

Earning Review

FFBL: 1QCY23 LPS clocked in at Rs3.76

Event

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) loss clocked in at Rs4.9bn (LPS Rs3.76) in 1QCY23 against profit of Rs3.2n (EPS Rs2.47) in 1QCY22.
- The result is below our expectations due to lower share of profit from associates and lower margins.

Impact

- We attribute decrease in company's profitability to (1) exchange loss, (2) lower urea offtake, (3) lower share of profit from associate and joint ventures, (4) higher gas prices and (5) higher financial charges.
- Moreover, company faced adverse financial affects during 1QCY23 due to continuation of 5-18% GST on locally produced DAP, whereas GST has been exempted on imported DAP. This resulted in additional cost of Rs0.7bn during the quarter. Moreover, FFBL gas availability was also curtailed by 51% in 1QCY23 against 9% in 1QCY22.
- However, (1) better Urea/DAP retention prices, (2) higher DAP offtakes (3) higher other income due to increase in interest rates and (4) lower selling and distribution expense provided support to the bottom line.
- FFBL revenue increased by 37% YoY in 1QCY23. We attribute increase in revenue to increase in Urea/DAP retention prices along with higher DAP offtake. To highlight, company urea offtake declined 24% YoY in 1QCY23 due to lower production.
- Company's other income decreased by 62% YoY in 1QCY23 due to 92% YoY decrease in share of profit from associates despite 4% YoY increase in others. We attribute increase in others to higher interest income given increase in interest rates.
- Furthermore, FFBL finance cost increased by 141% YoY in 1QCY23 due to 10.25ppts increase in interest rates amid higher working capital requirement.
- FFBL other operating expense, inclusive of exchange loss and unwinding cost of GIDC inclined by 4.7x/6.9x YoY/QoQ in 1QCY23 due to increase in exchange loss as rupee depreciated from 226 to 284 against the dollar during the quarter despite 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 provide support to farmer's liquidity position.

Fig 1: FFBL 1QCY23 Key Financial Highlights (Rs mn)

| | 1QCY23 | 1QCY22 | YoY | QoQ |
|------------------------------|----------------|--------------|-------------|-------------|
| Net sales | 39,742 | 28,913 | 37% | -47% |
| COGS | 34,604 | 21,989 | 57% | -46% |
| Gross profit | 5,137 | 6,924 | -26% | -52% |
| S&A expense | 1,716 | 2,642 | -35% | -58% |
| Financial charges | 3,382 | 1,402 | 141% | 5% |
| Other operating expenses | 5,089 | 1,084 | 369% | 589% |
| Other operating Income | 1,053 | 2,756 | -62% | -72% |
| PBT | (3,996) | 4,553 | na | na |
| Tax | 638 | 1,351 | -53% | -68% |
| PAT | (4,634) | 3,201 | na | na |
| Owners of the parent company | (4,855) | 3,195 | na | na |
| Non-controlling interest | 221 | 7 | | |
| EPS | (3.76) | 2.47 | | |
| GP Margin | 12.9% | 23.9% | | |
| NP Margin | -11.7% | 11.1% | | |
| Effective tax rate | -16.0% | 29.7% | | |

Source: Company Accounts, Foundation Securities, April 2023

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Recommendations definitions

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