

# Analyst Briefing

**July 2023**

# DISCLOSURE

All forward – looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward – looking statements.

Forward – looking statements should not be relied upon for making investment or other decisions as the statements speak only as of the date they were made

# INDEX

- **Economic Highlights**
- **Fertilizer Industry**
- **Business Highlights & Financial Performance**
- **Way Forward**
- **Q&A**



# Economic Highlights



**Macroeconomic conditions continued to worsen in Q2..... characterized by the highest policy rate on record, uncontrollable inflation, declining indigenous gas and a decline in international prices of DAP.**



### **INFLATION & POLICY RATE**

- Inflation stands at **29%** in June 2023 (SPLY 24%)
- SBP policy rate increased to **22%** in June 2023 (SPLY 13.75%)



### **RUPEE DEVALUATION**

- Unstable exchange rate;
- Devaluation by **49%** (Avg Jan – June) (PKR 278 vs PKR 186 in SPLY) resulting in Exchange Losses.



### **Gas Supply**

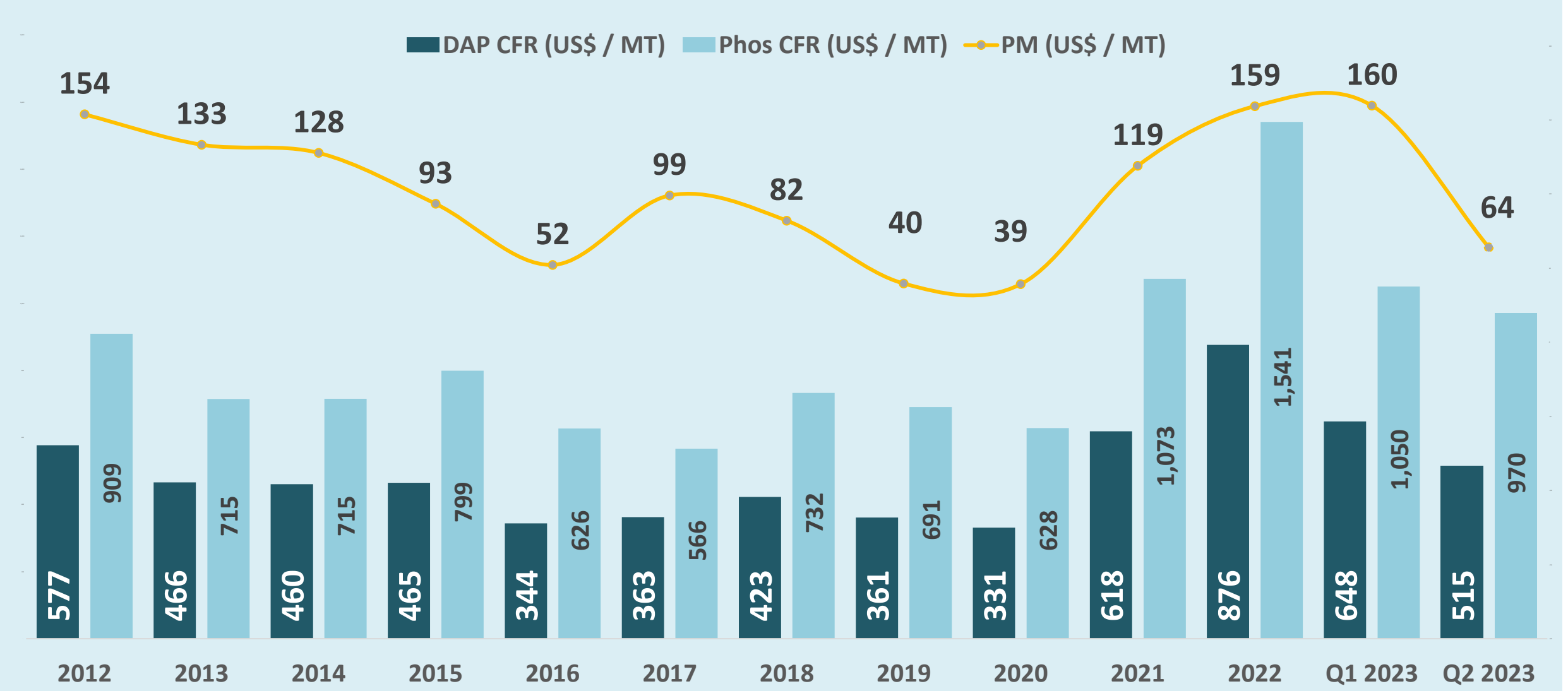
- Gas supply Jan – June 2023 33% lower than SPLY.
- Gas curtailment in Jan – June 23 reached a high of 43% (SPLY 14%) of the allocation.



### **GOP Policies**

- Non-Incentivization of DAP usage.
- GST cost of manufacturing DAP (Though resolved in Finance Bill 2023-24)

In addition to macroeconomic factors, declining International price of DAP and consequent reduction in DAP Primary Margin (DAP vs Phos. Acid) negatively impacting FFBL



