Earning Review

FFBL: 4QCY21 EPS clocked in at Rs2.54, down 46% YoY

Event

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) profitability clocked in at Rs3.3bn (EPS Rs2.54) in 4QCY21 against profit of Rs6.1bn (EPS Rs4.73) in 4QCY20.
- This takes CY21 profitability to Rs9.0bn (EPS Rs6.94) as compared to profit of Rs6.4bn (EPS Rs5.0) in CY20.
- The result is below our expectation due to higher taxation charge.

Impact

- We attribute decrease in company's profitability to (1) ~25% YoY decrease in DAP offtake, (2) ~8% YoY decrease in Urea offtakes, (3) lower other income due to absence of one off gain booked for re-measurement of GIDC liability, (4) higher other operating expenses due to exchange losses and (5) higher taxation charge.
- However, (1) 54% YoY higher phosphoric acid margins, (2) higher Urea prices and (3) lower finance cost has provided breather to profitability.
- FFBL's DAP margins improved by ~54% YoY in 4QCY21 given 75% YoY increase in average international DAP prices.
- Moreover, Urea prices were also up by 5% YoY in 4QCY21 due to pricing power of base players amid strong agronomics and constrained supply.
- Company's other income decreased by 47% YoY in 4QCY21 due to absence of one off gain booked last year against re-measurement of GIDC liability. However, interest income increased significantly given strong cash position of the company.
- Furthermore, FFBL finance cost declined by 28% YoY in 4QCY21 due to decline in debt levels of the company.
- Encouragingly, losses of Food segment have reduced significantly during the quarter, with FFL loss decreasing by 90% YoY to Rs60mn (LPS Rs0.04) in 4QCY21 from Rs635mn (LPS Rs0.40) in 4QCY20.
- FFBL other operating expense increased to Rs1.4bn. Increase in other expenses is due to exchange loss on foreign currency denominated payables to PMP given sequential rupee depreciation between reporting dates in 4QCY21. To highlight, FFBL has also recorded reversal of Rs282mn GIDC liability re-measurement gain booked earlier.
- Besides, the Board of Directors (BoD) have decide to renew, roll over and extend the time for repayment of Rs708mn as markup accrued for a period of one year or convert this amount into fully paid-up ordinary shares of FFL.
- Moreover, the BoD have also decided to exercise its option to convert the subordinated shareholder loans of Rs7bn granted to Fauji Meat Limited (FML) into ordinary shares of the subsidiary company.

Outlook

- We have an "Outperform" stance on the scrip with Dec-22 TP of Rs39.8/sh 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.
- Furthermore, we expect FFBL to benefit from (1) pricing power in DAP market given higher landed cost for importers and constrained supply internationally, (2) higher Urea production due to restoration of gas supplies

as per quota to meet the shortfall, (3) improved cash flows due to higher payouts from power ventures and PMP and (4) decline in loss contribution of food businesses.

- 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 1: FFBL 4QCY21 Key Financial Highlights (Rs mn)

Rs (mn)	4QCY21	4QCY20	YoY	QoQ	CY21	CY20	YoY
Net sales	46,599	37,146	25%	8%	128,236	98,061	31%
COGS	37,431	28,829	30%	14%	99,146	79,159	25%
Gross profit	**9,167**	**8,317**	**10%**	**-11%**	29,090	18,902	**54%**
S&A expense	2,948	2,700	9%	21%	9,323	8,447	10%
Financial charges	1,120	1,562	-28%	-3%	4,811	8,344	-42%
Other operating expenses	1,484	653	127%	-51%	7,413	1,060	599%
Other operating Income	2,537	4,775	-47%	15%	7,445	8,457	-12%
PBT	**6,152**	**8,177**	**-25%**	**4%**	14,989	9,507	**58%**
Tax	2,887	2,168	33%	58%	5,764	3,473	66%
PAT	**3,265**	**6,009**	**-46%**	**-20%**	9,225	6,034	**53%**
Owners of the parent company	3,278	6,109	-46%	-18%	8,957	6,455	39%
Non-controlling interest	(14)	(100)			268	(422)	
EPS	2.54	4.73			6.94	5.00	

Source: Company Accounts, Foundation Securities, January 2022

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Recommendations definitions

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