RESULT REVIEW

FFC: Earnings Surprise Amid Stable Payout: Margin Resilience Supports Bottom Line

Wednesday, July 30, 2025

Fauji Fertilizer Company Limited (FFC) navigated a complex second quarter of 2025 (2QCY25) to deliver a commendable net profit, significantly outperforming the same period last year (2QCY24). While the core fertilizer business faced notable pressures on gross margins due to elevated input costs and the necessity for market-driven discounts, the company's robust investment income proved to be the pivotal driver of bottom-line growth. This quarter's performance underscores FFC's strategic agility in leveraging diversified income streams to offset operational headwinds, a critical attribute in the current challenging fertilizer market landscape. The interim cash dividend declaration further reinforces management's confidence and commitment to shareholder returns.

Revenue Growth & Underlying Drivers

FFC reported a remarkable 60.60% surge in net turnover for 2QCY25, reaching PKR 91.81bn compared to PKR 57.17bn in 2QCY24. This substantial top-line expansion for the quarter is primarily attributed to the "integration of revenues from marketing of Sona DAP and Sona Urea Granular". This indicates a strategic and successful effort by FFC to broaden its market reach and product portfolio (evidently through its merger with FFBL), effectively leveraging its distribution network.

Gross Margin Analysis: Impact of Input Costs and Discounts

Despite the impressive revenue growth, the cost of sales for 2QCY25 increased at an even steeper rate of 133.75%, reaching PKR 60.85bn from PKR 26.03bn in 2QCY24. This disproportionate rise led to a slight contraction in gross profit by 0.56%, from PKR 31.13bn in 2QCY24 to PKR 30.96bn in 2QCY25. The primary reasons cited for this compression are higher input costs at the Port Qasim plants, and the necessity to offer discounts to offload inventories due to a long market situation.

Operating Profitability & Efficiency

The sharp rise in distribution costs, almost in line with revenue growth, coupled with the decline in operating profit, indicates a significant erosion of operational efficiency. The need to offer discounts to offload inventories, as mentioned earlier, likely contributed to this surge in distribution expenses, as these costs often include marketing incentives and logistics for moving product in an oversupplied market. This suggests that FFC had to expend considerably more resources to convert its gross profit into operating profit, reflecting the intense competitive pressures and the cost of maintaining market share in a difficult quarter.

Financials (PKR in mn)	2QCY25	2QCY24	Y/Y
Net Sales	91,812	57,167	60.60%
Cost of Sales	(60,854)	(26,034)	133.74%
Gross Profit	**30,958**	**31,133**	**-0.56%**
Distribution Cost	(8,720)	(5,543)	57.29%
Operating Profit	**22,239**	**25,589**	**-13.09%**
Finance Cost	(1,708)	(1,380)	23.72%
Other Losses	-	8	-100.00%
Other Expenses	(2,858)	(2,558)	11.69%
Other Income	20,716	5,494	277.05%
Profit Befor Income Tax & Final Tax	**38,390**	**27,153**	**41.38%**
Final Taxes - Levies	(0.27)	(1,083)	-99.97%
Profit Befor Income Tax	**38,389**	**26,070**	**47.25%**
Provision for taxation	(13,215)	(10,522)	25.60%
Profit for the Period	**25,174**	**15,549**	**61.90%**
EPS (Basic & Diluted)	**17.69**	**12.22**	**44.76%**

Source: Company Financials, HMFS Research * Consolidated Financials

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The Role of Other Income in Net Profitability

Other income, a critical component of FFC's overall profitability, saw a substantial increase of 277.06% in 2QCY25, surging to PKR 20.72bn from PKR 5.49bn in 2QCY24. This significant growth in 'Other income' was a primary driver of FFC's strong net profit for the quarter. While the core fertilizer business faced margin pressures, the robust contribution from this non-operating income stream significantly bolstered the bottom line. This highlights FFC's strategic strength in treasury management and the performance of its investment portfolio through its parent company, effectively offsetting operational headwinds.

Finance Costs and Their Trend

Finance costs increased by 23.72% in 2QCY25, rising to PKR 1.71bn from PKR 1.38bn in 2QCY24. This increase, suggests that FFC might have incurred higher borrowing costs or increased short-term debt during the quarter. This could be a consequence of increased working capital requirements due to inventory build-up or higher operational expenses.

Taxation and Net Profit for the Period

Ultimately, Profit for the Period surged by an impressive 61.90%, from PKR 15.55bn in 2QCY24 to PKR 25.17bn (EPS: PKR 17.69) in 2QCY25. The near-elimination of final taxes is a key factor in the strong net profit growth for the quarter. This suggests that a significant portion of FFC's income, particularly its investment income, may be subject to a different, more favorable tax regime. This tax efficiency (effective tax rate in Q2CY25 ~34% was vs. ~40% in Q2CY24) significantly enhanced FFC's ability to convert pre-tax earnings into net profit.

Despite a robust first half, the unchanged interim dividend (DPS: PKR 12) suggests a cautious stance on cash preservation, likely in response to sectoral headwinds. This conservatism leaves room for a potentially stronger final payout, contingent on 2HCY25 performance.

Key Risks to Monitor

Gas tariff reforms or removal of concessional feedstock pricing, fertilizer policy shifts (price caps, subsidy transfers), disruption in input logistics or energy supply.

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