

Fauji Fertilizer Company Limited
Result Review

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

Pakistan Research

FFC: 1QCY23 EPS clocked in at PKR 6.08, up 24% YoY; DPS PKR 4.26

- FFC announced its 1QCY23 financial results today, wherein the company reported an unconsolidated EPS PKR 6.08, up 24% YoY. Along with the result, company has announced an interim cash dividend of PKR 4.26/share for the quarter.
- Net sales of the company increased by 38% YoY due to higher urea prices up 31% YoY during the quarter.
- Gross margins for the 1QCY23 increased by 4.5ppts YoY to 40% which we believed is due to lower gas prices for fertilizer manufacturers on Mari's network (feed and fuel gas prices are at PKR 302/MMBtu and PKR 1,023/MMBtu respectively).
- During 1QCY23, distribution cost surged to PKR 3.1bn up 40% YoY, primarily due to higher transportation and fuel charges.
- Other income of the company remained flat at PKR 3.5bn, with a meagre increase of 2% YoY during the quarter under review.
- Finance cost grew by 37% YoY to PKR 1.5bn during 1QCY23, due to the increased borrowing along with higher interest rates.
- Effective-tax rate for 1QCY23 came at 35% vs 25% in 1QCY22.
- We maintain our 'BUY' recommendation on FFC with Dec-23 price target (PT) of PKR 135/share. The stock is offering an upside of 33% along with dividend yield of 18.7%.

Key Data

PSX Ticker	FFC
Target Price (PKR)	135
Current Price (PKR)	102
Upside/(Downside) (%)	+33%
Dividend Yield (%)	18.7%
Total Return (%)	52%
12-month High (PKR)	129
12-month Low (PKR)	97
Outstanding Shares (mn)	1,272
Market Cap (PKR mn)	129,540
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QCY22	1QCY23	YoY
Net Sales	26,315	36,406	38%
Cost of Sales	16,957	21,831	29%
Gross Profit	9,358	14,575	56%
Distribution cost	2,186	3,056	40%
Unwinding of GIDC liability	530	383	-28%
Other Income	3,459	3,545	2%
Other Charges	727	1,073	48%
Finance Cost	1,072	1,464	37%
Profit Before Taxation	8,302	11,943	44%
Taxation	2,062	4,213	104%
Net Income	6,240	7,730	24%
EPS	4.9	6.1	24%
DPS	3.7	4.3	-

Source: Company Accounts, Akseer Research

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	6.5	4.0	4.1	3.7
Dividend Yield	11.0%	14.2%	12.3%	18.7%	18.4%	20.6%
EV/EBITDA	3.3	2.8	3.3	2.1	2.5	2.6
P/B	3.0	2.7	2.5	2.2	2.0	1.7
ROE	48.9%	46.1%	39.4%	54.4%	47.8%	46.0%

Source: Company Accounts, Akseer Research

Muhammad Atif

muhammad.atif@alphacapital.com.pk

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 33% along with a dividend yield of 18.7%. 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)						
	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
Gross Profit	31,583	38,879	40,046	60,902	57,000	58,144
SG & A	7,848	8,409	10,108	10,629	9,331	9,710
Operating Profit	23,735	30,470	29,939	50,273	47,668	48,433
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	-
Profit before tax	29,591	30,339	33,687	48,144	47,317	52,935
Taxation	8,772	8,443	13,637	15,888	15,614	17,469
Profit after tax	20,819	21,896	20,050	32,257	31,702	35,467

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
Total Assets	172,949	201,007	240,122	215,668	189,971	186,384
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
Total Liabilities	130,413	153,492	189,287	156,370	123,695	109,364
Equity	42,536	47,514	50,835	59,298	66,276	77,020
Total Equity & liabilities	172,949	201,007	240,122	215,668	189,971	186,384

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
Operating Cash flows	9,621	37,332	26,023	40,184	21,222	24,903
FCFF	-29,443	10,667	13,352	58,533	49,658	32,112
Net borrowings	40,070	7,941	6,605	-26,085	-19,956	45
FCFE	9,309	16,954	17,059	24,938	25,122	30,761
Net change in cash	5,695	1,153	1,190	1,520	2,664	3,062
Closing cash	1,153	1,190	1,520	2,664	3,062	9,100

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

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.

Ratings Criteria

JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area, KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alphacapital.com.pk