

Earning Review

FFBL: 4QCY22 EPS clocked in at Rs3.25, up 28% YoY

Event

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) profitability clocked in at Rs4,193mn (EPS Rs3.25, up 28% YoY) in 4QCY22 against profit of Rs3,278mn (EPS Rs2.54) in 4QCY21. This takes CY22 profitability to Rs7,649mn (EPS Rs5.92, down 15% YoY) as compared to profit of Rs8,957mn (EPS Rs6.94) in CY21.
- The result is above our expectations due to higher share of profit from associates.

Impact

- We attribute increase in company's profitability to (1) better Urea/DAP retention prices, (2) increase in share of profit from associates and, (3) higher other income due to increase in interest rates and (4) decline in other operating expenses due to absence of exchange loss.
- FFBL revenue increased by 59% YoY in 4QCY22. We attribute increase in revenue to increase in Urea/DAP retention prices along with higher Urea offtake. To highlight, company DAP offtake declined significantly in 4QCY22 due to higher prices amid massive floods across the country at the start of the season.
- Company is currently carrying 188K tons of DAP inventory due to lower offtake in 4QCY22 and has temporary closed its PMP plant in Morocco and DAP plant in Pakistan due to economic uncertainty amid low demand. Company expects to resume production in Feb'23/Mar'23.
- Company's other income increased by 49% YoY in 4QCY22 due to 34% YoY increase in share of profit from associates and 86% YoY increase in others. We attribute increase in others to higher interest income given increase in interest rates.
- Furthermore, FFBL finance cost increased by 188% YoY in 4QCY22 due to increase in interest rates amid higher working capital requirement.
- FFBL other operating expense, inclusive of unwinding cost of GIDC declined by 50/84% YoY in 4QCY22 due to absence of exchange loss and lower provision for expected credit loss and unwinding of GIDC 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 support to farmer's liquidity position.

Fig 1: FFBL 4QCY22 Key Financial Highlights (Rs mn)

	4QCY22	4QCY21	YoY	QoQ	CY22	CY21	YoY
Net sales	74,304	46,599	59%	161%	183,129	128,236	43%
COGS	63,598	37,431	70%	186%	148,363	99,146	50%
Gross profit	10,707	9,167	17%	72%	34,765	29,090	20%
S&A expense	4,132	2,948	40%	111%	11,089	9,323	19%
Financial charges	3,229	1,120	188%	47%	8,553	4,811	78%
Other operating expenses	738	1,484	-50%	-84%	9,733	7,413	31%
Other operating Income	3,768	2,537	49%	94%	10,601	7,445	42%
PBT	6,375	6,152	4%	na	15,991	14,989	7%
Tax	1,976	2,887	-32%	na	7,963	5,764	38%
PAT	4,399	3,265	35%	na	8,028	9,225	-13%
Owners of the parent company	4,193	3,278	28%	na	7,649	8,957	-15%
Non-controlling interest	207	(14)			378	268	
EPS	3.25	2.54			5.92	6.94	
GP Margin	14.4%	19.7%			19.0%	22.7%	
NP Margin	5.9%	7.0%			4.4%	7.2%	
Effective tax rate	31.0%	46.9%			49.8%	38.5%	

Source: Company Accounts, Foundation Research, January 2023

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Recommendations definitions

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