

Re-rating a Fertilizer Giant

Fauji Fertilizer Company Ltd-The Evolution of an Industrial Titan

In a market where earnings visibility remains uneven and policy signals continue to oscillate between support and uncertainty, Fauji Fertilizer Company Limited (FFC) distinguishes itself not merely through scale, but through structural resilience. While consensus continues to anchor FFC’s investment case to seasonal urea dynamics, we believe the company is undergoing a more fundamental transformation—one that repositions it from a cyclical fertilizer producer into a diversified industrial holding company with embedded earnings stability.

We maintain our BUY stance on FFC with a target price of PKR 735 (CY27F), implying a compelling upside from current levels (with ~51% as capital upside and ~8.5% as dividend yield). Our conviction is mainly anchored in three inter-linked drivers: (i) a structural shift toward fully indigenous gas across all plants by CY26, eliminating historical cost asymmetries; (ii) the growing contribution of a sizeable and liquid investment portfolio, which now acts as a meaningful earnings buffer; and (iii) expanding strategic optionality across energy, infrastructure, and industrial verticals. In our view, the market has yet to fully internalize the earnings durability and balance sheet strength underpinning this transition.

Company Evolution and Strategic Positioning

Incorporated in 1978 as a joint venture between Fauji Foundation and Haldor Topsoe A/S, FFC has evolved from a single-plant urea manufacturer into one of Pakistan’s largest listed industrial entities. Over time, the company has leveraged its operational consistency and capital discipline to expand both within and beyond the fertilizer value chain.

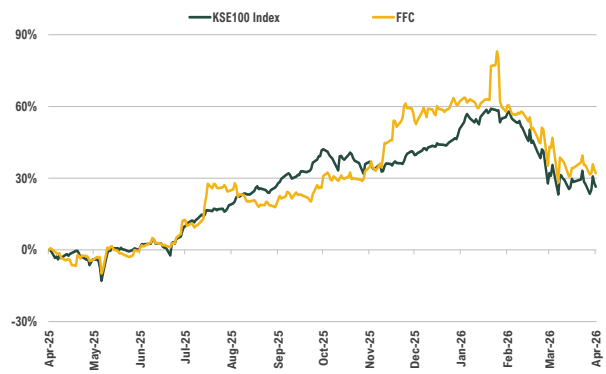
A defining moment in this evolution came in CY24 with the merger of Fauji Fertilizer Bin Qasim Limited (FFBL) into FFC. This transaction consolidated urea and DAP operations under a unified structure, enabling both technical and commercial synergies. More importantly, it positioned FFC as Pakistan’s only fully integrated fertilizer platform, with control over both nitrogenous and phosphatic value chains. The integration also strengthened FFC’s pricing power and distribution reach, reinforcing its already dominant market position. To illustrate FFC’s market share in the Urea segment was 43% in CY25, and 62% in the DAP segment, for the same period.

Fauji Fertilizer Company Limited

Symbol	FFC
Bloomberg Code	FFC PA
Current Price	486.10
Mkt Cap (PKR Mn)	699,509.00
Mkt Cap (USD Mn)	2,496.46
No Of Shares (In Mn)	1,439.02
52 Weeks High	685.00
52 Weeks Low	314.18
Avg Volume (52 Weeks)	2,609,253.43
Avg Value	1,244,146,808.36

Source: PSX, HMFS Research

Relative Performance



Source: PSX, HMFS Research

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Re-rating a Fertilizer Giant

From a capital markets perspective, FFC's relevance remains unmatched. With a market capitalization exceeding PKR ~700bn, the company consistently ranks among the most actively traded and institutionally held names on the Pakistan Stock Exchange, making it a core holding in both income-focused and diversified portfolios. More recently, FFC's inclusion in the KSE-Meezan Index (KMI-30) further reinforces its positioning within the investable universe, particularly for Shariah-compliant investors.

Operational Moat: Gas Economics as a Structural Advantage

Cost competitiveness in the fertilizer sector is fundamentally dictated by access to affordable and reliable gas supply. In this regard, FFC's long-standing association with the Mari gas field has provided a durable advantage.

