

## Fauji Fertilizer Bin Qasim Limited

### Result Review

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

Pakistan Research

## FFBL: 2QCY22 EPS clocked in at PKR 1.38; down 32% YoY

- FFBL announced its 2QCY22 result wherein the company posted an EPS of PKR 1.38, down 32% YoY as against an EPS of PKR 2.02 in 2QCY21. The result was better than our expectation primarily due to higher than expected dividend from Moroccan JV, Pakistan Maroc Phosphore.
- Net sales of the company clocked in at PKR 46.1bn (up 173% YoY) during 2Q, mainly driven by higher DAP offtake (+73% YoY) along with improved retention prices (80% YoY).
- Gross margins declined to 19.0% in 2Q, compared to 20.7% in SPLY, due to increase in phos-acid and coal prices up 89.1% YoY and 135% YoY along with a steep reduction in PKR value against the dollar.
- Other income of the company grew by 31% YoY to PKR 3.2bn on the back of higher dividend from the PMP.
- Other charges clocked in at PKR 2.9bn up 907% YoY in 2QCY22 mainly due to exchange loss incurred on phos-acid purchases.
- Tax expense of the company clocked in at PKR 4.5bn during 2QCY22. Effective tax rate reached to 72% in 2Q vs 12% in 2QCY21 due to 10% additional tax imposed in federal budget FY23.
- We recommend 'BUY' on FFBL with Dec-22 price target (PT) of PKR 32/share, offering an upside of 53.2% along with a dividend yield of 14.6%.

#### Key Data

PSX Ticker	FFBL
Target Price (PKR)	32
Current Price (PKR)	20.57
Upside/(Downside) (%)	53.2%
Dividend Yield (%)	14.6%
Total Return (%)	68%
12-month High (PKR)	28.00
12-month Low (PKR)	19.60
Outstanding Shares (mn)	1,291.25
Market Cap (PKR mn)	26,561.01
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	2QCY21	2QCY22	YoY	1HCY21	1HCY22	YoY
Net Sales	16,912	46,149	173%	29,917	70,933	137%
Cost of Sales	13,417	37,358	178%	23,945	56,753	137%
<b>Gross Profit</b>	<b>3,495</b>	<b>8,791</b>	<b>151%</b>	<b>5,973</b>	<b>14,180</b>	<b>137%</b>
Distri. & Admin. Exp.	1,792	1,718	-4%	2,994	3,760	26%
Other Income	2,483	3,251	31%	4,049	4,366	8%
Other Charges	290	2,922	907%	429	3,871	803%
Finance Cost	609	907	49%	1,260	1,612	28%
Unwinding of GIDC payable	323	234	-28%	669	492	-26%
<b>Profit Before Tax</b>	<b>2,964</b>	<b>6,261</b>	<b>111%</b>	<b>4,670</b>	<b>8,812</b>	<b>89%</b>
Taxation	355	4,478	1162%	795	5,402	580%
<b>Net Income</b>	<b>2,609</b>	<b>1,783</b>	<b>-32%</b>	<b>3,876</b>	<b>3,410</b>	<b>-12%</b>
EPS	2.02	1.38	-32%	3.00	2.64	-12%

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
EPS	(6.34)	2.35	4.95	6.20	5.66	5.21
EPS Growth	NM	NM	111%	25%	-9%	-8%
DPS	-	0.00	0.00	3.00	3.50	3.50
PER	(3.4)	9.18	4.35	3.48	3.81	4.14
Dividend Yield	0%	0%	0%	14%	16%	16%
EV/EBITDA	77.0	4.92	0.83	1.20	2.01	3.00
P/B	2.9	1.44	1.36	1.13	1.02	0.94
ROE	-87%	16%	31%	33%	27%	23%

Source: Company Accounts, Akseer Research

Muhammad Atif  
[muhammad.atif@alphacapital.com.pk](mailto:muhammad.atif@alphacapital.com.pk)

### 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 13.0%, beta of 1.0 & 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 Dec-22 PT of 30/share. Our PT offers an upside of 53.2% along with a dividend yield of 14.6%. Our investment case on FFBL is based on 1) higher international primary margins of DAP on the back of rise in global prices, 2) volumes sustainability and 2) attractive dividend yield.

