

**Fauji Fertilizer Company Limited
Corporate Briefing Takeaways****Fertilizer**

The Management of Fauji Fertilizer Company Limited held a Corporate Briefing Session on 9th Feb'21 to discuss the financial result of CY20 and future outlook.

Takeaways

- To recall the company posted a bottom-line of PKR 20,819mn (EPS: PKR 16.36) in CY20 against PKR 17,110mn (EPS: PKR 13.45) in CY19, up by 22% YoY on account of i) higher gross margins owed to lower effective gas price amid reduction in GIDC, ii) 2% YoY jump in urea offtake, settling at 2,512KT in CY20, iii) gain on extinguishment of original GIDC liability of PKR 5,927mn and iv) lower interest rates.
- The company during CY20 reduced the price per bag by PKR 400/per bag to pass on impact of reduction in GIDC to consumers.
- According to the company gain on re-measurement of GIDC was conducted as per IFRS-9 and it will be fully reversed when company commences payment of GIDC in 2022, 2023 and 2024.
- The company is confident that it will receive the full amount of PKR 7.32bn. However as per requirement of IFRS the company has booked loss allowance of PKR 0.98bn.
- Furthermore, in the wake of COVID-19 in CY20, there was partial implementation of axle load regulation from Mar'20 till Jul'20.
- After Supreme Court ordered payment of GIDC liability, the company was able to get a stay from Sindh High Court on grounds of factual determination of the payable position.
- During CY20, the company was able to increase its urea market share to 42% (51% when FFC and FFBL market shares are combined) from 40% in CY19.
- Moreover, in CY20 FFC had 0% inventory compared to 14% inventory in CY19 since company was able to sell of all of its urea during the year.
- The company book impairment on Fauji Fresh N Freeze subsidiary in CY20. As per the company, FFF was effected badly during lockdown and an impairment of PKR 1bn was recognized. In order to ease the financial burden and fulfil working cash requirement, FFC injected PKR 1.5bn in FFF's equity. Moreover, the company also made equity injection of PKR 2.49bn in FFBL.
- In Foundation Wind Energy (FWEL) I & II, the company is assessing the acquisition of majority stake.
- In Thal Energy Limited, the company is planning to further make equity investment of USD 14.4mn in 2021 onwards. This is in addition to USD 39mn, which is already invested.
- The company informed that dealer urea transfer price stands at PKR 1,667/bag as of Jan'21, while international urea prices are PKR 3,200/bag. Given a significant difference in local and international price, if the gas prices are increased the company believes it will give cushion to pass on the impact.
- Dealer DAP transfer price stands at PKR 4,252/bag ex-Karachi. While a freight cost is added to transfer DAP from Karachi to Peshawar, taking the DAP price to PKR 4,500/bag.
- The company's new DAP plant is in the initial stage and talks with Govt. are ongoing. The expected capacity is 1mn/tons per annum.

Recommendation

- Our Dec'21 target price arrives at PKR 136.5/share, offering an upside of 25%. Hence, we recommend BUY.

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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2021 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% from last closing of market price(s)

* Upside for Power Generation Companies (Ex. KEL) is upside plus dividend yield.

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- **Discounted Cash Flow (DCF)**
- **Dividend Discount Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

Risks

The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

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