

## Fauji Fertilizer Bin Qasim Limited

### Result Review

PSX: FFBL Bloomberg: FFBL: PA Reuters: JORD: KA

Pakistan Research

## FFBL: 1QCY22 EPS clocked in at PKR 1.26; up 28% YoY

- FFBL announced its 1QCY22 results wherein the company posted an EPS of PKR 1.26, up 28% YoY as against an EPS of PKR 0.98 in 1QCY21. The result was below than our expectations mainly due to exorbitant increase in other expenses and higher tax charge.
- Net sales increased 91% YoY to PKR 24.8bn during 1Q, mainly driven by ~96% YoY increase in the DAP prices avg. to PKR 9,304/bag despite witnessing decline in offtake by 2% YoY to 114.6k tons.
- Gross margins improved to 21.7% YoY in 1Q, compared to 19.0% in SPLY, in line with the improvement in international DAP margins from USD 177/ton in 1QCY21 to USD 267/ton in 1QCY22.
- Other charges clocked in at PKR 949mn up 5.8x YoY, while the company recorded higher than expected effective tax rate of 36% in 1Q compared to 26% in SPLY. We await clarity in this regard.
- We recommend 'BUY' on FFBL with Dec-22 price target (PT) of PKR 34/share, offering an upside of 35.6% along with a dividend yield of 8.0%.

#### Key Data

PSX Ticker	FFBL
Target Price (PKR)	34
Current Price (PKR)	24.93
Upside/(Downside) (%)	35.6%
Dividend Yield (%)	8.0%
Total Return (%)	44%
12-month High (PKR)	28.70
12-month Low (PKR)	20.00
Outstanding Shares (mn)	1,291.25
Market Cap (PKR mn)	32,190
Year End	December

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	1QCY21	1QCY22	YoY
Net Sales	13,005	24,784	91%
Cost of Sales	10,528	19,395	84%
<b>Gross Profit</b>	<b>2,477</b>	<b>5,389</b>	<b>118%</b>
Distri. & Admin. Exp.	1,202	2,042	70%
Other Income	1,566	1,116	-29%
Other Charges	139	949	NM
Finance Cost	651	706	8%
Unwinding of GIDC payable	346	258	-25%
<b>Profit Before Tax</b>	<b>1,706</b>	<b>2,551</b>	<b>49%</b>
Taxation	440	924	110%
<b>Net Income</b>	<b>1,266</b>	<b>1,627</b>	<b>28%</b>
EPS	0.98	1.26	28%

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	(6.34)	2.35	4.95	5.70	5.14	4.77
EPS Growth	-512%	-137%	111%	15%	-10%	-7%
DPS	-	-	-	2.00	3.00	3.00
PER	(3.4)	9.18	4.35	3.78	4.19	4.52
Dividend Yield	0.0%	0%	0%	9%	14%	14%
EV/EBITDA	77.0	4.92	0.83	2.06	2.31	3.32
P/B	2.9	1.44	1.36	1.10	0.99	0.92
ROE	-86.6%	16%	31%	29%	24%	20%

Source: Company Accounts, Akseer Research

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### Valuation Basis

Our PT for Fauji Fertilizer Bin Qasim Limited (FFBL) has been computed using Free cash flow to equity (FCFE) method. We have used a risk-free rate of 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 34/share. Our PT offers an upside of 35.6% along with a dividend yield of 8.0%. Our investment case on FFBL is based on 1) higher international primary margins of DAP on the back of rise in global prices, 2) volumes sustainability and 2) attractive dividend yield.

### Risks

Downside risks to our investments thesis are: 1) gas supply curtailment, 2) lower than anticipated fertilizer demand, and 3) lower than expected fertilizer prices.

### Company Description

Fauji Fertilizer Bin Qasim is engaged in manufacturing, purchasing and marketing of fertilizers. Fauji Fertilizer Bin Qasim Limited has investment in other fertilizers, chemical, other manufacturing, energy generation, food processing and banking operations.

### Financial Highlights - FFBL

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net sales	66,839	83,234	110,452	129,746	107,019	110,027
Cost of sales	60,955	70,655	88,301	110,586	89,936	94,607
<b>Gross Profit</b>	<b>5,885</b>	<b>12,579</b>	<b>22,152</b>	<b>19,160</b>	<b>17,083</b>	<b>15,420</b>
SG & A	6,767	6,773	7,241	8,654	7,400	7,575
<b>Operating Profit</b>	<b>(883)</b>	<b>5,806</b>	<b>14,911</b>	<b>10,506</b>	<b>9,683</b>	<b>7,845</b>
Other income	4,370	5,184	9,111	7,025	6,275	6,242
Other charges	2,158	312	2,548	2,104	826	729
Finance cost	5,199	4,444	2,338	3,427	4,202	3,717
Unwinding of GIDC payable	-	2,741	1,254	1,375	1,581	973
<b>Profit before tax</b>	<b>(3,869)</b>	<b>4,893</b>	<b>11,525</b>	<b>10,626</b>	<b>9,349</b>	<b>8,668</b>
Taxation	2,052	2,700	5,134	3,266	2,711	2,514
<b>Profit after tax</b>	<b>(5,921)</b>	<b>2,192</b>	<b>6,391</b>	<b>7,360</b>	<b>6,638</b>	<b>6,154</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
PPE	10,428	11,252	10,575	10,698	10,823	10,949
Other LT assets	29,407	31,619	29,228	28,958	28,958	28,958
Non-Current Assets	39,835	42,871	39,803	39,656	39,781	39,907
Current assets	51,332	48,098	75,407	81,126	81,188	72,988
<b>Total Assets</b>	<b>91,167</b>	<b>90,968</b>	<b>115,210</b>	<b>120,781</b>	<b>120,969</b>	<b>112,895</b>
Non-Current liabilities	15,370	29,955	25,696	25,440	19,891	15,677
Current liabilities	68,962	47,054	69,083	70,124	73,096	66,956
<b>Total Liabilities</b>	<b>15,370</b>	<b>29,955</b>	<b>25,696</b>	<b>25,440</b>	<b>19,891</b>	<b>15,677</b>
Equity	6,834	13,959	20,431	25,218	27,982	30,263
<b>Total Equity &amp; liabilities</b>	<b>91,167</b>	<b>90,968</b>	<b>115,210</b>	<b>120,781</b>	<b>120,969</b>	<b>112,895</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net Income	(5,921)	2,192	6,391	7,360	6,638	6,154
Non-cash Charges	1,667	926	964	997	945	956
<b>Operating Cash flows</b>	<b>(16,295)</b>	<b>24,084</b>	<b>27,880</b>	<b>(6,813)</b>	<b>4,067</b>	<b>313</b>
<b>FCFF</b>	<b>(760)</b>	<b>25,334</b>	<b>18,449</b>	<b>(5,768)</b>	<b>5,874</b>	<b>1,762</b>
Net borrowings	<b>11,464</b>	<b>(8,522)</b>	<b>(6,151)</b>	<b>4,226</b>	<b>4,121</b>	<b>(6,180)</b>
<b>FCFE</b>	<b>2,748</b>	<b>14,821</b>	<b>11,001</b>	<b>(3,916)</b>	<b>7,012</b>	<b>(7,057)</b>
Net change in cash	1,605	19,754	11,082	(6,489)	3,138	(10,931)
<b>Closing cash</b>	<b>5,294</b>	<b>25,048</b>	<b>36,130</b>	<b>29,641</b>	<b>32,779</b>	<b>21,848</b>

Source: Company Accounts, Akseer Research

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