

Fertilizer Sector Amalgamation of FFC and FFBL

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Fertilizer Sector

Amalgamation of FFC and FFBL

- Fauji Fertilizer Company Limited (FFC) and Fauji Fertilizer Bin Qasim Limited (FFBL) both held board meeting today in which they have given an in-principle approval to evaluate potential merger scheme of arrangement.
- Both the companies will be appointing advisors to evaluate the proposed amalgamation, after which the findings will be presented to the respective boards for consideration.
- The notice has not disclosed details of the amalgamation.
- At present, FFC has 1,272mn outstanding shares, while FFBL the company has 1,291mn shares outstanding.
- Pertinently, FFC has an annual capacity of 2.04mn tons of urea, while FFBL's urea and DAP capacity stands at 0.55mn tons and 0.65mn tons, respectively.
- Post-merger, the total capacity of the merged entity is expected to be 2.60mn and 0.65mn tons of urea and DAP, respectively, we view.
- As an amalgamated company, the entity is projected to have a leading market share in urea and DAP of ~43% and ~60%, respectively.
- As of Mar'24, book value of FFC and FFBL stands at PKR 52.84/share and PKR 23.32/share, respectively.

Exhibit: Key Indicators

As of Mar'24		FFC	FFBL
Total Equity	PKR mn	67,226	30,106
Book value	PKR / share	52.84	23.32
Market capitalization*	PKR mn	223,163	54,258
Total debt	PKR mn	23,437	18,148
Cash	PKR mn	952	28,541
Short term investments	PKR mn	91,114	36,986
Urea capacity	tons	2,048,000	551,100
DAP capacity	tons	-	650,000

Source: Company Financials, AHL Research *LDCP

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Arif Habib Limited (AHL) uses three rating categories, depending upon return from current market price, with Target period as Jun 2025 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 +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

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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