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Foundation Alert

FFBL: Analyst Briefing Key Takeaways

Event

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) held its analyst briefing session yesterday to discuss the financial/operational performance of CY22 and future outlook of the company. Following are the key takeaways of the briefing.

Impact

- On consolidated basis, Fauji Fertilizer Bin Qasim Limited (FFBL PA) profitability clocked in at Rs7,649mn (EPS Rs5.92, down 15% YoY) as compared to profit of Rs8,957mn (EPS Rs6.94) in CY21.
- Management attributes decline in company’s profitability to (1) imposition of super tax in FY23 budget, (2) increase in finance cost due to higher interest rates and (3) higher exchange loss due to rupee depreciation.
- FFBL management has shared that industry UREA/DAP offtake clocked in at 6.62/1.17mn tons in CY22 as compared to 6.34/1.88mn ton in CY21. DAP sales were affected by floods, high pricing and farm economics.
- Moreover, FFBL UREA offtake increased by 4% YoY to 523k tons while DAP sales declined by 16% YoY to 661k ton in CY22. In CY22, FFBL witnessed significant growth in DAP Market share from 42% to 56%, while maintaining UREA market share at 8%. FFBL carryover DAP inventory is 188K tons.
- Despite demand destruction due to floods, achieved highest revenue of Rs183bn in CY22. Moreover, company has also achieved highest ever gross profit, operating profit, EBITDA and profit before tax in CY22.
- Despite FOREX restriction by SBP, FFBL managed to ensure supply of Phos Acid for smooth operations.
- While discussing impact of super tax and rupee depreciation company management disclosed that FFBL profitability declined by Rs2.9/5.5/2.4bn in CY22 due to super tax/rupee depreciation/higher finance cost.
- Furthermore, phosphoric acid prices are expected to settle at US$1,050/ton in 1QCY23 against US$1,175/ton in 4QCY22.
- Management also discussed current developments in Fauji Foods Limited (FFL PA) and shared that equity of Rs11bn by sponsors has been injected to reduce its debt. Moreover, company has achieved strong revenue growth of 44% YoY in CY22.
- Management believes that based on recent sales, projected demand for DAP appears high. FFBL is in a unique position to capitalize on this owing to existing inventory available and lack of imports.
- FFBL expects farm economics to improve in 2023 with projected net income per acre rising. DAP demand to improve as farmers look to maximize output per acre.

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) improved cash flows due to higher payouts from power ventures and PMP, (3) better DAP sales owing to existing inventory levels and improving demand, 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 CY22 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, February 2023

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Recommendations definitions

If

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