Currently, three of the company's four plants—Goth Machhi I & II and Mirpur Mathelo—operate on dedicated indigenous gas at structurally favorable feedstock rates (PKR 580/MMBtu for feedstock and PKR 1,580/MMBtu for fuel stock). This insulates a significant portion of FFC's production base from the volatility associated with RLNG-linked pricing embedded in the broader SNGPL and SSGC networks.

Historically, however, this advantage was not uniform. The Port Qasim facility (Plant IV), inherited through the FFBL merger, relied on comparatively expensive network gas, resulting in a persistent cost differential within the portfolio. While operational performance at this plant improved materially in CY25, with urea production rising 59% Y/Y to 456KT, margin inefficiencies remained a drag at the consolidated level.

This dynamic is set to change meaningfully from CY26 onward. The Economic Coordination Committee's approval for the allocation of indigenous gas from the Ghazij and Shawal reservoirs to Plant IV represents a structural inflection point. With all four plants transitioning to Mari-linked gas, FFC effectively eliminates intra-company cost disparities, unlocking a step-change in blended margins and earnings capacity. In our view, this is a medium-term earnings driver that remains underappreciated by the market. It is vital to note here that all four of FFC plants operate at high efficiency levels, with overall utilization at +110%, highlighting optimal excellence in addition to cost advantages.

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Diversification and the Rise of a Holding Company Structure

Beyond its core fertilizer operations, FFC has steadily built a diversified portfolio of strategic investments, which now contribute meaningfully to overall profitability. In CY25, “Other Income” reached PKR 39.8bn (~55% of unconsolidated earnings), underscoring the scale of non-core earnings.

Key contributors include Askari Bank, where FFC holds a majority stake, providing exposure to the financial sector alongside a growing dividend stream. The company’s joint venture in Morocco ensures a stable supply of phosphoric acid, effectively hedging input cost volatility for its DAP operations. Additionally, investments in wind energy projects and thermal power assets reflect a deliberate expansion into the energy value chain, generating stable and, in some cases, dollar-linked returns.

This diversified income base serves multiple strategic purposes. It smoothens earnings volatility inherent in commodity-linked businesses such as fertilizers, enhances cash flow visibility, and also provides FFC with the financial flexibility to pursue further growth opportunities. Increasingly, the company’s role as a capital allocator is becoming as important as its identity as a manufacturer.

Industry Dynamics: Offtake, Production & Inventory Trends

FFC’s earnings visibility is ultimately anchored in fertilizer demand cycles, making industry-level offtake and production trends a critical lens through which to assess the sustainability of volumes and pricing.

Urea – Demand Resilience Despite Policy Noise

('000 tonnes)	CY23	CY24	CY25	Y/Y (%)
Urea Production	6,441	6,687	6677	-0.15%
Urea Offtake	6,642	6,577	6730	2.33%
Closing Inventory	105	360	284	-21.11%

Source: NFDC, HMFS Research

Breakdown of Other Income

PKR Bn	CY24	% of Earnings	CY25	% of Earnings
Askari Bank	1.6	2%	5.9	8%
PMP (Morocco JV)	0.9	1%	7.1	10%
Wind Energy (FWEL I/II)	7.5	12%	9.0	12%
Others (incl. TEL etc.)	25.2	39%	17.8	24%
Total	35.2	55%	39.8	55%

Source: Company Financials, HMFS Research

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Despite a challenging policy backdrop—particularly the temporary removal of wheat minimum support price (MSP)—urea offtake demonstrated resilience, supported by:

- Continued farmer reliance on nitrogenous fertilizers
- Crop switching dynamics still require base nutrient application
- Discounting strategies by FFC

The drawdown in inventory levels into CY25 is particularly constructive, indicating:

- Improved demand-supply balance
- Reduced risk of price competition

DAP – Volatility Driven by Pricing & Imports

('000 tonnes)	CY23	CY24	CY25	Y/Y (%)
DAP Production	660	843	836	-0.83%
DAP Offtake	1,576	1627	776	-52.30%
Imports	520	640	430	-32.81%
Closing Inventory	32	102	219	114.71%

Source: NFDC, HMFS Research

DAP dynamics remained inherently more volatile, reflecting:

- Higher price sensitivity relative to urea
- Dependence on imported raw materials

However, CY25 marks a normalization phase, imports declined, indicating improved local supply contribution. For FFC, this is strategically important as it scales its DAP footprint, even if margins were temporarily diluted due to elevated phosphoric acid costs.

