

Fauji Fertilizer Bin Qasim Limited

Analyst Briefing Takeaways

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

Pakistan Research

FFBL: Analyst Briefing Key Takeaways

- FFBL conducted its CY22 analyst briefing yesterday, wherein the management discussed company's financial results and future outlook. To recall, FFBL reported unconsolidated EPS of PKR 0.48, up 155% YoY during 4QCY22, while the cumulative EPS for CY22 clocked in at PKR 1.80, down 64% YoY.
- Industry's DAP offtake declined by 36% YoY to 1.2mn tons during the year, whereas FFBL's DAP offtake went down by 16% YoY to 661k tons. Resultantly, FFBL's DAP market share increased to 56% during CY22 vs 42% last year.
- FFBL's DAP production remained 848kt tons owing to continuous gas supply and postponement of planned turnaround at the start of CY22. Due to increase in prices and flash floods during the year, DAP demand contracted and company closed the year at higher inventory levels of 188k tons.
- The gross margin clocked in at 16% for CY22 vs 20% in SPLY. This is mainly attributable to higher input cost and decline in DAP prices during the 4Q.
- With the continuous volatility of PKR-USD parity, company has recorded PKR ~6.8bn exchange loss during CY22.
- Regarding investments, the management apprised that FPCL's ratio of local and imported coal mix is 30:70, which reduced its input cost. Furthermore, Fauji Meat Ltd has achieved the utilization level of 26% and tapping the export markets especially in GCC region. Fauji Foods has shown strong revenue growth of 44% during FY22, and an equity injection of PKR 11bn is expected from Fauji Group in the company.
- Management further informed that they are in continuous discussion with the government regarding discrimination of GST on imported DAP. In FY23 budget, fertilizer was exempted from output taxes, so company is unable to pass on its input tax, as DAP in domestic market being sold on import parity price.
- On future outlook, management expects the urea demand to remain stable around 6.6mn tons, while DAP demand to revive at 1.5mn tons during CY23.

Key Data

PSX Ticker	FFBL
Target Price (PKR)	20
Current Price (PKR)	13
Upside/(Downside) (%)	49%
Dividend Yield (%)	15.1%
Total Return (%)	64%
12-month High (PKR)	25
12-month Low (PKR)	13
Outstanding Shares (mn)	1,291
Market Cap (PKR mn)	17,109
Year End	December

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%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of 20/share. Our PT offers an upside of 49% along with a dividend yield of 15.1%. 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 3) 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	CY22A	CY23F	CY24F
Net sales	66,839	83,234	110,452	159,226	154,401	159,276
Cost of sales	60,955	70,655	88,301	133,357	135,166	140,767
Gross Profit	5,885	12,579	22,152	25,869	19,235	18,509
SG & A	6,767	6,773	7,241	8,473	7,602	7,925
Operating Profit	(883)	5,806	14,911	17,396	11,633	10,584
Other income	4,370	5,184	9,111	6,342	6,293	6,400
Other charges	2,158	312	2,548	7,776	1,062	1,061
Finance cost	5,199	4,444	2,338	5,144	2,802	1,872
Unwinding of GIDC payable	0	2,741	1,254	891	1,581	973
Profit before tax	(3,869)	4,893	11,525	8,505	12,481	13,078
Taxation	2,052	2,700	5,134	6,177	4,119	4,316
Profit after tax	(5,921)	2,192	6,391	2,328	8,362	8,762

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	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	77,839	73,614	69,606
Total Assets	91,167	90,968	115,210	117,707	113,718	109,951
Non-Current liabilities	15,370	29,955	25,696	25,440	19,891	15,677
Current liabilities	68,962	47,054	69,083	69,499	65,279	59,547
Total Liabilities	15,370	29,955	25,696	25,440	19,891	15,677
Equity	6,834	13,959	20,431	22,768	28,548	34,728
Total Equity & liabilities	91,167	90,968	115,210	117,707	113,718	109,951

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net Income	(5,921)	2,192	6,391	2,328	8,362	8,762
Non-cash Charges	1,667	926	964	981	964	985
Operating Cash flows	(16,295)	24,084	27,880	(14,131)	5,647	3,216
FCFF	(760)	25,334	18,449	(16,441)	6,067	2,589
Net borrowings	11,464	(8,522)	(6,151)	(2,344)	(8,185)	(5,325)
FCFE	2,748	14,821	11,001	(20,193)	(3,995)	(3,990)
Net change in cash	1,605	19,754	11,082	(20,183)	(6,578)	(6,573)
Closing cash	5,294	25,048	36,130	15,947	9,369	2,797

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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