Source: CRU / Argus

# Urea Prices

~3.2x benefit passed through Urea Pricing



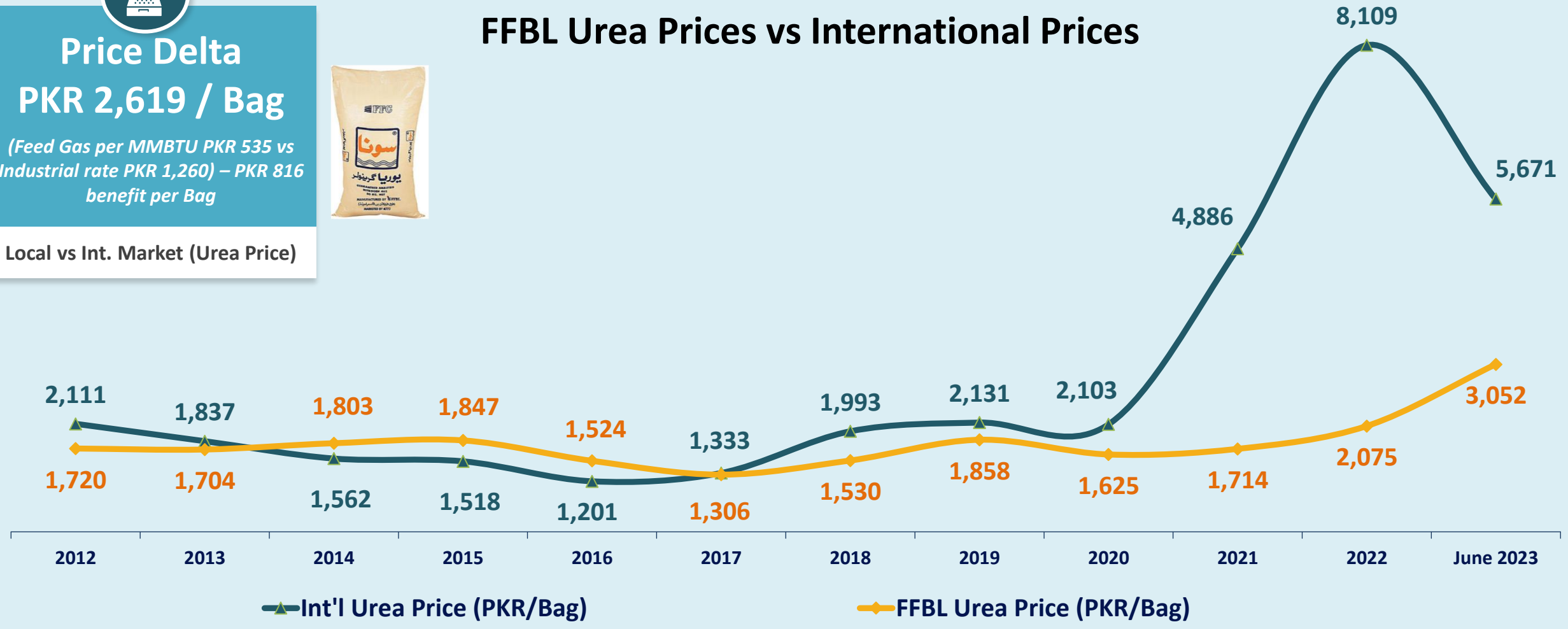
**Price Delta**  
**PKR 2,619 / Bag**

(Feed Gas per MMBTU PKR 535 vs  
Industrial rate PKR 1,260) – PKR 816  
benefit per Bag



Local vs Int. Market (Urea Price)

## FFBL Urea Prices vs International Prices



Int'l Price Source: CRU / Argus  
FFBL Price: Dealer Transfer Price

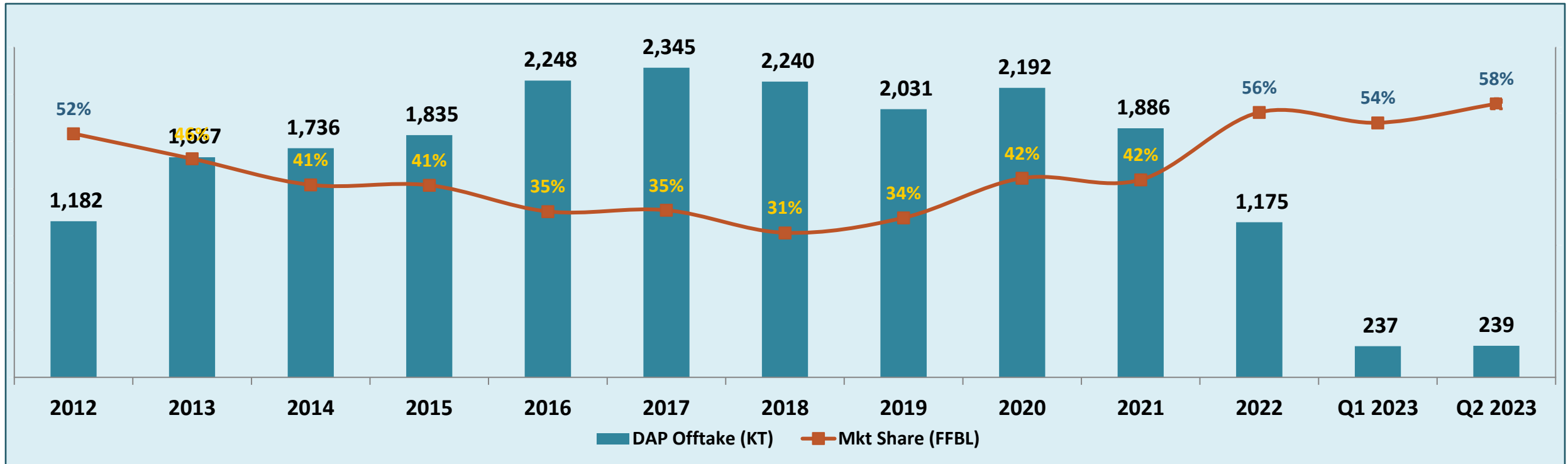


# Fertilizer Industry



# DAP Market (Jan – Jun 2023)

Market declined by 14% (476 KT vs 556KT), however FFBL managed to improve its market share (58%) over SPLY (56%).



