

## Fauji Fertilizer Company Limited

### Result Review

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

Pakistan Research

## FFC - 2QCY21 earnings clocked in at PKR 2.85/share, down 26% YoY

- FFC announced its 2QCY21 financial results on 30<sup>th</sup> July, wherein the company's net earnings declined 26% YoY to PKR 2.85/share. For the 1HCY21, EPS grew by 3% YoY to PKR 7.42. The company also announced interim cash dividend of PKR 2.60/share along with the result, taking 1H dividend to PKR 6.1/ share.
- The company's net sales declined 3% YoY during 2QCY21 due to a low urea and DAP offtake. However, sluggish sales were supported by high Urea and DAP prices to some extent. Sona Urea prices were up by 3.1% YoY, whereas DAP prices surged 50.4% YoY during the 2Q. Urea offtake witnessed a decline of 18% YoY, while DAP offtake was down 78% YoY.
- Gross margins during the quarter, however, grew 2.7pps YoY to 35.0% owing to higher urea prices and DAP prices.
- Other income declined by 35% YoY during the quarter to PKR 1.5bn, possibly owing to low return on investment portfolio.
- Additionally, the company has also paid PKR 1.2bn for GIDC unwinding during the quarter.
- Finance cost declined 17% YoY during 2QCY21 likely due to decline in short-term borrowing and lower interest rates.
- We maintain our BUY recommendation on FFC. Our Dec-21 PT of PKR 124/share indicates upside of 16% along with a dividend yield of 12.4%.

### Key Data

PSX Ticker	FFC
Target Price (PKR)	124
Current Price (PKR)	107
Upside/(Downside) (%)	+16%
Dividend Yield (%)	12.4%
Total Return (%)	+ 29%
12-month High (PKR)	118
12-month Low (PKR)	99.95
Outstanding Shares (mn)	1,272.24
Market Cap (PKR mn)	141,193
Year End	December

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	2QCY20	2QCY21	YoY	1HCY20	1HCY21	YoY
Net Sales	23,156	22,430	-3%	43,782	44,018	1%
Cost of Sales	15,757	14,653	-7%	28,893	27,807	-4%
<b>Gross Profit</b>	<b>7,398</b>	<b>7,776</b>	<b>5%</b>	<b>14,889</b>	<b>16,211</b>	<b>9%</b>
Distribution cost	1,855	1,956	5%	3,930	3,964	1%
Other Income	2,287	1,495	-35%	4,007	4,214	5%
Other Charges	628	569	-9%	1,191	1,292	9%
Finance Cost	462	385	-17%	1,135	805	-29%
<b>Profit Before Taxation</b>	<b>6,740</b>	<b>5,162</b>	<b>-23%</b>	<b>12,640</b>	<b>13,165</b>	<b>4%</b>
Taxation	1,866	1,541	-17%	3,504	3,729	6%
<b>Net Income</b>	<b>4,874</b>	<b>3,621</b>	<b>-26%</b>	<b>9,136</b>	<b>9,436</b>	<b>3%</b>
EPS	3.83	2.85	-26%	7.18	7.42	3%
DPS	2.75	2.60	-5%	5.25	6.10	16%

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	11.35	13.45	16.36	16.44	16.66	17.46
EPS Growth	35%	19%	22%	0%	1%	5%
DPS	8.85	10.80	13.25	13.25	13.25	14.00
PER	9.4	7.9	6.5	6.5	6.4	6.1
Dividend Yield	8.3%	10.1%	12.4%	12.4%	12.4%	13.1%
EV/EBITDA	5.7	4.6	3.6	3.7	3.8	3.6
P/B	4.1	3.8	3.2	2.9	2.7	2.5
ROE	43.3%	48.1%	48.9%	44.9%	41.6%	40.1%
EPS	11.35	13.45	16.36	16.44	16.66	17.46

Source: Company Accounts, Akseer Research

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### Valuation Basis

Our PT for Fauji Fertilizer Company Limited (FFC) has been computed using Free cash flow to equity (FCFE) method. We have used a risk free rate of 10.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 16.0%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 124/share. Our price target offers upside of 16% along with a dividend yield of 12.4%. Our investment case on FFC is based on 1) higher fertilizer price to improve margins and 2) attractive dividend yield.

