Flash Note

Wednesday, 26 May 2021

Fertilizer

Fauji Fertilizer Bin Qasim Limited (FFBL)

Following Fauji Fertilizer Bin Qasim Limited (FFBL) Analyst briefing held on 25th May, 2021, we provide the following key incremental takeaways relative to its recent results and outlook.

Speakers:

- Mr. Sarfaraz Ahmed Rehman, CEO
- Mr. M. Javed Akhtar, CFO

Net Takeaway: Positive

- **Financial Performance:**
  - 1QCY21 exhibited above consensus profitability owing to i) ongoing operational restructuring exercise the company undertook last year, ii) higher local DAP prices and sales of 116kT during the period, and iii) alongside a reduction in financial charges owing to reduced policy rate.

- **Subsidiaries and Associates:**
  - FFBL Power Company Limited (FPCL): The energy supplier to the company is in steady business and most likely will not be impacted by the rise in international coal prices as the impact would be passed on to its consumers with energy costs rising for them.
  - Pakistan Maroc Phosphore: Owing to healthy DAP margins the Moroccan subsidiary is expected to fare well. Furthermore, establishment of a second local DAP manufacturing facility is under consideration which would require a further extension of the P_2O_5 Moroccan Plant ensuring healthy business prospects.
  - Fauji Foods Limited (FFL): The Company has displayed signs of growth with new product lines being introduced as well as a change of management and realignment of business segments.
  - Fauji Meats Limited (FML): The Company still requires attention and for that management is seeking multiple options to resolve issues surrounding its profitability including potential selloff and 360 degree restructuring.
  - Foundation Wind Energy I & II are planned for sell off and negotiations with 2 parties are underway. A final decision will be rolled out in the upcoming months which would enhance the cash flow situation of the company allowing a reduction in interest charges.

- **International DAP pricing trend:**
  - DAP market will continue to remain driven by international demand and supply dynamics. DAP prices remain upbeat in lieu of high international demand amid a global crisis surrounding food sustainability due to COVID-19. International forecasts predict current price levels to sustain for at least the upcoming two years ensuring high profitability for the company

- **GIDC**

  - No recent developments have been made on the GIDC front apart from already announced extension in payment of dues to 5 years.

- **Outlook:**

  - 5 year Gas agreement signed with SSGC in early Feb-21 ensures smooth gas supply in upcoming months thwarting any fears of Gas supply disconnection and disruption in production.
  - Despite International and local Urea Price disparity and delta touching as high as up to PKR 1900, the local prices will only see a maximum inflationary impact.
  - To recall, the company delivered an exceptional sale performance of 926kT in CY20. However, DAP sales will normalize to pre-2019 levels and the benchmark sales level remain CY 2017/18 with CY20 sales performance only made possibly by way of carried forward inventory from CY19 and no longer remain a possibility with company's existing production capacity of 850kT
  - With the upcoming budget expected to maintain a lighter hand on LNG and overall energy prices, no major change in Gas prices is expected as per the company management.

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