

**Fauji Fertilizer Company Limited**  
Result Preview

PSX: FFC Bloomberg: FFC: PA Reuters: FAUF: KA

Pakistan Research

**FFC: 1QCY24 EPS expected to come at PKR 8.47, up 39% YoY, DPS PKR 5.50**

- FFC is scheduled to announce its 1QCY24 financial results on 29<sup>th</sup> April, 2024. Wherein we expect the unconsolidated profitability of the company to increase by 39% YoY to PKR 10.8bn (EPS PKR 8.47) on the back of higher urea prices and improved other income. Along with the result, we expect the company to announce an interim cash dividend of PKR 5.50/share.
- Topline of the company is likely to increase by 52% YoY due to higher urea prices (up ~40% YoY) and offtakes (up 18% YoY).
- Gross margins are expected to decrease by 1.1ppts YoY to ~39% for 1QCY24 due to contribution of lower margin imported urea sales and higher gas prices despite significant increase in fertilizer prices.
- To highlight, company has handled imported urea quantity of 93.6k tons in 1QCY24.
- Gas prices for the company's feed stock and fuel stock increased by 92% YoY and 54% YoY respectively, in 1QCY24.
- During 1QCY24, distribution cost is anticipated to come at PKR 4.4bn up 43% YoY, primarily due to higher transportation and fuel charges.
- Other income of the company is likely to increase by 24% YoY to PKR 4.4bn during 1Q owing to better return on investment portfolio and commencement of dividend from AKBL.
- Finance cost is expected to increase by 16% YoY to PKR 1.7bn during 1QCY24 on the back of increased borrowing amid higher interest rates.
- Effective-tax rate for 1Q is likely to come in at 39% vs 34% in in 1QCY23 due to higher super tax.
- We maintain our 'BUY' recommendation on FFC with Dec-24 price target (PT) of PKR 163/share. The stock is offering an upside of 14% along with dividend yield of 16%.

**Key Data**

PSX Ticker	FFC
Target Price (PKR)	163
Current Price (PKR)	143
Upside/(Downside) (%)	+ 14%
Dividend Yield (%)	16%
Total Return (%)	+ 30%
12-month High (PKR)	152
12-month Low (PKR)	91
Outstanding Shares (mn)	1,272
Market Cap (PKR mn)	181,307
Year End	December

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	1QCY23	1QCY24E	YoY
Net Sales	36,406	55,444	52%
Cost of Sales	21,831	33,853	55%
<b>Gross Profit</b>	<b>14,575</b>	<b>21,591</b>	<b>48%</b>
Distribution cost	3,056	4,361	43%
Unwinding of GIDC liability	383	189	-51%
Other Income	3,545	4,384	24%
Other Charges	1,073	1,657	54%
Finance Cost	1,464	1,699	16%
<b>Profit Before Taxation</b>	<b>11,943</b>	<b>17,670</b>	<b>48%</b>
Taxation	4,213	6,891	64%
<b>Net Income</b>	<b>7,730</b>	<b>10,778</b>	<b>39%</b>
EPS	6.08	8.47	39%
DPS	4.26	5.50	-

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	17.2	15.8	23.3	31.0	30.1	32.7
EPS Growth	5.2%	-8.4%	48.0%	32.9%	-3.1%	8.6%
DPS	14.5	12.1	15.5	23.3	22.5	26.3
PER	8.3	9.0	6.1	4.6	4.7	4.4
Dividend Yield	10.2%	8.5%	10.9%	16.3%	15.8%	18.4%
EV/EBITDA	4.4	4.9	2.6	2.1	2.4	2.3
P/B	3.8	3.6	3.0	2.6	2.3	2.0
ROE	46.1%	39.4%	48.8%	55.7%	47.5%	46.9%

Source: Company Accounts, Akseer Research

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### Valuation Basis

Our PT for Fauji Fertilizer Company Limited (FFC) has been computed using Some of the parts (SOTP) method, while FCFE is used to calculate the value of core fertilizer business. We have used a risk free rate of 1%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 163/share. Our price target offers an upside of 14% along with a dividend yield of 16%. Our investment case on FFC is based on 1) higher fertilizer prices and 2) volumes sustainability.

