

**Fauji Fertilizer Company Limited**  
Result Preview

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

Pakistan Research

**FFC: 1QCY23 EPS expected to come at PKR 6.30, up 28% YoY, DPS PKR 5.10**

- FFC is scheduled to announce its 1QCY23 financial results on 27<sup>th</sup> April, 2023. Wherein we expect the unconsolidated profitability of company to increase by 28% YoY to PKR 8.0bn (EPS PKR 6.30) on back of higher urea prices and better other income up 25% YoY. Along with the result, we expect the company to announce an interim cash dividend of PKR 5.10/share.
- Topline of the company is likely to increase by 38% YoY due to higher urea prices up 31% YoY during the 1Q, while the urea offtake for the quarter to clock in at 646k tons.
- Gross margins are expected to increase by 8.3ppts YoY to 43.9% for 1QCY23. We have assumed the feed and fuel gas prices to remain at PKR 302/MMBtu and PKR 1,023/MMBtu respectively, due to the ambiguity in new gas price announcement for the fertilizer manufacturers on Mari's network. If new gas prices are applied (as per the notified feed and fuel gas prices for fertilizer manufacturers on SNGP and SSGC network is at PKR 510/MMBtu and PKR 1,500/MMBtu respectively), the gross margins would decline to 30.4%, down 5ppts YoY and EPS would go down by PKR 2.44 from our base case EPS assumption of PKR 6.30 for 1QCY23.
- During 1QCY23, distribution cost is anticipated to come at PKR 3.1bn up 41% YoY, primarily due to higher transportation and fuel charges.
- Other income of the company is likely to increase by 25% YoY to PKR 3.1bn during 1Q. The surge in other income can be attributable to the better return on investment portfolio.
- Finance cost is expected to increase by 3.2x YoY to PKR 1.0bn during 1QCY23, due to the increased borrowing along with higher interest rates.
- Effective-tax rate for 1QCY23 is likely to come at 33% vs 25% in 1QCY22. Any reversal of 6% super-tax imposed on CY22 earnings would have a positive EPS impact of PKR 1.65.
- We maintain our 'BUY' recommendation on FFC with Dec-23 price target (PT) of PKR 135/share. The stock is offering an upside of 34% along with dividend yield of 18.8%.

**Key Data**

PSX Ticker	FFC
Target Price (PKR)	135
Current Price (PKR)	101
Upside/(Downside) (%)	+34%
Dividend Yield (%)	18.8%
Total Return (%)	53%
12-month High (PKR)	129
12-month Low (PKR)	97
Outstanding Shares (mn)	1,272
Market Cap (PKR mn)	128,420
Year End	December

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	1QCY22	1QCY23E	YoY
Net Sales	26,315	36,283	38%
Cost of Sales	16,957	20,357	20%
<b>Gross Profit</b>	<b>9,358</b>	<b>15,926</b>	<b>70%</b>
Distribution cost	2,186	3,084	41%
Unwinding of GIDC liability	530	725	37%
Other Income	3,459	4,337	25%
Other Charges	727	1,011	39%
Finance Cost	1,072	3,487	3.2x
<b>Profit Before Taxation</b>	<b>8,302</b>	<b>11,956</b>	<b>44%</b>
Taxation	2,062	3,946	91%
<b>Net Income</b>	<b>6,240</b>	<b>8,011</b>	<b>28%</b>
EPS	4.9	6.3	28%
DPS	3.7	5.1	-

**Key Financial Ratios**

	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
EPS	16.4	17.2	15.8	25.4	24.9	27.9
EPS Growth	21.7%	5.2%	-8.4%	60.9%	-1.7%	11.9%
DPS	11.2	14.5	12.5	19.0	18.8	21.0
PER	6.2	5.9	6.4	4.0	4.1	3.6
Dividend Yield	11.1%	14.4%	12.4%	18.8%	18.6%	20.8%
EV/EBITDA	3.3	2.8	3.3	2.0	2.4	2.6
P/B	3.0	2.7	2.5	2.2	1.9	1.7
ROE	48.9%	46.1%	39.4%	54.4%	47.8%	46.0%

