

## Fauji Fertilizer Bin Qasim Limited

### Result Review

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

Pakistan Research

## FFBL:CY21 EPS clocked in at PKR 4.95; up 1.1x YoY

- FFBL announced its CY21 results today wherein the company posted an EPS of PKR 4.95, up 1.1x YoY as against an EPS of PKR 2.35 in CY20. For 4QCY21 company reported an EPS of PKR 0.19, down 92% YoY as against an EPS of PKR 2.40 in 4QCY20. The result was below our expectations mainly due to lower gross margins, higher tax charge and allowance for expected credit losses booked by the company during the 4Q. No dividend was announced by the company for the stated period.
- Net sales increased 26% YoY during 4Q, mainly driven by ~95% YoY increase in the DAP prices as the offtake remained sluggish (down 25% YoY).
- Gross margins shrank to 18.1% in 4Q, compared to 21.8% in SPLY, possibly due to higher phosphoric acid prices.
- The company booked allowance for expected credit loss of PKR 4.25bn with impact of PKR 3.3/share during 4Q. We expect the amount is booked on the loans provided to the FML and FFL.
- The effective tax rate was also on the higher side at 92.5% in 4Q compared to 35.1% in SPLY, further deteriorating the bottomline.
- We recommend 'BUY' on FFBL with our rolled over Dec-22 price target (PT) of PKR 29/share, offering an upside of 19% along with a dividend yield of 15.5%.

### Key Data

PSX Ticker	FFBL
Target Price (PKR)	29
Current Price (PKR)	24.23
Upside/(Downside) (%)	19%
Dividend Yield (%)	15.5%
Total Return (%)	34%
12-month High (PKR)	29.35
12-month Low (PKR)	20.00
Outstanding Shares (mn)	1,291.25
Market Cap (PKR mn)	31,287
Year End	December

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	4QCY20	4QCY21	YoY	CY20	CY21	YoY
Net Sales	33,272	42,085	26%	83,234	110,452	33%
Cost of Sales	26,013	34,449	32%	70,655	88,301	25%
<b>Gross Profit</b>	<b>7,259</b>	<b>7,637</b>	<b>5%</b>	<b>12,579</b>	<b>22,152</b>	<b>76%</b>
Distri. & Admin. Exp.	2,332	2,327	0%	6,773	7,241	7%
Other Income	952	895	-6%	5,184	9,111	76%
Other Charges	(1,139)	(2,056)	81%	312	2,548	NM
Finance Cost	906	518	-43%	4,444	2,338	-47%
Unwinding of GIDC payable	2,741	282	NM	2,741	1,254	-54%
<b>Profit Before Tax</b>	<b>4,770</b>	<b>3,206</b>	<b>-33%</b>	<b>4,893</b>	<b>11,525</b>	<b>136%</b>
Taxation	1,676	2,966	77%	2,700	5,134	90%
<b>Net Income</b>	<b>3,094</b>	<b>241</b>	<b>-92%</b>	<b>2,192</b>	<b>6,391</b>	<b>192%</b>
EPS	2.40	0.19	-92%	2.35	4.95	111%

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	-6.34	2.35	4.95	6.20	3.16	4.21
EPS Growth	-512%	NM	111%	25%	-49%	33%
DPS	0.00	0.00	0.00	3.75	2.00	2.50
PER	-3.40	9.18	4.35	3.48	6.83	5.12
Dividend Yield	0%	0%	0%	17%	9%	12%
EV/EBITDA	76.97	4.44	3.36	3.79	6.07	5.86
P/B	2.95	1.44	1.37	1.18	1.11	1.02
ROE	-87%	16%	31%	34%	16%	20%

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 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 29/share. Our PT offers an upside of 19% along with a dividend yield of 15.5%. 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	108,965	105,059	108,016
Cost of sales	60,955	70,655	88,301	86,754	87,736	93,147
<b>Gross Profit</b>	<b>5,885</b>	<b>12,579</b>	<b>22,152</b>	<b>22,211</b>	<b>17,323</b>	<b>14,869</b>
SG & A	6,767	6,773	7,241	9,262	9,455	7,113
<b>Operating Profit</b>	<b>(883)</b>	<b>5,806</b>	<b>14,911</b>	<b>12,949</b>	<b>7,868</b>	<b>7,756</b>
Other income	4,370	5,184	9,111	5,451	6,369	5,545
Other charges	2,158	312	2,548	1,634	1,576	506
Finance cost	5,199	4,444	2,338	4,013	4,452	4,169
Unwinding of GIDC payable	-	2,741	1,254	1,477	1,581	973
<b>Profit before tax</b>	<b>(3,869)</b>	<b>4,893</b>	<b>11,525</b>	<b>11,276</b>	<b>6,628</b>	<b>7,653</b>
Taxation	2,052	2,700	5,134	3,270	2,553	2,219
<b>Profit after tax</b>	<b>(5,921)</b>	<b>2,192</b>	<b>6,391</b>	<b>8,006</b>	<b>4,075</b>	<b>5,434</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
PPE	10,428	10,193	9,581	9,006	8,466	7,958
Other LT assets	29,407	31,619	32,318	32,318	32,318	32,318
Non-Current Assets	39,835	41,811	41,899	41,324	40,784	40,276
Current assets	51,332	49,157	49,337	50,006	48,409	52,526
<b>Total Assets</b>	<b>91,167</b>	<b>90,968</b>	<b>91,236</b>	<b>91,330</b>	<b>89,193</b>	<b>92,801</b>
Non-Current liabilities	15,370	29,955	27,738	15,895	4,320	2,804
Current liabilities	68,962	47,054	43,148	51,922	59,866	62,785
<b>Total Liabilities</b>	<b>15,370</b>	<b>29,955</b>	<b>27,738</b>	<b>15,895</b>	<b>4,320</b>	<b>2,804</b>
Equity	6,834	13,959	20,350	23,514	25,006	27,212
<b>Total Equity &amp; liabilities</b>	<b>91,167</b>	<b>90,968</b>	<b>91,236</b>	<b>91,330</b>	<b>89,193</b>	<b>92,801</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net Income	(5,921)	2,192	6,391	8,006	4,075	5,434
Non-cash Charges	1,667	1,667	1,427	1,476	1,244	1,185
<b>Operating Cash flows</b>	<b>(16,295)</b>	<b>23,766</b>	<b>(13,315)</b>	<b>6,046</b>	<b>2,622</b>	<b>6,816</b>
<b>FCFF</b>	<b>(760)</b>	<b>25,334</b>	<b>(13,842)</b>	<b>7,389</b>	<b>3,687</b>	<b>7,549</b>
Net borrowings	11,464	(8,522)	(1,447)	3,199	1,046	1,665
<b>FCFE</b>	<b>2,748</b>	<b>14,821</b>	<b>(16,586)</b>	<b>7,739</b>	<b>1,996</b>	<b>6,253</b>
Net change in cash	1,605	19,754	(16,586)	2,897	(587)	3,025
<b>Closing cash</b>	<b>5,294</b>	<b>25,048</b>	<b>8,463</b>	<b>11,359</b>	<b>10,773</b>	<b>13,798</b>

Source: Company Accounts, Akseer Research

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