Earning Review

FFC: 4QCY21 EPS clocked in at Rs4.72, DPS Rs4.65

Event

- Fauji Fertilizer Company Limited (FFC PA) profitability clocked in at Rs6.0bn (EPS Rs4.72) in 4QCY21, down 15/7% YoY/QoQ against Rs7.1bn (EPS 5.55) in 4QCY20. This takes CY21 profitability to Rs21.9bn (EPS Rs17.21) as compared to profit of Rs20.8bn (EPS Rs16.36) in CY20.
- Result is also accompanied with dividend of Rs4.65/sh, cumulating to CY21 payout of Rs14.5/sh.

Impact

- We attribute decrease in FFC profitability to (1) provisioning of unwinding of GIDC liability, (2) absence of one-off gain booked on extinguishment of original GIDC liability, (3) lower Urea and DAP offtakes and (4) increased distribution cost.
- However, (1) higher Urea and DAP retention prices, and (2) lower effective tax rate has provided breather to profitability.
- FFC UREA/DAP offtake clocked in at 657/90K tons (down 3/9% YoY) in 4QCY21. FFC Urea offtake decreased due to lower opening inventory in 4QCY21, in our view.
- Furthermore, FFC gross margins increased by 4.0% YoY to 32.8% in 4QCY21 due to better Urea retention prices and higher DAP trading margins.
- FFC finance cost increased by 80/30% YoY/QoQ in 4QCY21 due to higher inventory cost of imported fertilizers of the company.
- FFC other income increased by 36/18% 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 8% YoY due to increase in fuel prices.
- FFC also booked reversal of Rs627mn GIDC re-measurement gain booked earlier and loss allowance on subsidy from GoP.

Outlook

- We have an “Outperform” stance on the scrip with Dec-22 TP of Rs141.9/sh as strong agronomics given increase in support prices for major cash crops and constrained Urea supply during ongoing Rabi season would keep Urea pricing power with base players, in our view. Thus, providing ability to pass on the impact of probable gas price hike.
- 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.

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

Rs (mn)	**4QCY21**	**4QCY20**	**YoY**	**QoQ**	**CY21**	**CY20**	**YoY**
Net sales	35,059	29,237	20%	19%	108,651	97,655	11%
COGS	23,556	20,814	13%	28%	69,772	66,071	6%
Gross profit	**11,503**	**8,424**	**37%**	**3%**	**38,879**	**31,583**	**23%**
Distribution cost	2,359	2,194	8%	13%	8,409	7,848	7%
Financial charges	840	468	80%	30%	2,292	1,874	22%
Others							
Gain on extinguishment of original GIDC liability	-	5,927	na		-	5,927	na
Unwinding of GIDC liability	627	-	na		2,441	-	na
Loss allowance on subsidy from GoP	370	987	-63%		370	987	-63%
Other expenses	844	1,820	-54%	4%	5,758	3,639	58%
Other income	2,005	1,471	36%	18%	7,919	6,429	23%
PBT	8,468	10,353	-18%	-3%	30,339	29,591	3%
PAT	**6,008**	**7,055**	**-15%**	**-7%**	**21,896**	**20,819**	**5%**
EPS	**4.72**	**5.55**	**-15%**	**-7%**	**17.21**	**16.36**	**5%**
Gross Margin	32.8%	28.8%			35.8%	32.3%	
Net Margin	17.1%	24.1%			20.2%	21.3%	

Source: Company Accounts, PSX, Foundation Research, January 2022

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Recommendations definitions

If

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