Foundation Securities
A Fauji Foundation Group Company
REP-095

PAKISTAN November 14, 2022

Foundation Alert

FFC: Analyst Briefing Key Takeaways

Event

- Fauji Fertilizer Company Limited (FFC PA) held its analyst briefing today to discuss its 9MCY22 financial/operational results and future outlook of the company. Following are the key takeaways of the briefing.

Impact

- Fauji Fertilizer Company Limited (FFC PA) profitability clocked in at Rs14.8bn (EPS Rs11.67), down 7% YoY, against profit of Rs15.9bn (EPS Rs12.49) in 9MCY21. Company has also paid dividend of Rs8.98bn in 9MCY22.
- Management attributes decline in company's profitability to (1) lower Urea/DAP offtake due to decline in Urea production given unexpected plant shutdown, (2) higher repair and maintenance cost, (3) increase in finance cost given higher interest rates, (4) increase in effective tax rate due to imposition of super tax and (5) higher overhead cost due to inflation.
- Furthermore, FFC Urea sales clocked in at 1.79mn tons in 9MCY22 (down 1% YoY) due to 3% YoY decline in Urea production given unexpected plant breakdown. FFC Urea market share declined by 1ppt YoY to 38% in 9MCY22.
- FFC DAP offtake clocked in at 57K tons (down 51% YoY) in 9MCY22. Moreover, company DAP imports also declined by 40% YoY to 104K tons in 9MCY22 due to slowdown in domestic demand given record high prices.
- Company management also discussed buildup of receivables from Government and shared that company current GST/subsidy from Government stands at Rs25bn at the end of Sep'22.
- Company has invested ~Rs4.5bn in Thar Energy Limited (TEL) for 30% equity stake and plant has achieved CoD in Oct'22.
- Going forward, management believes (1) higher interest rates, (2) continuous rupee depreciation, (3) discharge of GIDC liability, (4) continued delay in GST/subsidy receivables, (5) potential increase in gas prices, (6) smuggling of Urea due to lower domestic prices, (7) supply chain disruptions and (8) inflation would remain key challenge for the company.
- However, from strategic point of view, depleting gas reserves would be of concern for the management. To overcome this risk company is looking for other options like coal gasification with the help of Government.

Outlook

- We have an "Outperform" stance on the scrip 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, November 2022

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Recommendations definitions

If

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