

Foundation Alert

FFBL: Board approves transaction price for sale of Foundation Wind Energy I & II

Event

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) board of directors in today's board meeting has approved transaction price for sale of Foundation Wind Energy I & II.

Impact

- In a notice issued at PSX, FFBL has disclosed that its board of directors have approved the transaction price of Rs2.73/2.75bn for sale of FWE-I/FWE-II subject to shareholder approval in EOGM.
- FFBL holds 35% stake in both FWE-I and FWE-II.
- Foundation Wind Energy-I was established with investment of US\$128mn and achieved COD in 2015.
- FFBL would receive Rs2.73bn for FWE-I translating into cash inflow of Rs2.1/sh and capital gain of Rs1.2/sh in standalone financials. In addition, FFBL would get a share in Delayed Payment Surcharge in accordance with the agreed Delayed Payment Surcharge mechanism set out in the share purchase agreement.
- Foundation Wind Energy - II was established with investment of US\$127mn and achieved COD in December 2014.
- FFBL would receive Rs2.75bn for FWE-II translating into cash inflow of Rs2.1/sh and capital gain of Rs1.2/sh on standalone basis. In addition, FFBL would get a share in Delayed Payment Surcharge in accordance with the agreed Delayed Payment Surcharge mechanism set out in the share purchase agreement.
- Cumulatively, FFBL would book Rs2.3/sh of capital gain on standalone financials and cash inflow of Rs4.2/sh.
- Moreover, FFC in a separate notice filed to PSX has disclosed that its board of directors have approved acquisition of FFBL and Fauji Foundation stake in FWE-I/II for total consideration not exceeding Rs14.1bn.
- However, FFBL would book loss of Rs0.5/0.5/sh in consolidated financials for sale of FWE-I/II.
- The above-mentioned transaction is subject to obtaining necessary shareholder and regulatory approvals, and related customary conditions.

Outlook

- We have an "Outperform" stance on the scrip as improvement in core business would unleash potential of diversification drive. We expect international DAP margins to remain on the higher side going forward given reduced production by Chinese manufacturers due to COVID-19. India's DAP imports are also expected to increase in CY21 due to lower domestic production amid higher phosphoric acid prices. Moreover, payment of GIDC in installments along with likely adjustment of payable amount against Sales tax and subsidy receivables would ease cash flow concerns of FFBL. Furthermore, better pricing for wheat, sugarcane and maize crop would also provide additional support to farmer's liquidity position.

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.