

Earning Review

FFBL: 2QCY21 EPS clocked in at Rs0.41

Event

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) profitability clocked in at Rs534mn (EPS Rs0.41) in 2QCY21 against loss of Rs257mn (LPS Rs0.2) in 2QCY20. This takes 1HCY21 profitability to Rs1.7bn (EPS Rs1.3) as compared to loss of Rs2.9bn (LPS Rs2.2) in 1HCY20.
- FFBL core profitability is above our expectations excluding onetime other operating expense arising due to reclassification of FWE I&II.

Impact

- We attribute increase in company's profitability to (1) better primary margins (up 69% YoY in 2QCY21), (2) higher Urea retention prices (up 5% YoY), (3) 47% YoY decline in finance cost, (4) lower losses of food businesses and (5) 369% YoY increase in share of profitability from associates.
- Furthermore, FFBL board also approves amalgamation of FFBL Foods Limited into FFBL effective from 30-Sep-2021. To highlight, FFBL foods is wholly-owned subsidiary of FFBL and there would be no further dilution due to amalgamation.
- FFBL UREA/DAP offtake clocked in at 149/114K tons (down 21/21% YoY) in 2QCY21. FFBL offtake declined due to lower production of Urea and increased prices of DAP, in our view.
- Moreover, FFBL's DAP margins improved by 69% YoY in 2QCY21 given 62% YoY increase in DAP retention prices.
- Moreover, Urea prices were also up by 5% YoY in 2QCY21 due to pricing power of base players amid strong agronomics and constrained supply.
- Company's other income increased by 206% YoY in 2QCY21 due to higher interest income given strong cash position of the company and increased profitability share from associates.
- Furthermore, FFBL finance cost declined by 47% YoY in 2QCY21 due to 625bps rate cut by SBP to reduce the economic impact of COVID outbreak and decline in debt levels of the company.
- Encouragingly, losses of Food segment have reduced significantly during the quarter, with FFL share of loss decreasing by 50% YoY to Rs277mn (LPS Rs0.21) in 2QCY21 from Rs559mn (LPS Rs0.43) in 2QCY20.
- Company's other operating expense increased substantially as company has classified Foundation Wind Energy I & II (FWE I& II) to "Held for Sale".

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. 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.

Fig 01: FFBL 2QCY21 Financial Highlights

Rs(mn)	2QCY21	2QCY20	YoY	QoQ	1HCY21	1HCY21	YoY
Net sales	21,151	18,604	14%	21%	38,607	31,483	23%
COGS	15,683	14,819	6%	18%	28,983	26,641	9%
Gross profit	5,469	3,784	45%	32%	9,624	4,842	99%
S&A expense	2,307	1,970	17%	41%	3,948	3,418	16%
Financial charges	1,238	2,320	-47%	-5%	2,535	5,144	-51%
Other operating expenses	2,370	180	1218%	341%	2,907	452	543%
Other operating income	1,496	489	206%	24%	2,700	1,532	76%
PBT	1,050	(196)	-635%	-44%	2,933	(2,640)	-211%
Tax	393	126	213%	-41%	1,054	582	81%
PAT	657	(322)	-304%	-46%	1,879	(3,222)	-158%
PAT att to the parent company	534	(257)	-308%	-52%	1,656	(2,879)	-158%
NCI	122	(64)	-290%	22%	222	(343)	-165%
EPS	0.41	(0.20)	-308%	-52%	1.28	(2.23)	-158%

Source: Company Accounts, Foundation Research, July 2021

Analyst

Muhammad Awais Ashraf, CFA
+92 21 3561 2290-94

m.awais@fs.com.pk
Ext 338

Usman Arif
+92 21 3561 2290-94

Usman.arif@fs.com.pk
Ext 339

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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