

Fauji Fertilizer Bin Qasim Limited

Result Review

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

Pakistan Research

FFBL posted LPS of PKR 1.31 in 3QCY22

- FFBL has reported an unconsolidated LPS of PKR 1.31 in 3QCY22 against an EPS of PKR 1.76 in 3QCY21. This takes cumulative 9MCMY22 unconsolidated EPS to PKR 1.33, down 72% YoY. The result was below than our expectation primarily due to lower than anticipated margins and higher than expected exchange loss.
- Net sales of the company clocked in at PKR 22.5bn, down 41% during 3Q, led by lower DAP and Urea offtake which plunged 76% YoY and 35% YoY, respectively.
- During 3QCY22, gross margins declined to 17% vs 22% in SPLY, due to increase in phos-acid and coal prices up 64% YoY and 84% YoY along with a steep reduction in PKR value against the dollar.
- Consequently, the company has recorded an exchange loss on its payables of PKR 4.2bn in 3QCY22.
- Distribution & Admin expenses declined by 33% YoY to PKR 1.3bn in 3QCY22 inline with lower offtake which declined by 61% YoY owing to recent floods and higher fertilizer prices compared to last year.
- Other income of the company clocked in at PKR 964mn, down 77% YoY due to the absence of one-off gain on sale FWE- I & II during 3QCY21.
- Finance cost for the quarter under review increased by 113% YoY to PKR 1.2bn on the back of higher borrowings and interest rates.
- Company booked a tax reversal of PKR 473mn during 3QCY22, as compared to a tax charge of PKR 1.3bn in 3QCY21.
- We recommend 'BUY' on FFBL with June-23 price target (PT) of PKR 35/share, offering an upside of 83.9% along with a dividend yield of 16.2%.

Key Data

| | |
|-------------------------|----------|
| PSX Ticker | FFBL |
| Target Price (PKR) | 35 |
| Current Price (PKR) | 19.3 |
| Upside/(Downside) (%) | 83.9% |
| Dividend Yield (%) | 16.2% |
| Total Return (%) | 100.1% |
| 12-month High (PKR) | 28.0 |
| 12-month Low (PKR) | 18.4 |
| Outstanding Shares (mn) | 1,291.2 |
| Market Cap (PKR mn) | 24,921.4 |
| Year End | December |

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

| | 3QCY21 | 3QCY22 | YoY | 9MCMY21 | 9MCMY22 | YoY |
|---------------------------|--------------|----------------|-------------|---------------|---------------|-------------|
| Net Sales | 38,449 | 22,568 | -41% | 68,367 | 93,501 | 37% |
| Cost of Sales | 29,907 | 18,813 | -37% | 53,852 | 75,566 | 40% |
| Gross Profit | 8,542 | 3,754 | -56% | 14,515 | 17,934 | 24% |
| Distri. & Admin. Exp. | 1,920 | 1,291 | -33% | 4,782 | 5,051 | 6% |
| Other Income | 4,167 | 964 | -77% | 8,216 | 5,330 | -35% |
| Other Charges | 4,175 | 4,192 | 0% | 4,736 | 8,062 | 70% |
| Finance Cost | 560 | 1,193 | 113% | 1,820 | 2,806 | 54% |
| Unwinding of GIDC payable | 303 | 211 | -30% | 972 | 703 | -28% |
| Profit Before Tax | 3,648 | (2,170) | - | 8,318 | 6,642 | -20% |
| Taxation | 1,373 | (473) | - | 2,168 | 4,929 | 127% |
| Net Income | 2,275 | (1,696) | - | 6,150 | 1,714 | -71% |
| EPS | 1.76 | (1.31) | - | 4.76 | 1.33 | -71% |

