

**Fauji Fertilizer Company Limited**  
Analyst Briefing Takeaways

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

**Pakistan Research**
**Analyst Briefing Key takeaways**

- FFC conducted its analyst briefing session today to discuss 4QCY22 financial results and future outlook of the company. Earlier, the company had reported an EPS of PKR 4.09, down 13% YoY in 4Q. Cumulative EPS for CY22 declined by 8% YoY to PKR 15.76. During CY22, company's cumulative dividend payout came in at PKR 12.13 vs PKR 14.50 in CY21.
- Gross margins of the company during 4Q contracted to 32% vs 39% in preceding quarter, owing to inventory loss of PKR 1.5bn incurred on DAP (PKR 2.2bn in CY22) and higher repair and maintenance charges (PKR 650mn) due to planned turnaround of Plant-I.
- Urea production of the company for CY22, declined by 4.4% YoY to 2.4mn tons due to breakdowns and planned turnaround.
- FFC, along with other fertilizer manufacturers, is undertaking a project with MARI amounting to USD 210mn to ensure smooth gas of supply to fertilizer manufacturers. Company would contribute USD 150mn in this project and expecting gas supply from MARI till 2030.
- Company has also entered into an arrangement with SNGPL for laying of a dedicated gas pipeline. This will serve as a backup line for the supply of gas/RLNG to its plant site at Mirpur Mathelo. The project cost is PKR 2bn.
- Resultantly, the company's dividend payout ratio during CY22 has declined to 77% vs 84% in CY21.
- Regarding the potential gas price hike, management apprised that any hike in gas prices would be passed on to the farmers.
- About company's investments, the management informed that Fauji Fresh n Freeze's new production line of 3 tons/hour has commenced production and the gross profits are up by 125%. Resultantly, operating losses declined by 60%. TEL has also achieved its COD in Oct, 2022.
- FFCEL and FWEL's (I & II) net profit increased by 17% & 198% respectively to PKR 2.5bn and PKR 3.16bn due to dollar denominated revenue streams.
- The management further said that they have a stay order on GIDC and the case is still in the court.

**Key Data**

PSX Ticker	FFC
Target Price (PKR)	110
Current Price (PKR)	104
Upside/(Downside) (%)	5%
Dividend Yield (%)	15.3%
Total Return (%)	21%
12-month High (PKR)	129
12-month Low (PKR)	98
Outstanding Shares (mn)	1,272
Market Cap (PKR mn)	132,618
Year End	December

Source: Company Accounts, Akseer Research

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### 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 17.0%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23.0%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-23 PT of 110/share. Our price target offers upside of 5% along with a dividend yield of 15.3%. 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	CY22A	CY23F	CY24F
Net sales	105,783	97,655	108,651	109,364	133,426	149,584
Cost of sales	75,046	66,071	69,772	69,317	86,379	102,864
<b>Gross Profit</b>	<b>30,737</b>	<b>31,583</b>	<b>38,879</b>	<b>40,046</b>	<b>47,047</b>	<b>46,720</b>
SG & A	8,288	7,848	8,409	10,108	9,184	9,725
<b>Operating Profit</b>	<b>22,449</b>	<b>23,735</b>	<b>30,470</b>	<b>29,939</b>	<b>37,863</b>	<b>36,995</b>
Other income	7,191	6,429	7,919	14,442	10,746	14,098
Other charges	3,409	2,639	2,946	3,037	3,397	3,872
Finance cost	2,477	1,874	2,292	4,868	7,112	6,188
Unwinding of GID	-	-	2,441	2,119	2,900	3,020
<b>Profit before tax</b>	<b>23,753</b>	<b>29,591</b>	<b>30,339</b>	<b>33,687</b>	<b>35,200</b>	<b>38,013</b>
Taxation	6,643	8,772	8,443	13,637	11,616	12,544
<b>Profit after tax</b>	<b>17,110</b>	<b>20,819</b>	<b>21,896</b>	<b>20,050</b>	<b>23,584</b>	<b>25,469</b>

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
<b>Total Assets</b>	<b>153,390</b>	<b>172,949</b>	<b>201,007</b>	<b>205,123</b>	<b>187,869</b>	<b>177,257</b>
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
<b>Total Liabilities</b>	<b>117,823</b>	<b>130,413</b>	<b>153,492</b>	<b>152,968</b>	<b>129,884</b>	<b>113,164</b>
Equity	35,567	42,536	47,514	52,155	57,985	64,093
<b>Total Equity &amp; liabilities</b>	<b>153,390</b>	<b>172,949</b>	<b>201,007</b>	<b>205,123</b>	<b>187,869</b>	<b>177,257</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net Income	17,110	20,819	21,896	20,050	23,584	25,469
Non-cash Charges	2,286	2,310	2,435	2,444	2,352	2,219
<b>Operating Cash flows</b>	<b>28,670</b>	<b>9,621</b>	<b>37,332</b>	<b>38,294</b>	<b>16,930</b>	<b>11,261</b>
<b>FCFF</b>	<b>29,844</b>	<b>-29,443</b>	<b>10,667</b>	<b>60,083</b>	<b>21,517</b>	<b>28,267</b>
Net borrowings	-11,256	40,070	7,941	-27,951	-5,171	-3,749
<b>FCFE</b>	<b>16,804</b>	<b>9,309</b>	<b>16,954</b>	<b>29,234</b>	<b>11,581</b>	<b>20,372</b>
Net change in cash	3,818	5,695	1,153	1,190	14,521	5,747
<b>Closing cash</b>	<b>5,695</b>	<b>1,153</b>	<b>1,190</b>	<b>14,521</b>	<b>5,747</b>	<b>4,491</b>

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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