

**Fauji Fertilizer Company Limited**  
Result Review

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

Pakistan Research

**FFC: CY21 unconsolidated EPS clocked in at PKR 17.21; up 5% YoY**

- FFC announced its CY21 financial results today, wherein the company profitability surged 5% YoY to PKR 17.21/share, against PKR 16.36/share in CY20. For 4QCY21 EPS stood at PKR 4.72, down 15% YoY, against an EPS of PKR 5.55 in SPLY.
- Along with the results, company announced an interim DPS of PKR 4.65 which took CY21 payout to PKR 14.50/share compared to PKR 11.20/share, last year. The announced dividend was higher than our expectation due to improved liquidity during the year.
- Lower profitability during 4QCY21 can be attributable to the absence of gain recognized on GIDC during SPLY and higher financial charges.
- Despite lower offtake of Urea (3% YoY) and DAP (25% YoY) during 4QCY21, FFC's net sales increased by 20% YoY due to higher prices of Urea (+12% YoY) and DAP (+95% YoY).
- Consequently, gross margin improved by 4 ppts to 32.8%, compare to 28.8% SPLY.
- During 4QCY21, distribution cost clocked in at PKR 2.4bn up 8.0% YoY, primarily due to higher transportation and fuel charges.
- Other income increased by 36% YoY during the quarter to PKR 2.0bn, on the back of higher dividend from subsidiary, associates and better return on investment portfolio.
- Finance cost surged 80% YoY to PKR 840mn in 4QCY21 due to increased short-term borrowing along with higher interest rate.
- We maintain our 'BUY' recommendation on FFC with Dec-22 price target (PT) of PKR 135/share. The stock provides total return of 40% from current levels (PT is offering an upside of 27.1% along with dividend yield of 13.0%).

**Key Data**

PSX Ticker	FFC
Target Price (PKR)	135
Current Price (PKR)	106.0
Upside/(Downside) (%)	+27.1%
Dividend Yield (%)	13.0%
Total Return (%)	+40.1%
12-month High (PKR)	112.75
12-month Low (PKR)	95.40
Outstanding Shares (mn)	1,272.24
Market Cap (PKR mn)	134,857
Year End	December

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	4QCY20	4QCY21	YoY	CY20	CY21	YoY
Net Sales	29,237	35,059	20%	97,655	108,651	11%
Cost of Sales	20,814	23,556	13%	66,071	69,772	6%
<b>Gross Profit</b>	<b>8,424</b>	<b>11,502</b>	<b>37%</b>	<b>31,583</b>	<b>38,879</b>	<b>23%</b>
Distribution cost	2,194	2,359	8%	7,848	8,409	7%
Unwinding of GIDC liability	-	627	NM	-	2,441	NM
Other Income	1,471	2,005	36%	6,429	7,919	23%
Other Charges	820	844	3%	2,639	2,946	12%
Finance Cost	468	840	80%	1,874	2,292	22%
<b>Profit Before Taxation</b>	<b>10,353</b>	<b>8,468</b>	<b>-18%</b>	<b>29,591</b>	<b>30,339</b>	<b>3%</b>
Taxation	3,298	2,460	-25.4%	8,772	<b>8,443</b>	-4%
<b>Net Income</b>	<b>7,055</b>	<b>6,008</b>	<b>-15%</b>	<b>20,819</b>	<b>21,896</b>	<b>5%</b>
EPS	5.55	4.72	-15%	16.36	17.21	5%
DPS	3.40	4.65	37%	11.20	14.50	29%

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	13.4	16.4	17.2	17.1	18.6	19.1
EPS Growth	18.5%	21.7%	5.2%	-0.5%	8.7%	2.4%
DPS	10.8	11.2	14.5	14.5	15.8	16.0
PER	7.8	6.4	6.1	6.2	5.7	5.5
Dividend Yield	10.2%	10.6%	13.7%	13.7%	14.9%	15.2%
EV/EBITDA	4.6	3.5	3.7	3.9	3.6	3.6
P/B	3.8	3.2	2.9	2.7	2.5	2.4
ROE	48.1%	48.9%	47.6%	44.2%	44.7%	42.6%
EPS	13.4	16.4	17.2	17.1	18.6	19.1

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 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 135/share. Our price target offers upside of 27.1% along with a dividend yield of 13.0%. 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)						
	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
Net sales	105,964	105,783	97,655	108,651	114,531	117,498
Cost of sales	77,986	75,046	66,071	69,772	74,323	75,448
<b>Gross Profit</b>	<b>27,979</b>	<b>30,737</b>	<b>31,583</b>	<b>38,879</b>	<b>40,208</b>	<b>42,050</b>
SG & A	8,833	8,288	7,848	8,409	9,099	9,269
<b>Operating Profit</b>	<b>19,145</b>	<b>22,449</b>	<b>23,735</b>	<b>30,470</b>	<b>31,109</b>	<b>32,782</b>
Other income	6,283	7,191	6,429	7,919	7,280	7,857
Other charges	2,109	3,409	2,639	2,946	2,832	3,054
Finance cost	1,637	2,477	1,874	2,292	6,062	5,420
Unwinding of GIDC Liability	-	-	-	2,441	2,900	2,900
<b>Profit before tax</b>	<b>21,683</b>	<b>23,753</b>	<b>29,591</b>	<b>30,339</b>	<b>29,495</b>	<b>32,165</b>
Taxation	7,244	6,643	8,772	8,443	7,712	8,487
<b>Profit after tax</b>	<b>14,439</b>	<b>17,110</b>	<b>20,819</b>	<b>21,896</b>	<b>21,783</b>	<b>23,678</b>

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	50,502	49,912	49,360
Non-Current Assets	51,135	56,089	61,047	73,571	73,212	72,893
Current assets	95,355	97,301	111,902	89,712	61,987	57,191
<b>Total Assets</b>	<b>146,490</b>	<b>153,390</b>	<b>172,949</b>	<b>163,283</b>	<b>135,199</b>	<b>130,084</b>
Non-Current liabilities	13,162	10,947	48,742	28,620	11,253	8,515
Current liabilities	99,945	106,876	81,671	87,587	72,581	65,610
<b>Total Liabilities</b>	<b>113,107</b>	<b>117,823</b>	<b>130,413</b>	<b>116,208</b>	<b>83,834</b>	<b>74,125</b>
Equity	33,383	35,567	42,536	47,075	51,365	55,959
<b>Total Equity &amp; liabilities</b>	<b>146,490</b>	<b>153,390</b>	<b>172,949</b>	<b>163,283</b>	<b>135,199</b>	<b>130,084</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net Income	14,439	17,110	20,819	21,896	21,783	23,678
Non-cash Charges	2,162	2,286	2,310	2,520	2,786	2,801
<b>Operating Cash flows</b>	<b>26,214</b>	<b>28,670</b>	<b>9,621</b>	<b>17,476</b>	<b>29,388</b>	<b>26,131</b>
<b>FCFF</b>	<b>3,198</b>	<b>29,844</b>	<b>(29,443)</b>	<b>24,367</b>	<b>56,725</b>	<b>28,202</b>
Net borrowings	10,406	(11,256)	40,070	(6,181)	(33,431)	(4,108)
<b>FCFE</b>	<b>12,513</b>	<b>16,804</b>	<b>9,309</b>	<b>16,532</b>	<b>18,817</b>	<b>20,103</b>
Net change in cash	1,713	3,818	5,695	1,153	329	1,653
<b>Closing cash</b>	<b>3,818</b>	<b>5,695</b>	<b>1,153</b>	<b>329</b>	<b>1,653</b>	<b>2,672</b>

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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