

Fauji Fertilizer Company Limited
Result Review

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

Pakistan Research

FFC: 3QCY21 unconsolidated EPS clocked in at PKR 5.07; up 39% YoY

- FFC announced its 3QCY21 financial results today, wherein the company posted healthy profitability surge of 39% YoY to PKR 5.07/share, as against PKR 3.64/share in 3QCY20. Cumulatively, for 9MCMY21 EPS stood at PKR 12.49, up 15% YoY. Along with the results, company announced an interim DPS of PKR 3.75 which took 9MCMY21 payout to PKR 12.49/share.
- The result was higher than our expectations due to lower GIDC related charge of PKR 616mn the company paid during 3Q versus our estimates of PKR 1.7bn. It was also down by 49% QoQ.
- The company's net sales increased by 20% YoY during 3QCY21 due to higher Urea offtake, up 21.7% YoY. The improved sales were also supported by high Urea and DAP prices which increased by 6% and 65% YoY respectively during the 3Q.
- Gross margins during the 9MCMY21 grew by 3.4pps YoY to 37.2% owing to higher urea and DAP prices.
- Other income increased by 79% YoY during the quarter to PKR 1.7bn, on back of dividend from subsidiaries, associates and better return on investment portfolio.
- Finance cost surged 1.3x YoY during 3QCY21 due to increased short-term borrowing.
- We maintain our 'BUY' recommendation on FFC with our revised and rolled over June-22 price target (PT) of PKR 111/share. The stock provides total return of 24% from current levels (PT is offering an upside of 11.1% along with dividend yield of 13.2%).

Key Data

PSX Ticker	FFC
Target Price (PKR)	111
Current Price (PKR)	100.11
Upside/(Downside) (%)	+11.1%
Dividend Yield (%)	13.2%
Total Return (%)	+ 24%
12-month High (PKR)	115
12-month Low (PKR)	95.40
Outstanding Shares (mn)	1,272.24
Market Cap (PKR mn)	127,364
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QCY20	3QCY21	YoY	9MCMY20	9MCMY21	YoY
Net Sales	24,636	29,574	20%	68,418	73,592	8%
Cost of Sales	16,365	18,408	12%	45,258	46,215	2%
Gross Profit	8,271	11,166	35%	23,160	27,377	18%
Distribution cost	1,725	2,087	21%	5,654	6,051	7%
Unwinding of GIDC liability	-	616	NM	-	1,815	NM
Other Income	951	1,701	79%	4,958	5,915	19%
Other Charges	628	810	29%	1,819	2,103	16%
Finance Cost	271	647	139%	1,406	1,452	3%
Profit Before Taxation	6,598	8,706	32%	19,238	21,871	14%
Taxation	1,970	2,254	14.4%	5,474	5,983	9%
Net Income	4,628	6,452	39%	13,764	15,888	15%
EPS	3.64	5.07	39%	10.82	12.49	15%
DPS	2.55	3.75	47%	7.80	9.85	26%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	11.35	13.45	16.36	18.10	16.59	16.91
EPS Growth	34.8%	18.5%	21.7%	10.6%	-8.4%	2.0%
DPS	8.85	10.80	13.25	14.50	13.25	13.50
PER	8.8	7.4	6.1	5.5	6.0	5.9
Dividend Yield	8.8%	10.8%	13.2%	14.5%	13.2%	13.5%
EV/EBITDA	5.3	4.3	3.2	3.4	3.6	3.5
P/B	3.8	3.6	3.0	2.7	2.5	2.3
ROE	43.3%	48.1%	48.9%	48.9%	41.1%	38.6%
EPS	11.35	13.45	16.36	18.10	16.59	16.91

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 11.0%, beta of 1.0 & market risk premium of 6.0% to arrive at cost of equity of 17.0%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 111/share. Our price target offers upside of 11.1% along with a dividend yield of 13.2%. 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)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net sales	105,964	105,783	97,655	113,951	115,603	119,587
Cost of sales	77,986	75,046	66,071	72,418	74,407	78,282
Gross Profit	27,979	30,737	31,583	41,533	41,196	41,306
SG & A	8,833	8,288	7,848	9,078	8,728	9,120
Operating Profit	19,145	22,449	23,735	32,456	32,469	32,185
Other income	6,283	7,191	6,429	6,977	8,234	9,055
Other charges	2,109	3,409	2,639	3,104	3,198	3,279
Finance cost	1,637	2,477	1,874	1,971	4,884	4,755
Unwinding of GIDC Liability	-	-	-	2,430	2,900	2,900
Profit before tax	21,683	23,753	29,591	31,928	29,720	30,305
Taxation	7,244	6,643	8,772	8,899	8,619	8,789
Profit after tax	14,439	17,110	20,819	23,029	21,102	21,517

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
PPE	21,534	22,212	22,841	23,069	23,300	23,533
Other LT assets	29,601	33,877	38,206	51,062	50,472	49,920
Non-Current Assets	51,135	56,089	61,047	74,131	73,772	73,453
Current assets	95,355	97,301	111,902	73,396	59,638	56,240
Total Assets	146,490	153,390	172,949	147,527	133,410	129,693
Non-Current liabilities	13,162	10,947	48,742	28,634	9,346	7,001
Current liabilities	99,945	106,876	81,671	71,767	72,694	66,979
Total Liabilities	113,107	117,823	130,413	100,401	82,040	73,980
Equity	33,383	35,567	42,536	47,126	51,371	55,712
Total Equity & liabilities	146,490	153,390	172,949	147,527	133,410	129,693

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net Income	14,439	17,110	20,819	23,029	21,102	21,517
Non cash Charges	2,162	2,286	2,310	2,618	2,309	2,332
Operating Cash flows	26,214	28,670	9,621	14,720	30,723	23,886
FCFF	3,198	29,844	(29,443)	42,835	37,963	26,763
Net borrowings	10,406	(11,256)	40,070	(21,974)	(19,521)	(2,751)
FCFE	12,513	16,804	9,309	19,439	14,975	20,636
Net change in cash	1,713	3,818	5,695	1,153	2,155	273
Closing cash	3,818	5,695	1,153	2,155	273	3,733

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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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%

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