Foundation Securities
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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 Rs1.6bn (EPS Rs1.26) in 1QCY22 as compared to profit of Rs1.3bn (EPS Rs0.98) in 1QCY21.
- Management attributes increase in company's profitability to (1) better DAP primary margins, (2) increased urea sales and (3) increased net treasury income.
- However, (1) higher power and steam cost due to higher coal prices, (2) increase in selling and distribution expense, (3) reduced dividend income, (4) higher exchange losses, (5) higher WPPF and WWF, and (6) increased taxation has curtailed the growth in profitability.
- On consolidated basis, Fauji Fertilizer Bin Qasim Limited (FFBL PA) profitability clocked in at Rs3.2bn (EPS Rs2.47) in 1QCY22 as compared to profit of Rs1.2bn (EPS Rs0.87) in 1QCY21.
- 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 117/115K tons in 1QCY22. To highlight, FFBL DAP production increased by 83% YoY to 222K tons in 1QCY22 as natural gas supplies were higher by 55% during the quarter. Similarly, Urea production increased by 51% during the quarter given increase of 64% in Ammonia production.
- Industry sales of DAP declined 24% YoY in 1QCY22 to 238k tons due to higher prices. Similarly, DAP imports decreased by 53% YoY.
- Furthermore, global DAP prices continued to increase considerably as compared to last year due to due to (1) impact of Russia-Ukraine war, (2) increase in raw material prices, (3) concerns of food security and (4) Chinese export restrictions.
- International DAP prices recorded at US$946/ton in 1QCY22 against US$473/ton in 1QCY21. Current, DAP latest Import Price (CFR) in Pakistan is US$1,025/ton. However, management shares that provisional phosphoric acid for 2QCY22 is US$2,050/ton.
- 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 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.
- On Annual Turnaround (ATA) front, management said that they would avoid ATA this year if gas supplies remain uninterrupted.

- Management expects Urea sales of 6.4mn tons for this year while DAP offtakes are expected to remain in range of 1.6mn tons to 1.8mn tons.

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 of 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: Consolidated 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, May 2022

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Recommendations definitions

If

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