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 17%, beta of 1.0 and 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 PT of 135/share. Our price target offers upside of 34% along with a dividend yield of 18.8%. 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)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Net sales	97,655	108,651	109,364	151,418	156,208	162,423
Cost of sales	66,071	69,772	69,317	90,516	99,208	104,280
<b>Gross Profit</b>	<b>31,583</b>	<b>38,879</b>	<b>40,046</b>	<b>60,902</b>	<b>57,000</b>	<b>58,144</b>
SG & A	7,848	8,409	10,108	10,629	9,331	9,710
<b>Operating Profit</b>	<b>23,735</b>	<b>30,470</b>	<b>29,939</b>	<b>50,273</b>	<b>47,668</b>	<b>48,433</b>
Other income	6,429	7,919	14,442	16,095	13,906	11,300
Other charges	2,639	2,946	3,037	4,114	4,401	4,714
Finance cost	1,874	2,292	4,868	11,210	6,837	2,084
Unwinding of GIDC Liability	-	2441	2,119	2,900	3,020	-
<b>Profit before tax</b>	<b>29,591</b>	<b>30,339</b>	<b>33,687</b>	<b>48,144</b>	<b>47,317</b>	<b>52,935</b>
Taxation	8,772	8,443	13,637	15,888	15,614	17,469
<b>Profit after tax</b>	<b>20,819</b>	<b>21,896</b>	<b>20,050</b>	<b>32,257</b>	<b>31,702</b>	<b>35,467</b>

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
PPE	22,841	23,987	27,631	36,300	45,350	54,805
Other LT assets	38,206	50,750	56,666	55,477	55,502	54,976
Non-Current Assets	61,047	74,737	84,297	91,778	100,851	109,780
Current assets	111,902	126,270	155,825	123,890	89,119	76,604
<b>Total Assets</b>	<b>172,949</b>	<b>201,007</b>	<b>240,122</b>	<b>215,668</b>	<b>189,971</b>	<b>186,384</b>
Non-Current liabilities	48,742	41,323	27,525	12,714	3,953	4,316
Current liabilities	81,671	112,169	161,762	143,656	119,742	105,047
<b>Total Liabilities</b>	<b>130,413</b>	<b>153,492</b>	<b>189,287</b>	<b>156,370</b>	<b>123,695</b>	<b>109,364</b>
Equity	42,536	47,514	50,835	59,298	66,276	77,020
<b>Total Equity &amp; liabilities</b>	<b>172,949</b>	<b>201,007</b>	<b>240,122</b>	<b>215,668</b>	<b>189,971</b>	<b>186,384</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY20A	CY21A	CY22A	CY23E	CY24F	CY25F
Net Income	20,819	21,896	20,050	32,257	31,702	35,467
Non-cash Charges	2,310	2,435	2,444	3,057	3,908	4,820
<b>Operating Cash flows</b>	<b>9,621</b>	<b>37,332</b>	<b>26,023</b>	<b>40,184</b>	<b>21,222</b>	<b>24,903</b>
<b>FCFF</b>	<b>-29,443</b>	<b>10,667</b>	<b>13,352</b>	<b>58,533</b>	<b>49,658</b>	<b>32,112</b>
Net borrowings	40,070	7,941	6,605	-26,085	-19,956	45
<b>FCFE</b>	<b>9,309</b>	<b>16,954</b>	<b>17,059</b>	<b>24,938</b>	<b>25,122</b>	<b>30,761</b>
Net change in cash	5,695	1,153	1,190	1,520	2,664	3,062
<b>Closing cash</b>	<b>1,153</b>	<b>1,190</b>	<b>1,520</b>	<b>2,664</b>	<b>3,062</b>	<b>9,100</b>

Source: Company Accounts, Akseer Research

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