

## Earning Review

### FFBL: 3QCY22 LPS clocked in at Rs0.46

#### Event

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) loss clocked in at Rs598mn (LPS Rs0.46) in 3QCY22 against profit of Rs4,022mn (EPS Rs3.11) in 3QCY21. This takes 9MCY22 profitability to Rs3,457mn (EPS Rs2.68) as compared to profit of Rs5,679mn (EPS Rs4.40) in 9MCY21.
- The result is below our expectations due to higher foreign exchange loss.

#### Impact

- We attribute decline in company's profitability to (1) lower Urea/DAP offtake, (2) increase in exchange loss of foreign currency denominated payments due to rupee depreciation, (3) higher finance cost, (4) increase in loss contribution from FFL and (5) decline in share of profit from associates.
- FFBL revenue declined by 34% YoY in 3QCY22. We attribute decline in revenue to ~28/74 YoY decline in Urea/DAP offtake due to flooding across the country in 3QCY23 given higher monsoon rains. Furthermore, higher DAP prices has restricted inventory build-up move by dealers for Rabi season.
- Company's other income declined by 12% YoY in 3QCY22 due to 34% YoY decrease in share of profit from associates. We attribute this decline to lower profitability of PMP given slowdown in sales.
- Furthermore, FFBL finance cost increased by 90% YoY in 3QCY22 due to increase in interest rates amid higher working capital requirement.
- To highlight, FFL loss increased by 60% YoY in 3QCY22 due to decline in gross margins, higher finance cost and 31% YoY increase in admin cost.
- FFBL other operating expense, inclusive of unwinding cost of GIDC, increased by 48/31% YoY/QoQ to Rs4.5bn in 3QCY22. Increase in other expenses is due to exchange loss of ~Rs4.2bn on foreign currency denominated payables to PMP given sequential rupee depreciation between reporting dates in 3QCY22. To highlight, FFBL has also recorded reversal of Rs211mn GIDC liability re-measurement gain booked earlier.

#### Outlook

- We have an "Outperform" stance on the scrip 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. 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 due to capital restructuring.
- 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 3QCY22 Key Financial Highlights (Rs mn)

	3QCY22	3QCY21	YoY	QoQ	9M CY22	9M CY21	YoY
Net sales	28,514	43,030	-34%	-45%	108,824	81,637	33%
COGS	22,271	32,731	-32%	-45%	84,766	61,714	37%
<b>Gross profit</b>	<b>6,243</b>	<b>10,299</b>	<b>-39%</b>	<b>-43%</b>	<b>24,058</b>	<b>19,923</b>	<b>21%</b>
S&A expense	1,957	2,426	-19%	-17%	6,957	6,375	9%
Financial charges	2,194	1,155	90%	27%	5,324	3,691	44%
Other operating expenses	4,484	3,022	48%	31%	8,995	5,928	52%
Other operating Income	1,942	2,209	-12%	-9%	6,833	4,908	39%
<b>PBT</b>	<b>(449)</b>	<b>5,904</b>	<b>na</b>	<b>-108%</b>	<b>9,615</b>	<b>8,837</b>	<b>9%</b>
Tax	6	1,822	-100%	-100%	5,987	2,877	108%
<b>PAT</b>	<b>(455)</b>	<b>4,082</b>	<b>na</b>	<b>-152%</b>	<b>3,628</b>	<b>5,960</b>	<b>-39%</b>
Owners of the parent company	(598)	4,022	-115%	-169%	3,457	5,679	-39%
Non-controlling interest	142	59			172	282	
EPS	(0.46)	3.11			2.68	4.40	
GP Margin	21.9%	23.9%			22.1%	24.4%	
NP Margin	-1.6%	9.5%			3.3%	7.3%	
Effective tax rate	-1.4%	30.9%			62.3%	32.6%	

Source: Company Accounts, Foundation Securities, October 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.