

FFBL: CY21 Analyst briefing key takeaways

- FFBL held its analyst briefing on January 31st, to discuss its CY21 financial results. The company reported net profit of PKR 6.3bn in CY21 compared to PKR 2.2bn in CY20.
- Increase in profitability is due to 1) record high DAP prices, 2) higher contribution from urea segment, 3) lower financial charges and 4) higher other income.
- Globally, DAP and Phosphoric acid prices witnessed record surge during CY21 where DAP prices rose from USD 433/ton to USD 915/ton. Similarly, phosphoric acid prices increased from USD 795/ton to USD 1,330/ton.
- Management informed that future contract of phosphoric acid may go up to USD 1,580/ton which will result in further hike in local DAP prices. The company is expecting DAP offtake to remain subdued owing to higher DAP prices.
- Company management is comfortable with the current performance of coal power plant, Fauji foods and PMP operations.
- FFBL has recorded expected credit loss on receivables from FML and it has been decided to convert loan of PKR 7bn to FML into equity. Furthermore, the management is considering number of options regarding Fauji Meat Ltd. (FML) including joint venture/ toll processing or divestment; however, no decision has been taken yet in this regard.
- The higher effective tax rate during 4QCY21 is attributable to normalization of tax rate as the company was earlier charged on turnover basis due to lower profitability. Moreover, increased tax on intra company dividend and sales to unregistered dealers led to higher taxation.
- Currently, the company is receiving gas in order to meet urea shortfall in the country, resultantly the company has postponed its annual plant turnaround in 1QCY22.

Key Data

PSX Ticker	FFBL
Target Price (PKR)	29
Current Price (PKR)	23.36
Upside/(Downside) (%)	23%
Dividend Yield (%)	16.1%
Total Return (%)	39%
12-month High (PKR)	29.35
12-month Low (PKR)	20.00
Outstanding Shares (mn)	1,291.25
Market Cap (PKR mn)	30,163.60
Year End	December

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 29/share. Our PT offers an upside of 23% along with a dividend yield of 16.1%. 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	CY21A	CY22F	CY23F
Net sales	61,511	66,839	83,234	110,452	108,965	105,059
Cost of sales	53,327	60,955	70,655	88,301	86,754	87,736
Gross Profit	8,183	5,885	12,579	22,152	22,211	17,323
SG & A	6,074	6,767	6,773	7,241	9,262	9,455
Operating Profit	2,109	(883)	5,806	14,911	12,949	7,868
Other income	3,182	4,370	5,184	9,111	5,451	6,369
Other charges	1,259	2,158	312	2,548	1,634	1,576
Finance cost	2,223	5,199	4,444	2,338	4,013	4,452
Unwinding of GIDC payable	-	-	2,741	1,254	1,477	1,581
Profit before tax	1,809	(3,869)	4,893	11,525	11,276	6,628
Taxation	373	2,052	2,700	5,134	3,270	2,553
Profit after tax	1,437	(5,921)	2,192	6,391	8,006	4,075

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
PPE	10,405	10,428	10,193	9,581	9,006	8,466
Other LT assets	24,487	29,407	31,619	32,318	32,318	32,318
Non-Current Assets	34,892	39,835	41,811	41,899	41,324	40,784
Current assets	30,760	51,332	49,157	49,337	50,006	48,409
Total Assets	65,652	91,167	90,968	91,236	91,330	89,193
Non-Current liabilities	15,858	15,370	29,955	27,738	15,895	4,320
Current liabilities	36,644	68,962	47,054	43,148	51,922	59,866
Total Liabilities	15,858	15,370	29,955	27,738	15,895	4,320
Equity	13,151	6,834	13,959	20,350	23,514	25,006
Total Equity & liabilities	65,652	91,167	90,968	91,236	91,330	89,193

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net Income	1,004	(5,921)	2,192	6,391	8,006	4,075
Non-cash Charges	1,600	1,667	1,667	1,427	1,476	1,244
Operating Cash flows	10,558	(16,295)	23,766	(13,315)	6,046	2,622
FCFF	6,958	(760)	25,334	(13,842)	7,389	3,687
Net borrowings	(7,271)	11,464	(8,522)	(1,447)	3,199	1,046
FCFE	(1,665)	2,748	14,821	(16,586)	7,739	1,996
Net change in cash	(2,276)	1,605	19,754	(16,586)	2,897	(587)
Closing cash	3,547	5,294	25,048	8,463	11,359	10,773

Source: Company Accounts, Akseer Research

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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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