



Fauji Fertilizer Bin Qasim Limited (FFBL)
Worth one's weight in gold
Target Price: PKR 28.4/share | Upside : 36.4%



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- **We re-initiate our coverage on FFBL with a SOTP target price of PKR28.4/share, that translates into an upside of 36.4% from the last day closing price. Our TP warrants a BUY call on the scrip. FFBL being the sole producer of DAP fertilizer in the country is likely gain higher market share at a time when imports are strongly discouraged by the government given external account challenges. While FFBL's core urea and DAP business operates at full throttle, dividend income stream from PMP and AKBL is likely to augment the bottom-line further.**
- **Urea and DAP business remain robust:** FFBL's core business of urea and DAP remain resilient in face of macroeconomic headwinds, with urea plant running at full capacity and DAP volumes only taming slightly despite a more than 3x increase in prices. FFBL is the sole producer of DAP in Pakistan, catering to more than 42% of the local demand (CY21). As the sole producer, FFBL has increased its reliance on its phosphate sales over the years. As a result, we see a revenue mix that is clearly skewed in favour of the company's DAP business. We believe that the company made a conscious decision to focus on phosphate production primarily because DAP is less feed-gas intensive. In a constricted feed gas environment over the last few years, the company's management clearly wanted to take advantage of the scale benefit from greater DAP production
- **Higher core delta likely to remain firm over the short to medium term:** The DAP fertilizers are produced by mixing phosphoric acid with ammonia. Phos acid, being the main raw material for the manufacturing of DAP, is a key trigger for the fertilizer's pricing strategy. One metric ton of DAP uses around 0.48 metric ton of phos acid, for the reason the primary margins (i.e. the difference between DAP prices and phos acid prices) are to be closely monitored, any volatility in the prices directly impact the gross profit. This price level is likely to last if global DAP and phosphoric acid prices remain fairly stable from here, which may be the case due to higher energy prices (natural gas and coal) amid Russia-Ukraine unrest, further supported by elevated crop prices. However, to remain conservative in our estimates, we have normalized the margins from CY23 and onwards
- **Dividend stream from PMP and AKBL:** While FFBL's investments in the food and meat businesses continue to struggle, the company continues to enjoy dividend from its investment in the JV (PMP), AKBL and Fauji power company. The three ventures hold strong footing in their respective areas and have history of consistent dividends ever since they turned profitable. The ventures are likely to post healthy profits and subsequent dividends in the foreseeable future, further enhancing the profitability of the company on an unconsolidated basis
- **Foray into meat and foods business:** Over the years, FFBL has deployed its funds into other group companies and built up strategic stakes. FFBL entered into the consumer sector with the: 1) incorporation of Fauji Meat Limited (FML) in 2013; and 2) acquisition of Noon Pakistan now known as Fauji Foods limited (FFL)
 - **FML:** FFBL has invested and set-up Fauji Meat Limited (FML) which is a halal meat slaughtering and processing facility, commencing its commercial operations in Jan'17. Currently, FML is making a loss owing to low economies of scale as the firm is still at its growth stage. Despite this, FFBL is not committing additional funds to FML as company has taken debt on its own books to continue operations
 - **FFL:** Fauji Foods Limited (FFL) is engaged in the production of dairy products and juices. The company is currently in an expanding phase and is increasing its business by introducing new products, tapping new as well as existing markets, and building its strong distribution networks. However, due to expansions being underway and a competitive segment that the company operates in, the company is currently making a loss. We believe the losses will level off in the coming years

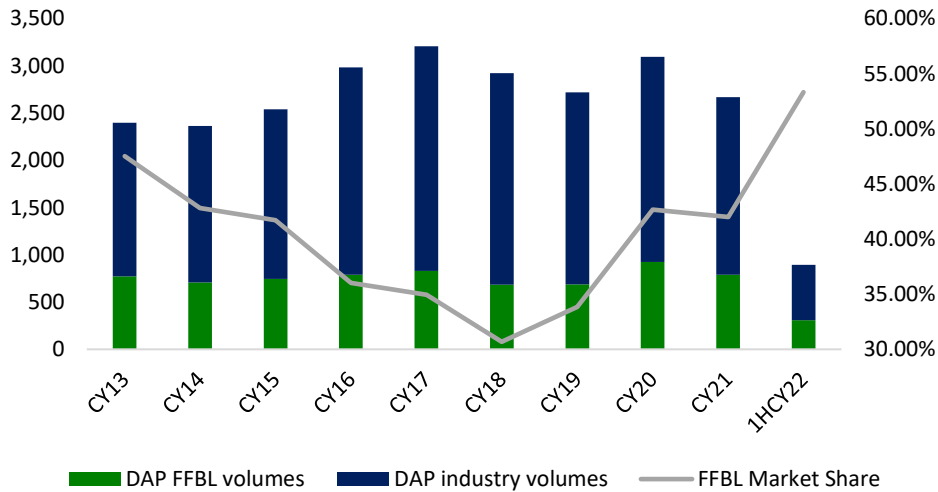
FFBL | Target Price: PKR 28.4/share | Upside : 36.4%

