

Fertilizer

FFC & FFBL: A Possible Merger on The Horizon

22 July 2024

- **Amalgamation approval of FFBL.** In a recent meeting, FFC's board approved evaluating FFBL for potential amalgamation. FFC currently holds 49.88% of FFBL and aims for a full merger. FFC is the largest Urea producer, while FFBL is the sole producer of granular Urea and DAP in Pakistan.
- **Possible valuation methodologies.** As per SECP regulations, 4 methods can be used to value a company i.e. Net Worth method (NMW), Market Value method (MV), DCF method, and comparable transaction method. For estimating the swap ratio, average share price from any three valuations should be considered.
- **Valuation by advisor to determine swap ratio.** To consider possible swap ratios, we have estimated the average price of FFC & FFBL at PKR 153 and 41/sh, respectively. Leading to a swap ratio of ~0.27. However, the actual ratio will be based on the appointed advisory firm's valuation.
- **Post merger share capital structure.** Based on this swap ratio, a total of 173 MN shares would be issued against 647 MN outstanding shares of FFBL, increasing the total number of FFC shares to 1,446 MN. In this new structure, Fauji Foundation will hold ~43% shareholding. Currently, it holds 44.35% of FFC and 18.29% of FFBL.
- **Amalgamation upsides.** The proposed amalgamation will offer tax benefits as FFBL has recently resumed dividend payments. Additionally, the post merger investment portfolio will increase FFC's shareholding in Askari Bank to 65%. Similarly, FFC's Urea capacity will also increase to 2.6 MN MT, making it the largest Urea capacity company in Pakistan.

Possible Swap Ratios

PKR/Sh	FFBL	FFC	Swap Ratio
NWM	37	121	0.31
MV	39	166	0.24
DCF	46	170	0.27
Comparable P/E	55	151	0.36
SOTP	54	197	0.27
Average*	41	153	0.27

Source: Company Accounts, Optimus Research
 *Average value is based on NWM, MV & DCF methods

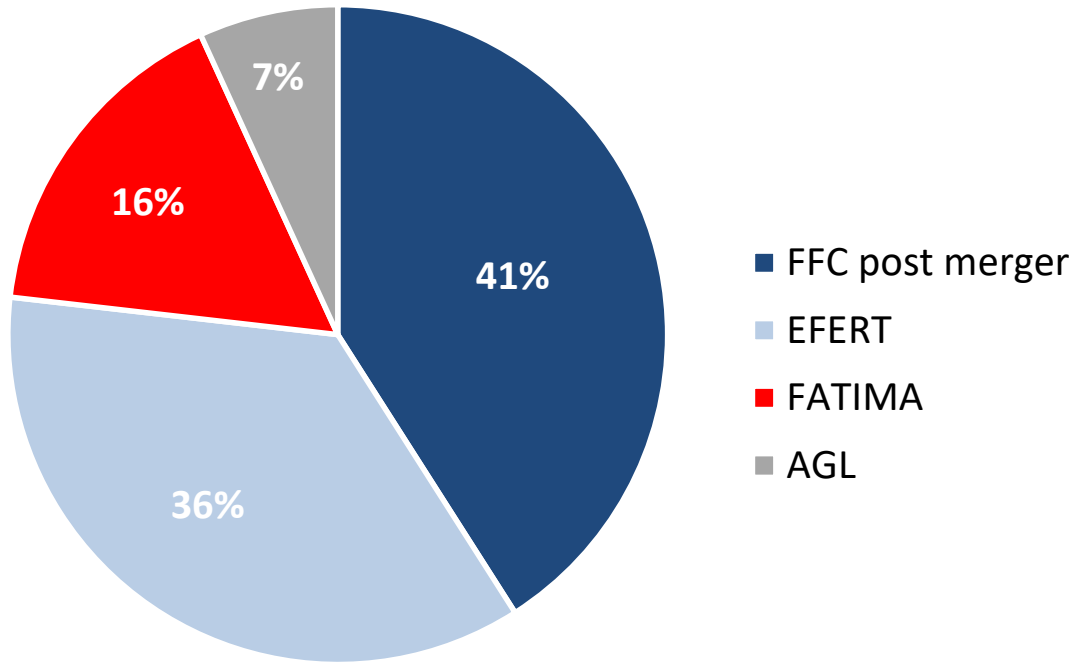
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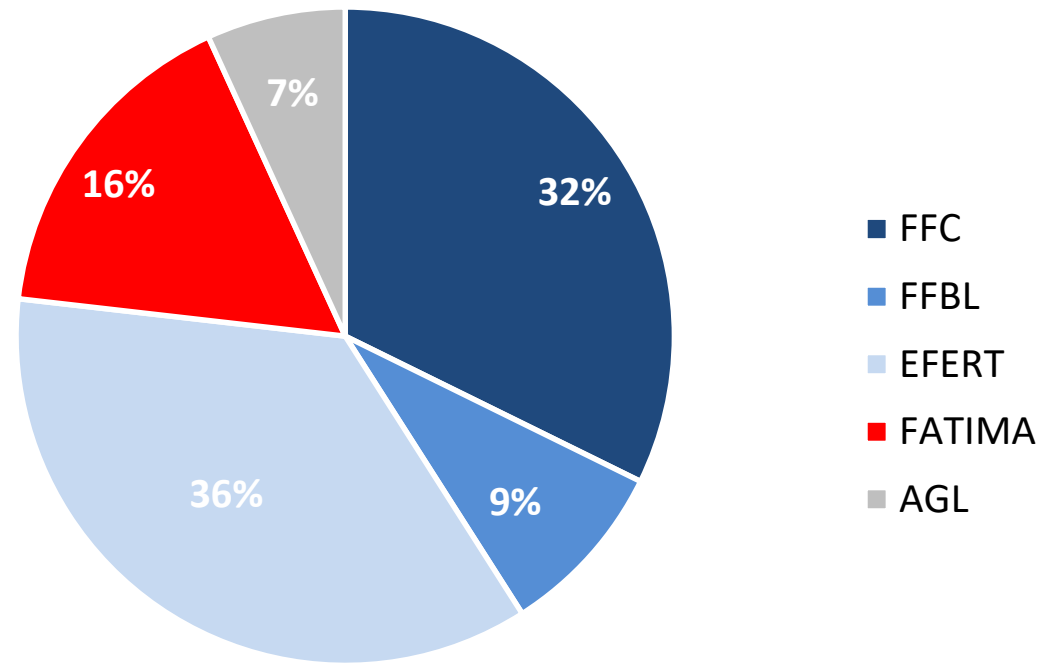


