PAKISTAN **July 29, 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 Rs1.78bn (EPS Rs1.38) in 2QCY22 as compared to profit of Rs2.61bn (EPS Rs2.03) in 2QCY21. This takes 1HCY22 profitability to Rs3.41bn (EPS Rs2.64) as compared to profit of Rs3.88bn (EPS Rs3.01) in 1HCY21.
- Management attributes decline in company's profitability to imposition of super tax in FY23 budget. To highlight, company booked Rs2.72bn (Rs 2.11/sh) super tax provision in 2QCY22.
- Furthermore, management has disclosed that without super tax FFBL would have reported profit of Rs4.51bn (EPS 3.48) in 2QCY22.
- FFBL management has shared that industry UREA/DAP offtake increased/decreased by 12/10% YoY in 1HCY22. Decline in DAP offtake is attributable to restricted imports given higher international prices amid constraint supply.
- Moreover, FFBL UREA/DAP offtake increased by 19/35% YoY to 261/311 in 1HCY22, as natural gas supplies were higher by 21% YoY in 1HCY22 that resulted in 14/31% increase in Urea/DAP production in 1HCY22.
- To highlight, FFBL achieved record production of 449K tons of DAP in 1HCY22 due to delay in annual maintenance turnaround. Furthermore, management has also disclosed that company is targeting annual maintenance turnaround in Jan'23 that will result in higher UREA/DAP production in CY22.
- Moreover, FFBL market share in DAP market increased by 19ppt to 58% in 1HCY22 due to decline in imports by private traders. While in UREA market FFBL share remained stable at 8% in 1HCY22.
- However, (1) higher power and steam cost due to higher coal prices, (2) increase in selling and distribution expense, (3) higher exchange losses, (4) higher WPPF and WWF, and (6) increased taxation has restricted profitability growth of FFBL.
- Furthermore, global DAP prices continued to increase considerably as compared to last year due to (1) impact of Russia-Ukraine war, (2) increase in raw material prices, (3) concerns of food security and (4) Chinese export restrictions.
- Imported DAP CFR Pakistan prices recorded at avg US$984/ton in 1HCY22 against US$524/ton in 1HCY21. Current, DAP latest Import Price (CFR) in Pakistan is US$1,030/ton. However, management shares that provisional phosphoric acid for 3QCY22 is US$1,860/ton.
- Management also discussed key highlights of Fauji Foods Limited (FFL PA) and shared that FFL sales increased by 7% YoY in 1HCY22. However, domestic/international inflation amid rupee depreciation is affecting operations adversely.
- Furthermore, management also disclosed that Fauji Meat Limited (FML) loss has declined substantially in 1HCY22. To highlight, FML loss has declined due to conversion of debt into equity by parent company that resulted in saving of ~Rs1bn in finance cost at current interest rates.

- FFBL management has also shared that company has booked ~Rs2.5bn of dividend income in 2QCY22 announced by the PMP.
- Management expects industry Urea sales of 6.55mn tons for this year while DAP offtakes are expected to remain in range of 1.5mn tons to 1.7mn 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 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 2QCY22 Key Financial Highlights On Consolidated (Rs mn)

	2QCY22	2QCY21	YoY	QoQ	1HCY22	2HCY22	YoY
Net sales	51,397	21,151	143%	78%	80,311	38,607	108%
COGS	40,506	15,683	158%	84%	62,495	28,983	116%
Gross profit	**10,891**	**5,469**	**99%**	**57%**	17,816	9,624	**85%**
S&A expense	2,358	2,307	2%	-11%	5,000	3,948	27%
Financial charges	1,728	1,238	40%	23%	3,130	2,535	23%
Other operating expenses	3,427	2,370	45%	216%	4,511	2,907	55%
Other operating Income	2,136	1,496	43%	-22%	4,892	2,700	81%
PBT	**5,514**	**1,050**	**425%**	**21%**	10,066	2,933	**243%**
Tax	4,630	393	1078%	243%	5,981	1,054	467%
PAT	**884**	**657**	**35%**	**-72%**	4,086	1,879	**117%**
Owners of the parent company	862	534	61%	-73%	4,056	1,656	145%
Non-controlling interest	22	122			29	222	
EPS	0.67	0.41			3.14	1.28	
GP Margin	21.2%	25.9%			22.2%	24.9%	
NP Margin	1.7%	3.1%			5.1%	4.9%	
Effective tax rate	84.0%	37.4%			59.4%	35.9%	

Source: Company Accounts, Foundation Securities, July 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.