

## Foundation Alert

### FFC: Analyst Briefing Key Takeaways

#### Event

- Fauji Fertilizer Company Limited (FFC PA) held its analyst briefing today to discuss its CY21 financial results and future outlook of the company. Following are the key takeaways of the briefing.

#### Impact

- Fauji Fertilizer Company Limited (FFC PA) profitability clocked in at Rs21.9bn (EPS Rs17.21) in CY21, up 5% YoY against Rs20.8bn (EPS Rs16.36) in CY20. Company has also announced a dividend of Rs14.5 during CY21 against Rs11.2/sh during CY20.
- Management attributed increase in company's profitability to (1) better Urea retention prices and (2) enhanced DAP margins.
- Management also shared details of change in agronomics. Farmer income from wheat/cotton/basmati rice crop increased by 34%/339%/19% YoY in last season to Rs32.8/44.0/30.3K per acre. However, due to increased input cost, farmers' income from sugar cane crop decreased by 29% YoY to Rs49K per acre in recent season.
- Furthermore, FFC Urea sales clocked in at 2.48mn in CY21 (down 1.4% YoY) despite higher production of urea due to lower carry forward inventory.
- This coupled with higher production of LNG players has resulted in company's market share to decline by 2.5% to 39.1% in CY21.
- FFC DAP offtake clocked in at 204K tons (down 12.3% YoY) in CY21. Thus, FFC/FFBL combined market share in DAP market decreased by 0.5ppt to 52.9%.
- Management also discussed that its plan to set up a new 1mn tons DAP plant. Establishment of plant is at initial stage and cost or its operating structure is not finalized yet. However, the execution of the project is dependent on government support and commitment to provide guaranteed gas flows.
- Furthermore, due to change in financial reporting requirement, FFC re-measured its outstanding Rs62.6bn GIDC liability and booked gain of Rs5.9 in income statement during CY20. During the year company has reversed an amount of Rs2.44bn as unwinding of re-measurement gain on GIDC. Out of the total GIDC liability company has reported Rs38.6bn under current liability and Rs20.8bn as non-current liability.
- As per schedule of unwinding of re-measurement gain on GIDC Payment, company will book an amount of Rs2.1bn/Rs1.2bn/Rs207mn in CY22/23/24.
- Currently, FFC subsidy receivable stands at Rs6.96bn and GST refunds at Rs16.62bn at Dec'31 2021.
- During the year, company made an investment of Rs13.5bn in acquisition of FWEL I&II. These wind turbines have generated 35.6 GWh of energy post acquisition while their availability remains at 98%.
- FFCEL, which is 49.5MW BOO based wind power plant, has generated 108.92 GWh of electricity during 2021.
- Fauji Fresh & Freeze revenue increased by 40% YoY on the back of 23% YoY higher sales, resultantly FFF operating loss reduced by 24% YoY.
- Company has made further investment of Rs377mn in Thar Energy Limited (TEL) during CY21. TEL has achieved back energization and is expected to achieve CoD in 2022.

- Going forward, management believes (1) rising interest rates, (2) higher fuel prices, (3) discharge of GIDC liability, (4) continued delay in subsidy receivables, (5) long outstanding GST refunds, and (6) business expenditures and input GST disallowance by FBR would remain key challenge for the company.
- However, from strategic point of view, depleting gas reserves would be of concern for the management.

## 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 4QCY21 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%
<b>Gross profit</b>	<b>11,503</b>	<b>8,424</b>	<b>37%</b>	<b>3%</b>	<b>38,879</b>	<b>31,583</b>	<b>23%</b>
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%
<b>PAT</b>	<b>6,008</b>	<b>7,055</b>	<b>-15%</b>	<b>-7%</b>	<b>21,896</b>	<b>20,819</b>	<b>5%</b>
<b>EPS</b>	<b>4.72</b>	<b>5.55</b>	<b>-15%</b>	<b>-7%</b>	<b>17.21</b>	<b>16.36</b>	<b>5%</b>
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, February 2022

### Analyst

**Muhammad Awais Ashraf, CFA**

+92 21 3561 2290-94

**m.awais@fs.com.pk**

Ext 338

**Usman Arif**

+92 21 3561 2290-94

**usman.arif@fs.com.pk**

Ext 339

**Important disclosures:**

**Disclaimer:** This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

**Research Dissemination Policy:** Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

**Target price risk disclosures:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**Analyst certification:** The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

**Recommendations definitions**

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