

**Fauji Fertilizer Company Limited**  
Result Review

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

Pakistan Research

**FFC: 1QCY22 unconsolidated EPS clocked in at PKR 4.90; up 7.3% YoY**

- FFC announced its 1QCY22 financial results today, the profitability of company increased by 7.3% YoY to PKR 6.2bn (EPS PKR 4.90) due to higher offtake and better other income up 27% YoY. Along with the result, company announced an interim DPS of PKR 3.70.
- Topline of the company increased by 22% YoY on back of the higher Urea offtake up 10% YoY and elevated Urea pricing up 8% YoY during the first quarter.
- Gross margin declined by 3.5 ppts to 35.6%, compare to 39.1% SPLY.
- During 1QCY22, distribution cost clocked in at PKR 2.1bn up 9.0% YoY, primarily due to higher transportation and fuel charges.
- Despite absence of dividend from AKBL, other income increased by 27% YoY during the quarter to PKR 3.4bn. The surge in other income is due to the higher dividend from subsidiaries (Wind power projects) and better return on investment portfolio.
- Finance cost surged 1.5x YoY to PKR 1.07bn in 1QCY22 due to the increased borrowing along with higher interest rate.
- We maintain our 'BUY' recommendation on FFC with Dec-22 price target (PT) of PKR 140/share. The stock provides total return of 27.2% from current levels (PT is offering an upside of 14.6% along with dividend yield of 12.7%).

**Key Data**

PSX Ticker	FFC
Target Price (PKR)	140
Current Price (PKR)	122.5
Upside/(Downside) (%)	+14.6%
Dividend Yield (%)	12.7%
Total Return (%)	+27.2%
12-month High (PKR)	128.89
12-month Low (PKR)	95.40
Outstanding Shares (mn)	1,272.24
Market Cap (PKR mn)	155,811
Year End	December

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	1QCY21	1QCY22	YoY
Net Sales	21,589	26,315	22%
Cost of Sales	13,154	16,957	29%
<b>Gross Profit</b>	<b>8,435</b>	<b>9,358</b>	<b>11%</b>
Distribution cost	2,008	2,186	9%
Unwinding of GIDC liability	-	530	NM
Other Income	2,719	3,459	27%
Other Charges	723	727	1%
Finance Cost	420	1,072	155%
<b>Profit Before Taxation</b>	<b>8,003</b>	<b>8,302</b>	<b>4%</b>
Taxation	2,188	2,062	-5.8%
<b>Net Income</b>	<b>5,815</b>	<b>6,240</b>	<b>7%</b>
EPS	4.57	4.90	7%
DPS	3.50	3.90	-

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
EPS	13.45	16.4	17.2	19.5	20.1	20.9
EPS Growth	18.5%	21.7%	5.2%	13.1%	3.4%	3.6%
DPS	10.80	11.2	14.5	15.5	16.0	16.8
PER	9.4	7.8	7.4	6.5	6.3	6.1
Dividend Yield	8.5%	8.8%	11.4%	12.2%	12.6%	13.2%
EV/EBITDA	5.7	4.6	3.8	3.2	3.5	3.6
P/B	4.5	3.8	3.4	3.1	2.8	2.6
ROE	48.1%	48.9%	46.1%	47.1%	44.3%	42.1%

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 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 140/share. Our price target offers upside of 14.6% along with a dividend yield of 12.7%. 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)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Net sales	105,783	97,655	108,651	127,371	116,607	121,005
Cost of sales	75,046	66,071	69,772	82,321	73,148	76,525
<b>Gross Profit</b>	<b>30,737</b>	<b>31,583</b>	<b>38,879</b>	<b>45,050</b>	<b>43,459</b>	<b>44,480</b>
SG & A	8,288	7,848	8,409	9,094	9,371	9,628
<b>Operating Profit</b>	<b>22,449</b>	<b>23,735</b>	<b>30,470</b>	<b>35,956</b>	<b>34,088</b>	<b>34,852</b>
Other income	7,191	6,429	7,919	8,180	11,865	11,730
Other charges	3,409	2,639	2,946	3,497	3,453	3,828
Finance cost	2,477	1,874	2,292	3,636	3,525	2,344
Unwinding of GIDC Liability	-	-	2,441	2,119	2,900	3,020
<b>Profit before tax</b>	<b>23,753</b>	<b>29,591</b>	<b>30,339</b>	<b>34,884</b>	<b>36,075</b>	<b>37,389</b>
Taxation	6,643	8,772	8,443	10,116	10,462	10,843
<b>Profit after tax</b>	<b>17,110</b>	<b>20,819</b>	<b>21,896</b>	<b>24,768</b>	<b>25,613</b>	<b>26,546</b>

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
PPE	22,212	22,841	23,987	22,788	22,332	21,886
Other LT assets	33,877	38,206	50,750	52,205	52,091	51,970
Non-Current Assets	56,089	61,047	74,737	74,993	74,423	73,856
Current assets	97,301	111,902	126,270	132,546	113,560	103,151
<b>Total Assets</b>	<b>153,390</b>	<b>172,949</b>	<b>201,007</b>	<b>207,539</b>	<b>187,983</b>	<b>177,007</b>
Non-Current liabilities	10,947	48,742	41,323	22,834	10,486	5,561
Current liabilities	106,876	81,671	112,169	132,142	119,676	108,388
<b>Total Liabilities</b>	<b>117,823</b>	<b>130,413</b>	<b>153,492</b>	<b>154,976</b>	<b>130,162</b>	<b>113,949</b>
Equity	35,567	42,536	47,514	52,563	57,821	63,058
<b>Total Equity &amp; liabilities</b>	<b>153,390</b>	<b>172,949</b>	<b>201,007</b>	<b>207,539</b>	<b>187,983</b>	<b>177,007</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Net Income	17,110	20,819	21,896	24,768	25,613	26,546
Non-cash Charges	2,286	2,310	2,435	2,354	2,269	2,219
<b>Operating Cash flows</b>	<b>28,670</b>	<b>9,621</b>	<b>37,332</b>	<b>37,861</b>	<b>26,986</b>	<b>16,323</b>
<b>FCFF</b>	<b>29,844</b>	<b>-29,443</b>	<b>10,667</b>	<b>35,625</b>	<b>47,348</b>	<b>30,463</b>
Net borrowings	-11,256	40,070	7,941	-13,174	-24,073	-7,123
<b>FCFE</b>	<b>16,804</b>	<b>9,309</b>	<b>16,954</b>	<b>19,870</b>	<b>20,772</b>	<b>21,675</b>
Net change in cash	3,818	5,695	1,153	1,190	1,340	1,757
<b>Closing cash</b>	<b>5,695</b>	<b>1,153</b>	<b>1,190</b>	<b>1,340</b>	<b>1,757</b>	<b>2,123</b>

Source: Company Accounts, Akseer Research

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