

Day Break

Tuesday, 06 April 2021

COMPANY UPDATE

Fauji Fertilizer Bin Qasim Limited

Fertilizer

| | |
|------------------------|----------------------|
| Recommendation | BUY |
| Target Price: Dec-21 | 33.0 |
| Last Closing: 1-Mar-21 | 26.7 |
| Upside (%): | 23.7 |
| Valuation | Discounted Cash Flow |
| Methodology: | (DCF) |
| Time | 10M |

Market Data

| | |
|----------------------------|----------------|
| Bloomberg Tkr. | FFBL PA |
| Shares (mn) | 1,291.3 |
| Free Float Shares (mn) | 326.9 |
| Free Float Shares (%) | 25.3% |
| Market Cap (PKRbn USDmn) | 34.4 206 |
| Exchange | KSE 100 |
| Price Info. | 90D 06M 12M |
| Abs. Return | 5.0 40.9 90.6 |
| Lo | 24.2 17.7 13.4 |
| Hi | 28.8 28.8 28.8 |

Key Company Financials

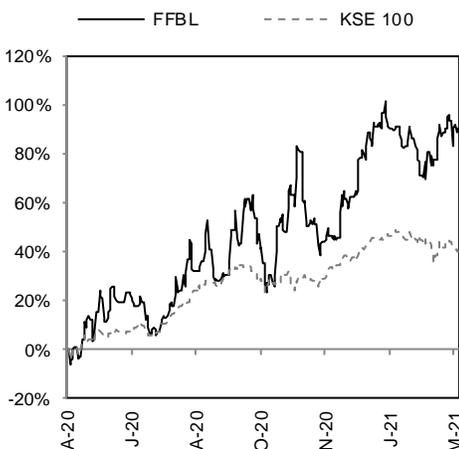
Period End: Dec

| PKRbn | 2019a | 2020a | 2021f | 2022f |
|---------------|-------|-------|-------|-------|
| Total Revenue | 66.8 | 83.2 | 87.1 | 85.9 |
| Net Income | (5.9) | 2.2 | 6.7 | 4.5 |
| EPS (PKR) | (4.6) | 1.7 | 5.2 | 3.5 |
| DPS (PKR) | - | - | - | 1.8 |
| Total Assets | 91.2 | 91.0 | 84.3 | 71.1 |
| Total Equity | 6.8 | 14.0 | 19.4 | 21.5 |

Key Financial Ratios

| | | | | |
|---------|-------|------|------|------|
| ROE (%) | 10.6 | n.m. | 21.1 | 39.9 |
| P/E (x) | - 5.8 | 15.7 | 5.2 | 7.7 |
| P/B (x) | 2.5 | 5.0 | 2.5 | 1.8 |
| DY (%) | - | - | - | 6.6 |

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Fertilizers

FFBL: Earnings revised upwards on improved DAP margins

- ✓ We have enhanced our earnings for Fauji Fertiliser Bin Qasim Company Limited (FFBL) by 2x for CY21F.
- ✓ Our investment case is premised on 1) Improved primary margins for DAP 2) high pricing power 3) growth in 'other income' 4) favourable dynamics surrounding subsidiaries 5) enhanced liquidity situation.
- ✓ We maintain our liking for the Company as substantial rise in DAP prices would benefit the company's core operations of DAP manufacturing.
- ✓ Our Dec-20 revised target price of PKR 33/share offers 22% upside from last close with CY21F P/E of 5.2x.

Earnings revised to reflect better outlook

We have revised up our earnings estimates 2 x to a target price of PKR 33 for Fauji Fertiliser Bin Qasim Company Limited (FFBL), offering +22% upside from its last closing price of PKR 26/share. Therefore we reiterate a 'buy' call on the script.

Our earnings revision mainly incorporates improved primary margins for DAP, high pricing power, growth in 'other income', favourable dynamics surrounding subsidiaries and enhanced liquidity situation.

