Foundation Securities
A Fauji Foundation Group Company
REP-095

PAKISTAN **July 30, 2021**

Earning Review

FFC: 2QCY21 EPS clocked in at Rs2.85, DPS Rs2.6

Event

- Fauji Fertilizer Company Limited (FFC PA) profitability clocked in at Rs3.6bn (EPS Rs2.85) in 2QCY21, down 26/38% YoY/QoQ against Rs4.9bn (EPS 3.83) in 2QCY20. This takes 1HCY21 profitability to Rs9.4bn (EPS Rs7.42) as compared to profit of Rs9.1bn (EPS Rs7.18) in 1HCY20.
- Result is also accompanied with dividend of Rs2.60/sh.
- The result is below our expectations due to unwinding of GIDC liability.

Impact

- We attribute decline in FFC profitability to (1) lower Urea offtake, (2) decline in other income due to absence of dividend income, (3) increase in distribution cost and (4) higher other expense given unwinding of GIDC liability.
- FFC UREA/DAP offtake clocked in at 556/37K tons (down/up 19/38% YoY) in 2QCY21. FFC Urea offtake declined due to lower production given annual maintenance of FFC Goth Machi plant in 2QCY21, in our view.
- Furthermore, despite lower Urea offtake FFC gross margins increased by 2.7ppt YoY to 34.7% in 2QCY21 due to better Urea retention prices (up 5% YoY).
- FFC finance cost declined by 17% YoY in 2QCY21 due to (1) 625bps rate cut by SBP to mitigate the economic impact of COVID-19 and (2) lower working capital needs of the company.
- FFC other income declined by 35/45% YoY/QoQ due to absence of dividend income from its investments, in our view.
- Furthermore, among other major heads, selling and distribution expenses increased by 5% YoY due to increase in fuel prices in 2QCY21.
- FFC also booked reversal of Rs1.2bn GIDC re-measurement gain booked earlier.

Outlook

- We have an "Outperform" stance on the scrip with Dec-21 TP of Rs135.2/sh based on sum of the part methodology. Company is likely to remain beneficiary of government's efforts for food security to control supply chain disruptions. Better pricing of wheat, sugarcane and maize crops would also provide additional support to farmer's liquidity position.
- Besides, FFC is expanding into power and offshore fertilizer complex. FFC has acquired 30% stake in 330MW coal mine mouth power plant of Thar Energy Limited (TEL). Moreover, FFC is also planning to set up a 1.3mn ton fertilizer complex in Tanzania. We have not incorporated the latter in our valuation, as we await clarity on this project. This along with rejuvenation of dividend income from FFBL and PMP would enhance company's profitability going forward

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Fig 1: FFC 2QCY21 Financial Highlights (Rs mn)

Rs (mn)	2QCY21	2QCY20	YoY	QoQ	1HCY21	1HCY20	YoY
Net sales	22,430	23,156	-3%	4%	44,018	43,782	1%
COGS	14,653	15,757	-7%	11%	27,808	28,893	-4%
Gross profit	**7,776**	**7,398**	**5%**	**-8%**	**16,210**	**14,889**	**9%**
Distribution cost	1,956	1,855	5%	-3%	3,964	3,930	1%
Finance cost	385	462	-17%	-8%	805	1,135	-29%
Other expenses	1,768	628	181%	145%	2,491	1,191	109%
Other income	1,495	2,287	-35%	-45%	4,214	4,007	5%
PBT	**5,162**	**6,740**	**-23%**	**-35%**	**13,165**	**12,640**	**4%**
PAT	3,621	4,874	-26%	-38%	9,436	9,136	3%
EPS	**2.85**	**3.83**	**-26%**	**-38%**	**7.42**	**7.18**	**3%**
Gross Margin	34.7%	32.0%			36.8%	34.0%	
Net Margin	16.1%	21.0%			21.4%	20.9%	

Source: Company Accounts, Foundation Research, July 2021

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Recommendations definitions

If

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