- **Key risks to our investment case:**

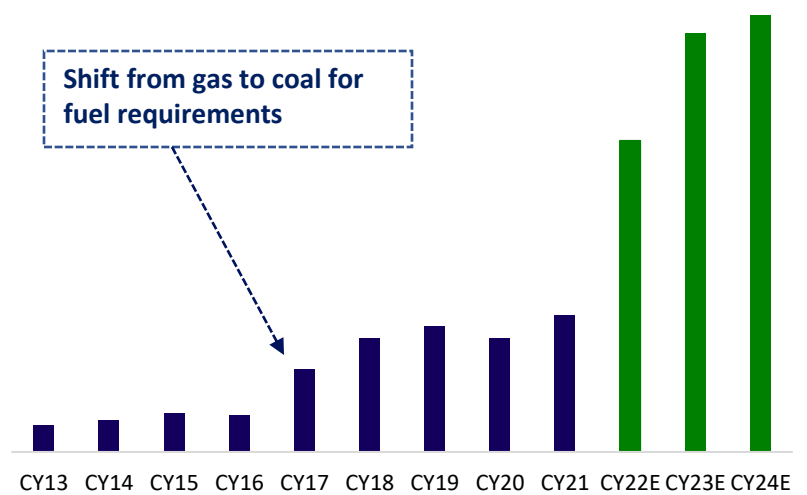
- Squeeze in primary margins due to higher than expected energy (coal) cost and/or Phos acid price volatility
- Lower than expected volumes because of significantly higher DAP prices
- Sharp correction in DAP prices that might result in inventory losses for the company
- Any further injection of equity in the loss making businesses (FML and FFL)

