Foundation Securities
A Fauji Foundation Group Company
REP-095

PAKISTAN April 27, 2022

Earning Review

FFC: 1QCY22 EPS clocked in at Rs4.90, DPS Rs3.70

Event

- Fauji Fertilizer Company Limited (FFC PA) profitability clocked in at Rs6.3bn (EPS Rs4.91) in 1QCY22, up 7/4% YoY/QoQ against Rs5.8bn (EPS 4.57) in 1QCY20. Result is also accompanied with dividend of Rs3.70/sh.
- Result is above our expectations due to higher other income given dividend income from portfolio companies and lower effective tax rate.

Impact

- We attribute increase in FFC profitability to (1) increase in Urea offtake amid better retention prices, (2) increase in other income due to higher interest income on cash held by the company and dividend income from portfolio companies and (3) lower effective tax rate.
- Furthermore, FFC Urea offtake/retention prices increased by 9/4% YoY in 1QCY22. However, FFC DAP offtake declined by 10% YoY to 25K tons in 1QCY22 due to lower imports by the company given volatile international prices amid constrained supply.
- FFC finance cost increased by 155/28% YoY/QoQ in 1QCY22 due to increase in interest rates amid higher short-term debt.
- FFC other income increased by 27/73% YoY/QoQ in 1QCY22 due to higher interest income on cash and short term investments held by the company and dividend income from portfolio companies, in our view.
- Furthermore, among other major heads, selling and distribution expenses increased by 9% YoY due to increase in fuel prices and higher Urea offtake.
- FFC also booked reversal of Rs529mn GIDC re-measurement gain booked earlier.

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 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 1QCY22 Key Financial Highlights (Rs mn)

Rs (mn)	1QCY22	1QCY21	YoY	QoQ
Net sales	26,315	21,589	22%	-25%
COGS	16,957	13,154	29%	-28%
Gross profit	9,358	8,434	11%	-19%
Distribution cost	2,186	2,008	9%	-7%
Financial charges	1,072	420	155%	28%
Other expenses	1,257	723	74%	-32%
Other income	3,459	2,719	27%	73%
PBT	8,302	8,003	4%	-2%
PAT	6,240	5,815	7%	4%
EPS	4.91	4.57	7%	4%
Gross Margin	35.6%	39.1%		
Net Margin	23.7%	26.9%		

Source: Company Accounts, PSX, Foundation Research, April 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

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.