## High DAP Price

- Rs./\$ parity.

## Demand Destruction

- Fear of price reduction, supply pipeline is dry
- Use of alternates

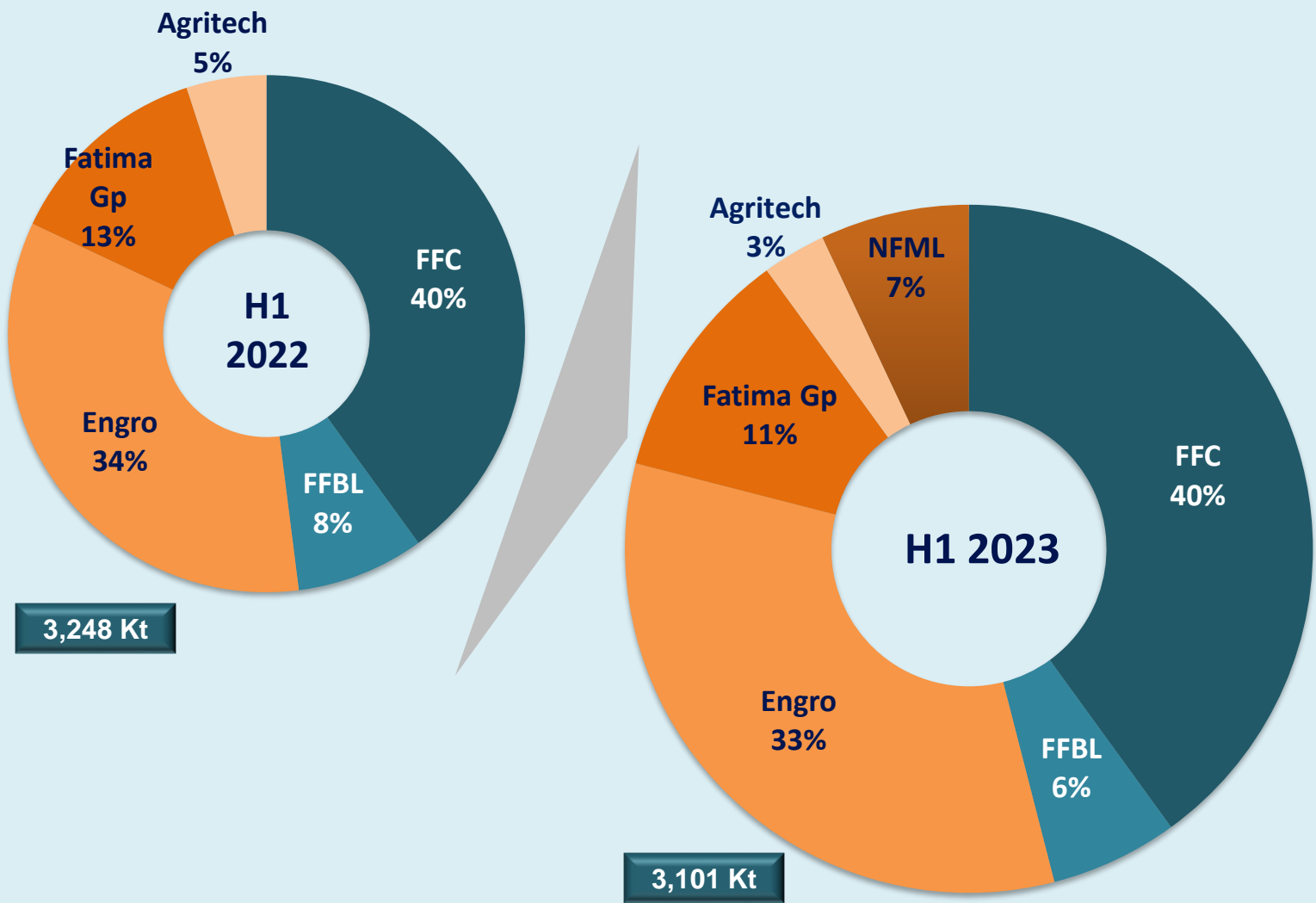
## GOP Policies

- Non-Incentivization of DAP usage.

# Urea Market (Jan – Jun 2023)

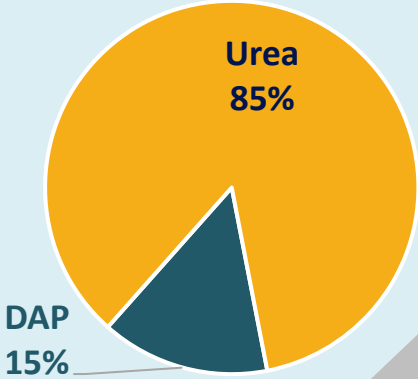
Urea Market size shrunk by 5% over SPLY. DAP market (as a %age of the total Fert Mkt) shrunk by 2% over SPLY.

