

# Flash Note

Thursday, 28 January 2021

## Fertilisers

### Fauji Fertilizer Company Limited (FFC)

#### Impairment loss on investment marred earning accretion; 4QCY20 earnings clock in at PKR 5.25/share, DPS at PKR 3.4

- Fauji Fertilizers Company Limited (FFC) announced its financial result for 4QCY20, reporting an NPAT of PKR 7,053mn (EPS: PKR 5.54) as compared to the earnings of PKR 4,643mn (EPS: PKR 3.65), up by +52% y/y. This brings total earnings for CY20 to PKR 20,819mn (EPS: PKR 16.36), up by 22% y/y. In conjunction with the result, the company announced an interim cash dividend of PKR 3.4/share taking full year dividend to PKR 11.2 as compared to PKR 10.80/share in the corresponding period last year.
- Net Sales of the Company during 4QCY20, as against 3QCY20 increased by 19% q/q due to increase in urea offtake by 19%. However, on a yearly basis it was slashed by 11% due to decline in urea off takes (~-3% y/y). Moreover, gross margins of the company remained flattish on a sequential basis at 29% in 4QCY20 as against 28% registered in last year.
- A steep 43% decline in finance cost outweighs flattish operating margins. This decline in finance cost is due to a series of rate cuts in benchmark interest rates. However, on a sequential basis it increased by 73% largely due to increased short term borrowing requirement during the period, we opine.
- We attribute this increase in earnings during 4QCY20 to a) 19% q/q growth in urea offtakes and b) Gain on extinguishment of GIDC liability as per IFRS-9. However, impairment loss on investment in Fauji Fresh n Freeze during the period marred potential earning accretion for the company.

Exhibit: FFC 4QCY20 Result Highlights								
Period end (Dec) - PKRmn	4QCY20	4QCY19	Y/Y	3QCY20	Q/Q	CY20	CY19	Y/Y
Net Sales	29,237	32,761	-11%	24,636	19%	97,655	105,783	-8%
Gross Profit	8,424	9,105	-7%	8,271	2%	31,583	30,737	3%
Sell. / Dist. & Admin	2,194	2,453	-11%	1,725	27%	7,848	8,288	-5%
Other Operating expense	820	(22)	n/a	628	31%	2,639	2,309	14%
Other Income	1,471	1,670	-12%	951	55%	6,429	7,191	-11%
EBIT	6,881	8,344	-18%	6,869	0%	27,525	27,331	1%
Financial Charges	468	823	-43%	271	73%	1,874	2,477	-24%
Other gain/Losses	4,938	-	-	-	-	4,940	-	-
Loss on impairment	1,000	1,100	-9%	-	-	1,000	1,100	-
Pre-tax Profits	10,351	6,422	61%	6,598	57%	29,591	23,753	25%
Taxation	3,298	1,779	85%	1,970	67%	8,772	6,643	32%
Post-tax Profits	7,053	4,643	52%	4,628	52%	20,819	17,110	22%
EPS	5.54	3.65		3.64		16.36	13.45	
DPS	3.40	3.30	3%	2.55	33%	11.20	10.80	4%
<b>Key Ratios</b>								
Gross Margin (%)	29%	28%		19%		21%	16%	
Net Margin (%)	24%	14%		19%		21%	16%	
Source: IGI Research, Company Accounts, PSX							No. of Shares: 1,272mn	

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