Foundation Alert

FFC: Analyst Briefing Key Takeaways

Event

- Fauji Fertilizer Company Limited (FFC PA) held its analyst briefing today to discuss its CY22 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 Rs20.1bn (EPS Rs15.76), down 8% YoY, in CY22 against profit of Rs21.9bn (EPS Rs17.21) in CY21. Company has also paid dividend of Rs15.4bn in CY22.
- 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 2.43mn tons in CY22 (down 2% YoY) due to 4% YoY decline in Urea production given unexpected plant shutdown. FFC and FFBL combined Urea/DAP market share clocked in at 45%/62% in CY22.
- FFC DAP offtake clocked in at 70K tons (down 66% YoY) in CY22. Moreover, company DAP imports also declined by 28% YoY to 147K tons in CY22 due to slowdown in domestic demand given record high prices.
- Wind power projects FFCEL and FWEL-I & FWEL-II posted combined profitability of Rs8.8bn in CY22.
- FFCEL has generated 89.5 GWh of electricity against 108.9 GWh in CY21. FFCEL profitability increased by 17% YoY to Rs2.5bn in CY22 and sold verified Carbon Credits for Rs244k. The subsidiary has also paid its last installment of project loan.
- FWEL-I supplied 106.3 GWh of electricity in CY22 against 109.9 GWh in CY21. FWEL-I profit surged by 198% YoY to Rs3.2bn in CY22.
- FWEL-II supplied 114.5 GWh of electricity in CY22 against 124.7 GWh in CY21. FWEL-II profit surged by 194% YoY to Rs3.1bn in CY22.
- Fauji Fresh and Freeze (FFF) gross profit surged by 125% YoY due to 82%YoY increase in revenue. FFF has added new 3 ton/hour production line in Jun'22 while its business with McDonald and KFC are growing steadily.
- 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 Dec'22.
- FFC has entered into an arrangement with Sui Northern Gas Pipelines (SNGP) for laying of dedicated pipeline for supply of Gas/RLNG as a backup line, to its plant site Mirpur Mathelo. This project would require CAPEX of Rs2bn.
- In another development, company along with EFERT and FATIMA have entered into an agreement with MARI for a project which is aimed to maintain MARI HRL reservoir gas production plateau at the required delivery pressure for supplies to the Fertilizer Manufacturers. This project would require an overall CAPEX of ~US$210mn out of which FFC share of 48% has to be invested in next four years.
- Company has invested ~Rs5.7bn in Thar Energy Limited (TEL) for 30% equity stake and plant has achieved CoD in Oct'22.
- Going forward, management believes (1) Governmental pricing intervention, (2) offloading DAP inventory, (3) non availability of forex for import of machinery and spares & other items, (4) galloping cost push Inflation,

higher interest rates, and PKR devaluation, (5) discharge of GIDC liability, (6) continued delay in GST/subsidy receivables, (7) potential increase in gas prices, and (8) supply chain disruptions 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 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 resumptions by FFBL and AKBL would provide support to the earning growth.
- Besides, FFC is expanding into offshore fertilizer complex with plan of setting 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 CY22 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, February 2023

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Recommendations definitions

If

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