- **Global supply shock led to significant increase in Phosphate nutrients demand in US, Brazil & India:** Starting Jun-20 onwards, demand of phosphate has been on rise, particularly due to higher domestic crop prices in key crop growing economies. Moreover recently, imposition of import tariffs on phosphate from Morocco and Russia further led to a tighter phosphate supply situation in US. Similarly, Brazil too witnessed a significant demand increase as domestic crop prices rose, led by depreciating Brazilian Real.
- **International DAP prices reach a multi-year high level:** As a result of this upsurge in demand, DAP prices have shot up significantly from USD 361/ton (USA) and USD 381/ton (Middle East) by an average +61% and +39% to USD 580/ton and USD 528/ton respectively since Mid of Dec-20. However on contrary phosphoric acid prices have risen only 15% to USD 795/ton from USD 689/ton in the same period. However, since Feb-21 onwards (lunar holiday), previously lagging China phosphate exports have now started to pick up pace. Moreover, going forward, production capacity for phosphate and other fertiliser nutrients are also expected to come online in India by the end of 1H2021, which combined with China exports should ease up supply concerns in our view.
- Hence we suspect further DAP price increase is unlikely and prices will likely oscillate in the range of USD 500-540/ton (Middle East) at least till 1H2021 till the supply fully restore.
- **Rising DAP margins amidst commodity shortage to buttress FFBL's bottom-line:** Reflecting the global DAP prices trend, domestic DAP prices have risen from PKR 4,005/bag (Sona DAP) in mid Dec-20 to PKR 5,438/bag – an increase of +36% - presenting FFBL, the sole DAP manufacturer in the country, with an opportunity to capitalize on this price increase. We foresee

higher than average primary margins of USD 169/ton (DAP price of USD 528/ton and phosphoric acid price of USD 795/ton) to serve to strengthen FFBL's profitability.

- **Favourable dynamics ahead for subsidiaries:** To recall, the company took an impairment charges of PKR ~3.6bn and PKR ~0.4bn on account of its investment in Fauji Meat Limited (FML) and Fauji Foods Limited (FFL) respectively.

As per the management, the outlook for both companies looks promising now. The company has already raised capital for FML via right issue (PKR ~4.9bn) and has been undertaking cost cutting measures since 2020 by a way of closing down inefficient operations of FML. Similarly for FFL, management hopes to bring in operational efficiencies; via improvement and enhancing its milk collection. In that respect the company has recently made key changes in the management, including appointment of new chief executive officer.

- **'Other Income' to thwart liquidity concerns:** Recent decision regarding of GIDC payments now paints a much clearer picture, whereby we expect paints much clarity on paints a more certain picture whereby we estimate cash outflow of PKR ~5.0bn annually for the next 3years. For that matter, we see prospective sale of Wind Power project; Foundation Wind Energy (FWE) I & II, the company will be able to bag in roughly PKR 2.5bn (based on at cost) in 2021. This to an extent will provide some cash buffer in lieu of GIDC payment.

FFBL to increase its eps three-fold in 2021 to PKR 5.2/share

For 2021, we project company's eps to print a three-fold growth to PKR 5.2 compare to PKR 1.7 in 2020. This will be one of the highest eps posted by the company since 2011.

Company's top line is estimated to show a +5% y/y growth whereby taking an average 750kt (926kt in 2020) sale of dap during 2021. However on gross margins we expect almost 200bps improvement to 17% (15% in 2020).

Moreover, we expect further support to company's bottom-line will come up in shape of reduced finance cost amid a) lower interest rates, and b) reduced loans.

Key one-time catalysts include: Sale of Foundation Wind Energy I&II.

| Exhibit: FFBL Financial snapshot | | | | | | |
|---|-------|-------|-------|-------|-------|-------|
| in PKR/share | | | | | | |
| | 2018A | 2019A | 2020A | 2021F | 2022F | 2023F |
| EPS | 1.1 | (4.6) | 1.7 | 5.2 | 3.5 | 3.0 |
| EPS growth | 43% | n.m. | n.m. | 204% | -33% | -15% |
| DPS | 1.0 | - | - | - | 1.8 | 1.8 |
| P/Ex | 24.0 | n.m. | 15.7 | 5.2 | 7.7 | 9.0 |
| D/Y% | 3.7% | 0.0% | 0.0% | 0.0% | 6.6% | 6.6% |

Source: IGI Research, Company Financials

Recommendation

Amid rise in international dap prices and better dap offtake, company's stock price since Dec-20 started have posted a +35% growth to PKR 27/share. We believe company stock price has more to offer in 2021, and current price does not justify improved operational outlook of the company. Using a 14% cost of equity our Dec-21, discounted free cash flow based target price arrives at PKR 33/share (core operations PKR 13/share and portfolio PKR 20/share) offering a decent upside of +22% from current price of PKR 27/share.

Key Risks: Changes in Phosphoric acid prices, change in dap margins, gas tariff, and interruption in gas supply leading to a plant closure. On macro, exchange rate depreciation positively impacts company's eps.

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|----------------|--|
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Time Horizon: Dec – 2020

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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