

## FFBL: 3QCY21 Analyst briefing key takeaways

- FFBL held its analyst briefing today to discuss its 3QCY21 financial results. The company recorded net sales of PKR 38.5bn in 3QCY21 compared to PKR 25.2bn in 3QCY20, depicting 53% growth YoY. The massive increase in topline is attributed to the healthy margins on DAP, higher urea retention prices and offtake due to pre-buying of fertilizer during the 3Q.
- For 4Q, the company expects industry DAP margins to remain at current levels whereas overall DAP offtake to clock at 2mn tons during CY21 (down ~9% YoY).
- The company expects the local DAP prices to increase further, as local prices hover around USD 727/ton as compare to the international prices of USD 750/ton. During 9MCY21, DAP prices surged ~77% YoY due to exports restrictions from China, biggest exporter of DAP coupled with increased raw material cost.
- During 4Q, phosphoric acid prices settled at USD 1330/ton and freight charges have also increased, which will also lead to further DAP price hike.
- The impact of coal price increase was hedged by the supplier; hence, the company did not witness much impact on its overall cost.
- The management also updated that it booked exchange loss of PKR 804mn in 3QCY21 on the purchase of phosphoric acid due to currency depreciation, however, likely to book gain during 4Q.
- FFBL received dividend of PKR 708mn from FPCL and PKR 30mn from PMP in 3QCY21 and expects good dividends from AKBL and PMP during 4Q.
- The management is considering number of options regarding Fauji Meat Ltd. (FML) including joint venture/ toll processing or further investment in the back end supply chain; however, no decision taken yet. The company booked an impairment loss of PKR 2.1bn on equity investment in FML during 3Q.
- The company purchased 22-48MW of electricity from FFBL Power to meet its steam requirement.
- Moreover, FFBL is looking for the expansion primarily in its DAP segment, and further details regarding expansion will be shared in next 6 months.

### Key Data

PSX Ticker	FFBL
Target Price (PKR)	34
Current Price (PKR)	26.09
Upside/(Downside) (%)	32%
Dividend Yield (%)	9.6%
Total Return (%)	41%
12-month High (PKR)	29.35
12-month Low (PKR)	19.25
Outstanding Shares (mn)	1,291.25
Market Cap (PKR mn)	33688.71
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 11.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17.0%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our Jun-22 PT of 34/share. Our PT offers an upside of 32% along with a dividend yield of 9.6%. 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)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net sales	52,733	61,511	66,839	116,776	108,158	112,152
Cost of sales	46,705	53,327	60,955	90,421	86,560	90,541
<b>Gross Profit</b>	<b>6,028</b>	<b>8,183</b>	<b>5,885</b>	<b>26,355</b>	<b>21,598</b>	<b>21,611</b>
SG & A	6,599	6,074	6,767	8,448	8,735	9,369
<b>Operating Profit</b>	<b>(571)</b>	<b>2,109</b>	<b>(883)</b>	<b>17,907</b>	<b>12,863</b>	<b>12,242</b>
Other income	4,377	3,182	4,370	9,516	4,580	4,868
Other charges	423	1,259	2,158	5,427	751	721
Finance cost	1,941	2,223	5,199	2,464	3,847	4,063
<b>Profit before tax</b>	<b>1,441</b>	<b>1,809</b>	<b>(3,869)</b>	<b>18,208</b>	<b>11,368</b>	<b>10,745</b>
Taxation	437	373	2,052	3,816	3,297	3,116
<b>Profit after tax</b>	<b>1,004</b>	<b>1,437</b>	<b>(5,921)</b>	<b>14,392</b>	<b>8,072</b>	<b>7,629</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
PPE	10,405	9,748	10,428	9,581	9,006	8,466
Other LT assets	24,487	27,145	29,407	34,478	34,478	34,478
Non-Current Assets	34,892	36,893	39,835	44,060	43,485	42,944
Current assets	30,760	43,471	51,332	50,165	51,578	54,797
<b>Total Assets</b>	<b>65,652</b>	<b>80,364</b>	<b>91,167</b>	<b>94,225</b>	<b>95,063</b>	<b>97,741</b>
Non-Current liabilities	15,858	17,032	15,370	27,724	15,862	4,279
Current liabilities	36,644	49,434	68,962	43,960	51,817	61,354
<b>Total Liabilities</b>	<b>15,858</b>	<b>17,032</b>	<b>15,370</b>	<b>27,724</b>	<b>15,862</b>	<b>4,279</b>
Equity	13,151	13,897	6,834	22,540	27,384	32,107
<b>Total Equity &amp; liabilities</b>	<b>65,652</b>	<b>80,364</b>	<b>91,167</b>	<b>94,225</b>	<b>95,063</b>	<b>97,741</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net Income	1,004	1,437	(5,921)	14,392	8,072	7,629
Non-cash Charges	1,600	1,634	1,667	1,427	1,341	1,261
<b>Operating Cash flows</b>	<b>10,558</b>	<b>(8,096)</b>	<b>(16,295)</b>	<b>(10,248)</b>	<b>6,963</b>	<b>4,565</b>
<b>FCFF</b>	<b>6,958</b>	<b>(4,049)</b>	<b>(760)</b>	<b>(10,126)</b>	<b>8,322</b>	<b>5,760</b>
Net borrowings	(7,271)	6,646	11,464	(938)	2,632	2,170
<b>FCFE</b>	<b>(1,665)</b>	<b>832</b>	<b>2,748</b>	<b>(13,011)</b>	<b>8,223</b>	<b>5,045</b>
Net change in cash	(2,276)	142	1,605	(18,821)	4,995	2,140
<b>Closing cash</b>	<b>3,547</b>	<b>3,690</b>	<b>5,294</b>	<b>6,227</b>	<b>11,222</b>	<b>13,362</b>

Source: Company Accounts, Akseer Research

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