

**Fauji Fertilizer Company Limited**  
Result Review

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

Pakistan Research

**FFC: 2QCY22 unconsolidated EPS clocked in at PKR 2.64, down 7.2% YoY; DPS PKR 2.10**

- FFC announced its 2QCY22 financial results today, wherein the company posted unconsolidated profit after tax of PKR 3.3bn (EPS PKR 2.64), down 7% YoY. This takes cumulative EPS to PKR 7.55, up 2% YoY for 1HCY22. Along with the result, company announced an interim DPS of PKR 2.10 for 2QCY22 taking 1HCY22 cumulative payout to PKR 5.80.
- Topline of the company increased by 27% YoY to PKR 28.4bn on the back of higher Urea offtake (+15.8% YoY) and prices (+8% YoY) in 2QCY22.
- Gross margin increased to 40.6% in 2QCY22 vs 34.6 in 2QCY21. Higher margins can be attributable to increased urea prices and improved margins on DAP sales.
- During 2QCY22, distribution cost clocked in at PKR 2.1bn up 8.0% YoY, primarily due to higher transportation and fuel charges.
- Other income of the company clocked in at PKR 3.9bn in 2QCY22 compared to 1.5bn in 2QCY21. The surge in other income is due to the higher return on investment portfolio along with higher dividend received from its associate, Pakistan Maroc Phosphore (PMP).
- Finance cost increased by 146% YoY to PKR 0.9bn in 2QCY22 on back of increased borrowings along with higher interest rates.
- Due to the imposition of higher taxes in FY23 budget, the effective tax rate for 2Q clock in at 68% compare to 30% SPLY.
- We maintain our 'BUY' recommendation on FFC with Dec-22 price target (PT) of PKR 128/share. The stock provides total return of 36.4% from current levels (PT is offering an upside of 21.9% along with dividend yield of 14.5%).

**Key Data**

PSX Ticker	FFC
Target Price (PKR)	128
Current Price (PKR)	104.9
Upside/(Downside) (%)	21.9%
Dividend Yield (%)	14.5%
Total Return (%)	36.4%
12-month High (PKR)	128.89
12-month Low (PKR)	95.40
Outstanding Shares (mn)	1,272.24
Market Cap (PKR mn)	133,470.7
Year End	December

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	1QCY21	1QCY22	YoY	1HCY21	1HCY22	YoY
Net Sales	22,430	28,390	27%	44,018	54,706	24%
Cost of Sales	14,653	16,849	15%	27,807	33,806	22%
<b>Gross Profit</b>	<b>7,776</b>	<b>11,542</b>	<b>48%</b>	<b>16,211</b>	<b>20,900</b>	<b>29%</b>
Distribution cost	1,956	2,120	8%	3,964	4,307	9%
Unwinding of GIDC liability	1,199	645	-46%	1,199	1,175	-2%
Other Income	1,495	3,951	164%	4,214	7,409	76%
Other Charges	569	915	61%	1,292	1,643	27%
Finance Cost	385	945	146%	805	2,017	151%
<b>Profit Before Taxation</b>	<b>5,162</b>	<b>10,517</b>	<b>104%</b>	<b>13,165</b>	<b>18,818</b>	<b>43%</b>
Taxation	1,541	7,157	364%	3,729	9,219	147%
<b>Net Income</b>	<b>3,621</b>	<b>3,360</b>	<b>-7%</b>	<b>9,436</b>	<b>9,599</b>	<b>2%</b>
EPS	2.85	2.64	-7%	7.42	7.55	2%
DPS	2.60	2.10	-19%	6.10	5.80	-5%

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	CY19A	CY20A	CY21A	CY22E	CY23E	CY24E
EPS	13.45	16.4	17.2	19.0	19.5	20.1
EPS Growth	18.5%	21.7%	5.2%	10.6%	2.5%	3.0%
DPS	10.80	11.2	14.5	15.3	15.5	16.0
PER	7.8	6.4	6.1	5.5	5.4	5.2
Dividend Yield	10.3%	10.7%	13.8%	14.5%	14.8%	15.3%
EV/EBITDA	4.6	3.5	3.0	2.0	2.6	2.8
P/B	3.8	3.1	2.8	2.6	2.3	2.1
ROE	48.1%	48.9%	46.1%	46.3%	43.2%	40.8%

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 13.0%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19.0%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 128/share. Our price target offers upside of 21.9% along with a dividend yield of 14.5%. 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	CY23E	CY24E
Net sales	105,783	97,655	108,651	134,066	121,155	124,129
Cost of sales	75,046	66,071	69,772	83,112	76,040	78,795
<b>Gross Profit</b>	<b>30,737</b>	<b>31,583</b>	<b>38,879</b>	<b>50,955</b>	<b>45,115</b>	<b>45,333</b>
SG & A	8,288	7,848	8,409	9,068	9,285	9,620
<b>Operating Profit</b>	<b>22,449</b>	<b>23,735</b>	<b>30,470</b>	<b>41,886</b>	<b>35,830</b>	<b>35,713</b>
Other income	7,191	6,429	7,919	10,611	12,389	11,764
Other charges	3,409	2,639	2,946	3,515	3,514	3,880
Finance cost	2,477	1,874	2,292	6,066	4,773	2,438
Unwinding of GIDC Liability	-	-	2,441	2,465	2,900	3,020
<b>Profit before tax</b>	<b>23,753</b>	<b>29,591</b>	<b>30,339</b>	<b>40,452</b>	<b>37,031</b>	<b>38,139</b>
Taxation	6,643	8,772	8,443	16,243	12,220	12,586
<b>Profit after tax</b>	<b>17,110</b>	<b>20,819</b>	<b>21,896</b>	<b>24,209</b>	<b>24,811</b>	<b>25,553</b>

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23E	CY24E
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	131,725	112,330	102,342
<b>Total Assets</b>	<b>153,390</b>	<b>172,949</b>	<b>201,007</b>	<b>206,718</b>	<b>186,753</b>	<b>176,198</b>
Non-Current liabilities	10,947	48,742	41,323	22,834	10,483	5,559
Current liabilities	106,876	81,671	112,169	131,562	118,855	108,027
<b>Total Liabilities</b>	<b>117,823</b>	<b>130,413</b>	<b>153,492</b>	<b>154,396</b>	<b>129,338</b>	<b>113,586</b>
Equity	35,567	42,536	47,514	52,323	57,414	62,612
<b>Total Equity &amp; liabilities</b>	<b>153,390</b>	<b>172,949</b>	<b>201,007</b>	<b>206,718</b>	<b>186,753</b>	<b>176,198</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23E	CY24E
Net Income	17,110	20,819	21,896	24,209	24,811	25,553
Non-cash Charges	2,286	2,310	2,435	4,645	2,255	2,219
<b>Operating Cash flows</b>	<b>28,670</b>	<b>9,621</b>	<b>37,332</b>	<b>41,594</b>	<b>24,334</b>	<b>15,276</b>
<b>FCFF</b>	<b>29,844</b>	<b>-29,443</b>	<b>10,667</b>	<b>40,971</b>	<b>44,833</b>	<b>28,973</b>
Net borrowings	-11,256	40,070	7,941	-16,895	-22,401	-6,349
<b>FCFE</b>	<b>16,804</b>	<b>9,309</b>	<b>16,954</b>	<b>20,446</b>	<b>19,235</b>	<b>20,991</b>
Net change in cash	3,818	5,695	1,153	1,190	2,234	1,750
<b>Closing cash</b>	<b>5,695</b>	<b>1,153</b>	<b>1,190</b>	<b>2,234</b>	<b>1,750</b>	<b>2,385</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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