

Fauji Fertilizer Company Limited
Result Review

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

Pakistan Research

4QCY22 EPS settled at PKR 4.1, down 13% YoY; DPS at PKR 3.15

- FFC announced its 4Q financial results today, wherein the company reported profit after tax of PKR 5.2bn (EPS PKR 4.09), down 13% YoY. This takes cumulative CY22 EPS to PKR 15.76, down 8% YoY. Along with the result, company announced final dividend of PKR 3.15/share, taking CY22 cumulative DPS to PKR 12.13.
- Topline of the company decreased by 14% YoY to PKR 30.2bn due to lower Urea (-4% YoY) and DAP (-85% YoY) offtake during 4Q.
- Despite higher product prices, gross margins declined to 32.2% during 4Q vs 32.8% in SPLY. This is mainly due to increase in repair and maintenance expense.
- Distribution cost increased to PKR 3.2bn, up 35% YoY in 4Q, primarily due to higher transportation charges and inflationary pressures.
- Other income doubled during the quarter to PKR 4.1bn vs 2.0bn in SPLY on the back of higher returns on investment portfolio.
- Finance cost increased by 95% YoY to PKR 1.6bn in 4Q owing to increased borrowings coupled with higher interest rates.
- We maintain our 'BUY' recommendation on FFC with Dec-23 price target (PT) of PKR 110/share. The stock is offering an upside of 7% along with dividend yield of 15.8%.

Key Data

PSX Ticker	FFC
Target Price (PKR)	110
Current Price (PKR)	103
Upside/(Downside) (%)	+ 7%
Dividend Yield (%)	15.8%
Total Return (%)	+ 23%
12-month High (PKR)	129
12-month Low (PKR)	98
Outstanding Shares (mn)	1,272
Market Cap (PKR mn)	130,850
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QCY21	4QCY22	YoY	CY21	CY22	YoY
Net Sales	35,059	30,184	-14%	108,651	109,364	1%
Cost of Sales	23,556	20,478	-13%	69,772	69,317	-1%
Gross Profit	11,502	9,706	-16%	38,879	40,046	3%
Distribution cost	2,359	3,186	35%	8,409	10,108	20%
Unwinding of GIDC liability	627	529	-16%	2,441	2,119	-13%
Other Income	2,005	4,153	107%	7,919	14,442	82%
Other Charges	844	764	-9%	2,946	3,037	3%
Finance Cost	840	1,641	95%	2,292	4,868	112%
Profit Before Taxation	8,468	7,419	-12%	30,339	33,687	11%
Taxation	2,460	2,213	-10%	8,443	13,637	62%
Net Income	6,008	5,206	-13%	21,896	20,050	-8%
EPS	4.72	4.09	-13%	17.21	15.76	-8%
DPS	4.65	3.15	-	14.50	12.13	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
EPS	13.4	16.4	17.2	15.8	19.2	19.7
EPS Growth	18.5%	21.7%	5.2%	-8.4%	21.9%	2.8%
DPS	10.8	11.2	14.5	12.5	16.3	16.8
PER	7.6	6.3	6.0	6.5	5.4	5.2
Dividend Yield	10.5%	10.9%	14.1%	12.2%	15.8%	16.3%
EV/EBITDA	4.5	3.4	2.9	2.7	2.4	2.9
P/B	3.7	3.1	2.8	2.5	2.4	2.2
ROE	48.1%	48.9%	46.1%	38.8%	44.1%	42.4%

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 7% along with a dividend yield of 15.8%. 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	130,712	135,326
Cost of sales	75,046	66,071	69,772	69,317	82,949	90,435
Gross Profit	30,737	31,583	38,879	40,046	47,762	44,891
SG & A	8,288	7,848	8,409	10,108	9,139	9,544
Operating Profit	22,449	23,735	30,470	29,939	38,623	35,347
Other income	7,191	6,429	7,919	14,442	10,276	13,529
Other charges	3,409	2,639	2,946	3,037	3,478	3,835
Finance cost	2,477	1,874	2,292	4,868	6,058	4,529
Unwinding of GIDC Liability	-	-	2,441	2,119	2,900	3,020
Profit before tax	23,753	29,591	30,339	33,687	36,464	37,492
Taxation	6,643	8,772	8,443	13,637	12,033	12,372
Profit after tax	17,110	20,819	21,896	20,050	24,431	25,119

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
PPE	22,212	22,841	23,987	22,788	22,332	21,886
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	74,423	73,856
Current assets	97,301	111,902	126,270	117,947	115,013	102,668
Total Assets	153,390	172,949	201,007	192,940	189,437	176,524
Non-Current liabilities	10,947	48,742	41,323	22,854	10,501	5,575
Current liabilities	106,876	81,671	112,169	118,425	123,517	111,720
Total Liabilities	117,823	130,413	153,492	141,279	134,018	117,295
Equity	35,567	42,536	47,514	51,661	55,419	59,229
Total Equity & liabilities	153,390	172,949	201,007	192,940	189,437	176,524

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	24,431	25,119
Non-cash Charges	2,286	2,310	2,435	2,444	2,352	2,219
Operating Cash flows	28,670	9,621	37,332	38,294	18,440	13,575
FCFF	29,844	-29,443	10,667	60,083	22,320	29,469
Net borrowings	-11,256	40,070	7,941	-27,951	-6,715	-7,550
FCFE	16,804	9,309	16,954	29,234	11,547	18,885
Net change in cash	3,818	5,695	1,153	1,190	14,521	5,395
Closing cash	5,695	1,153	1,190	14,521	5,395	2,970

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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