## Urea Market

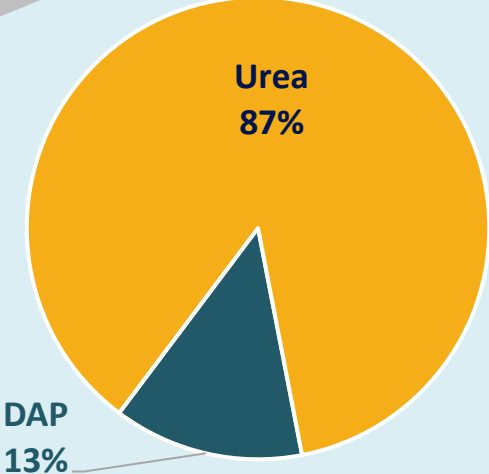




## Fertilizer Market (Volume)

### H1 2022



### H1 2023





# Business Highlights & Financial Performance

# 2023 - Challenges

*Company continued to face the economic and business headwinds throughout the period*



## Inflation

Averaging ~33% for H1 2023

12% increase in Cost of production on a YoY basis

52% reduction in GP Margin



## Interest Rate

**Net Finance cost** PKR ~3.6 Bn for H1 2023 (SPLY PKR ~0.5 Bn)



## Rupee Devaluation

**FOREX loss** PKR ~4.7 Bn for H1 2023 (SPLY PKR ~3 Bn)

FFBL reliant on imported raw material (Phos Acid)



## Govt. Policies

GST exemption  
**GST impact H1 2023 PKR ~2.5 Bn**

(Post July, DAP has been made subject to GST)

**Continuous decline** in Gas supply from SSGC

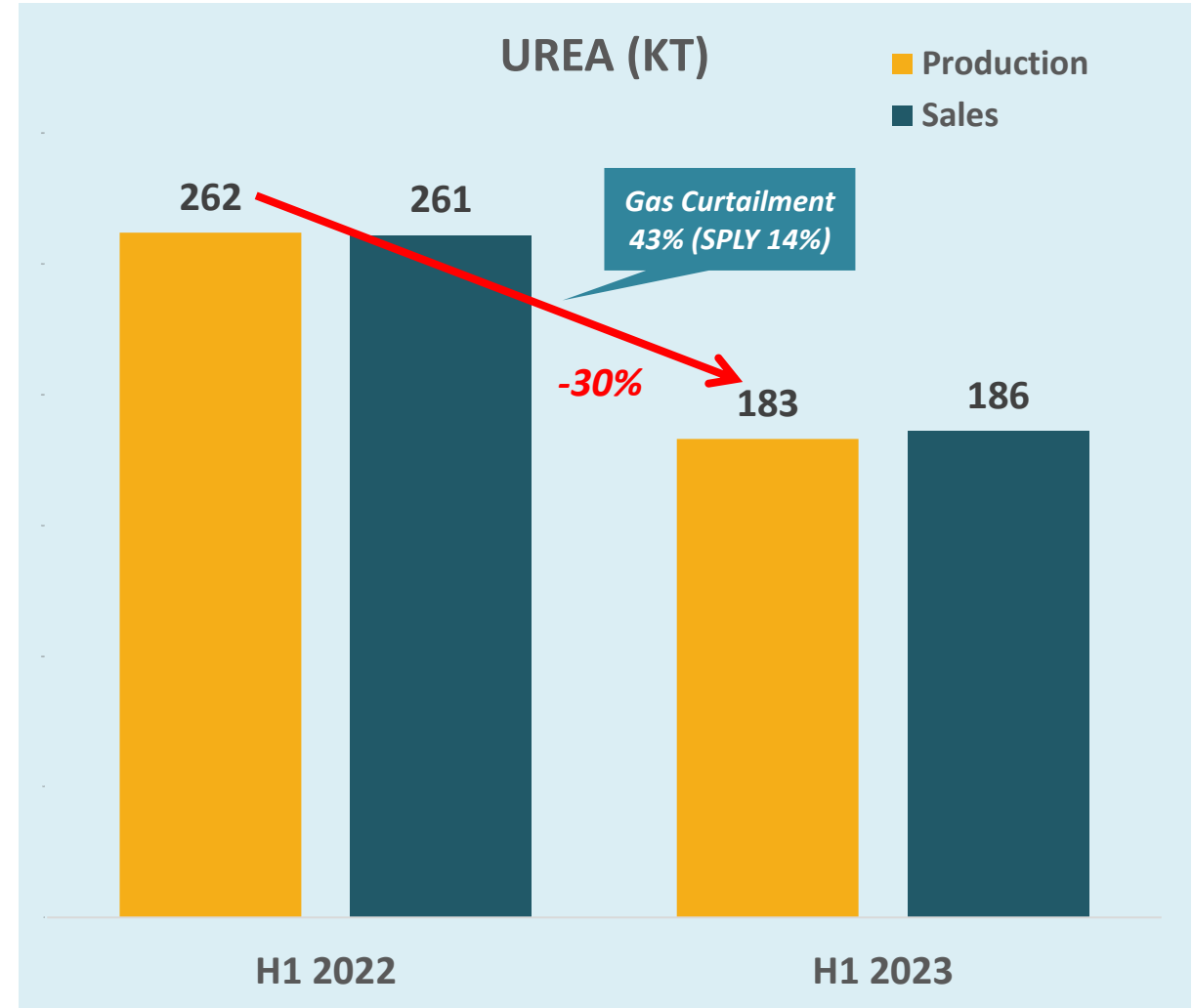
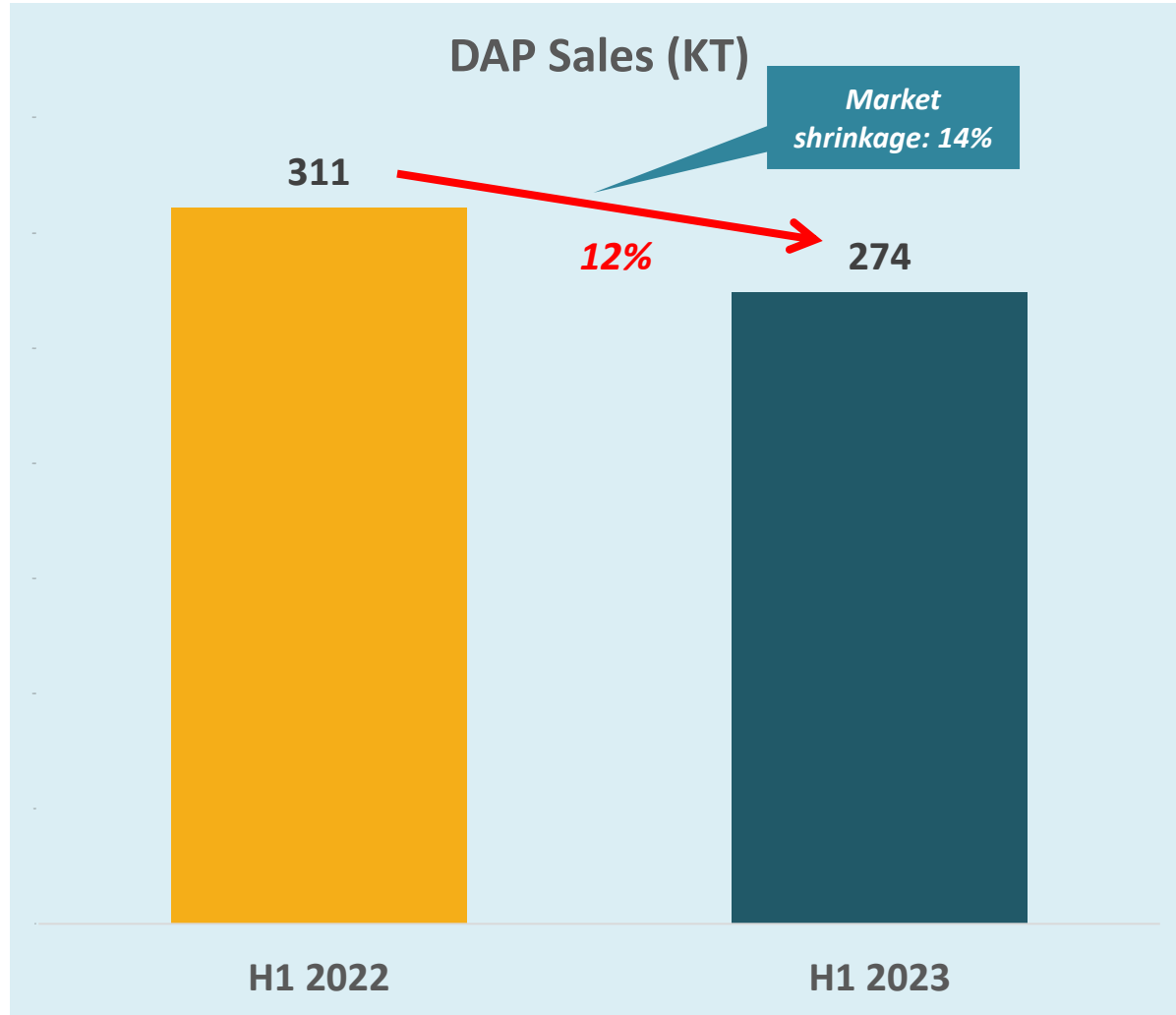


