

Earning Review

FFC: 4QCY22 EPS clocked in at Rs4.09, DPS Rs3.15

Event

- Fauji Fertilizer Company Limited (FFC PA) profitability clocked in at Rs5.2bn (EPS Rs4.09, down 13/1% YoY/QoQ) in 4QCY22 against profit of Rs6.0bn (EPS 4.72) in 4QCY21. This takes CY22 profitability to Rs20.0bn (EPS Rs15.76), down 8% YoY, against profit of Rs21.9bn (EPS Rs17.21) in CY21.
- Result is also accompanied with dividend of Rs3.15/sh, taking CY22 payout to Rs12.13/sh.
- Company's profitability is slightly below our expectation given higher cost of sales and distribution expense.

Impact

- We attribute decline in company profitability to (1) lower Urea/DAP offtake due to decline in Urea production given plant shutdown, (2) higher repair and maintenance cost, (3) increase in finance cost due to higher interest rates amid increase in working capital cost and (4) increase in effective tax rate due to imposition of super tax in FY23 budget.
- Moreover, FFC gross margin declined by 65bps YoY to 32.2% in 4QCY22 due to lower offtake and increase in operation and maintenance expense.
- FFC finance cost increased by 95/36% YoY/QoQ in 4QCY22 due to increase in interest rates amid higher short-term debt.
- FFC other income increased by 107/44% YoY in 4QCY22 due to higher interest income on cash and short term investments held by the company and dividend income from portfolio companies, in our view.
- Furthermore, among other major heads, selling and distribution expenses increased by 35/22% YoY/QoQ due to increase in fuel prices, in our view.
- FFC effective tax rate clocked in at 29.8% in 4QCY22.

Outlook

- We have an "Outperform" stance on the scrip with Dec-23 TP of Rs132.9/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. Furthermore, dividend resumptons by FFBL and AKBL provide further support to the growth.
- 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.

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

	4QCY22	4QCY21	YoY	QoQ	CY22	CY21	YoY
Net sales	30,184	35,059	-14%	23%	109,364	108,651	1%
COGS	20,478	23,556	-13%	36%	69,317	69,772	-1%
Gross profit	9,706	11,503	-16%	3%	40,046	38,879	3%
Distribution cost	3,186	2,359	35%	22%	10,108	8,409	20%
Financial charges	1,641	840	95%	36%	4,868	2,292	112%
Other expenses	1,613	1,841	-12%	54%	5,826	5,758	1%
Other income	4,153	2,005	107%	44%	14,442	7,919	82%
PBT	7,419	8,468	-12%	0%	33,687	30,339	11%
PAT	5,206	6,008	-13%	-1%	20,050	21,896	-8%
EPS	4.09	4.72	-13%	-1%	15.76	17.21	-8%
Gross Margin	32.2%	32.8%			36.6%	35.8%	
Net Margin	17.2%	17.1%			18.3%	20.2%	
Effective tax rate	29.8%	29.0%			40.5%	27.8%	

Source: Company Accounts, PSX, FSL Research, Jan 2023

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.