

Fauji Fertilizer Bin Qasim Limited

Result Preview

PSX: FFBL Bloomberg: FFBL: PA Reuters: JORD: KA

Pakistan Research

FFBL: Likely to record a LPS PKR 3.85 for 1QCY23

- FFBL is scheduled to announce its 1QCY23 results on 26th April, 2023. Wherein, we expect the company to post a LPS of PKR 3.85 against an EPS of PKR 1.26 in 1QCY22.
- Net sales for 1Q are likely to increase by 15% YoY to PKR 28.4bn, mainly driven by prices/bag increase of 45% and 21% YoY in Urea and DAP, respectively. For the quarter, we expect FFBL Urea and DAP offtake to clock in at 87k tons and 109k tons.
- Gross margins are anticipated to decrease by 12ppt YoY to 9.8% during the 1Q. The decline in the margins can be attributable to the recent gas price hike for fertilizer with retrospective impact from January 2023 and costlier DAP inventory carried forward at end of CY22.
- For 1QCY23, we expect other charges to come at PKR 3.7bn up 2.9x YoY, due to anticipated exchange loss of PKR 3.2bn for the quarter.
- Finance cost to surge by 2.5x YoY to PKR 2.5bn for the quarter on back of higher short-term borrowings and elevated interest rates.
- We expect the company to record a tax expense of PKR 355mn due to before tax loss of PKR 4.6bn for 1QCY23. Furthermore, if company booked the 6% super-tax reversal, it might have a positive EPS impact of PKR 1.1.
- We recommend 'BUY' on FFBL with Dec-23 price target (PT) of PKR 22/share, offering an upside of 75%.

Key Data

PSX Ticker	FFBL
Target Price (PKR)	22
Current Price (PKR)	13
Upside/(Downside) (%)	+75%
Dividend Yield (%)	0%
Total Return (%)	75%
12-month High (PKR)	25
12-month Low (PKR)	12
Outstanding Shares (mn)	1,291.25
Market Cap (PKR mn)	16,296
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QCY22	1QCY23E	YoY
Net Sales	24,784	28,422	15%
Cost of Sales	19,395	25,624	32%
Gross Profit	5,389	2,798	-48%
Distri. & Admin. Exp.	2,042	1,847	-10%
Other Income	1,116	861	-23%
Other Charges	949	3,756	2.9x
Finance Cost	706	2,478	2.5x
Unwinding of GIDC payable	258	188	-27%
Profit Before Tax	2,551	(4,611)	-
Taxation	924	355	-62%
Net Income	1,627	(4,966)	-
EPS	1.26	(3.85)	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
EPS	2.35	4.95	1.80	1.83	5.16	6.23
EPS Growth	-137%	111%	-64%	1%	182%	21%
DPS	-	-	-	-	1.50	1.75
PER	5.4	2.5	7.0	6.9	2.4	2.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	11.9%	13.9%
EV/EBITDA	3.7	0.1	1.7	1.0	0.9	1.4
P/B	0.8	0.8	0.7	0.6	0.5	0.5
ROE	15.7%	31.3%	10.2%	9.4%	22.3%	22.6%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Fauji Fertilizer Bin Qasim Limited (FFBL) has been computed using Free cash flow to equity (FCFE) method. We have used a risk-free rate of 17.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23.0%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of 22/share. Our PT offers an upside of 75%. Our investment case on FFBL is based on 1) higher fertilizer prices, and 2) volumes sustainability.

Risks

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 Bin Qasim is engaged in manufacturing, purchasing and marketing of fertilizers. Fauji Fertilizer Bin Qasim Limited has investment in other fertilizers, chemical, other manufacturing, energy generation, food processing and banking operations.

Financial Highlights - FFBL

Income Statement (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Net sales	83,234	110,452	159,226	163,705	165,538	160,656
Cost of sales	70,655	88,301	133,357	143,534	146,310	141,157
Gross Profit	12,579	22,152	25,869	20,171	19,228	19,500
SG & A	6,773	7,241	8,473	9,485	10,227	10,516
Operating Profit	5,806	14,911	17,396	10,686	9,001	8,984
Other income	5,184	9,111	6,342	4,789	6,116	6,028
Other charges	312	2,548	7,776	5,180	551	605
Finance cost	4,444	2,338	5,144	5,596	3,652	2,391
Unwinding of GIDC payable	2,741	1,254	891	1,180	973	-
Profit before tax	4,893	11,525	8,505	3,520	9,941	12,016
Taxation	2,700	5,134	6,177	1,162	3,280	3,965
Profit after tax	2,192	6,391	2,328	2,358	6,660	8,051

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
PPE	11,252	10,575	9,953	10,096	10,241	10,285
Other LT assets	31,619	29,228	29,558	25,726	25,726	25,726
Non-Current Assets	42,871	39,803	39,511	35,822	35,966	36,011
Current assets	48,098	75,407	110,351	90,938	83,894	73,637
Total Assets	90,968	115,210	149,863	126,760	119,860	109,648
Non-Current liabilities	29,955	25,696	22,950	26,512	20,359	14,198
Current liabilities	47,054	69,083	104,190	75,121	69,651	59,808
Total Liabilities	29,955	25,696	22,950	26,512	20,359	14,198
Equity	13,959	20,431	22,722	25,127	29,850	35,641
Total Equity & liabilities	90,968	115,210	149,863	126,760	119,860	109,648

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Net Income	2,192	6,391	2,328	2,358	6,660	8,051
Non-cash Charges	926	964	982	952	966	980
Operating Cash flows	24,084	27,880	(29,739)	21,455	5,345	(1,855)
FCFF	25,334	18,449	(32,014)	23,834	5,979	(2,014)
Net borrowings	(8,522)	(6,151)	20,034	(19,135)	(4,057)	(3,742)
FCFE	14,821	11,001	(13,388)	949	(525)	(7,359)
Net change in cash	19,754	11,082	(13,425)	995	(2,462)	(9,618)
Closing cash	25,048	36,130	22,705	23,701	21,239	11,621

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
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
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