

Fauji Fertilizer Company Limited
Result Review

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

Pakistan Research

CY18 higher margins accelerated net earnings to PKR 11.35/share, up 35% YoY

- FFC announced its CY18 financial results where company's net earnings increased 35% YoY to PKR 11.35/share, while 4QCY18 earnings clocked in at PKR 4.65/share, up 24% YoY. The company also announced final cash dividend of PKR 3.90/share, which takes full year cash payout to PKR 8.85/share.
- The result was above our expectations due to above expected other income and lower than expected finance cost.
- Company's net sales increased 17% YoY during CY18, in line with our expectations, which was followed by higher fertilizer prices during the year where urea prices increased 27% YoY to settle in at PKR 1,793/bag in Dec-18, notwithstanding the decline in urea offtake by 6% YoY during the same period.
- Gross margins remained in line with our estimates, up 6pps YoY to 26.4% during CY18 on the back of higher retention prices.
- Other income declined 39% YoY in CY18 to PKR 6.28bn which we attribute towards higher dividend income from subsidiaries in the 4QCY18.
- Finance cost decreased 34% YoY during CY18 likely due to repayment of interest-bearing liabilities during the period.
- We maintain our HOLD recommendation on FFC. Our Jun-19 PT of PKR 107/share indicates an upside of 2% along with a dividend yield of 10%.

Key Data

PSX Ticker	FFC
Target Price (PKR)	107
Current Price (PKR)	106
Upside/(Downside) (%)	+ 2%
Dividend Yield (%)	10%
Total Return (%)	+ 12%
12-month High (PKR)	107
12-month Low (PKR)	85
Outstanding Shares (mn)	1,272.24
Market Cap (PKR mn)	134,259
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QCY17	4QCY18	YoY	CY17	CY18	YoY
Net Sales	32,964	35,287	7%	90,714	105,964	17%
Cost of Sales	26,434	25,421	-4%	72,621	77,986	7%
Gross Profit	6,530	9,866	51%	18,093	27,979	55%
Distribution cost	2,039	2,122	4%	8,574	8,833	3%
Other Income	3,208	1,374	-57%	10,324	6,283	-39%
Other Charges	592	700	18%	1,631	2,109	29%
Finance Cost	553	454	-18%	2,471	1,637	-34%
Profit Before Taxation	6,553	7,964	22%	15,741	21,683	38%
Taxation	1,775	2,051	16%	5,030	7,244	44%
Net Income	4,778	5,913	24%	10,711	14,439	35%
EPS	3.76	4.65	24%	8.42	11.35	35%
DPS	3.00	3.90	30%	7.00	8.85	26%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY15A	CY16A	CY17A	CY18E	CY19F	CY20F
EPS	13.18	9.26	8.42	11.35	14.23	15.70
EPS Growth	-8%	-30%	-9%	35%	25%	10%
DPS	11.86	7.90	7.00	8.85	12.00	13.25
PER	8.0	11.4	12.5	9.3	7.4	6.7
Dividend Yield	11.2%	7.5%	6.6%	8.4%	11.4%	12.6%
EV/EBITDA	6.6	12.5	11.6	5.8	4.5	4.1
P/B	4.9	4.8	4.6	4.1	3.8	3.5
ROE	61.4%	41.8%	36.5%	44.5%	51.5%	52.2%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Fauji Fertilizer Company Limited (FFC) 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 'HOLD' recommendation on the stock based on our PT of 107/share. Our price target offers an upside of 2% along with a dividend yield of 10%. Our investment case on FFC is based on 1) higher fertilizer price to improve margins and 2) attractive dividend yield.

Risks

Key downside risks to our investments thesis are: 1) lower than expected fertilizer prices and 2) below estimated fertilizer demand.

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)						
	CY15A	CY16A	CY17A	CY18A	CY19F	CY20F
Net sales	84,831	72,877	90,714	105,964	131,272	141,669
Cost of sales	55,949	54,827	72,621	77,986	94,781	102,825
Gross Profit	28,882	18,050	18,093	27,979	36,491	38,844
SG & A	6,814	7,154	8,574	8,833	10,437	11,296
Operating Profit	22,068	10,895	9,519	19,145	26,053	27,548
Other income	6,194	10,665	10,324	6,283	5,032	5,442
Other charges	2,285	1,761	1,631	2,109	2,908	3,155
Finance cost	1,475	2,406	2,471	1,637	1,552	890
Profit before tax	24,503	17,394	15,741	21,683	26,625	28,944
Taxation	7,737	5,612	5,030	7,244	8,520	8,973
Profit after tax	16,766	11,782	10,711	14,439	18,105	19,971

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY15A	CY16A	CY17A	CY18F	CY19F	CY20F
PPE	21,382	21,233	22,312	21,880	21,455	21,039
Other LT assets	31,533	32,190	30,434	29,350	30,693	29,317
Non-Current Assets	52,915	53,422	52,746	51,229	52,148	50,356
Current assets	27,215	37,287	55,885	53,776	46,388	45,841
Total Assets	80,130	90,709	108,631	105,005	98,536	96,197
Non-Current liabilities	20,493	21,465	20,269	13,639	9,514	7,313
Current liabilities	32,326	41,033	59,010	58,951	53,839	50,629
Total Liabilities	52,818	62,498	79,278	72,590	63,353	57,942
Equity	27,311	28,211	29,352	32,415	35,183	38,255
Total Equity & liabilities	80,130	90,709	108,631	105,005	98,536	96,197

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY15A	CY16A	CY17A	CY18F	CY19F	CY20F
Net Income	16,766	11,782	10,711	14,439	18,105	19,971
Non-cash Charges	2,012	2,115	2,165	2,218	2,175	2,133
Operating Cash flows	(18,689)	10,138	38,275	22,892	17,380	20,948
FCFF	(20,945)	9,793	36,711	22,196	16,684	19,845
Net borrowings	22,541	6,841	(11,322)	(15,655)	(8,032)	(4,371)
FCFE	586	15,005	23,708	5,451	7,597	14,860
Net change in cash	1,566	(213)	(813)	2,914	(2,135)	959
Closing cash	2,739	2,526	1,713	4,627	2,492	3,451

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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JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

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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