FFBL | Key Performance Indicators - KPIs

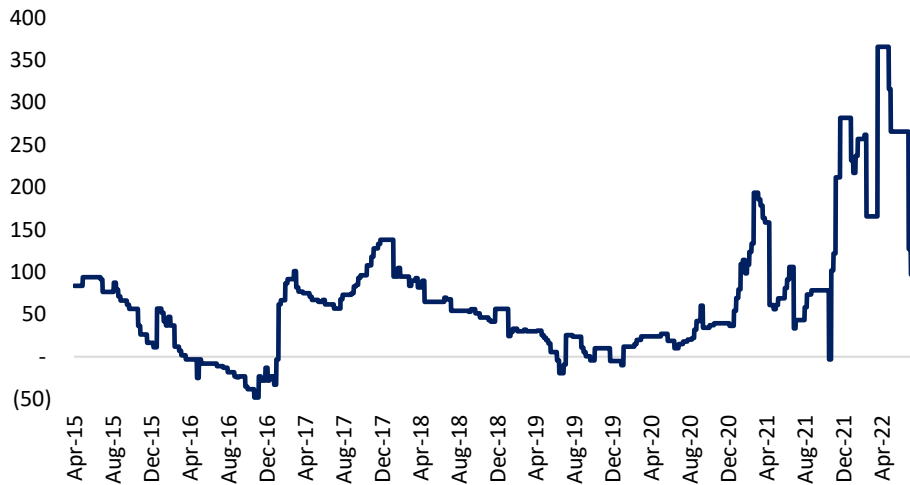
Industry DAP sales vs FFBL DAP sales



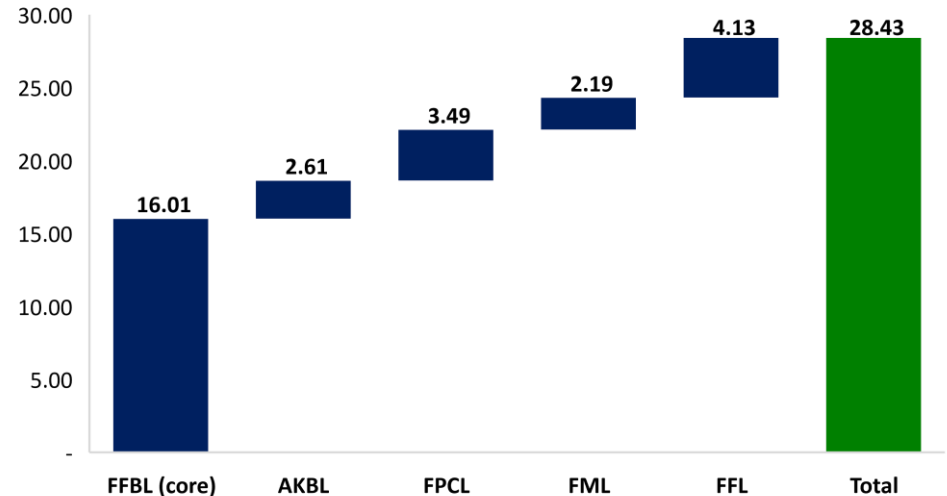
FFBL Fuel Cost (PKRmn)



Core delta for DAP fertilizer (USD/ton)



FFBL's SOTP Valuation (PKR/share)

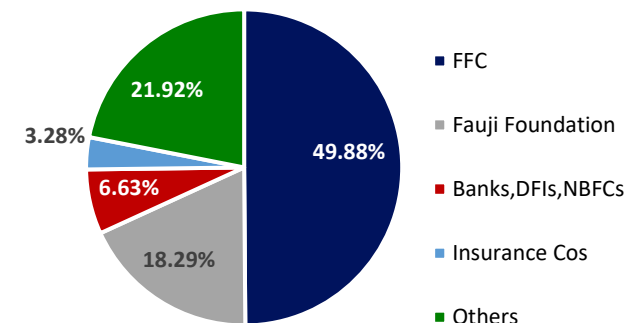


FFBL | Key Financials & Market Data

FFBL	CY19	CY20	CY21	CY22E	CY23E	CY24E
EPS (PKR)	(4.59)	1.70	4.95	6.82	4.25	5.86
BVPS (PKR)	5.29	10.81	15.82	22.64	26.89	32.76
P/E (x)	N/A	11.94	5.00	3.05	4.91	3.55
P/B (x)	4.72	1.87	1.56	0.92	0.77	0.64
ROA	-6.5%	2.4%	5.5%	5.0%	3.1%	4.1%
ROE	-86.6%	15.7%	31.3%	30.1%	15.8%	17.9%
Volumes urea (ktons)	508	559	501	551	551	551
Volumes DAP (ktons)	688	926	790	716	681	681

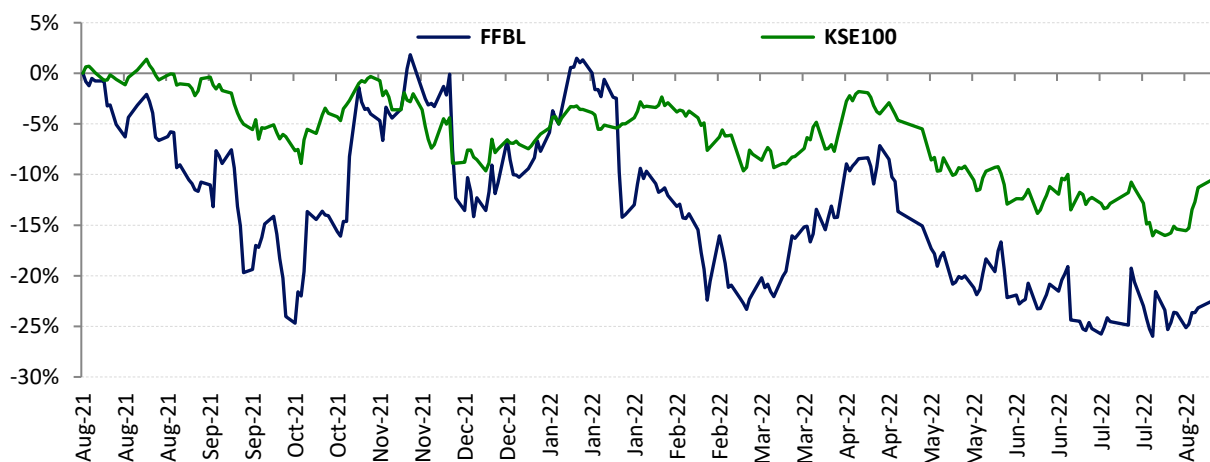
Source : Company Accounts, Fortune Research

