

Earning Review

FFC: 1QCY23 EPS clocked in at Rs6.08, DPS Rs4.26

Event

- Fauji Fertilizer Company Limited (FFC PA) profitability clocked in at Rs7.7bn (EPS Rs6.08, up 24/48% YoY/QoQ) in 1QCY23 against profit of Rs6.2bn (EPS 4.90) in 1QCY22.
- Result is also accompanied with an interim cash dividend of Rs4.26/sh.
- Company's profitability is in line with our expectation.

Impact

- We attribute incline in company profitability to (1) higher Urea and DAP prices and (2) higher other income.
- Moreover, FFC gross margin inclined by 447bps YoY to 40.0% in 1QCY23 due to higher retention prices of both Urea and DAP.
- FFC finance cost increased by 37% YoY in 1QCY23 due to increase in interest rates amid higher short-term debt.
- FFC other income increased by 2% YoY in 1QCY23 due to higher interest income on cash and short term investments held by the company, in our view. This income also included an unrealized exchange gain of Rs930mn earned on the foreign exchange deposits of the company due to Rupee depreciation.
- Furthermore, among other major heads, selling and distribution expenses increased by 40% YoY due to increase in fuel prices, in our view.
- FFC effective tax rate clocked in at 35.3% in 1QCY23.
- Company highlighted that application of WACOG would make fertilizer business unsustainable.
- Setting up of new projects including Pressure Enhancement Facility (PEF) along with SNGPL network progressing satisfactorily but faces the risk of delays due to shortage of foreign exchange for purchase of requisite machinery and items.

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 planning to expand into onshore 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 1QCY23 Key Financial Highlights (Rs mn)

	1QCY23	1QCY22	YoY	QoQ
Net sales	36,406	26,315	38%	21%
COGS	21,831	16,957	29%	7%
Gross profit	14,575	9,358	56%	50%
Distribution cost	3,056	2,186	40%	-4%
Financial charges	1,464	1,072	37%	-11%
Other expenses	1,656	1,257	32%	3%
Other income	3,545	3,459	2%	-15%
PBT	11,943	8,302	44%	61%
PAT	7,730	6,240	24%	48%
EPS	6.08	4.90	24%	48%
Gross Margin	40.0%	35.6%		
Net Margin	21.2%	23.7%		
Effective tax rate	35.3%	24.8%		

Source: Company Accounts, PSX, Foundation Research, April 2023

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Ext 338

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Recommendations definitions

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