### Risks

Key downside risks to our investments thesis are: 1) gas supply curtailment 2) lower than estimated fertilizer demand and 3) lower than expected urea prices

### Company Description

The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers and chemicals, including investment in other fertilizers, chemical, other manufacturing, energy generation, food processing and banking operations.

### Financial Highlights - FFC

Income Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net sales	108,651	109,364	159,472	233,289	251,464	260,703
Cost of sales	69,772	69,317	95,220	155,505	177,891	183,705
<b>Gross Profit</b>	<b>38,879</b>	<b>40,046</b>	<b>64,252</b>	<b>77,784</b>	<b>73,573</b>	<b>76,997</b>
SG & A	8,409	10,108	12,684	15,513	15,337	16,123
<b>Operating Profit</b>	<b>30,470</b>	<b>29,939</b>	<b>51,568</b>	<b>62,271</b>	<b>58,235</b>	<b>60,874</b>
Other income	7,919	14,442	17,097	15,094	14,487	16,688
Other charges	2,946	3,037	5,434	5,554	5,392	5,827
Finance cost	2,292	4,868	5,624	6,642	4,637	3,622
Unwinding of GIDC Liability	2441	2,119	1,160	755	-	-
<b>Profit before tax</b>	<b>30,339</b>	<b>33,687</b>	<b>53,547</b>	<b>64,414</b>	<b>62,694</b>	<b>68,114</b>
Taxation	8,443	13,637	23,874	24,965	24,451	26,564
<b>Profit after tax</b>	<b>21,896</b>	<b>20,050</b>	<b>29,673</b>	<b>39,448</b>	<b>38,243</b>	<b>41,549</b>

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
PPE	23,987	27,631	36,139	45,847	57,300	56,123
Other LT assets	50,750	56,666	55,477	55,482	54,936	54,847
Non-Current Assets	74,737	84,297	91,617	101,329	112,237	110,970
Current assets	126,270	155,825	109,502	129,454	117,359	108,541
<b>Total Assets</b>	<b>201,007</b>	<b>240,122</b>	<b>201,118</b>	<b>230,783</b>	<b>229,596</b>	<b>219,511</b>
Non-Current liabilities	41,323	27,525	12,746	4,083	4,535	5,021
Current liabilities	112,169	161,762	127,548	155,865	144,592	125,849
<b>Total Liabilities</b>	<b>153,492</b>	<b>189,287</b>	<b>140,294</b>	<b>159,947</b>	<b>149,127</b>	<b>130,870</b>
Equity	47,514	50,835	60,824	70,836	80,468	88,641
<b>Total Equity &amp; liabilities</b>	<b>201,007</b>	<b>240,122</b>	<b>201,118</b>	<b>230,783</b>	<b>229,596</b>	<b>219,511</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net Income	21,896	20,050	29,673	39,448	38,243	41,549
Non-cash Charges	2,435	2,415	2,914	4,111	4,965	5,594
<b>Operating Cash flows</b>	<b>37,332</b>	<b>25,994</b>	<b>54,043</b>	<b>45,572</b>	<b>32,832</b>	<b>38,383</b>
<b>FCFF</b>	<b>10,667</b>	<b>13,352</b>	<b>86,352</b>	<b>53,923</b>	<b>32,482</b>	<b>45,169</b>
Net borrowings	7,941	6,605	-62,632	10,690	-188	-8,022
<b>FCFE</b>	<b>16,954</b>	<b>17,059</b>	<b>20,604</b>	<b>60,545</b>	<b>29,465</b>	<b>34,937</b>
Net change in cash	1,153	1,190	1,520	2,440	33,548	34,403
<b>Closing cash</b>	<b>1,190</b>	<b>1,520</b>	<b>2,440</b>	<b>33,548</b>	<b>34,403</b>	<b>35,964</b>

Source: Company Accounts, Akseer Research

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