Shareholding Pattern (as of CY21)



Source : Company Accounts, Fortune Research

52 week Relative Performance (FFBL vs KSE 100 index)



Valuation

DCF Valuation of Core operations	CY23E	CY24E	Terminal
FCFE	(2,466)	5,655	35,299
Discounting Factor for Jun'23 TP	0.50	1.50	1.50
Discounted Cashflows	(2,256)	4,329	27,021
Equity Value	29,094		
Assumptions			
Growth Rate			3.00%
Risk free rate			13.50%
Beta (x)			1.00
Cost of Equity			19.50%
Target Price Jun'23) PKR/share	22.5		

P/E Valuation of Core operations	CY23E	CY24E
EPS (PKR)	4.25	5.86
Discounted P/E (x)	4.59	
Average EPS (CY23-CY24)	5.06	
Target Price Jun'23) PKR/share	23.2	

Blended TP for Core operations	
P/E (PKR/share)	23.22
DCF (PKR/share)	22.53
Target Price Jun'23) PKR/share	22.87

SoTP Valuation - FFBL	Valuation Methodology	Market/Book Value adjusting for stake (PKRmn)	Target Price
FFBL (core operations including PMP)	Blend of DCF and P/E		22.87
Askari Bank (21.57%)	Market Value	4,820	3.73
Fauji Power	Book Value	6,441	4.99
Fauji Meat	Book Value	4,032	3.12
Fauji Foods (71.63%)	Market Value	7,614	5.90
<i>Applying 30% conglomerate discount</i>			<i>(12.18)</i>
SoTP (Jun'23) PKR/share			28.43
<i>Upside from Last closing</i>			<i>36.41%</i>

Financials – (1/3)

Income Statement	CY19	CY20	CY21	CY22E	CY23E	CY24E
Net sales	66,839	83,234	110,451	191,026	212,837	223,680
Cost of sales	(60,954)	(70,654)	(88,301)	(164,272)	(197,453)	(206,995)
Gross profit	5,885	12,580	22,150	26,754	15,384	16,685
Other income	4,371	5,186	9,122	7,632	6,434	7,451
Total Income	10,256	17,766	31,272	34,386	21,818	24,136
Selling/distribution expenses	(5,345)	(5,286)	(5,641)	(6,312)	(5,853)	(6,151)
Administrative expenses	(1,421)	(1,257)	(1,600)	(1,885)	(2,322)	(2,386)
Other charges	(638)	(1,765)	(6,813)	(4,541)	(718)	(961)
Gidc payable	(1,520)	(119)	(3,357)	(1,000)	(998)	(1,000)
EBIT	1,332	9,339	13,861	20,648	11,926	13,638
Financial charges	(5,198)	(4,444)	(2,338)	(3,777)	(3,738)	(2,338)
Profit before tax	(3,866)	4,895	11,523	16,871	8,188	11,299
Taxation	(2,053)	(2,701)	(5,134)	(8,062)	(2,702)	(3,729)
Profit after tax	(5,919)	2,194	6,389	8,809	5,486	7,571
EPS (PKR)	(4.58)	1.70	4.95	6.82	4.25	5.86
DPS (PKR)	-	-	-	-	-	-

Financials – (2/3)

Balance Sheet (PKRmn)	CY19	CY20	CY21	CY22E	CY23E	CY24E
Non - Current Assets						
Property plant & equipment	10,428	11,252	10,575	10,240	10,240	10,240
Investment properties	-	-	270	270	270	270
Long-term investments	26,180	24,546	25,610	29,641	29,641	29,641
Long-term loans	3,130	6,990	3,231	-	-	-
Long-term deposits & advances	97	82	118	100	100	100
Deferred tax asset	-	-	-	-	-	-
Total non-current assets	39,835	42,870	39,804	40,251	40,251	40,251
Current Assets						
Trade debts	8,607	1,656	94	1,825	2,036	2,176
Stock in trade	14,756	2,862	8,388	49,279	51,960	54,699
Stores spares and loose tools	2,989	1,835	1,794	1,788	1,793	1,792
Deposits advances prepayments & other receivables	7,061	6,043	5,315	13,738	13,738	13,738
Short term loans	-	-	-	-	-	-
Current portion of long-term loans	-	-	-	-	-	-
Cash & bank balances	5,294	25,048	36,130	51,088	48,895	54,823
Short term investments	1,009	-	10,442	484	484	484
Other current assets	11,616	10,653	13,244	17,515	17,515	17,515
Total current assets	51,332	48,098	75,407	135,717	136,420	145,226
Total assets	91,167	90,968	115,211	175,968	176,671	185,477

