Foundation Securities
A Fauji Foundation Group Company
REP-095

PAKISTAN **October 26, 2022**

Earning Review

FFC: 3QCY22 EPS clocked in at Rs4.12, DPS Rs3.18

Event

- Fauji Fertilizer Company Limited (FFC PA) profitability clocked in at Rs5.2bn (EPS Rs4.12), down/up 19/56% YoY/QoQ, in 3QCY22 against profit of Rs6.5bn (EPS 5.07) in 3QCY21. This takes 9MCY22 profitability to Rs14.8bn (EPS Rs11.67), down 7% YoY, against profit of Rs15.9bn (EPS Rs12.49) in 9MCY21.
- Result is also accompanied with dividend of Rs3.18/sh, taking 9MCY22 payout to Rs8.98/sh.
- Company's profitability is slightly below our expectation given higher selling and distribution cost.

Impact

- We attribute decline in company profitability to (1) lower Urea/DAP offtake due to decline in Urea production given plant maintenance, (2) higher repair and maintenance cost due to plant turnaround, (3) increase in finance cost given higher interest rates and (4) increase in effective tax rate due to imposition of 4% super tax in FY23 budget.
- However, FFC gross profit increased by 81bps YoY to 38.6% in 3QCY22 due to better Urea retention prices.
- FFC finance cost increased by 87/28% YoY/QoQ in 3QCY22 due to increase in interest rates amid higher short-term debt.
- FFC other income increased by 69% YoY in 3QCY22 due to higher interest income on cash and short term investments held by the company, However, on sequential basis company other income declined by 27% QoQ in 3QCY22 due to absence of dividend income, in our view.
- Furthermore, among other major heads, selling and distribution expenses increased by 25% YoY due to increase in fuel prices and shipments of fertilizers to warehouse across the country for Rabi season, in our view.
- FFC also booked reversal of Rs414.5mn 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 amid continuous government support to secure food supply.
- Besides, FFC is expanding into offshore fertilizer complex. Moreover, FFC is also planning to set up a 1.3mn ton fertilizer complex in Tanzania. We have not incorporated this in our valuation, as we await clarity on this project. This along with resumption of dividend income from FFBL and PMP would enhance company's profitability going forward.

Fig 1: FFC 3QCY22 Key Financial Highlights (Rs mn)

	3QCY22	3QCY21	YoY	QoQ	9MCY22	9MCY21	YoY
Net sales	24,474	29,574	-17%	-14%	79,180	73,592	8%
COGS	15,034	18,408	-18%	-11%	48,840	46,216	6%
Gross profit	**9,440**	**11,166**	**-15%**	**-18%**	**30,340**	**27,376**	**11%**
Distribution cost	2,615	2,087	25%	23%	6,922	6,051	14%
Financial charges	1,210	647	87%	28%	3,228	1,452	122%
Other expenses	1,045	1,426	-27%	-45%	4,212	3,917	8%
Other income	2,879	1,701	69%	-27%	10,288	5,915	74%
PBT	**7,449**	**8,706**	**-14%**	**-29%**	**26,267**	**21,871**	**20%**
PAT	5,244	6,452	-19%	56%	14,843	15,888	-7%
EPS	**4.12**	**5.07**	**-19%**	**56%**	**11.67**	**12.49**	**-7%**
Gross Margin	38.6%	37.8%			38.3%	37.2%	
Net Margin	21.4%	21.8%			18.7%	21.6%	
Effective tax rate	29.6%	25.9%			43.5%	27.4%	

Source: Company Accounts, PSX, Foundation Research, October 2022

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Recommendations definitions

If

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