## Super Tax

Actively being contested by FFBL (PKR ~1 Bn on FY22 profits)

# FFBL Volumetric sales (Jan – Jun 2023)

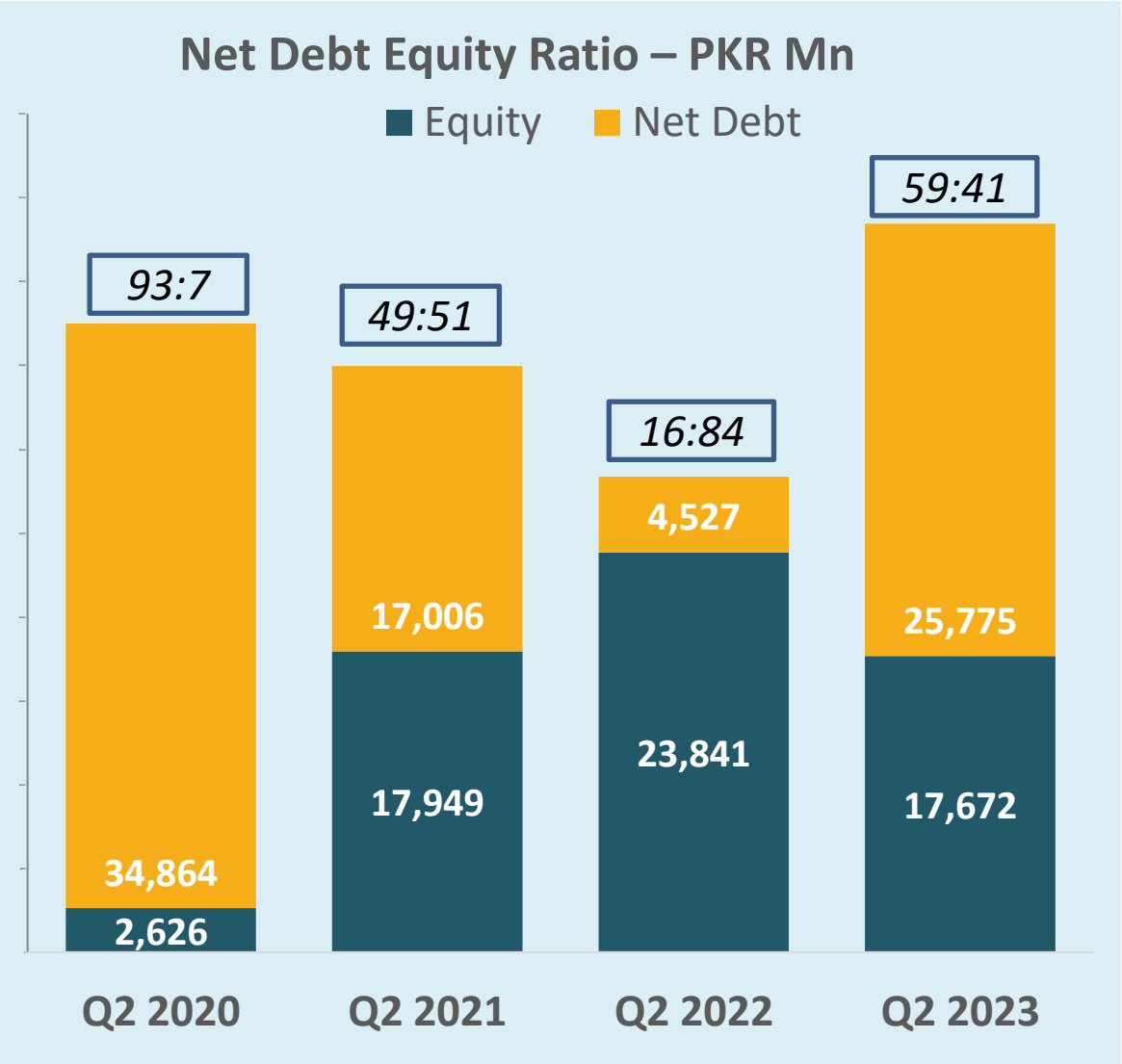
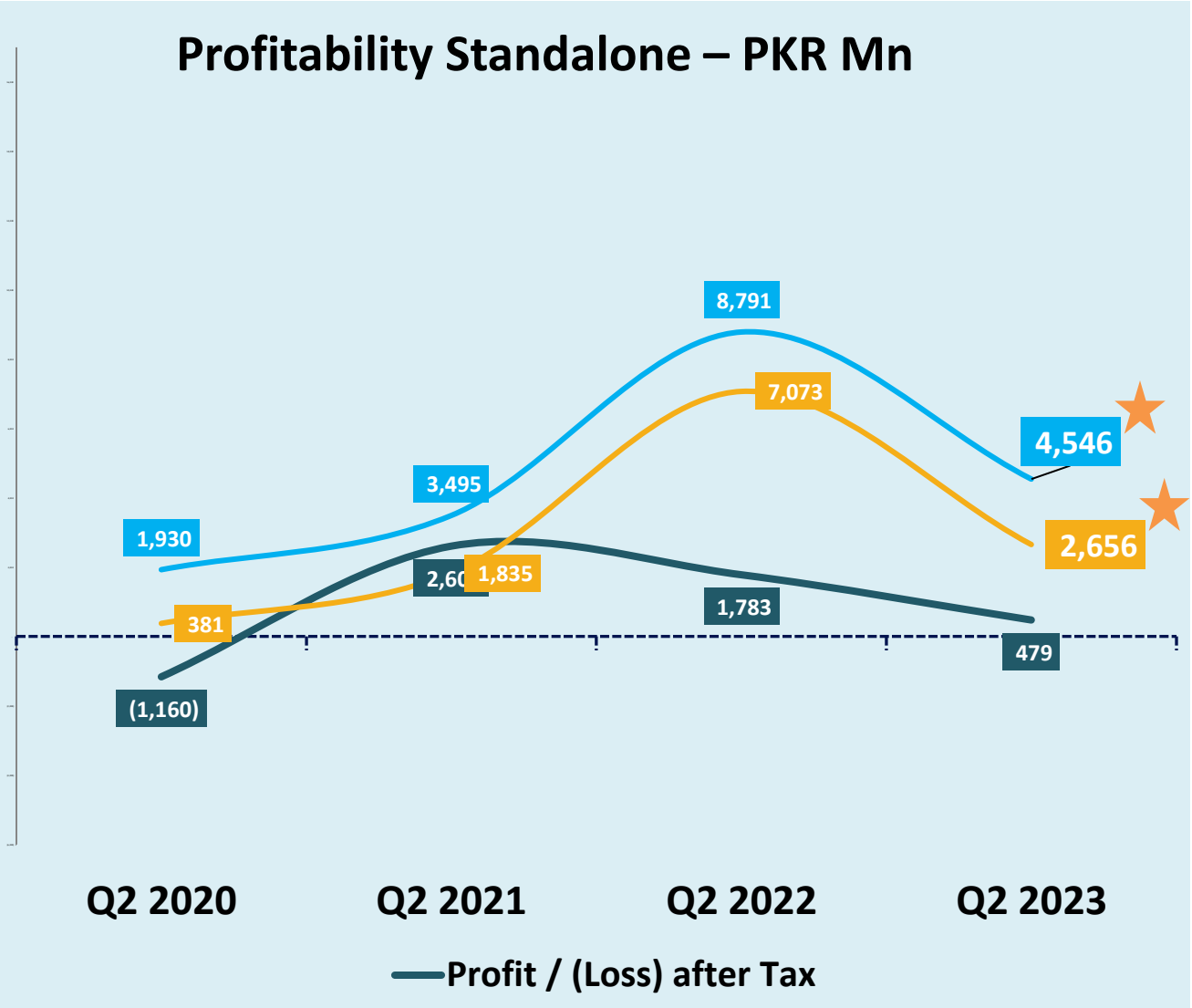
*Despite market shrinkage, improvement in DAP market share to 58% from 56% SPLY*