### 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)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Net sales	66,839	83,234	110,452	181,570	125,046	120,942
Cost of sales	60,955	70,655	88,301	153,354	107,364	105,245
<b>Gross Profit</b>	<b>5,885</b>	<b>12,579</b>	<b>22,152</b>	<b>28,216</b>	<b>17,682</b>	<b>15,696</b>
SG & A	6,767	6,773	7,241	10,652	7,337	7,512
<b>Operating Profit</b>	<b>(883)</b>	<b>5,806</b>	<b>14,911</b>	<b>17,563</b>	<b>10,344</b>	<b>8,184</b>
Other income	4,370	5,184	9,111	8,232	6,210	6,037
Other charges	2,158	312	2,548	5,088	943	832
Finance cost	5,199	4,444	2,338	3,793	3,121	2,383
Unwinding of GIDC payable	-	2,741	1,254	1,242	1,581	973
<b>Profit before tax</b>	<b>(3,869)</b>	<b>4,893</b>	<b>11,525</b>	<b>15,672</b>	<b>10,909</b>	<b>10,033</b>
Taxation	2,052	2,700	5,134	7,666	3,600	3,311
<b>Profit after tax</b>	<b>(5,921)</b>	<b>2,192</b>	<b>6,391</b>	<b>8,006</b>	<b>7,309</b>	<b>6,722</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
PPE	10,428	11,252	10,575	10,910	11,146	11,387
Other LT assets	29,407	31,619	29,228	28,958	28,958	28,958
Non-Current Assets	39,835	42,871	39,803	39,867	40,104	40,345
Current assets	51,332	48,098	75,407	85,746	70,946	61,035
<b>Total Assets</b>	<b>91,167</b>	<b>90,968</b>	<b>115,210</b>	<b>125,613</b>	<b>111,050</b>	<b>101,381</b>
Non-Current liabilities	15,370	29,955	25,696	25,440	19,891	15,677
Current liabilities	68,962	47,054	69,083	75,601	63,797	56,139
<b>Total Liabilities</b>	<b>15,370</b>	<b>29,955</b>	<b>25,696</b>	<b>25,440</b>	<b>19,891</b>	<b>15,677</b>
Equity	6,834	13,959	20,431	24,573	27,362	29,565
<b>Total Equity &amp; liabilities</b>	<b>91,167</b>	<b>90,968</b>	<b>115,210</b>	<b>125,613</b>	<b>111,050</b>	<b>101,381</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Net Income	(5,921)	2,192	6,391	8,006	7,309	6,722
Non-cash Charges	1,667	926	964	955	964	985
<b>Operating Cash flows</b>	<b>(16,295)</b>	<b>24,084</b>	<b>27,880</b>	<b>(3,879)</b>	<b>5,178</b>	<b>975</b>
<b>FCFF</b>	<b>(760)</b>	<b>25,334</b>	<b>18,449</b>	<b>(3,440)</b>	<b>5,962</b>	<b>1,238</b>
Net borrowings	<b>11,464</b>	<b>(8,522)</b>	<b>(6,151)</b>	<b>(1,878)</b>	<b>(3,321)</b>	(5,761)
<b>FCFE</b>	<b>2,748</b>	<b>14,821</b>	<b>11,001</b>	<b>(7,256)</b>	<b>550</b>	<b>(6,120)</b>
Net change in cash	1,605	19,754	11,082	(11,120)	(3,970)	(10,639)
<b>Closing cash</b>	<b>5,294</b>	<b>25,048</b>	<b>36,130</b>	<b>25,010</b>	<b>21,040</b>	<b>10,401</b>

Source: Company Accounts, Akseer Research

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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](mailto: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@alfaadhi.pk](mailto:info@alfaadhi.pk)