

Fauji Fertilizer Bin Qasim Limited

Analyst Briefing Takeaways

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

Pakistan Research

FFBL: 2QCY22 Analyst Briefing Key Takeaways

- FFBL conducted its analyst briefing session today to discuss 2QCY22 financial results. Earlier the company had posted an EPS of PKR 1.38, down 32% YoY as against an EPS of PKR 2.02 in 2QCY21.
- During 1HCY22, Urea and DAP production clock in at 262K tons and 449K tons on the back of continuous gas supply to the company from SSGC. The management informed that it has postponed the plant turnaround till January CY23.
- During 2Q, phosphoric acid prices settled at USD 2,050/ton up from USD 1550/ton for the 1Q. Furthermore, for 3QCY22 management has reported provisional phosacid price of USD 1,850/ton.
- The company is currently consuming a mix of local and imported coal due to which the effective coal cost of the company is below than USD 300/ton.
- Management informed that it had booked an exchange loss of ~PKR 3bn in 1HCY22 due to increase in exchange rate volatility along with higher WPPF and WWF expenses.
- FFBL has passed on the impact of GST collection disallowance on fertilizer sales and other inflationary pressure as Ex-factory Urea and DAP prices are PKR 2,274 and PKR 12,541 per bag. Owing to steep decline in PKR against USD, management does not see DAP price easing in near future.
- The imposition of GST on Tea whitener put pressure on the Fauji Foods earnings due to the low margins and price sensitivity of the product. Management is considering to increase its footprint in UHT milk and other dairy products mix. Regarding Fauji Meat, management informed that its losses are reducing on QoQ basis.
- The management has hinted towards the dividend payout in CY22 owing to improved profitability.
- The company is anticipating urea offtake of 6.5mn tons in CY22 while DAP offtake is expected to witness a decline of ~20% YoY to settle at 1.5-1.7mn tons owing to its higher pricing.

| Key Data | |
|-------------------------|-----------|
| PSX Ticker | FFBL |
| Target Price (PKR) | 32 |
| Current Price (PKR) | 20.57 |
| Upside/(Downside) (%) | 53.2% |
| Dividend Yield (%) | 14.6% |
| Total Return (%) | 68% |
| 12-month High (PKR) | 28.00 |
| 12-month Low (PKR) | 19.60 |
| Outstanding Shares (mn) | 1,291.25 |
| Market Cap (PKR mn) | 26,561.01 |
| 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 13.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19.0%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 32/share. Our PT offers an upside of 53.2% along with a dividend yield of 14.6%. 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 | 181,570 | 125,046 | 120,942 |
| Cost of sales | 60,955 | 70,655 | 88,301 | 153,354 | 107,364 | 105,245 |
| Gross Profit | 5,885 | 12,579 | 22,152 | 28,216 | 17,682 | 15,696 |
| SG & A | 6,767 | 6,773 | 7,241 | 10,652 | 7,337 | 7,512 |
| Operating Profit | (883) | 5,806 | 14,911 | 17,563 | 10,344 | 8,184 |
| Other income | 4,370 | 5,184 | 9,111 | 8,232 | 6,210 | 6,037 |
| Other charges | 2,158 | 312 | 2,548 | 5,088 | 943 | 832 |
| Finance cost | 5,199 | 4,444 | 2,338 | 3,793 | 3,121 | 2,383 |
| Unwinding of GIDC payable | - | 2,741 | 1,254 | 1,242 | 1,581 | 973 |
| Profit before tax | (3,869) | 4,893 | 11,525 | 15,672 | 10,909 | 10,033 |
| Taxation | 2,052 | 2,700 | 5,134 | 7,666 | 3,600 | 3,311 |
| Profit after tax | (5,921) | 2,192 | 6,391 | 8,006 | 7,309 | 6,722 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---------------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|
| | CY19A | CY20A | CY21A | CY22E | CY23F | CY24F |
| PPE | 10,428 | 11,252 | 10,575 | 10,910 | 11,146 | 11,387 |
| Other LT assets | 29,407 | 31,619 | 29,228 | 28,958 | 28,958 | 28,958 |
| Non-Current Assets | 39,835 | 42,871 | 39,803 | 39,867 | 40,104 | 40,345 |
| Current assets | 51,332 | 48,098 | 75,407 | 85,746 | 70,946 | 61,035 |
| Total Assets | 91,167 | 90,968 | 115,210 | 125,613 | 111,050 | 101,381 |
| Non-Current liabilities | 15,370 | 29,955 | 25,696 | 25,440 | 19,891 | 15,677 |
| Current liabilities | 68,962 | 47,054 | 69,083 | 75,601 | 63,797 | 56,139 |
| Total Liabilities | 15,370 | 29,955 | 25,696 | 25,440 | 19,891 | 15,677 |
| Equity | 6,834 | 13,959 | 20,431 | 24,573 | 27,362 | 29,565 |
| Total Equity & liabilities | 91,167 | 90,968 | 115,210 | 125,613 | 111,050 | 101,381 |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) | | | | | | |
|-----------------------------|-----------------|----------------|----------------|----------------|----------------|----------------|
| | CY19A | CY20A | CY21A | CY22E | CY23F | CY24F |
| Net Income | (5,921) | 2,192 | 6,391 | 8,006 | 7,309 | 6,722 |
| Non-cash Charges | 1,667 | 926 | 964 | 955 | 964 | 985 |
| Operating Cash flows | (16,295) | 24,084 | 27,880 | (3,879) | 5,178 | 975 |
| FCFF | (760) | 25,334 | 18,449 | (3,440) | 5,962 | 1,238 |
| Net borrowings | 11,464 | (8,522) | (6,151) | (1,878) | (3,321) | (5,761) |
| FCFE | 2,748 | 14,821 | 11,001 | (7,256) | 550 | (6,120) |
| Net change in cash | 1,605 | 19,754 | 11,082 | (11,120) | (3,970) | (10,639) |
| Closing cash | 5,294 | 25,048 | 36,130 | 25,010 | 21,040 | 10,401 |

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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