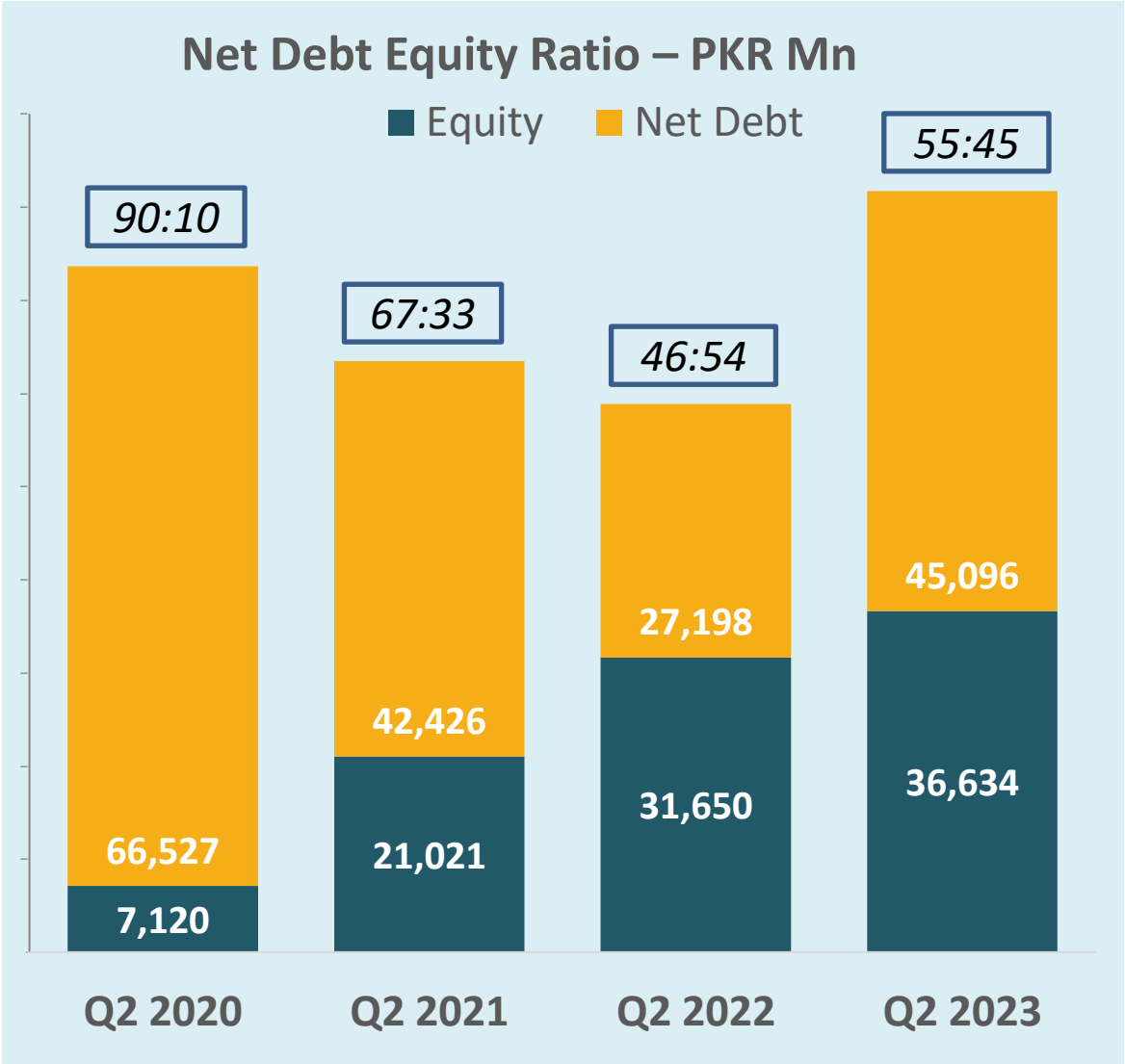
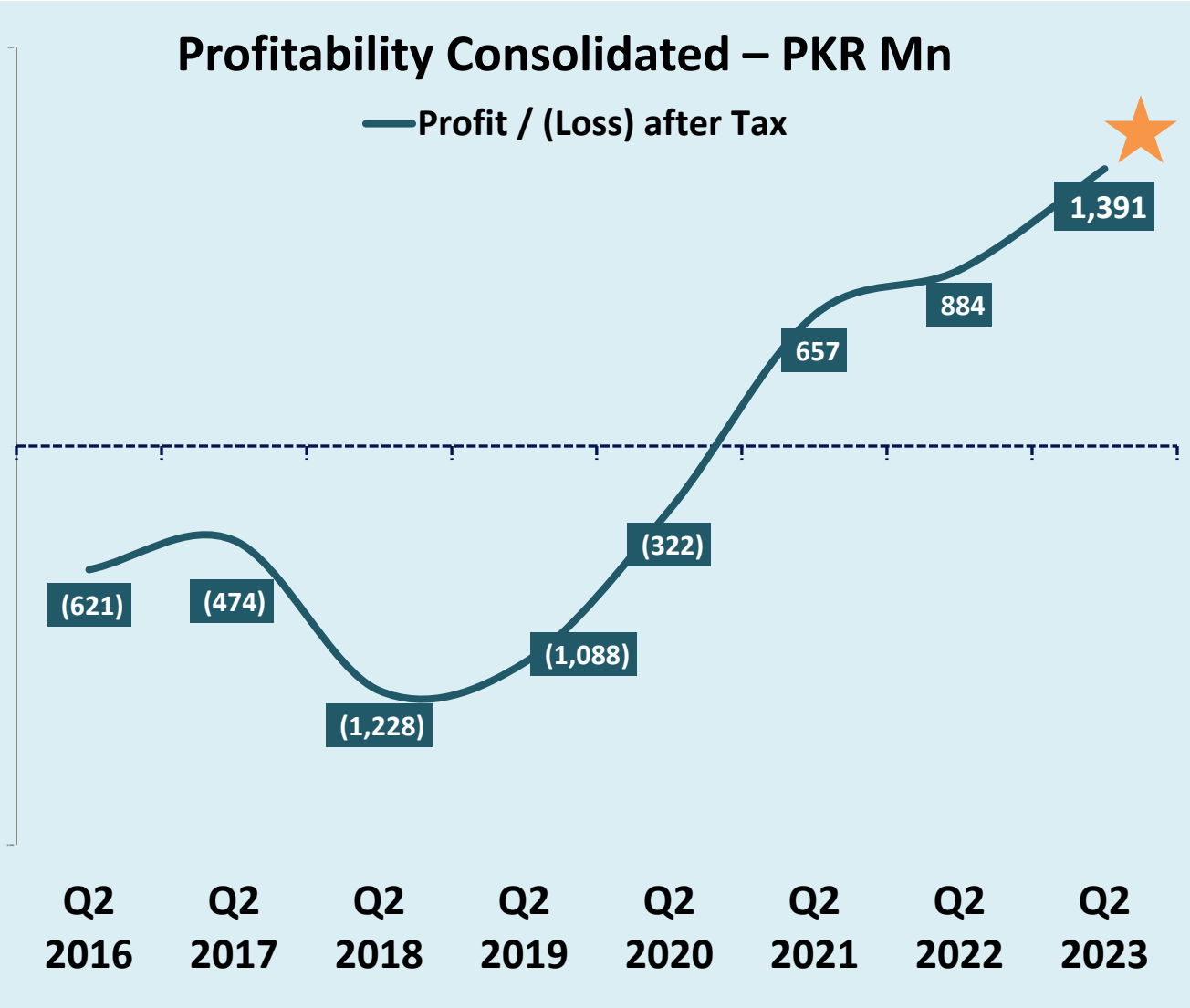
# Standalone 2<sup>nd</sup> highest GP & 3<sup>rd</sup> highest OP for 2<sup>nd</sup> Quarter (since 2010).

