Foundation Alert

FFBL: Analyst Briefing Key Takeaways

Event

- Fauji Fertilizer Bin Qasim Limited (FFBL PA) held its analyst briefing session today to discuss the financial/operational performance of 1QCY23 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) loss clocked in at Rs4,855mn (LPS Rs3.76) as compared to profit of Rs3,195mn (EPS Rs2.47) in 1QCY22.
- Management attributes decline in company's profitability to (1) higher exchange loss due to rupee depreciation, (2) increased finance cost and (3) impact of GST.
- FFBL management has shared that industry UREA/DAP offtake clocked in at 1.62/0.23mn tons in 1QCY23 as compared to 1.63/0.24mn ton in 1QCY22.
- Moreover, FFBL UREA offtake decreased by 24% YoY to 88k tons due to lower production on the back of higher gas curtailment while DAP sales inclined by 10% YoY to 127k ton in 1QCY23. In 1QCY23, FFBL witnessed significant growth in DAP Market share from 47% to 54%, while UREA market share decreased to 6% from 8% in 1QCY22.
- Despite elevated inflation and record high interest rates along with higher gas prices company has been able to post positive gross and operating profits. Moreover, company has achieved highest quarterly revenue on both unconsolidated and consolidated basis.
- Company has settled all overdue forex payables during the quarter.
- While discussing impact of exchange losses, GST and finance cost company management disclosed that FFBL profitability declined by Rs4.3/0.7/1.9bn in 1QCY23 due to rupee depreciation/GST exemption/KIBOR increasing to 22%.
- Management is confident that demand destruction of 2022 would recover in 2023 as farm economics to improve with projected net income per acre rising. Subsequently, DAP demand to improve as farmers look to maximize output per acre.
- After peaking in 2022, raw material prices witnessed a decreasing trend in 1QCY23.
- Furthermore, phosphoric acid prices are expected to settle at US$970/ton in 2QCY23 against US$1,050/ton in 1QCY23.
- Fauji Meat Limited is EBITDA positive as capacity utilization is improving due to continued focus on exports and low cost operations. Company focused on increasing exports and in discussion with customers in Uzbekistan, Qatar, Malaysia, Saudi Arabia etc.
- Company is in continuous discussion with Government of Pakistan (GoP) to reverse Finance Bill 2022 impact of GST on local DAP manufacturing and cash subsidy of Rs1,000/bag on DAP to continue in the upcoming budget.
- FFBL is using Thar Coal for generation of electricity and steam, which will result in lower cost and improve company's profitability. Currently, the mix of Thar coal is 40% in total coal usage by the company.
- Management also shared closure of FFBL Power due to technical fault and expects the plant to come online by the end of this month. At present, company is fulfilling its power and stream requirements from its own facility, which is being run on RLNG.

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, 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 (3) 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, May 2023

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Recommendations definitions

If

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