Key Financial Ratios

| | CY19A | CY20A | CY21A | CY22E | CY23F | CY24F |
|----------------|--------|-------|-------|-------|-------|-------|
| EPS | (6.34) | 2.35 | 4.95 | 5.22 | 10.35 | 9.11 |
| EPS Growth | NM | NM | 111% | 6% | 98% | -12% |
| DPS | - | - | - | 2.00 | 4.25 | 3.75 |
| PER | (3.4) | 9.18 | 4.35 | 4.13 | 2.08 | 2.36 |
| Dividend Yield | - | - | - | 9% | 20% | 17% |
| EV/EBITDA | 77.0 | 4.92 | 0.83 | 1.14 | 1.14 | 1.33 |
| P/B | 2.9 | 1.44 | 1.36 | 1.13 | 0.86 | 0.71 |
| ROE | -86.6% | 16% | 31% | 27% | 41% | 30% |

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 June-23 PT of 35/share. Our PT offers an upside of 83.9% along with a dividend yield of 16.2%. 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 | CY22F | CY23F | CY24F |
| Net sales | 66,839 | 83,234 | 110,452 | 149,249 | 154,010 | 149,093 |
| Cost of sales | 60,955 | 70,655 | 88,301 | 118,362 | 126,752 | 125,588 |
| Gross Profit | 5,885 | 12,579 | 22,152 | 30,886 | 27,258 | 23,505 |
| SG & A | 6,767 | 6,773 | 7,241 | 7,560 | 7,419 | 7,615 |
| Operating Profit | (883) | 5,806 | 14,911 | 23,326 | 19,839 | 15,890 |
| Other income | 4,370 | 5,184 | 9,111 | 6,563 | 6,165 | 6,310 |
| Other charges | 2,158 | 312 | 2,548 | 11,592 | 1,624 | 1,399 |
| Finance cost | 5,199 | 4,444 | 2,338 | 3,065 | 2,850 | 2,267 |
| Unwinding of GIDC payable | 0 | 2,741 | 1,254 | 1,082 | 1,581 | 973 |
| Profit before tax | (3,869) | 4,893 | 11,525 | 14,151 | 19,949 | 17,562 |
| Taxation | 2,052 | 2,700 | 5,134 | 7,407 | 6,583 | 5,795 |
| Profit after tax | (5,921) | 2,192 | 6,391 | 6,745 | 13,366 | 11,766 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---------------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|
| | CY19A | CY20A | CY21A | CY22F | 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 | 71,645 | 80,297 | 73,959 |
| Total Assets | 91,167 | 90,968 | 115,210 | 111,512 | 120,401 | 114,304 |
| Non-Current liabilities | 15,370 | 29,955 | 25,696 | 25,440 | 19,891 | 15,677 |
| Current liabilities | 68,962 | 47,054 | 69,083 | 61,470 | 68,029 | 59,222 |
| Total Liabilities | 15,370 | 29,955 | 25,696 | 25,440 | 19,891 | 15,677 |
| Equity | 6,834 | 13,959 | 20,431 | 24,603 | 32,481 | 39,405 |
| Total Equity & liabilities | 91,167 | 90,968 | 115,210 | 111,512 | 120,401 | 114,304 |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) | | | | | | |
|-----------------------------|-----------------|----------------|----------------|-----------------|---------------|----------------|
| | CY19A | CY20A | CY21A | CY22F | CY23F | CY24F |
| Net Income | (5,921) | 2,192 | 6,391 | 6,745 | 13,366 | 11,766 |
| Non-cash Charges | 1,667 | 926 | 964 | 994 | 964 | 985 |
| Operating Cash flows | (16,295) | 24,084 | 27,880 | (10,573) | 10,655 | 7,367 |
| FCFF | (760) | 25,334 | 18,449 | (10,963) | 10,817 | 6,509 |
| Net borrowings | 11,464 | (8,522) | (6,151) | (6,211) | 415 | (6,898) |
| FCFE | 2,748 | 14,821 | 11,001 | (18,635) | 9,322 | (1,908) |
| Net change in cash | 1,605 | 19,754 | 11,082 | (21,208) | 3,834 | (6,750) |
| Closing cash | 5,294 | 25,048 | 36,130 | 14,922 | 18,757 | 12,006 |

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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JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

| 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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