### Risks

Key downside risks to our investments thesis are: 1) lower than expected fertilizer prices and 2) below estimated fertilizer demand.

### 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)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Net sales	105,964	105,783	97,655	102,316	107,160	112,168
Cost of sales	77,986	75,046	66,071	65,587	69,620	73,749
<b>Gross Profit</b>	<b>27,979</b>	<b>30,737</b>	<b>31,583</b>	<b>36,729</b>	<b>37,539</b>	<b>38,419</b>
SG & A	8,833	8,288	7,848	8,479	8,900	9,342
<b>Operating Profit</b>	<b>19,145</b>	<b>22,449</b>	<b>23,735</b>	<b>28,250</b>	<b>28,639</b>	<b>29,077</b>
Other income	6,283	7,191	6,429	6,656	6,996	7,938
Other charges	2,109	3,409	2,639	2,924	2,989	3,134
Finance cost	1,637	2,477	1,874	2,525	2,796	2,600
<b>Profit before tax</b>	<b>21,683</b>	<b>23,753</b>	<b>29,591</b>	<b>29,457</b>	<b>29,850</b>	<b>31,281</b>
Taxation	7,244	6,643	8,772	8,542	8,657	9,072
<b>Profit after tax</b>	<b>14,439</b>	<b>17,110</b>	<b>20,819</b>	<b>20,914</b>	<b>21,194</b>	<b>22,210</b>

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
PPE	21,534	22,212	22,841	23,069	23,300	23,533
Other LT assets	29,601	33,877	38,206	36,990	36,400	35,848
Non-Current Assets	51,135	56,089	61,047	60,059	59,700	59,381
Current assets	95,355	97,301	111,902	84,112	71,063	65,593
<b>Total Assets</b>	<b>146,490</b>	<b>153,390</b>	<b>172,949</b>	<b>144,171</b>	<b>130,762</b>	<b>124,974</b>
Non-Current liabilities	13,162	10,947	48,742	28,622	9,337	6,997
Current liabilities	99,945	106,876	81,671	68,947	70,486	62,640
<b>Total Liabilities</b>	<b>113,107</b>	<b>117,823</b>	<b>130,413</b>	<b>97,569</b>	<b>79,824</b>	<b>69,637</b>
Equity	33,383	35,567	42,536	46,602	50,939	55,337
<b>Total Equity &amp; liabilities</b>	<b>146,490</b>	<b>153,390</b>	<b>172,949</b>	<b>144,171</b>	<b>130,762</b>	<b>124,974</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21F	CY22F	CY23F
Net Income	14,439	17,110	20,819	20,914	21,194	22,210
Non cash Charges	2,162	2,286	2,310	2,286	2,309	2,332
<b>Operating Cash flows</b>	<b>26,214</b>	<b>28,670</b>	<b>9,621</b>	<b>14,359</b>	<b>29,731</b>	<b>24,442</b>
<b>FCFF</b>	<b>3,198</b>	<b>29,844</b>	<b>(29,443)</b>	<b>43,325</b>	<b>37,578</b>	<b>26,380</b>
Net borrowings	10,406	(11,256)	40,070	(24,433)	(18,785)	(6,302)
<b>FCFE</b>	<b>12,513</b>	<b>16,804</b>	<b>9,309</b>	<b>17,100</b>	<b>16,808</b>	<b>18,233</b>
Net change in cash	1,713	3,818	5,695	1,153	1,406	1,356
<b>Closing cash</b>	<b>3,818</b>	<b>5,695</b>	<b>1,153</b>	<b>1,406</b>	<b>1,356</b>	<b>1,777</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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