Source : Company Accounts, Fortune Research

Financials – (3/3)

Current Liabs						
Trade and other payables	34,993	21,638	46,786	109,030	109,198	120,557
Accrued mark-up/interest	962	445	224	466	466	466
Advances/deposits from customers and dealers	83	2,204	5,765	2,172	2,172	2,172
Taxes payable	-	-	502	2,948	2,948	2,948
Short-term debt	28,227	15,822	10,988	8,773	9,070	9,062
Current portion of long-term debt	4,567	6,817	4,692	5,248	5,248	380
Current portion of deferred credit	-	-	-	-	-	-
Dividends payable	130	128	128	128	128	128
Total current liabilities	68,962	47,054	69,085	128,765	129,230	135,713
Non-current Liabs						
Long-term debt	13,792	15,425	16,233	10,876	5,628	380
Deferred liabilities	1,579	2,382	1,644	7,086	7,086	7,086
Deferred credit	-	-	-	-	-	-
Other non-current liabilities	-	12,148	7,819	-	-	-
Total non-current liabilities	15,371	29,955	25,696	17,962	12,714	7,466
Total liabilities	84,333	77,009	94,781	146,727	141,944	143,179
Total equity	6,834	13,960	20,431	29,241	34,727	42,298

Source : Company Accounts, Fortune Research

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Valuation Methodology

To arrive at period-end Target Price(s), FSL uses different valuation methodologies:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (PE, PB, PS, PCF)
- Equity and Asset return based methodologies (EVA, RI, etc.)

Key Risks

- Squeeze in primary margins due to higher than expected energy (coal) cost and/or Phos acid price volatility
- Lower than expected volumes because of significantly higher DAP prices
- Sharp correction in DAP prices that might result in inventory losses for the company
- Any further injection of equity in the loss making businesses (FML and FFL)

Acronyms

bps	basis points	LCY	Local Currency
BVPS	Book Value per share	MRP	Market risk premium
CAGR	Compounded Annual Growth Rate	NAV	Net Asset Value
CAPM	Capital Asset Pricing Model	NPV	Net Present Value
DCF	Discounted Cash Flow	PB	Price-to-Book Value
DDM	Discounted Dividend Model	PCF	Price-to-cash flow
DE	Debt-to-Equity	PE	Price-to-Earnings
DPS	Dividend per share	PKR	Pakistani Rupee
DY	Dividend yield	ppt	percentage point
EPS	Earnings per share	PS	Price-to-Sales
EUR	Euro	PV	Present Value
EV	Enterprise Value	RFR	Risk-free rate
EVA	Economic Value Added	RI	Residual Income
FCF	Free Cash Flow	ROA	Return on Assets
FCFE	Free Cash Flow to Equity	ROE	Return on Equity
FCFF	Free Cash Flow to Firm	SOTP	Sum of the Parts
FCY	Foreign Currency	TP	Target Price
g	Growth	TSR	Total Stock Return
IRR	Internal Rate of Return	USD	US Dollars
JPBV	Justified Price-to-Book Value	WACC	Weighted average cost of capital

Rating

BUY	TSR > 15%
HOLD	-10% > TSR > 15%
SELL	TSR < -10%
NR	Not Rated

TSR = Capital gain + DY

Old Rating

Overweight	TSR > 15%
Marketweight	0% > TSR > 15%
Underweight	TSR < 0%

Disclosure

The investment recommendation(s) take into account both risk and expected return. FSL based the long-term Target Price estimate on fundamental analysis of the subject security(ies)'s future prospects, after having taken perceived risks into consideration. FSL have conducted extensive research to arrive at the investment recommendation(s) and target price(s) for the subject security (ies). Readers should understand that financial projection(s), target price estimate(s) and statement(s) regarding future prospects may or may not be realized. Forward looking statement(s), opinion(s) and estimate(s) included in this report constitute FSL's judgment as of this date and are subject to change without prior notice. The target price(s) stated in reports on company update(s), initiation(s) and corporate action adjustment(s) of stocks listed on the PSX are on a 12-month basis. All other reports on PSX-listed securities, such as scoops, sector or company commentaries, do not include, denote, or imply any changes to target price(s).

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