Historic inflation, elevated policy rates, tightening economic policy measures, reducing margins in the international phosphate fertilizer market, reduced dividends from PMP and geo-political tensions impacting FFBL’s bottom line.



# Consolidated Highest ever profit since inception for 2<sup>nd</sup> Quarter.

Finance cost and Exchange loss impacted consolidated bottom line. FFL achieved positive bottom line in Q2 for the 1<sup>st</sup> time since 2015 and FML delivered improved business performance owing to increase in Capacity utilization.



# Subsidiaries



*Consistently profitable.*

*Coal mix using local Thar coal.*

***Currently impacted by technical fault in 2 STGs providing power to FFBL.***



*EBITDA positive and improvement in Capacity utilization.*

***Binding conditional offer received from Fauji Foundation for sale of FFBL's entire shareholding in FML. Approved by FFBL BoD and to be placed before shareholders in EOGM.***



***105% growth in H1 Topline over SPLY (PKR 9.8 Bn vs 4.8 Bn).***

***588% growth in H1 GP over SPLY (PKR 1.2 Bn vs 0.2 Bn).***

***EBITDA positive with 196% growth (PKR 0.45 Bn vs -0.46 Bn SPLY)***

***88% Reduction in LAT for H1. Profit after Tax for Q2.***

*Continued focus on value added portfolio. Fueling growth through optimization of distribution network, visibility on secondary sales and COGS reduction.*



# Way Forward

# Farm Economics

*Increase in rice, wheat and sugarcane earnings in 2022-23.*

	2020-21	2021-22	2022-23*
Crops	Net Income PKR / Acre		
Wheat	32,882	27,930	88,799 (↑218%)
Cotton	10,030	64,679	30,486 (↓53%)
Sugarcane	69,397	26,216	54,475 (↑108%)
Rice	25,750	30,561	91,515 (↑199%)

Yield assessed as per first pickings of early sown crop and general crop condition. The market rate is assumed as the indicative price announced by GoP.

*\* Projected based on medium level farmers of irrigated areas. Numbers based on lease lands, whereas landowners earned significantly higher net income*



# Looking ahead gas unavailability, policy and macro issues will continue to pose challenges



## MARKET DYNAMICS

- DAP Price decline in International market likely to negatively impact FFBL margins.
- DAP demand likely to improve owing to improvement in Farm economics.



## GoP ENGAGEMENT

- **Resolution of GST issue through Finance Act 2023 (applicable from 01 July 2023). Development to have favorable impact on FFBL's performance.** However, settlement of GST refunds pending.
- Engagement with GoP and SSGC for improved gas supply.
- FFBL partnering with GoP on its flagship 'Green Pakistan Initiative (GPI)' to promote balanced use of fertilizers.



**Thank You.**



Q & A