PAKISTAN **April 22, 2022**

Earning Review

FFBL: 1QCY22 EPS clocked in at Rs2.47, up 185% YoY

Event

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) profitability clocked in at Rs3.2bn (EPS Rs2.47) in 1QCY22 against profit of Rs1.2bn (EPS Rs0.87) in 1QCY21.
- The result is in line with our expectation.

Impact

- We attribute increase in company's profitability to (1) increase in Urea offtake amid better retention prices, (2) higher DAP primary margins and (3) 129% increase in other income due to strong cash position and higher share of profit from associates.
- To highlight, FFBL DAP offtake declined by 2% YoY in 1QCY22. While, DAP primary margins increased by 37% YoY in 1QCY22 due to higher international DAP prices amid constrained global supply.
- FFBL Urea offtake increased by 67% YoY to 117K tons in 1QCY22. Moreover, Urea prices were also up by 14% YoY in 1QCY22 due to pricing power of base players amid strong agronomics and constrained supply.
- Company's other income increased by 129% YoY in 1QCY22 due to higher interest income on cash held by the company and 149% YoY increase in share of profit from associates in 1QCY22.
- Furthermore, FFBL finance cost increased by 8% YoY in 1QCY22 due to increase in interest rates as company overall debt position declined in 1QCY22.
- FFBL other operating expense increased by 102% YoY to Rs1.1bn in 1QCY22. Increase in other expenses is due to exchange loss on foreign currency denominated payables to PMP given sequential rupee depreciation between reporting dates in 1QCY22. To highlight, FFBL has also recorded reversal of Rs257mn GIDC liability re-measurement gain booked earlier.

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 and restricted exports by Chinese manufacturers due new lockdown restrictions imposed in order to minimize the impact new wave of COVID outbreak. Furthermore, 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 1QCY22 Key Financial Highlights (Rs mn)

	1QCY22	1QCY21	YoY	QoQ
Net sales	28,913	17,456	66%	-38%
COGS	21,989	13,301	65%	-41%
Gross profit	**6,924**	**4,155**	**67%**	**-24%**
S&A expense	2,642	1,641	61%	-10%
Financial charges	1,402	1,297	8%	25%
Other operating expenses	1,084	537	102%	-27%
Other operating Income	2,756	1,203	129%	9%
PBT	**4,553**	**1,884**	**142%**	**-26%**
Tax	1,351	661	104%	-53%
PAT	**3,201**	**1,222**	**162%**	**-2%**
Owners of the parent company	3,195	1,122	185%	-3%
Non-controlling interest	7	100		
EPS	2.47	0.87		

Source: Company Accounts, Foundation Securities, April 2022

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Recommendations definitions

If

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