PAKISTAN **October 25, 2021**

Earning Review

FFBL: 3QCY21 EPS clocked in at Rs3.11, up 25% YoY

Event

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) profitability clocked in at Rs4.1bn (EPS Rs3.11) in 3QCY21 against profit of Rs3.2bn (EPS Rs2.5) in 3QCY20. This takes 9MCY21 profitability to Rs5.7bn (EPS Rs4.40) as compared to profit of Rs347mn (EPS Rs0.27) in 9MCY20.
- The result is in line with our expectations.

Impact

- We attribute increase in company's profitability to (1) ~25% YoY increase in Urea offtake amid higher retention prices, (2) ~32% YoY increase in DAP primary margins, (3) decline in loss contribution of food business, (4) increase in share of profit from PMP given higher phosphoric acid prices and (5) lower finance cost.
- Furthermore, FFBL board also approved subscription of FFBL and Fauji Foundation portion of right share announced by the Fauji Foods Limited (FFL). Amounting to Rs5.3bn and Rs654mn.
- Moreover, FFBL's DAP margins improved by ~32% YoY in 3QCY21 given 69% YoY increase in avg. international DAP prices.
- Moreover, Urea prices were also up by 6% YoY in 3QCY21 due to pricing power of base players amid strong agronomics and constrained supply.
- Company's other income increased by 3/48% YoY in 3QCY21 due to higher interest income given strong cash position of the company and increased profitability share from associates (Ex FWE I/II).
- Furthermore, FFBL finance cost declined by 29/7% YoY in 3QCY21 due to 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 33% YoY to Rs292mn (LPS Rs0.23) in 3QCY21 from Rs434mn (LPS Rs0.34) in 3QCY20.
- FFBL other operating expense increased to Rs3.0bn. Increase in other expenses is due to exchange loss on foreign currency denominated payables to PMP given sequential rupee depreciation between reporting dates in 3QCY21. To highlight, FFBL has also recorded reversal of Rs303mn GIDC liability re-measurement gain booked earlier.

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 4QCY21 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 3QCY21 Key Financial Highlights (Rs mn)

Rs(mn)	3QCY21	3QCY20	YoY	QoQ	9MCY21	9MCY20	YoY
Net sales	43,030	29,432	46%	103%	81,637	60,915	34%
COGS	32,731	23,690	38%	109%	61,714	50,331	23%
Gross profit	**10,299**	**5,742**	**79%**	**88%**	**19,923**	**10,584**	**88%**
S&A expense	2,426	2,329	4%	5%	6,375	5,747	11%
Financial charges	1,155	1,639	-29%	-7%	3,691	6,783	-46%
Other operating exp	3,022	(45)	n.a	28%	5,928	407	n.a
Other operating income	2,209	2,150	3%	48%	4,908	3,682	33%
PBT	**5,904**	**3,970**	**49%**	**463%**	**8,837**	**1,330**	**565%**
Tax	1,822	723	152%	364%	2,877	1,305	120%
PAT	**4,082**	**3,247**	**26%**	**522%**	**5,960**	**24**	**n.a**
PAT att to the parent company	4,022	3,226	25%	653%	5,679	347	n.a
NCI	59	21			282	(322)	
EPS	3.11	2.50			4.40	0.27	

Source: Company Accounts, Foundation Research, October 2021

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Recommendations definitions

If

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