

# Foundation Alert

## FFBL: Analyst Briefing Key Takeaways

### Event

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) held its Analyst briefing session today organized by Foundation Securities to discuss the financial/operational performance and future outlook of the company. Following are the key takeaways of the briefing.

### Impact

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) profitability clocked in at Rs5.7bn (EPS Rs4.40) in 9MCY21 as compared to profit of Rs347mn (EPS Rs0.27) in 9MCY20.
- Management attributes increase in company's profitability to (1) better DAP primary margins and higher Urea retention prices amid higher Urea offtake, (2) 46% YoY decline in finance cost, (3) lower losses of food businesses, (4) increase in share of profit from PMP given higher phosphoric acid prices and (5) gain on sale of investment in FWE I/II.
- However, (1) FML impairment, (2) expected credit loss, (3) Unwinding of GIDC, (4) increased selling and distribution cost and (4) exchange losses due to rupee depreciation has curtailed the growth in profitability.
- FFBL UREA/DAP offtake clocked in at 382/515K tons in 9MCY21. To highlight, FFBL DAP production increased by 10% YoY to 565K tons in 9MCY21 due to better gas supplies which allowed it to increase its market share in DAP market by 2ppt YoY to 43% in 9MCY21. However, due to decline in Urea production FFBL market share in Urea declined by 1ppt to 8% in 9MCY21.
- Furthermore, management discussed that due to (1) export restrictions in China, (2) increase in raw material prices and (3) higher demand by importing countries has allowed DAP prices to increase by 69% YoY in 9MCY21.
- To highlight, current international DAP prices stand at US\$715/ton. Increase in DAP prices is attributable to US\$170/ton QoQ increase in Phosphoric acid prices to US\$1,330/ton for 4QCY21 deliveries.
- Management also discussed key highlights of Fauji Foods Limited (FFL PA) and shared that FFL loss declined by 49% YoY in 9MCY21 due to higher sales amid recovery in market share of tea whitener and UHT segment along with introduction of new products by the company.
- Furthermore, management also discussed investment in Fauji Meat Limited (FML) and disclosed that company is in talks with both local and foreign firms and evaluating different options like (1) joint venture or toll processing and (2) further investment in back end supply chain.
- Company is also expecting good dividends from PMP and AKBL in future given improvement in business dynamics of these subsidiaries.
- On demand front, management expects Urea offtake for CY21 to increase by 5.1ppt YoY to 6.35mn tons due to strong agronomics. However, DAP offtake is expected to decline by 8.8ppt YoY to 2.0mn tons in CY21.

### 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%
<b>Gross profit</b>	<b>10,299</b>	<b>5,742</b>	<b>79%</b>	<b>88%</b>	<b>19,923</b>	<b>10,584</b>	<b>88%</b>
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%
<b>PBT</b>	<b>5,904</b>	<b>3,970</b>	<b>49%</b>	<b>463%</b>	<b>8,837</b>	<b>1,330</b>	<b>565%</b>
Tax	1,822	723	152%	364%	2,877	1,305	120%
<b>PAT</b>	<b>4,082</b>	<b>3,247</b>	<b>26%</b>	<b>522%</b>	<b>5,960</b>	<b>24</b>	<b>n.a</b>
PAT att to the parent company	4,022	3,226	25%	653%	5,679	347	n.a
NCI	59	21			282	(322)	
<b>EPS</b>	<b>3.11</b>	<b>2.50</b>			<b>4.40</b>	<b>0.27</b>	

Source: Company Accounts, Foundation Research, October 2021

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