

## Fauji Fertilizer Bin Qasim Limited

### Result Review

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

Pakistan Research

## FFBL: 3QCY21 EPS clocked in at PKR 1.76; down 31% YoY

- FFBL announced its 3QCY21 results today wherein the company posted an EPS of PKR 1.76, down 31% YoY as against an EPS of PKR 2.56 in 3QCY20. Cumulatively, for 9MCY21 EPS stood at PKR 4.76 as compared to a LPS of PKR 0.7 posted in 9MCY20. The result was below our expectations mainly due to higher other expenses and impairment loss booked by the company during the 3Q.
- Net sales increased 53% YoY during 3QCY21, mainly driven by around 71% YoY increase in the DAP prices as the offtake remained sluggish (likely down 11% YoY).
- The lesser pace hike of 41% YoY in cost of sales due to high DAP primary margins led to gross margins accretion of 6.5pps to 22.2%, as compared to 15.7% booked in the SPLY.
- Other income increased 64% YoY to PKR 4.17bn during 3QCY21 likely due to one-ff gain booked on the sale of wind power projects.
- Finance cost, during the quarter, declined 31% YoY to PKR 0.6bn, owing to decline in the short term borrowing.
- The other expenses during 3QCY21 clocked in at PKR 4.2bn versus mere PKR 0.13bn recorded during 3QCY20, for which we await clarity from the management after the detailed publication of the accounts.
- The company also recorded an impairment of PKR 2.1bn on equity investment in Fauji Meat Ltd during the 3QCY21.
- The effective tax rate for the 3QCY21 came in at 38%, which was also on the higher side.
- We recommend 'BUY' on FFBL with our revised and rolled over June-22 price target (PT) of PKR 34/share. The new PT is offering an upside of 51% along with a dividend yield of 11%.

### Key Data

PSX Ticker	FFBL
Target Price (PKR)	34
Current Price (PKR)	23.07
Upside/(Downside) (%)	51%
Dividend Yield (%)	10.8%
Total Return (%)	62%
12-month High (PKR)	29.35
12-month Low (PKR)	19.25
Outstanding Shares (mn)	1,291.25
Market Cap (PKR mn)	29350
Year End	December

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	3QCY20	3QCY21	YoY	9MCY20	9MCY21	YoY
Net Sales	25,180	38,449	53%	49,962	68,367	37%
Cost of Sales	21,232	29,907	41%	44,642	53,852	21%
<b>Gross Profit</b>	<b>3,948</b>	<b>8,542</b>	<b>116%</b>	<b>5,320</b>	<b>14,515</b>	<b>173%</b>
Distri. & Admin. Exp.	1,891	1,920	2%	4,441	4,914	11%
Other Income	2,544	4,167	64%	4,232	8,216	94%
Other Charges	134	4,175	34.2x	1,451	4,604	217%
Finance Cost	811	560	-31%	3,538	1,820	-49%
<b>Profit Before Tax</b>	<b>3,923</b>	<b>3,648</b>	<b>-7%</b>	<b>123</b>	<b>8,318</b>	<b>NM</b>
Taxation	617	1,373	123%	1,025	2,168	112%
<b>Net Income</b>	<b>3,306</b>	<b>2,275</b>	<b>-31%</b>	<b>(902)</b>	<b>6,150</b>	<b>NM</b>
EPS	2.56	1.76	-31%	(0.70)	4.76	NM

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	1.08	1.54	(6.34)	2.35	11.15	6.25
EPS Growth	-25%	43%	-512%	-137%	375%	-44%
DPS	0.85	1.00	-	-	4.50	2.50
PER	15.0	14.0	(3.4)	9.2	1.9	3.4
Dividend Yield	3.9%	4.6%	0.0%	0.0%	20.9%	11.6%
EV/EBITDA	12.6	10.0	77.0	4.4	3.0	3.9
P/B	1.6	1.4	2.9	1.4	1.2	1.0
ROE	7.6%	10.3%	-86.6%	15.7%	63.8%	29.5%