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FFC-Specific Production Trends

('000 tonnes)	CY24	CY25	Y/Y (%)
Urea Production	2555	2903	13.62%
Urea Offtake	2550	2889	13.29%
DAP Production	843	836	-0.83%
DAP Offtake	841	776	-7.73%

Source: NFDC, HMFS Research

FFC’s profile highlights the following key trends

- Strong volume recovery at the urea plant (upon FFBL-merger) signals improved utilization, setting the base for margin expansion once gas costs normalize
- FFBL-merger introduces margin volatility in the near term, but enhances long-term product diversification

Financial Performance: Strong Earnings Amid Transitional Pressures

FFC’s financial performance in CY25 reflects both operational strength and transitional cost pressures. Earnings per share for the year stood at PKR 51.69, marking a 13.6% increase over the previous year. The company maintained its strong dividend profile, with a total payout of PKR 37 per share, translating into a payout ratio of approximately 72%.

At the margin level, however, the year was characterized by compression, with gross margins declining to 30.2% from 34.1% in CY24. This was primarily driven by the sharp scale-up in DAP production, which more than doubled during the year, alongside a significant increase in phosphoric acid prices. While this weighed on near-term profitability, we view these pressures as transitional rather than structural.

Margin Profile: Transitional Dip, Structural Recovery Ahead

Margins (%)	CY23	CY24	CY25	CY26E
Gross Margin	35.80%	34.10%	30.20%	32.50%
Operating Margin	29.40%	27.80%	25.10%	27.00%
Net Margin	23.60%	22.40%	21.30%	22.80%

Source: Company Financials, HMFS Research

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As input costs normalize and Plant IV transitions to lower-cost indigenous gas, we expect margins to recover toward the 32–33% range. Coupled with stable volumetric growth and continued contribution from investment income, this supports our expectation of sustained earnings expansion into CY26 and beyond. We forecast a dividend of approximately PKR 43 per share for CY26, implying an attractive yield in the range of 8–9%.

Expanding on this trajectory, we forecast CY26 earnings per share (EPS) of PKR 50.29, reflecting a relatively stable earnings base despite transitional dynamics in the current year. While the marginal decline versus CY25 is primarily attributable to normalization in other income and conservative assumptions on DAP margins, we emphasize that the quality of earnings is expected to improve meaningfully. The full transition of Plant IV to indigenous Mari gas is likely to support margin expansion, partially offsetting input cost pressures and reinforcing the sustainability of core fertilizer profitability.

Catalysts: Expanding Beyond the Core

Looking ahead, FFC’s growth trajectory is supported by a series of identifiable catalysts. The planned acquisition of the remaining stake in Fauji Power Company (FPCL) will enable full consolidation of power generation economics at the Port Qasim complex, improving both efficiency and profitability.

Simultaneously, the company’s participation in the privatization process of Pakistan International Airlines signals an ambition to expand into broader infrastructure domains. While still at a preliminary stage, this move highlights management’s willingness to deploy capital beyond traditional boundaries.

On the innovation front, exploratory work on coal-to-fertilizer (C2F) projects reflects a longer-term strategy to mitigate reliance on natural gas by leveraging domestic coal reserves. If executed effectively, this could provide a structural hedge against energy supply risks.

Finally, the reinstatement of the wheat MSP (PKR 3,500 per 40kg) has restored a degree of demand visibility for urea, particularly in the upcoming crop cycles, providing a supportive backdrop for volumes.

