

Fauji Fertilizer Company Limited

Key Takeaways

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

Pakistan Research**Corporate Briefing Key Takeaways**

- FFC conducted an analyst briefing session today to discuss its 3QCY22 financial results and future outlook of the company and industry as well. Earlier, the company had reported an EPS of PKR 4.12, down 19% YoY in 3QCY22. Cumulative EPS for 9MCY22 declined by 7% YoY to PKR 11.67. During 9MCY22, company's cumulative payout came in at PKR 8.98 vs PKR 9.85 in 9MCY21.
- Decline in profitability was mainly due to lower sales, inflation and higher plant turn arounds this year.
- Company expects annual urea demand to remain at 6.5-6.6mn tons this year and next year as well. However, there are serious concerns on DAP demand consumption. Although, DAP prices reduced from PKR 13,000/bag to PKR 10,500/bag, but DAP consumption is still very low in the country. Annual sales of the DAP are expected to remain in the range of 1.4-1.5mn tons compared to 1.9mn tons in 2021. The management of the company is trying hard to aware the farmers that urea is not a substitute for DAP. Declining DAP consumption would be a biggest challenge for the country.
- The company is expecting smooth gas supply from MARI till 2030.
- Fertilizer industry is in talks with the government on the issue of gas price hike. The government is of the view that any hike in gas prices would not be pass on to the farmers. The company foresees around PKR 240-250/bag hike in urea cost.
- The government has so far imported 300k tons urea and is in process of further importing urea. At this point time, chances of exports are very low. However, urea is going out of the country through improper channels.
- Company's 100% subsidiary FFC energy is skipping payout as the company is investing in food business which will bear the fruits going forward. However, FFC has received dividend of around PKR 450mn in 3Q from recently acquired wind power plants. Management expects good return from wind projects going forward.
- The company does not pay any GIDC as it has taken stay order against the recovery. The case is still in the court.

Key Data

PSX Ticker	FFC
Target Price (PKR)	135
Current Price (PKR)	102
Upside/(Downside) (%)	32%
Dividend Yield (%)	17.9%
Total Return (%)	50%
12-month High (PKR)	129
12-month Low (PKR)	97
Outstanding Shares (mn)	1,272
Market Cap (PKR mn)	129,819
Year End	December

*Source: Company Accounts, Akseer Research***Saqib Hussain**saqib.hussain@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 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 June-23 PT of 135/share. Our price target offers upside of 32% along with a dividend yield of 17.9%. 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	CY22F	CY23F	CY24F
Net sales	105,783	97,655	108,651	127,675	129,839	131,780
Cost of sales	75,046	66,071	69,772	81,875	78,075	80,556
Gross Profit	30,737	31,583	38,879	45,800	51,764	51,224
SG & A	8,288	7,848	8,409	10,543	9,272	9,667
Operating Profit	22,449	23,735	30,470	35,256	42,492	41,557
Other income	7,191	6,429	7,919	14,499	12,434	12,941
Other charges	3,409	2,639	2,946	3,361	3,918	4,338
Finance cost	2,477	1,874	2,292	5,517	4,751	2,421
Unwinding of GIDC Liability	-	-	2,441	2,004	2,900	3,020
Profit before tax	23,753	29,591	30,339	38,874	43,356	44,719
Taxation	6,643	8,772	8,443	15,469	14,307	14,757
Profit after tax	17,110	20,819	21,896	23,405	29,048	29,962

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
PPE	22,212	22,841	23,987	22,788	21,876	21,439
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	73,968	73,409
Current assets	97,301	111,902	126,270	130,130	113,902	103,848
Total Assets	153,390	172,949	201,007	205,123	187,869	177,257
Non-Current liabilities	10,947	48,742	41,323	22,863	10,513	5,589
Current liabilities	106,876	81,671	112,169	130,105	119,372	107,575
Total Liabilities	117,823	130,413	153,492	152,968	129,884	113,164
Equity	35,567	42,536	47,514	52,155	57,985	64,093
Total Equity & liabilities	153,390	172,949	201,007	205,123	187,869	177,257

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net Income	17,110	20,819	21,896	23,405	29,048	29,962
Non-cash Charges	2,286	2,310	2,435	3,208	2,257	2,177
Operating Cash flows	28,670	9,621	37,332	39,673	26,666	19,120
FCFF	29,844	-29,443	10,667	40,179	47,604	32,839
Net borrowings	-11,256	40,070	7,941	-17,513	-21,688	-7,263
FCFE	16,804	9,309	16,954	19,344	22,733	23,955
Net change in cash	3,818	5,695	1,153	1,190	1,769	1,284
Closing cash	5,695	1,153	1,190	1,769	1,284	1,384

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

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