

Fauji Fertilizer Company Limited
Result Review

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

Pakistan Research

3QCY22 EPS clocked in at PKR 4.12, down 19% YoY; DPS PKR 3.18

- FFC announced its 3QCY22 financial results today, wherein the company posted an unconsolidated profit after tax of PKR 5.2bn (EPS PKR 4.12), down 19% YoY. This takes cumulative 9MCY22 EPS to PKR 11.67, down 7% YoY. Along with the result, company announced an interim cash dividend of PKR 3.18/share for 3QCY22, taking 9MCY22 cumulative payout to PKR 8.98.
- Topline of the company decreased by 17% YoY to PKR 24.5bn on the back of lower Urea and DAP offtake, which declined by 25% YoY & 85% YoY, respectively during the quarter.
- Gross margin increased to 38.6% in 3QCY22 vs 37.8 in 3QCY21. Higher margins can be attributable to increase in fertilizer prices.
- Distribution cost clocked in at PKR 2.6bn up 25% YoY in 3QCY22, primarily due to higher transportation and fuel charges.
- During 3QCY22, other income of the company clocked in at PKR 2.9bn compared to 1.7bn in 3QCY21. The surge in other income is due to the higher return on investment portfolio.
- Finance cost of the company increased by 87% YoY to PKR 1.2bn in 3QCY22 owing to increased borrowings coupled with higher interest rates.
- Due to the imposition of higher taxes in FY23 budget, the effective tax rate for 3Q clocked in at 30% compared to 26% in SPLY.
- We maintain our 'BUY' recommendation on FFC with June-23 price target (PT) of PKR 135/share. The stock is offering an upside of 31% along with dividend yield of 17.8%.

Key Data

PSX Ticker	FFC
Target Price (PKR)	135
Current Price (PKR)	103
Upside/(Downside) (%)	31%
Dividend Yield (%)	17.8%
Total Return (%)	49%
12-month High (PKR)	129
12-month Low (PKR)	97
Outstanding Shares (mn)	1,272
Market Cap (PKR mn)	130,733
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QCY21	3QCY22	YoY	9MCY21	9MCY22	YoY
Net Sales	29,574	24,474	-17%	73,592	79,180	8%
Cost of Sales	18,408	15,034	-18%	46,215	48,840	6%
Gross Profit	11,166	9,440	-15%	27,377	30,340	11%
Distribution cost	2,087	2,615	25%	6,051	6,922	14%
Unwinding of GIDC liability	616	414	-33%	1,815	1,589	-12%
Other Income	1,701	2,879	69%	5,915	10,288	74%
Other Charges	810	630	-22%	2,103	2,273	8%
Finance Cost	647	1,210	87%	1,452	3,228	122%
Profit Before Taxation	8,706	7,449	-14%	21,871	26,267	20%
Taxation	2,254	2,205	-2%	5,983	11,424	91%
Net Income	6,452	5,244	-19%	15,888	14,843	-7%
EPS	5.07	4.12	-19%	12.49	11.67	-7%
DPS	3.75	3.18	-	9.85	8.98	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	13.4	16.4	17.2	18.4	22.8	23.6
EPS Growth	18.5%	21.7%	5.2%	6.9%	24.1%	3.1%
DPS	10.8	11.2	14.5	14.8	18.3	18.8
PER	7.6	6.3	6.0	5.6	4.5	4.4
Dividend Yield	10.5%	10.9%	14.1%	14.3%	17.8%	18.2%
EV/EBITDA	4.5	3.4	2.9	2.3	2.1	2.3
P/B	3.7	3.1	2.8	2.5	2.3	2.0
ROE	48.1%	48.9%	46.1%	44.9%	50.1%	46.7%

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 13.0%, beta of 1.0 and 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 135/share. Our price target offers upside of 31% along with a dividend yield of 17.8%. 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)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net sales	105,783	97,655	108,651	127,675	129,839	131,780
Cost of sales	75,046	66,071	69,772	81,875	78,075	80,556
Gross Profit	30,737	31,583	38,879	45,800	51,764	51,224
SG & A	8,288	7,848	8,409	10,543	9,272	9,667
Operating Profit	22,449	23,735	30,470	35,256	42,492	41,557
Other income	7,191	6,429	7,919	14,499	12,434	12,941
Other charges	3,409	2,639	2,946	3,361	3,918	4,338
Finance cost	2,477	1,874	2,292	5,517	4,751	2,421
Unwinding of GIDC Liability	-	-	2,441	2,004	2,900	3,020
Profit before tax	23,753	29,591	30,339	38,874	43,356	44,719
Taxation	6,643	8,772	8,443	15,469	14,307	14,757
Profit after tax	17,110	20,819	21,896	23,405	29,048	29,962

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
PPE	22,212	22,841	23,987	22,788	21,876	21,439
Other LT assets	33,877	38,206	50,750	52,205	52,091	51,970
Non-Current Assets	56,089	61,047	74,737	74,993	73,968	73,409
Current assets	97,301	111,902	126,270	130,130	113,902	103,848
Total Assets	153,390	172,949	201,007	205,123	187,869	177,257
Non-Current liabilities	10,947	48,742	41,323	22,863	10,513	5,589
Current liabilities	106,876	81,671	112,169	130,105	119,372	107,575
Total Liabilities	117,823	130,413	153,492	152,968	129,884	113,164
Equity	35,567	42,536	47,514	52,155	57,985	64,093
Total Equity & liabilities	153,390	172,949	201,007	205,123	187,869	177,257

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net Income	17,110	20,819	21,896	23,405	29,048	29,962
Non-cash Charges	2,286	2,310	2,435	3,208	2,257	2,177
Operating Cash flows	28,670	9,621	37,332	39,673	26,666	19,120
FCFF	29,844	-29,443	10,667	40,179	47,604	32,839
Net borrowings	-11,256	40,070	7,941	-17,513	-21,688	-7,263
FCFE	16,804	9,309	16,954	19,344	22,733	23,955
Net change in cash	3,818	5,695	1,153	1,190	1,769	1,284
Closing cash	5,695	1,153	1,190	1,769	1,284	1,384

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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