Segment Mix: Earnings Diversification in Motion

Revenue Mix Segment	CY24	CY25
Urea	68%	61%
DAP	18%	27%
Others	14%	12%

Earnings Contribution (Pre-Tax) Segment	CY24	CY25
Core Fertilizer Operations	78%	65%
Other Income (Investments)	22%	35%

Source: Company Financials, HMFS Research

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Risks to Thesis

Despite its strengths, FFC is not without risks. The outstanding GIDC liability of PKR 85bn remains a key overhang, although currently protected under a legal stay. Execution risk also merits consideration, particularly in relation to ongoing and prospective investments, including the FPCL acquisition and potential participation in large-scale privatization initiatives. At the macro level, the company remains sensitive to policy shifts in fertilizer pricing, gas allocation, and agricultural support mechanisms, all of which directly influence demand and margins. Additionally, global supply-side and geopolitical risks—particularly disruptions in energy markets—could indirectly impact cost structures, even as FFC benefits from indigenous gas. The company also faces parity risk in DAP, where fluctuations in international prices can affect local pricing power and demand, alongside exchange rate risk, as PKR depreciation may elevate input costs linked to imported raw materials such as phosphoric acid. Lastly, adverse weather conditions, crop cycle volatility, and even geopolitical tensions remain inherent risks that can impact fertilizer offtake and volume visibility.

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Income Statement (PKR Mn)	CY2026E	CY2027F	CY2028F	CY2029F	CY2030F
Turnover — Net	428,000	458,000	490,000	522,000	558,000
Cost of Sales	(297,460)	(318,311)	(340,550)	(362,790)	(387,810)
Gross Profit	130,540	139,689	149,450	159,210	170,190
Finance Costs	(6,000)	(5,500)	(5,000)	(4,800)	(4,600)
Other Income	37,000	38,000	39,000	40,000	41,000
Other Expenses	(11,000)	(11,500)	(12,000)	(12,500)	(13,000)
Profit After Tax	71,582	76,545	81,577	86,423	91,710
EPS	50.29	53.78	57.32	60.72	64.45

Source: HMFS Research

Balance Sheet (PKR Mn)	2026E	2027F	2028F	2029F	2030F
ASSETS					
Total Non-Current Assets	200,432	240,432	257,832	260,132	260,832
Total Current Assets	248,069	219,174	212,021	221,969	234,568
TOTAL ASSETS	448,501	459,606	469,853	482,101	495,400
TOTAL EQUITY	156,245	177,400	197,197	219,495	242,844
Total Non-Current Liabilities	50,156	39,106	28,056	17,006	10,956
Total Current Liabilities	242,100	243,100	244,600	245,600	241,600
TOTAL LIABILITIES	292,256	282,206	272,656	262,606	252,556
TOTAL EQUITY & LIABILITIES	448,501	459,606	469,853	482,101	495,400

Source: HMFS Research

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Valuation Method (PKR Mn)	CY2026E	CY2027F	CY2028F	CY2029F	CY2030F
Profit after Tax	71,582	76,545	81,577	86,423	91,710
Depreciation & Ammortization	6,400	7,000	7,600	8,200	8,800
Finance Cost	3,350	3,075	2,790	2,500	2,188
Capex	20,000	17,000	13,000	10,500	9,500
Changes in WC	1,500	3,700	2,000	1,600	1,600
FCFF	62,832	65,920	76,967	85,023	91,598
PV of FCFF	57,964.5	60,813.3	71,004.5	78,436.4	84,502.0
Rf : Risk Free Rate (10 Yr-PIB Yield)	11.3%				
ERP : Equity Risk Premium	6.0%				
β : Beta	0.85				
Ke = Rf + β×ERP : Cost of Equity	16.4%				
(g) : Terminal Growth	2.0%				
Sum: PV of FCFF	352,721				
PV of Terminal Value	602,774				
Enterprise Value	955,495				
Cah and Cash Equivalents	163,309				
Debt	61,300				
Equity Value	1,057,504				
Number of Shares	1,439				
Standalone Fair Value per Share	735				

