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REP-019

MARKET VISTA

PAKISTAN FERTILIZER

FFBL: A bumper year

- **We revisit our investment case on Fauji Fertilizer bin Qasim Limited (FFBL) where we expect the company to witness a bumper year as the DAP price momentum is likely to continue into 1QCY22.**
- **Based on the aforementioned bull cycle, we incorporate average DAP primary margins for FFBL at US$136/MT for CY21, which are expected to normalize to US$100/77 per MT in CY22/23F as supply disruptions smoothen out.**
- **With Rabi season kickoff, we expect the DAP offtake in 4QCY21 to exceed 300k MT and urea offtake to hover around ~160k MT, taking the CY21 cumulative DAP and Urea offtake to ~825k MT and ~540k MT respectively.**
- **In addition to this, the company has significantly reduced its debt (D/A ratio of 0.36 in 9MCY21) which shall keep the investor interest upbeat owing to reclassification to the list of Shariah Compliant scrips. We reiterate our Buy stance on FFBL with Dec'22 target price of PkR42/sh, implying an upside of 59% from the last close.**

Key Analyst briefing takeaways: Fauji Fertilizer Bin Qasim Limited (FFBL) held its analyst briefing session today to discuss its 9MCY21 results. To recall, the company posted unconsolidated NPAT of PkR2.27bn in 3QCY21 (EPS: PkR1.76), a contraction of 13%QoQ/31%YoY where the major impact has been due to the credit loss and impairment on Fauji Meat Limited (FML) and exchange loss on imports of phosphoric acid. This take cumulative 9MCY21 NPAT to PkR6.15bn (EPS: PkR4.76) vs a loss of PkR300mn (LPS: PkR0.7) in same period last year. The operating profit of the company increased by 2.8xQoQ in account of higher DAP offtake and higher DAP margins. According to the management, the current DAP prices in domestic market do not reflect the prices in international markets. The current international DAP prices stand at US$740/MT translating into landed cost of PkR7,100/bag. As per our channel checks, EFERT has increased its DAP price by another PkR500/bag (effective 26th Oct'21) in addition to PkR450/bag few weeks earlier. The current DAP price of EFERT stands at PkR7,390/bag, uptick of ~PkR2,750/bag over last 12 months. On the other hand, the retail prices of FFC and FFBL DAP current stand at PkR6,640 and PkR6,690/bag respectively while another hike of ~PkR600-700 may be witnessed soon. In addition to this, the management expects the DAP margins to remain at current levels in upcoming quarter, landing the company into a macro sweet environment.

Higher DAP margins to sustain earnings momentum: We revisit our investment case on FFBL in light of surge in international DAP prices. With 60% of DAP imported, the prices in local arena are likely to follow suit. Based on the aforementioned bull cycle, we incorporate average DAP primary margins for FFBL at US$136/MT for CY21, which are expected to normalize to US$100/77 per MT in CY22/23F as supply disruptions smoothen out. On the urea front, the international prices have further increased to US$750/MT (+206%CYTD). This translates into landed cost of ~PkR7,200/bag whereas the local urea prices currently stand at ~76% discount (PkR1,725/bag) after increasing by PkR125/bag since GIDC elimination, which may sustain till the end of CY21 given supply side hiccups.

Profitability to remain elevated: Amidst rising energy costs globally, local feed and fuel gas prices which posted an increase of 36% over CY18-19, have remained at these levels over CY20 and 9MCY21, courtesy onset of global pandemic. Apart from this, the elimination of GIDC in Jan'20 was passed on by a decline of PkR400/bag on urea whereas the prices of DAP had remained stable due to import parity, hence, elevating the profitability of the sole DAP producer in the country where gross margin in CY20 had clocked in at 15.1% (vs 8.8% in CY19). Going forward, we expect the company to register a gross margin of ~21% in CY21 on account of elevated DAP margins. On the flipside, higher coal prices amidst global energy crisis remains a downside risk in terms of higher fuel and power costs.

Investment Perspective: We revise our earnings estimates for FFBL where we expect the com-

Saroash Saleem
saroash.saleem@akdsecurities.net
111-253-111 Ext:685

BUY

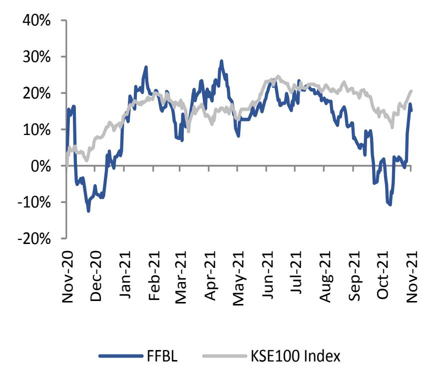
TARGET PRICE (PkR)	SHARE PRICE (PkR)
42.0	26.61
UPSIDE/DOWNSIDE	**DIV. YIELD**
59.0%	-

FFBL: Valuation Glance

	CY19	CY20	CY21F	CY22F	CY23F
EPS	(5.72)	2.12	7.69	6.17	5.52
EPS growth	N/A	N/A	263%	-20%	-11%
DPS	-	-	-	-	-
BVPS	5.29	10.81	18.50	24.67	30.18
PE(x)	N/A	12.05	3.44	4.29	4.80
P/B	3.37	2.36	1.43	1.07	0.88
DY	0%	0%	0%	0%	0%
ROE	-86.6%	15.7%	41.6%	25.0%	18.3%
ROA	-6.5%	2.4%	10.5%	7.5%	6.2%

Source: Company Report & AKD Research

FFBL vs. KSE100 Index



Source: Company Report & AKD Research

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To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

New Rating Definitions	
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Neutral	**＞ 8.5% to ＜ 14.5% expected total return**
Sell	**＜ 8.5% expected total return（Rf: 8.5%）**

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AKD Securities Limited
602, Continental Trade Centre,
Clifton Block 8, Karachi, Pakistan.
research@akdsecurities.net