

Fauji Fertilizer Company Limited

Result Preview

PSX: FFC Bloomberg: FFC: PA Reuters: FAUF.PSX

Pakistan Research

FFC: 3QCY21 unconsolidated EPS to clock in at PKR 3.81; DPS PKR 3.0

- FFC is scheduled to announce its 3QCY21 financial results on 27th October 2021. We expect the company to report unconsolidated EPS of PKR 3.81, up 5% YoY. Cumulatively, for 9MCY21, EPS is expected to grow by 4% YoY to PKR 11.22. We also expect an interim cash dividend of PKR 3.0/ share along with the results, which will take 9MCY21 payout to PKR 9.10/ share.
- During 3QCY21, net sales are anticipated to increase by 24% YoY to PKR 30.4bn on the back of higher Urea offtake, up 21% YoY and surge in the fertilizer prices. The domestic prices of Urea and DAP increased by 6% and 65% YoY during the 3Q.
- Given the cost of sales is likely to grow at lower rate of 18% YoY, gross margins of the company are expected to surge to 36.4% in 3QCY21, up 2.8pps YoY.
- Distribution and admin cost is also anticipated to increase by 41% YoY to PKR 2.4bn in 3QCY21 in tandem with increased offtake.
- We expect other income to clock in at PKR 1.1bn 3QCY21, up 12% YoY, on the back of dividend from subsidiaries, associates and interest on short term investments.
- Finance cost is likely to increase by 74% YoY, due to increase in the short-term borrowings. However, for 9MCY21 is expected to decline by 9% YoY.
- We recommend 'BUY' on FFC with our revised and rolled over June-22 price target (PT) of PKR 111/share. The new PT is offering an upside of 11.4% along with a dividend yield of 13.3%, translating into total return of 25%.

Key Data

PSX Ticker	FFC
Target Price (PKR)	111
Current Price (PKR)	99.90
Upside/(Downside) (%)	11.4%
Dividend Yield (%)	13.3%
Total Return (%)	25%
12-month High (PKR)	115
12-month Low (PKR)	95.40
Outstanding Shares (mn)	1,272.24
Market Cap (PKR mn)	127,097
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QCY20	3QCY21E	YoY	9MCY20	9MCY21E	YoY
Net Sales	24,636	30,435	24%	68,418	74,453	9%
Cost of Sales	16,365	19,352	18%	45,258	47,159	4%
Gross Profit	8,271	11,083	34%	23,160	27,294	18%
Distribution cost	1,725	2,435	41%	5,654	6,399	13%
Unwinding of GIDC liability	-	1,736	NM	-	2,934	NM
Other Income	951	1,067	12%	4,958	5,281	7%
Other Charges	628	687	9%	1,819	1,979	9%
Finance Cost	271	472	74%	1,406	1,276	-9%
Profit Before Taxation	6,598	6,821	3%	19,238	19,986	4%
Taxation	1,970	1,978	0.4%	5,474	5,707	4%
Net Income	4,628	4,843	5%	13,764	14,279	4%
EPS	3.64	3.81	5%	10.82	11.22	4%
DPS	2.55	3.0	18%	7.80	9.10	17%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	11.35	13.45	16.36	16.20	16.58	16.91
EPS Growth	35%	19%	22%	-1%	2%	2%
DPS	8.85	10.80	13.25	13.00	13.25	13.50
PER	8.8	7.4	6.1	6.2	6.0	5.9
Dividend Yield	8.9%	10.8%	13.3%	13.0%	13.3%	13.5%
EV/EBITDA	5.3	4.3	3.2	3.5	3.6	3.5
P/B	3.8	3.6	3.0	2.7	2.5	2.3
ROE	43.3%	48.1%	48.9%	44.2%	41.5%	39.0%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Fauji Fertilizer Company Limited (FFC) 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 111/share. Our PT offers an upside of 11.3% along with a dividend yield of 13.3%. Our investment case on FFC is based on 1) higher fertilizer 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 Company Limited is engaged in manufacturing, purchasing and marketing of fertilizers. Fauji Fertilizer Company Limited has investment in other fertilizers, chemical, other manufacturing, energy generation, food processing and banking operations.

Financial Highlights - FFC

Income Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net sales	105,964	105,783	97,655	114,812	115,603	119,587
Cost of sales	77,986	75,046	66,071	73,362	74,407	78,282
Gross Profit	27,979	30,737	31,583	41,450	41,196	41,306
SG & A	8,833	8,288	7,848	9,426	8,728	9,120
Operating Profit	19,145	22,449	23,735	32,025	32,469	32,185
Other income	6,283	7,191	6,429	6,344	8,222	9,043
Other charges	2,109	3,409	2,639	2,980	3,197	3,278
Finance cost	1,637	2,477	1,874	1,797	4,890	4,755
Unwinding of GIDC payable	-	-	-	4,687	2,900	2,900
Profit before tax	21,683	23,753	29,591	28,904	29,704	30,295
Taxation	7,244	6,643	8,772	8,293	8,614	8,785
Profit after tax	14,439	17,110	20,819	20,611	21,090	21,509

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
PPE	21,534	22,212	22,841	23,069	23,300	23,533
Other LT assets	29,601	33,877	38,206	51,062	50,472	49,920
Non-Current Assets	51,135	56,089	61,047	74,131	73,772	73,453
Current assets	95,355	97,301	111,902	72,948	59,123	55,717
Total Assets	146,490	153,390	172,949	147,079	132,895	129,170
Non-Current liabilities	13,162	10,947	48,742	28,641	9,353	7,008
Current liabilities	99,945	106,876	81,671	71,821	72,692	66,978
Total Liabilities	113,107	117,823	130,413	100,462	82,045	73,986
Equity	33,383	35,567	42,536	46,617	50,850	55,183
Total Equity & liabilities	146,490	153,390	172,949	147,079	132,895	129,170

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net Income	14,439	17,110	20,819	20,611	21,090	21,509
Non-cash Charges	2,162	2,286	2,310	2,618	2,309	2,332
Operating Cash flows	26,214	28,670	9,621	11,790	31,229	23,878
FCFF	3,198	29,844	(29,443)	39,764	38,474	26,755
Net borrowings	10,406	(11,256)	40,070	(21,634)	(19,861)	(2,751)
FCFE	12,513	16,804	9,309	16,849	15,142	20,628
Net change in cash	1,713	3,818	5,695	1,153	1,473	(243)
Closing cash	3,818	5,695	1,153	1,473	(243)	3,210

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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