Source: HMFS Research

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Profitability Ratios	Unit	2025	2024	2023	2022	2021	2020
Gross profit ratio	%	30.21	34.05	40.29	36.62	35.78	32.34
Operating margin	%	22.73	26.18	32.34	27.38	28.04	24.30
Net profit ratio	%	17.01	17.33	18.61	18.33	20.15	21.32
EBITDA margin to turnover	%	30.66	32.45	38.68	37.46	32.27	34.58
Operating leverage ratio	Times	0.53	0.74	1.17	27.50	0.33	(2.60)
Return on equity (PAT)	%	54.26	49.08	47.97	39.44	46.08	48.94
Return on equity (PBT)	%	89.14	84.25	86.57	66.27	63.85	69.57
Return on capital employed	%	68.55	72.09	73.91	57.43	50.78	59.19
Pre-tax margin	%	27.95	29.75	33.58	30.80	27.92	30.30
Return on assets	%	16.82	15.52	13.29	8.35	10.89	12.04
Growth in EBITDA	%	9.37	96.52	50.56	16.84	3.82	18.44
EBIT (Earnings before interest, dep & tax)	PKR Mn	132,574	121,220	61,682	40,968	35,064	33,773
Earnings growth	%	13.65	118.15	48.00	(8.43)	5.17	21.68
Growth in turnover	%	15.76	134.23	45.82	0.66	11.26	(7.68)
Capital expenditure to total assets	%	5.39	2.91	6.77	2.53	1.79	1.70

Source: Company Financials, HMFS Research

Re-rating a Fertilizer Giant

Investment/ Market Ratios	Unit	2025	2024	2023	2022	2021	2020
EPS	PKR	51.69	45.49	23.32	15.76	17.21	16.36
Price to earnings	Times	11.43	8.05	4.85	6.26	5.83	6.63
Dividend yield	%	8.51	18.52	15.26	11.32	13.74	10.62
Dividend payout ratio	%	71.58	76.63	66.41	76.97	84.25	68.44
Dividend cover	Times	1.40	1.30	1.51	1.30	1.19	1.46
DPS	PKR	37.00	34.86	15.49	12.13	14.50	11.20
Market value per share — year end	PKR	590.71	366.32	113.19	98.71	100.26	108.50
Market value per share — high during year	PKR	601.47	420.11	120.77	126.89	113.68	114.54
Market value per share — low during year	PKR	331.30	109.06	90.97	98.35	96.09	82.71
Price to book ratio	Times	59.07	36.63	11.32	9.87	10.03	10.85
Sustainable growth rate	%	15.42	11.47	16.11	9.08	7.26	15.45
Total shareholder return (TSR)	%	69.25	241.27	24.52	9.72	4.47	17.20

Source: Company Financials, HMFS Research

Liquidity Ratios	Unit	2025	2024	2023	2022	2021	2020
Current ratio	Times	1.15	1.14	0.93	0.96	1.13	1.37
Quick / acid test ratio	Times	0.92	0.99	0.86	0.80	1.08	1.31
Cash to current liabilities	Times	0.68	0.73	0.57	0.25	0.49	0.71
Cash flow from operations to turnover	Times	0.09	0.25	0.38	0.01	0.20	0.40
Long term liabilities / current liabilities	Times	25.43	16.97	15.95	17.02	36.84	59.68
Cash flow to capital expenditures	Times	1.57	8.77	4.03	0.26	6.13	13.44
Cash flow coverage ratio	Times	0.60	2.79	2.51	0.07	1.04	2.64
Debt to equity ratio (book value)	Ratio	27:73	19:81	23:77	24:76	26:74	20:80
Net assets per share	PKR	95.27	92.67	48.62	39.96	37.35	33.43

Source: Company Financials, HMFS Research

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To arrive at our fair value estimates, HMFS uses different valuation methodologies including but not limited to:

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

HMFS RATING GUIDE

BUY	More than 15% Upside
HOLD	Between 15% Upside & 15% Downside
SELL	More than 15% Downside

Note: All fair value estimates are for a twelve month time horizon unless specified otherwise in the report
Upside/Downside represents the difference between the stated “Fair Value” & the prevailing “Market Price”
Total Return is based on both the Capital Gains return & the Dividend Yield & is exclusive of all applicable taxes