

## Fauji Fertilizer Company Limited

### Result Preview

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

Pakistan Research

## FFC: 2QCY24 EPS expected to clock in at PKR 11.5, up 2.74x YoY; DPS PKR 8.10

- FFC is scheduled to announce its 2QCY24 financial results on 30<sup>th</sup> July, 2024. We expect the company to report unconsolidated EPS of PKR 11.5, up 2.74x YoY. This would take the cumulative 1HCY24 EPS to PKR 19.81, up 93% YoY. Along with the result, we expect the company to announce an interim cash dividend of PKR 8.10/share taking 1HCY24 payout to PKR 13.60/share.
- Topline of the company is anticipated to increase by 71% YoY to PKR 60.7bn on account of higher urea prices, up 71% YoY during the 2Q. Company's Urea and DAP offtake for the quarter clocked in at ~618k tons and ~41k tons.
- For 2QCY24, gross margins are expected to improve to 45%, as company is receiving the gas at lower price as compare to other fertilizer manufacturers.
- Distribution cost is likely to settle at PKR 4.5bn up 67% YoY, primarily due to higher transportation and fuel charges.
- Other income of the company is likely to increase by 30% YoY to PKR 3.6bn during 2Q. The rise in other income can be attributed to the dividends received from PMP.
- Finance cost is expected to decrease by 66% YoY to PKR 411bn during 2QCY24 as a result of lower borrowing and declining interest rate.
- Effective-tax rate for 2QCY24 is likely to come at 39% due to continuation of the super-tax.
- We maintain our 'BUY' recommendation on FFC with Dec-24 price target (PT) of PKR 189/share. The stock is offering an upside of 11% along with a dividend yield of 16.3%.

#### Key Data

PSX Ticker	FFC
Target Price (PKR)	189
Current Price (PKR)	170
Upside/(Downside) (%)	+11%
Dividend Yield (%)	16.3%
Total Return (%)	27%
12-month High (PKR)	177
12-month Low (PKR)	90
Outstanding Shares (mn)	1,272
Market Cap (PKR mn)	216,599
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)						
	2QCY23	2QCY24E	YoY	1HCY23	1HCY24	YoY
Net Sales	35,552	60,864	71%	71,958	119,271	66%
Cost of Sales	18,899	33,368	77%	40,731	74,488	83%
<b>Gross Profit</b>	<b>16,653</b>	<b>27,496</b>	<b>65%</b>	<b>31,228</b>	<b>44,783</b>	<b>43%</b>
Distribution cost	2,682	4,484	67%	5,738	9,677	69%
Unwinding of GIDC liability	322	208	-35%	704	340	-52%
Other Income	2,750	3,581	30%	6,295	13,857	120%
Other Charges	1,185	1,907	61%	2,258	3,583	59%
Finance Cost	1,193	411	-66%	2,657	1,916	-28%
<b>Profit Before Taxation</b>	<b>13,721</b>	<b>24,068</b>	<b>75%</b>	<b>25,664</b>	<b>42,094</b>	<b>64%</b>
Taxation	8,372	9,386	12%	12,585	16,891	34%
<b>Net Income</b>	<b>5,349</b>	<b>14,681</b>	<b>2.74x</b>	<b>13,079</b>	<b>25,203</b>	<b>93%</b>
EPS	4.20	11.54	-	10.28	19.81	-
DPS	3.15	8.10	-	7.41	13.60	-

Key Financial Ratios						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
EPS	17.2	15.8	23.3	37.0	35.7	34.3
EPS Growth	5.2%	-8.4%	48.0%	58.5%	-3.5%	-3.9%
DPS	9.9	9.0	11.4	27.8	26.8	25.8
PER	9.9	10.8	7.3	4.6	4.8	5.0
Dividend Yield	5.8%	5.3%	6.7%	16.3%	15.7%	15.1%
EV/EBITDA	5.5	6.0	2.9	2.3	2.4	2.5
P/B	4.6	4.3	3.5	2.9	2.5	2.3
ROE	46.1%	39.4%	48.0%	63.8%	53.3%	45.4%

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 Dec-24 PT of 189/share. Our price target offers upside of 11% along with a dividend yield of 16.3%. 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)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net sales	108,651	109,364	159,472	262,292	293,747	301,961
Cost of sales	69,772	69,317	95,220	174,538	205,749	218,474
<b>Gross Profit</b>	<b>38,879</b>	<b>40,046</b>	<b>64,252</b>	<b>87,754</b>	<b>87,998</b>	<b>83,487</b>
SG & A	8,409	10,108	12,684	20,213	21,454	22,150
<b>Operating Profit</b>	<b>30,470</b>	<b>29,939</b>	<b>51,568</b>	<b>67,541</b>	<b>66,544</b>	<b>61,337</b>
Other income	7,919	14,442	17,097	21,762	20,358	22,062
Other charges	2,946	3,037	5,434	6,593	6,354	6,165
Finance cost	2,292	4,868	5,624	3,053	6,171	5,728
Unwinding of GIDC	2441	2,119	1,160	755	0	0
<b>Profit before tax</b>	<b>30,339</b>	<b>33,687</b>	<b>53,547</b>	<b>77,870</b>	<b>74,376</b>	<b>71,507</b>
Taxation	8,443	13,637	23,874	30,844	29,007	27,888
<b>Profit after tax</b>	<b>21,896</b>	<b>20,050</b>	<b>29,673</b>	<b>47,027</b>	<b>45,369</b>	<b>43,619</b>

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
PPE	23,987	27,631	40,223	50,646	61,530	60,265
Other LT assets	50,750	56,666	52,934	54,221	53,655	53,546
Non-Current Assets	74,737	84,297	93,158	104,866	115,184	113,811
Current assets	126,270	155,825	130,123	156,084	144,386	132,246
<b>Total Assets</b>	<b>201,007</b>	<b>240,122</b>	<b>223,281</b>	<b>260,950</b>	<b>259,570</b>	<b>246,057</b>
Non-Current liabilities	41,323	27,525	22,212	9,587	7,547	7,850
Current liabilities	112,169	161,762	139,217	177,627	166,933	142,234
<b>Total Liabilities</b>	<b>153,492</b>	<b>189,287</b>	<b>161,428</b>	<b>187,214</b>	<b>174,480</b>	<b>150,085</b>
Equity	47,514	50,835	61,853	73,736	85,091	95,972
<b>Total Equity &amp; liabilities</b>	<b>201,007</b>	<b>240,122</b>	<b>223,281</b>	<b>260,950</b>	<b>259,570</b>	<b>246,057</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY21A	CY22A	CY23A	CY24E	CY25F	CY26F
Net Income	21,896	20,050	29,673	47,027	45,369	43,619
Non-cash Charges	2,435	2,415	2,512	3,984	5,392	6,018
<b>Operating Cash flows</b>	<b>37,332</b>	<b>25,994</b>	<b>75,418</b>	<b>44,285</b>	<b>41,148</b>	<b>43,160</b>
<b>FCFF</b>	<b>10,667</b>	<b>13,352</b>	<b>70,768</b>	<b>28,581</b>	<b>38,906</b>	<b>50,747</b>
Net borrowings	7,941	6,605	-49,658	11,194	-3,544	-11,679
<b>FCFE</b>	<b>16,954</b>	<b>17,059</b>	<b>17,994</b>	<b>37,931</b>	<b>31,598</b>	<b>35,575</b>
Net change in cash	1,153	1,190	1,520	858	3,646	1,229
<b>Closing cash</b>	<b>1,190</b>	<b>1,520</b>	<b>858</b>	<b>3,646</b>	<b>1,229</b>	<b>4,066</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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