PAKISTAN **October 27, 2021**

Earning Review

FFC: 3QCY21 EPS clocked in at Rs5.07, DPS Rs3.75

Event

- Fauji Fertilizer Company Limited (FFC PA) profitability clocked in at Rs6.5bn (EPS Rs5.07) in 3QCY21, up 39/78% YoY/QoQ against Rs4.6bn (EPS 3.64) in 3QCY20. This takes 9MCY21 profitability to Rs15.9bn (EPS Rs12.49) as compared to profit of Rs13.8bn (EPS Rs10.82) in 9MCY20.
- Result is also accompanied with dividend of Rs3.75/sh, cumulating to 9MCY21 payout of Rs9.85/sh.
- The result is in line with our expectations.

Impact

- We attribute increase in FFC profitability to (1) higher Urea offtake amid better retention prices, (2) better DAP retention prices, (3) increase in other income due to strong cash and short term position of the company and (4) lower effective tax rate.
- FFC UREA/DAP offtake clocked in at 690/50K tons (up/down 22/46% YoY) in 3QCY21. FFC Urea offtake increased due to higher opening inventory in 3QCY21 and decline in production of peers, in our view.
- Furthermore, FFC gross margins increased by 4.2/3.1ppt YoY/QoQ to 37.8% in 3QCY21 due to better Urea retention prices and higher DAP trading margins.
- FFC finance cost increased by 139/68% YoY in 1QCY21 due to increase in inventory position of imported fertilizers of the company.
- FFC other income increased by 79/14% YoY/QoQ due to higher interest income on cash and short term investments held by the company, in our view.
- Furthermore, among other major heads, selling and distribution expenses increased by 21% YoY due to higher offtake and increase in fuel prices in 3QCY21.
- FFC also booked reversal of Rs616mn GIDC re-measurement gain booked earlier.

Outlook

- We have an “Outperform” stance on the scrip as 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 1QCY21 Key Financial Highlights (Rs mn)

Rs (mn)	1QCY21	1QCY20	YoY	QoQ	9MCY21	9MCY20	YoY
Net sales	29,574	24,636	20%	32%	73,592	68,418	8%
COGS	18,408	16,365	12%	26%	46,216	45,258	2%
Gross profit	11,166	8,271	35%	44%	27,376	23,160	18%
Distribution cost	2,087	1,725	21%	7%	6,051	5,654	7%
Financial charges	647	271	139%	68%	1,452	1,406	3%
Other expenses	1,426	628	127%	-19%	3,917	1,819	115%
Other income	1,701	951	79%	14%	5,915	4,958	19%
PBT	8,706	6,598	32%	69%	21,871	19,238	14%
PAT	6,452	4,628	39%	78%	15,888	13,764	15%
EPS	5.07	3.64	39%	78%	12.49	10.82	15%
Gross Margin	37.8%	33.6%			37.2%	33.9%	
Net Margin	21.8%	18.8%			21.6%	20.1%	

Source: Company Accounts, PSX, Foundation Research, October 2021

Recommendations definitions

If

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