

Fauji Fertilizer Bin Qasim Limited

Result Preview

PSX: FFBL Bloomberg: FFBL: PA Reuters: JORD.PSX

Pakistan Research

FFBL: 3QCY21 unconsolidated earnings to clock in at PKR 4.84/share

- FFBL is scheduled to announce its 3QCY21 financial results on 25th October 2021. We expect the company to report unconsolidated EPS of PKR 4.84, up 89% YoY (including one-time gain of PKR 2.33/share from the sale of wind power projects). For 9MCY21, the net earnings are expected to be around PKR 7.84/ share, as compared to a loss of PKR 0.97/ share in SPLY. We do not expect any dividend along with the results.
- During 3QCY21, the company's net sales are anticipated to increase by 55% YoY to PKR 39.0bn on the back of whopping surge in international DAP prices, increasing by an average 87% YoY to USD 615/ton in 3QCY21. Resultantly, FFBL's international primary margins also increased by 117% YoY to USD 76/ton during the outgoing quarter. Local DAP prices also followed the uptrend of international DAP prices and averaged at PKR 6,070/bag (+73% YoY) during 3Q.
- Resultantly, gross margins of the company are expected to surge to 22.9% in 3QCY21 compared to 15.7% in 3QCY20.
- Distribution and admin cost is also anticipated to increase by 51% YoY to PKR 2.8bn in 3QCY21 in line with higher sales.
- We expect other income of the company to clock in at PKR 3.6bn, up 41% YoY. We have assumed PKR 3.0bn gain from the sale of wind projects.
- Finance cost of the company to remain lower by 29% YoY in 3QCY21 owing to decline in long term liabilities.
- We recommend 'BUY' on FFBL with our revised and rolled over June-22 price target (PT) of PKR 35/share. The new PT is offering an upside of 53% along with a dividend yield of 10.8%.

Key Data

PSX Ticker	FFBL
Target Price (PKR)	35
Current Price (PKR)	23.19
Upside/(Downside) (%)	53%
Dividend Yield (%)	10.8%
Total Return (%)	64%
12-month High (PKR)	29.35
12-month Low (PKR)	19.25
Outstanding Shares (mn)	1,291.25
Market Cap (PKR mn)	29,944
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QCY20	3QCY21E	YoY	9MCY20	9MCY21E	YoY
Net Sales	25,180	39,004	55%	49,962	68,921	38%
Cost of Sales	21,232	30,862	45%	44,642	54,806	23%
Gross Profit	3,948	8,142	106%	5,320	14,114	165%
Dist. & Admin. Exp.	1,891	2,847	51%	4,441	5,841	32%
Other Income	2,544	3,592	41%	4,232	7,641	81%
Other Charges	(134)	390	NM	1,451	819	-44%
Finance cost	811	578	-29%	3,538	1,838	-48%
Unwinding of GIDC payable	-	348	NM	-	1,017	NM
Profit Before Tax	3,923	7,570	93%	123	12,241	-
Taxation	617	1,321	114%	1,025	2,116	107%
Net Income	3,306	6,249	89%	(902)	10,125	NM
EPS	2.56	4.84	89%	(0.70)	7.84	NM
DPS	-	-	-	-	-	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	1.54	(6.34)	2.35	12.12	6.27	5.93
EPS Growth	43%	-512%	-137%	416%	-48%	-5%
DPS	1.00	-	-	4.75	2.50	2.25
PER	14.0	(3.4)	9.2	1.8	3.4	3.6
Dividend Yield	4.6%	0.0%	0.0%	22.0%	11.6%	10.4%
EV/EBITDA	10.0	77.0	4.4	3.2	3.8	3.9
P/B	1.4	2.9	1.4	1.2	1.0	0.8
ROE	10.3%	-86.6%	15.7%	66.7%	28.6%	23.1%

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 PT of 35/share. Our PT offers an upside of 53% along with a dividend yield of 10.8%. 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

Key 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 Limited 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	CY21F	CY22F	CY23F
Net sales	61,511	66,839	83,234	117,330	108,158	112,152
Cost of sales	53,327	60,955	70,655	91,375	86,560	90,541
Gross Profit	8,183	5,885	12,579	25,955	21,598	21,611
SG & A	6,074	6,767	6,773	9,375	8,735	9,369
Operating Profit	2,109	(883)	5,806	16,580	12,863	12,242
Other income	3,182	4,370	5,184	8,941	4,632	4,916
Other charges	1,259	2,158	312	1,642	753	723
Finance cost	2,223	5,199	4,444	2,484	3,857	4,063
Unwinding of GIDC payable	-	-	2,741	1,370	1,477	1,581
Profit before tax	1,809	(3,869)	4,893	20,025	11,407	10,791
Taxation	373	2,052	2,700	4,373	3,308	3,129
Profit after tax	1,437	(5,921)	2,192	15,651	8,099	7,661

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
PPE	9,748	10,428	10,193	9,581	9,006	8,466
Other LT assets	27,145	29,407	31,619	34,478	34,478	34,478
Non-Current Assets	36,893	39,835	41,811	44,060	43,485	42,944
Current assets	43,471	51,332	49,157	51,466	52,545	55,795
Total Assets	80,364	91,167	90,968	95,526	96,030	98,740
Non-Current liabilities	17,032	15,370	29,955	27,726	15,864	4,281
Current liabilities	49,434	68,962	47,054	44,322	51,818	61,354
Total Liabilities	17,032	15,370	29,955	27,726	15,864	4,281
Equity	13,897	6,834	13,959	23,477	28,348	33,104
Total Equity & liabilities	80,364	91,167	90,968	95,526	96,030	98,740

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Net Income	1,437	(5,921)	2,192	15,651	8,099	7,661
Non-cash Charges	1,634	1,667	1,667	1,427	1,341	1,261
Operating Cash flows	(8,096)	(16,295)	23,766	(9,093)	7,077	4,602
FCFF	(4,049)	(760)	25,334	(8,975)	8,444	5,797
Net borrowings	6,646	11,464	(8,522)	(709)	2,403	2,170
FCFE	832	2,748	14,821	(11,626)	8,108	5,082
Net change in cash	142	1,605	19,754	(17,759)	4,880	2,177
Closing cash	3,690	5,294	25,048	7,289	12,169	14,346

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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