

Fauji Fertilizer Company Limited

Result Review

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

Pakistan Research

FFC: 2QCY24 EPS clocked in at PKR 12.22, up 2.91x YoY; DPS PKR 10.00

- FFC announced its 2QCY24 financial results today wherein the company reported an unconsolidated EPS PKR 12.22, up by 2.91x YoY. Along with the result, company has announced an interim cash dividend of PKR 10.00/share for the quarter.
- Net sales of the company increased by 61% YoY due to a combination of higher urea prices and elevated offtake.
- Gross margins for 2QCY24 increased to 54.5%, in comparison to 46.8% SPLY, on account of higher urea prices coupled with unchanged gas prices for FFC. It is pertinent to note that the gas prices for Urea producers increased to PKR 1,597/MMBTU in 2Q for both feed and fuel while FFC is still receiving gas at older prices from Mari.
- During 2QCY24, distribution cost surged to PKR 5.5bn up by 2.1x YoY, primarily due to higher transportation and fuel charges along with higher volumetric sales.
- Other income of the company increased to PKR 5.5bn, up by 2.0x YoY driven by a combination of better return on investment portfolio and higher dividend income.
- Finance cost grew by 16% YoY to PKR 1.3bn during 2QCY24, due to the increased borrowing.
- Effective-tax rate for 2QCY24 stood at 43% in comparison to ETR of 61% SPLY.
- We maintain our 'BUY' recommendation on FFC with Dec-24 price target (PT) of PKR 189/share. The stock is offering an upside of 5.4% along with a dividend yield of 15.7%.

Key Data

PSX Ticker	FFC
Target Price (PKR)	189
Current Price (PKR)	179
Upside/(Downside) (%)	+5.4%
Dividend Yield (%)	15.7%
Total Return (%)	21%
12-month High (PKR)	182
12-month Low (PKR)	90
Outstanding Shares (mn)	1,272
Market Cap (PKR mn)	227,502
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QCY23	2QCY24	YoY	1HCY23	1HCY24	YoY
Net Sales	35,552	57,167	61%	71,958	115,574	61%
Cost of Sales	18,899	26,034	38%	40,731	67,154	65%
Gross Profit	16,653	31,133	87%	31,228	48,420	55%
Distribution cost	2,682	5,543	2.1x	5,738	10,736	87%
Unwinding of GIDC liability	322	67	-79%	704	199	-72%
Other Income	2,750	5,494	2.0x	6,295	15,770	2.51x
Other Charges	1,185	2,558	2.2x	2,258	4,234	88%
Finance Cost	1,193	1,380	16%	2,657	2,886	9%
Profit Before Taxation	13,721	27,153	98%	25,664	45,180	76%
Taxation	8,372	11,605	39%	12,585	19,109	52%
Net Income	5,349	15,549	2.9x	13,079	26,071	99%
EPS	4.20	12.22	-	10.28	20.49	-
DPS	3.15	10.00	-	7.41	15.50	-

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	17.2	15.8	23.3	37.5	35.7	34.3
EPS Growth	5.2%	-8.4%	48.0%	60.6%	-4.6%	-4.0%
DPS	9.9	9.0	11.4	28.0	26.8	25.8
PER	10.4	11.3	7.7	4.8	5.0	5.2
Dividend Yield	5.5%	5.0%	6.4%	15.7%	15.0%	14.4%
EV/EBITDA	5.8	6.4	3.1	2.4	2.6	2.7
P/B	4.8	4.5	3.7	3.1	2.7	2.4
ROE	46.1%	39.4%	48.0%	64.4%	53.2%	45.3%

Source: Company Accounts, Akseer Research

Saman Sarfaraz
saman.sarfaraz@akseerresearch.com

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 15%, 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 189/share. Our price target offers upside of 5.4% along with a dividend yield of 15.7%. Our investment case on FFC is based on 1) higher fertilizer prices 2) attractive dividend yield and 3) 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 fertilizer 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	258,595	293,747	301,961
Cost of sales	69,772	69,317	95,220	167,204	205,749	218,474
Gross Profit	38,879	40,046	64,252	91,391	87,998	83,487
SG & A	8,409	10,108	12,684	21,273	21,454	22,150
Operating Profit	30,470	29,939	51,568	70,118	66,544	61,337
Other income	7,919	14,442	17,097	23,679	20,409	22,121
Other charges	2,946	3,037	5,434	7,247	6,365	6,169
Finance cost	2,292	4,868	5,624	3,992	6,062	5,728
Unwinding of GIDC	2441	2,119	1,160	755	0	0
Profit before tax	30,339	33,687	53,547	80,847	74,526	71,562
Taxation	8,443	13,637	23,874	33,184	29,065	27,909
Profit after tax	21,896	20,050	29,673	47,663	45,461	43,653

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
PPE	23,987	27,631	40,223	50,646	61,530	60,265
Other LT assets	50,750	56,666	52,934	54,221	53,655	53,546
Non-Current Assets	74,737	84,297	93,158	104,866	115,184	113,811
Current assets	126,270	155,825	130,123	155,168	144,832	132,715
Total Assets	201,007	240,122	223,281	260,035	260,016	246,526
Non-Current liabilities	41,323	27,525	22,212	9,604	7,564	7,867
Current liabilities	112,169	161,762	139,217	176,376	166,952	142,244
Total Liabilities	153,492	189,287	161,428	185,980	174,516	150,111
Equity	47,514	50,835	61,853	74,054	85,500	96,415
Total Equity & liabilities	201,007	240,122	223,281	260,034	260,016	246,526

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net Income	21,896	20,050	29,673	47,663	45,461	43,653
Non-cash Charges	2,435	2,415	2,512	3,553	5,392	6,018
Operating Cash flows	37,332	25,994	75,418	46,272	39,494	43,184
FCFF	10,667	13,352	70,768	31,508	37,185	50,771
Net borrowings	7,941	6,605	-49,658	9,507	-1,857	-11,679
FCFE	16,954	17,059	17,994	38,662	31,630	35,599
Net change in cash	1,153	1,190	1,520	858	4,059	1,674
Closing cash	1,190	1,520	858	4,059	1,674	4,535

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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alphacapital.com.pk