Capacity Based Urea Market Shares

Post Merger Urea Market Share



Current Urea Market Share



Source: Company Accounts, Optimus Capital

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Post Merger Investment Portfolio

Investment Portfolio (PKR MN)

Companies	Segment	Equity Stake	Investment Value	Number of Shares
Subsidiaries				
- FFC Energy Limited	Power	100%	2,438	244
- Foundation Wind Energy Limited-I	Power	100%	7,493	350
- Foundation Wind Energy Limited-II	Power	80%	6,019	282
- FFBL Power Company	Power	75%	6,441	644
- Fauji Fresh N Freeze Limited	Food	100%	4,236	624
- Fauji Foods Limited	Food	72%	12,057	1,135
- Askari Bank Limited	Bank	65%	15,693	938
- Olive Technical services (Private) Limited	Technical Services	100%	20	4
Associates				
- Thar Energy Limited	Power	30%	5,987	599
- Fauji Cement Company Limited	Cement	4.29%	1,500	105
Joint Venture				
- Pakistan Maroc Phosphore S.A., Morocco		37.50%	2,117	
Total Investment			46,013	

Source: Company Accounts, Optimus Research

FFC's Current Investment Portfolio

Investment Portfolio (PKR MN)				
Companies	Segment	Equity Stake	Investment Value	Number of Shares
Subsidiaries				
- FFC Energy Limited	Power	100%	2,438	244
- Foundation Wind Energy Limited-I	Power	100%	7,493	350
- Foundation Wind Energy Limited-II	Power	80%	6,019	282
- Fauji Fresh N Freeze Limited	Food	100%	4,236	624
- Olive Technical services (Private) Limited	Technical Services	100%	20	4
Associates				
- Fauji Fertilizer Bin Qasim Limited	Fertilizer	49.88%	7,152	644
- Thar Energy Limited	Power	30%	5,987	599
- Fauji Cement Company Limited	Cement	4.29%	1,500	105
- Askari Bank Limited	Bank	43.15%	10,462	625
Joint Venture				
- Pakistan Maroc Phosphore S.A., Morocco		12.50%	706	
Total Investment			46,013	

Source: Company Accounts, Optimus Research

FFBL's Current Investment Portfolio

Investment Portfolio (PKR MN)				
Companies	Segment	Equity Stake	Investment Value	Number of Shares
Subsidiaries				
- FFBL Power Company	Power	75%	6,441	644
- Fauji Foods Limited	Food	72%	12,057	1,135
Associates				
- Askari Bank Limited	Bank	22%	5,231	313
JV				
- Pakistan Maroc Phosphore S.A., Morocco		25%	1,411	
Total Investment			25,139	

Source: Company Accounts, Optimus Research

Analyst Certification

The research analyst for this report, Areeba Nasir, certifies that: (1) all of the views expressed in this report accurately reflects her personal views about the subject and (2) no part of any research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this report.

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