Source: Company Accounts, Akseer Research

Muhammad Atif  
[muhammad.atif@akseerresearch.com](mailto:muhammad.atif@akseerresearch.com)

### 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 11.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17.0%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our Jun-22 PT of 34/share. Our PT offers an upside of 51% along with a dividend yield of 11%. 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)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net sales	52,733	61,511	66,839	116,776	108,158	112,152
Cost of sales	46,705	53,327	60,955	90,421	86,560	90,541
<b>Gross Profit</b>	<b>6,028</b>	<b>8,183</b>	<b>5,885</b>	<b>26,355</b>	<b>21,598</b>	<b>21,611</b>
SG & A	6,599	6,074	6,767	8,448	8,735	9,369
<b>Operating Profit</b>	<b>(571)</b>	<b>2,109</b>	<b>(883)</b>	<b>17,907</b>	<b>12,863</b>	<b>12,242</b>
Other income	4,377	3,182	4,370	9,516	4,580	4,868
Other charges	423	1,259	2,158	5,427	751	721
Finance cost	1,941	2,223	5,199	2,464	3,847	4,063
<b>Profit before tax</b>	<b>1,441</b>	<b>1,809</b>	<b>(3,869)</b>	<b>18,208</b>	<b>11,368</b>	<b>10,745</b>
Taxation	437	373	2,052	3,816	3,297	3,116
<b>Profit after tax</b>	<b>1,004</b>	<b>1,437</b>	<b>(5,921)</b>	<b>14,392</b>	<b>8,072</b>	<b>7,629</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
PPE	10,405	9,748	10,428	9,581	9,006	8,466
Other LT assets	24,487	27,145	29,407	34,478	34,478	34,478
Non-Current Assets	34,892	36,893	39,835	44,060	43,485	42,944
Current assets	30,760	43,471	51,332	50,165	51,578	54,797
<b>Total Assets</b>	<b>65,652</b>	<b>80,364</b>	<b>91,167</b>	<b>94,225</b>	<b>95,063</b>	<b>97,741</b>
Non-Current liabilities	15,858	17,032	15,370	27,724	15,862	4,279
Current liabilities	36,644	49,434	68,962	43,960	51,817	61,354
<b>Total Liabilities</b>	<b>15,858</b>	<b>17,032</b>	<b>15,370</b>	<b>27,724</b>	<b>15,862</b>	<b>4,279</b>
Equity	13,151	13,897	6,834	22,540	27,384	32,107
<b>Total Equity &amp; liabilities</b>	<b>65,652</b>	<b>80,364</b>	<b>91,167</b>	<b>94,225</b>	<b>95,063</b>	<b>97,741</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net Income	1,004	1,437	(5,921)	14,392	8,072	7,629
Non-cash Charges	1,600	1,634	1,667	1,427	1,341	1,261
<b>Operating Cash flows</b>	<b>10,558</b>	<b>(8,096)</b>	<b>(16,295)</b>	<b>(10,248)</b>	<b>6,963</b>	<b>4,565</b>
<b>FCFF</b>	<b>6,958</b>	<b>(4,049)</b>	<b>(760)</b>	<b>(10,126)</b>	<b>8,322</b>	<b>5,760</b>
Net borrowings	(7,271)	6,646	11,464	(938)	2,632	2,170
<b>FCFE</b>	<b>(1,665)</b>	<b>832</b>	<b>2,748</b>	<b>(13,011)</b>	<b>8,223</b>	<b>5,045</b>
Net change in cash	(2,276)	142	1,605	(18,821)	4,995	2,140
<b>Closing cash</b>	<b>3,547</b>	<b>3,690</b>	<b>5,294</b>	<b>6,227</b>	<b>11,222</b>	<b>13,362</b>

Source: Company Accounts, Akseer Research

**Disclaimer**

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (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 Alfa Adhi Securities 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](mailto:info@akseerresearch.com)

**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@alfaadhi.net](mailto:info@alfaadhi.net)