Research

FFBL: 1QCY23 Analyst Briefing Key Takeaways

- FFBL conducted its 1QCY23 analyst briefing today, to brief about the company's financial results and future outlook. To recall, FFBL reported an unconsolidated LPS of PKR 4.20 for the quarter, against an EPS of PKR 1.26 during 1QCY22.
- For 1QCY23, industry's DAP offtake declined by ~1% YoY to 245k, whereas FFBL's DAP offtake went up by 11% YoY to 127k tons. Resultantly, FFBL's DAP market share increased to 52% during 1QCY23 vs 46% SPLY. FFBL's Urea offtake declined by 26% YoY to 89k tons due to the curtailment of gas during 1Q.
- Phos-acid prices for the 1QCY23, clocked in at USD 1,050/ton, while the provisional prices for the 2QCY23 are hovering around USD 970/ton.
- Due to continuous volatility of PKR-USD parity, the company has recorded PKR ~4.6bn exchange loss during 1QCY23. Out of the mentioned amount, a loss of PKR 3.6bn is attributable for the payments due in CY22.
- Regarding investments, the management apprised that FPCL's ratio of local and imported coal mix has reached to 40:60. In addition, the company has informed through a notice to PSX regarding discontinuation of power supply from FFBL power (FPCL) due to a technical fault. The supply from FPCL is expected to resume at the end of May, 2023. Resultantly, company would have to use the expensive fuel gas as SSGC would charge the RLNG price for the additional gas supply.
- Furthermore, Fauji Meat Ltd utilization level has increased and achieved positive EBITDA. The company is tapping the export markets especially in GCC region. Fauji Foods has shown strong revenue growth of 117% YoY, and settled all of the banking obligations during 1QCY23.
- Management further informed that, company is in continuous discussion with the government regarding discrimination of GST on imported DAP. In FY23 budget, fertilizer was exempted from output taxes, so company is unable to pass on its input tax, as DAP in the domestic market is being sold on import parity price.
- On future outlook, management expects the urea demand to remain stable, while DAP demand to revive during CY23 on YoY basis.

Key Data

PSX Ticker	FFBL
Target Price (PKR)	22
Current Price (PKR)	12
Upside/(Downside) (%)	81%
Dividend Yield (%)	0%
Total Return (%)	81%
12-month High (PKR)	23
12-month Low (PKR)	12
Outstanding Shares (mn)	1,291
Market Cap (PKR mn)	15,844
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 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of 22/share. Our PT offers an upside of 81%. 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 3) 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)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Net sales	83,234	110,452	159,226	163,705	165,538	160,656
Cost of sales	70,655	88,301	133,357	143,534	146,310	141,157
Gross Profit	12,579	22,152	25,869	20,171	19,228	19,500
SG & A	6,773	7,241	8,473	9,485	10,227	10,516
Operating Profit	5,806	14,911	17,396	10,686	9,001	8,984
Other income	5,184	9,111	6,342	4,789	6,115	6,027
Other charges	312	2,548	7,776	5,180	551	605
Finance cost	4,444	2,338	5,144	5,596	3,652	2,391
Unwinding of GIDC payable	2,741	1,254	891	1,129	973	0
Profit before tax	4,893	11,525	8,505	3,571	9,940	12,015
Taxation	2,700	5,134	6,177	1,178	3,280	3,965
Profit after tax	2,192	6,391	2,328	2,392	6,660	8,050

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
PPE	11,252	10,575	9,953	10,096	10,241	10,285
Other LT assets	31,619	29,228	29,558	25,726	25,726	25,726
Non-Current Assets	42,871	39,803	39,511	35,822	35,966	36,011
Current assets	48,098	75,407	110,351	90,921	83,876	73,619
Total Assets	90,968	115,210	149,863	126,743	119,843	109,630
Non-Current liabilities	29,955	25,696	22,950	26,512	20,359	14,198
Current liabilities	47,054	69,083	104,190	75,070	69,600	59,757
Total Liabilities	29,955	25,696	22,950	26,512	20,359	14,198
Equity	13,959	20,431	22,722	25,161	29,884	35,674
Total Equity & liabilities	90,968	115,210	149,863	126,743	119,843	109,630

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Net Income	2,192	6,391	2,328	2,392	6,660	8,050
Non-cash Charges	926	964	982	952	966	980
Operating Cash flows	24,084	27,880	(29,739)	21,437	5,344	(1,856)
FCFF	25,334	18,449	(32,014)	23,816	5,979	(2,015)
Net borrowings	(8,522)	(6,151)	20,034	(19,135)	(4,057)	(3,742)
FCFE	14,821	11,001	(13,388)	932	(525)	(7,359)
Net change in cash	19,754	11,082	(13,425)	978	(2,462)	(9,619)
Closing cash	25,048	36,130	22,705	23,683	21,222	11,603

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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