

Fauji Fertilizer Company Limited
Result Review

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

Pakistan Research

FFC: 1QCY24 EPS clocked in at PKR 8.27, up 36% YoY; DPS PKR 5.50

- FFC announced its 1QCY24 financial results today, wherein the company reported an unconsolidated EPS PKR 8.27, up 24% YoY. Along with the result, company has announced an interim cash dividend of PKR 5.50/share for the quarter.
- Net sales of the company increased by 60% YoY due to better urea prices, ~up 41% YoY, and higher volumetric sales, during the quarter. Moreover, urea sales increased by 5% YoY while company has also handled imported urea of 94k in 1QCY24.
- Gross margins for the 1QCY24 decreased by 2.0ppts YoY to 29.6% which we believe is due to contribution of low margin imported urea sales and higher gas prices despite significant increase in fertilizer prices.
- During 1QCY24, distribution cost surged to PKR 5.1bn up 70% YoY, primarily due to higher transportation owing to implementation of axle weight regulation and higher fuel charges.
- Other income of the company increased to PKR 10.2bn, up 2.9x YoY due to better return on investment portfolio and higher dividend income from power ventures along with commencement of dividends from AKBL and FFBL.
- Finance cost grew by 3% YoY to PKR 1.5bn during 1QCY24, due to the increased borrowing along with higher interest rates.
- Effective-tax rate for 1QCY24 came at 42% vs 34% in 1QCY23 due to high super tax charge.
- We maintain our 'BUY' recommendation on FFC with Dec-24 price target (PT) of PKR 162/share. The stock is offering an upside of 14% along with a dividend yield of 17%.

Key Data

PSX Ticker	FFC
Target Price (PKR)	162
Current Price (PKR)	145
Upside/(Downside) (%)	+14%
Dividend Yield (%)	17%
Total Return (%)	31%
12-month High (PKR)	152
12-month Low (PKR)	91
Outstanding Shares (mn)	1,272
Market Cap (PKR mn)	184,119
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY23	1QCY24	YoY
Net Sales	36,406	58,407	60%
Cost of Sales	21,831	41,120	88%
Gross Profit	14,575	17,287	19%
Distribution cost	3,056	5,193	70%
Unwinding of GIDC liability	383	132	-65%
Other Income	3,545	10,276	190%
Other Charges	1,073	1,676	56%
Finance Cost	1,464	1,505	3%
Profit Before Taxation	11,943	18,027	51%
Taxation	4,213	7,505	78%
Net Income	7,730	10,522	36%
EPS	6.08	8.27	36%
DPS	4.26	5.50	29%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	17.2	15.8	23.3	31.2	30.1	32.7
EPS Growth	5.2%	-8.4%	48.0%	33.9%	-3.8%	8.7%
DPS	14.5	12.1	15.5	23.5	22.5	26.3
PER	8.4	9.2	6.2	4.6	4.7	4.4
Dividend Yield	10.0%	8.4%	10.7%	16.5%	15.8%	18.4%
EV/EBITDA	4.5	5.0	2.6	2.3	2.4	2.3
P/B	3.9	3.6	3.0	2.6	2.3	2.0
ROE	46.1%	39.4%	48.8%	56.1%	47.5%	46.9%

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 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 162/share. Our price target offers upside of 14% along with a dividend yield of 17%. Our investment case on FFC is based on 1) higher fertilizer prices and 2) 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)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net sales	108,651	109,364	159,472	236,252	251,464	260,703
Cost of sales	69,772	69,317	95,220	162,772	177,891	183,705
Gross Profit	38,879	40,046	64,252	73,480	73,573	76,997
SG & A	8,409	10,108	12,684	16,345	15,337	16,123
Operating Profit	30,470	29,939	51,568	57,135	58,235	60,874
Other income	7,919	14,442	17,097	21,079	14,586	16,686
Other charges	2,946	3,037	5,434	5,570	5,391	5,826
Finance cost	2,292	4,868	5,624	6,590	4,746	3,622
Unwinding of GIDC Liability	2441	2,119	1,160	755	0	0
Profit before tax	30,339	33,687	53,547	65,300	62,685	68,112
Taxation	8,443	13,637	23,874	25,562	24,447	26,564
Profit after tax	21,896	20,050	29,673	39,738	38,238	41,548

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
PPE	23,987	27,631	36,139	45,847	57,300	56,123
Other LT assets	50,750	56,666	55,477	55,482	54,936	54,847
Non-Current Assets	74,737	84,297	91,617	101,329	112,237	110,970
Current assets	126,270	155,825	109,502	132,203	117,348	108,519
Total Assets	201,007	240,122	201,118	233,532	229,585	219,489
Non-Current liabilities	41,323	27,525	12,746	4,096	4,548	5,034
Current liabilities	112,169	161,762	127,548	158,629	144,602	125,848
Total Liabilities	153,492	189,287	140,294	162,725	149,150	130,882
Equity	47,514	50,835	60,824	70,807	80,435	88,606
Total Equity & liabilities	201,007	240,122	201,118	233,532	229,585	219,489

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net Income	21,896	20,050	29,673	39,738	38,238	41,548
Non-cash Charges	2,435	2,415	2,914	3,228	4,965	5,594
Operating Cash flows	37,332	25,994	54,043	44,957	32,871	38,372
FCFF	10,667	13,352	86,352	54,135	32,587	45,157
Net borrowings	7,941	6,605	-62,632	12,361	-1,859	-8,022
FCFE	16,954	17,059	20,604	62,486	27,832	34,926
Net change in cash	1,153	1,190	1,520	2,440	35,170	34,392
Closing cash	1,190	1,520	2,440	35,170	34,392	35,941

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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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