

Fauji Fertilizer Bin Qasim Limited

Result Review

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

Pakistan Research

FFBL - 2QCY21 EPS clocked in at PKR 2.02, up 106% QoQ

- FFBL announced its 2QCY21 results today wherein the company posted an EPS of PKR 2.02 in comparison to an LPS of PKR 1.24 in 2QCY20. The result was above our expectations mainly due to higher other income and hefty decline in the finance cost.
- Net sales of the company increased 11% YoY during 2QCY21, driven by around 50% YoY surge in the DAP prices.
- Gross margins during the quarter clocked in at 21% as compared to 12.7% in the same period last year, +8 pps. Margin accretion can be attributable to an increase in DAP prices as last year in the same quarter DAP prices hovered around 3,430/ bag and now have risen to 5,140/ bag.
- Other income increased 81% YoY to PKR 2.4bn during 2QCY21 likely due to higher dividend income from associates.
- Finance cost, during the quarter, declined 50% YoY to PKR 0.6bn, on account of lower interest rates during the period.
- Additionally company has also paid PKR 323mn for GIDC during the quarter.
- We maintain 'HOLD' on FFBL with a Dec-21 price target (PT) of PKR 26/share, offering a downside of 3%.

Key Data

PSX Ticker	FFBL
Target Price (PKR)	26
Current Price (PKR)	26
Upside/(Downside) (%)	-3%
Dividend Yield (%)	0.0%
Total Return (%)	-3%
12-month High (PKR)	29
12-month Low (PKR)	16
Outstanding Shares (mn)	1,291.25
Market Cap (PKR mn)	34,696
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)						
	2QCY20	2QCY21	YoY	1HCY20	1HCY21	YoY
Net Sales	15,224	16,912	11%	24,782	29,917	21%
Cost of Sales	13,293	13,417	1%	23,410	23,945	2%
Gross Profit	1,930	3,495	81%	1,372	5,973	335%
Distri. & Admin. Exp.	1,549	1,792	16%	2,549	2,994	17%
Other Income	1,372	2,483	81%	1,688	4,049	140%
Other Charges	1,391	2,483	79%	1,584	429	-73%
Finance Cost	1,208	609	-50%	2,726	1,606	-41%
Profit Before Tax	(846)	3,287	-	(3,800)	4,993	-
Taxation	314	355	13%	408	795	95%
Net Income	(1,160)	2,609	-	(4,208)	3,876	-
EPS	(1.24)	2.02		(4.50)	3.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
EPS	1.08	1.54	(6.34)	2.35	5.36	3.93
EPS Growth	-25%	43%	-512%	-137%	129%	-27%
DPS	0.85	1.00	-	-	2.25	1.50
PER	15.0	14.0	(3.4)	9.2	4.0	5.5
Dividend Yield	3.9%	4.6%	0.0%	0.0%	10.4%	7.0%
EV/EBITDA	12.6	10.0	77.0	4.4	5.2	7.1
P/B	1.6	1.4	2.9	1.4	1.5	1.3
ROE	7.6%	10.3%	-86.6%	15.7%	38.5%	24.0%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Fauji Fertilizer Bin Qasim Limited (FFBL) has been computed on a SOTP basis using the Free cash flow to Firm (FCFF) method. We have used a risk-free rate of 11.0%, a beta of 1.0 & a market risk premium of 6%.

Investment Thesis

We have a 'HOLD' recommendation on the stock based on our PT of 26/share. Our price target offers a downside of 3%.FFBL earnings are increasing YoY basis, and internationally, DAP prices are rising. Therefore, it helps in increasing the revenues. Our investment case on FFBL is based on 1) strong fertilizer demand during CY21 and 2) Constant margin.

Risks

Key downside risks to our investment thesis are 1) higher gas curtailment 2) lower fertilizer prices and 3) limited fertilizer demand.

Company Description

The principal business of Fauji Fertilizer Bin Qasim is manufacturing, purchasing and marketing of fertilizers. The Company commenced its commercial production effective January 1, 2000.

Financial Highlights - FFBL

Income Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Net sales	52,733	61,511	66,839	83,234	83,021	84,335
Cost of sales	46,705	53,327	60,955	70,655	66,286	69,293
Gross Profit	6,028	8,183	5,885	12,579	16,735	15,041
SG & A	6,599	6,074	6,767	6,773	7,563	8,418
Operating Profit	(571)	2,109	(883)	5,806	9,171	6,623
Other income	4,377	3,182	4,370	5,184	4,666	4,297
Other charges	423	1,259	2,158	312	571	419
Finance cost	1,941	2,223	5,199	4,444	3,510	3,353
Profit before tax	1,441	1,809	(3,869)	4,893	9,756	7,148
Taxation	437	373	2,052	2,700	2,829	2,073
Profit after tax	1,004	1,437	(5,921)	2,192	6,927	5,075

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
PPE	10,405	9,748	10,428	10,193	9,581	9,006
Other LT assets	24,487	27,145	29,407	31,619	34,478	34,478
Non-Current Assets	34,892	36,893	39,835	41,811	44,060	43,485
Current assets	30,760	43,471	51,332	49,157	36,617	37,392
Total Assets	65,652	80,364	91,167	90,968	80,676	80,876
Non-Current liabilities	15,858	17,032	15,370	29,955	27,729	15,866
Current liabilities	36,644	49,434	68,962	47,054	34,967	43,891
Total Liabilities	15,858	17,032	15,370	29,955	27,729	15,866
Equity	13,151	13,897	6,834	13,959	17,981	21,119
Total Equity & liabilities	65,652	80,364	91,167	90,968	80,676	80,876

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Net Income	1,004	1,437	(5,921)	2,192	6,927	5,075
Non-cash Charges	1,600	1,634	1,667	1,667	1,427	1,341
Operating Cash flows	10,558	(8,096)	(16,295)	23,766	(10,160)	987
FCFF	6,958	(4,049)	(760)	25,334	(9,492)	1,996
Net borrowings	(7,271)	6,646	11,464	(8,522)	(6,730)	3,244
FCFE	(1,665)	832	2,748	14,821	(18,715)	2,860
Net change in cash	(2,276)	142	1,605	19,754	(21,620)	923
Closing cash	3,547	3,690	5,294	25,048	3,429	4,351

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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