PAKISTAN **January 31, 2022**

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

- On unconsolidated basis, Fauji Fertilizer Bin Qasim Limited (FFBL PA) profitability clocked in at Rs6.4bn (EPS Rs4.96) in CY21 as compared to profit of Rs2.2bn (EPS Rs1.65) in CY20 on unconsolidated basis.
- Management attributes increase in company's profitability to (1) better DAP primary margins, (2) decline in finance cost, (3) gain on sale of investment in FWE I/II, and (4) increased dividend and other income.
- However, (1) decline in urea margins, (2) lower urea and DAP offtakes, (3) FML impairment, (4) expected credit loss, (5) Unwinding of GIDC, and (6) exchange losses, WPPF, WWF, increase taxation has curtailed the growth in profitability.
- On consolidated basis, Fauji Fertilizer Bin Qasim Limited (FFBL PA) profitability clocked in at Rs9.2bn (EPS Rs6.94) in CY21 as compared to profit of Rs6.0bn (EPS Rs5.0) in CY20.
- Management attributes increase in consolidated profitability to (1) increase in holding company profit, (2) decrease in FFL and FML losses and (3) increase in share of profit of associated company (AKBL) and Joint Venture (PMP).
- FFBL UREA/DAP offtake clocked in at 501/790K tons in CY21. To highlight, FFBL DAP production increased by 7% YoY to 790K tons in CY21 due to better gas supplies which allowed it to maintain its market share in DAP market at 42% in CY21. However, due to decline in Urea production FFBL market share in Urea declined by 1ppt to 8% in CY21.
- Industry sales of DAP declined 14% YoY in CY21 to 1.88mn tons due to higher prices, however DAP imports increased by 17% YoY due to lower inventory at the beginning of the year.
- Furthermore, global DAP prices continued to increase considerably as compared to last year due to due to (1) export restrictions in China, (2) increase in raw material prices and (3) higher demand by importing countries in CY21.
- International DAP prices recorded at US$915/ton in December 2021. Increase in DAP prices is attributable to increase in Phosphoric acid prices to US$1,330/ton in December 2021.
- Management also discussed key highlights of Fauji Foods Limited (FFL PA) and shared that FFL operations are improving and expected to remain on a positive trajectory due to improvement in EBITDA on the back of increasing 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 divestment of stake along with reduction in losses. Company loss from FML decreased by 27% YoY to Rs1.1bn in CY21.
- Company is also expecting good dividends from PMP and AKBL in future given improvement in business dynamics of these subsidiaries.
- Management expects DAP margins are likely to remain healthy along with better gas availability in 1QCY22.

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 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

Analyst

Muhammad Awais Ashraf, CFA m.awais@fs.com.pk
+92 21 3561 2290-94 Ext 338

Usman Arif Usman.arif@fs.com.pk
+92 21 3561 2290-94 Ext 339

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Recommendations definitions

If

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