Alpha Capital
REN # REP-004

AKSEER RESEARCH
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Fertilizer: 1QCY22 profitability to grow by 2.7% YoY

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Higher Urea offtake and Price hikes to support earnings in 1QCY22

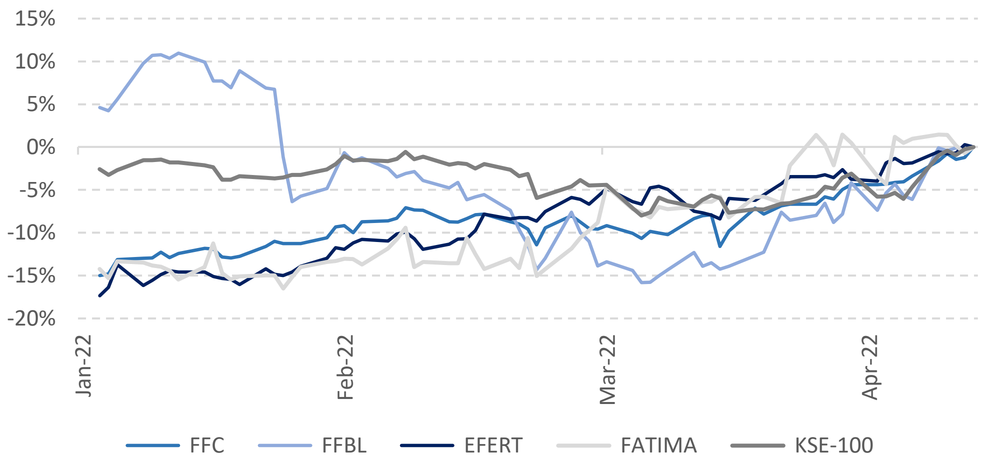
- **As the result season is around the corner, we present earning previews of the Akseer fertilizer Universe, where we expect the profitability to grow by 2.7% YoY.**

- **Urea price hikes to support revenue growth**
  - During 1QCY22, fertilizer manufacturers increased urea prices by PKR 150/bag to PKR 1,918/bag (up 12% YoY) to pass on the inflationary impact while DAP price also increased to PKR 9,980/bag (up 1.1x YoY) inline with higher international prices.
  - Urea offtake is expected to clock in at 1.6mn, up 15% YoY, while DAP offtake is likely to clock in at 243k during 1QCY22.
  - Consequently, sector's revenue is anticipated to grow by 31% YoY to PKR 112bn in 1QCY22.

- **Fauji Fertilizer Company Limited (FFC)**
  - We expect FFC's net profit to grow by 3.1% YoY to PKR 5.9bn (EPS PKR 4.71) during 1QCY22. FFC's topline to clock in at PKR 27.2bn, up 26% YoY on the back of higher offtake (up 9% YoY) along with increased Urea prices (8% YoY). Gross margin is expected to settle at 41% in 1QCY22 39% in 1QCY21. Finance cost of the company to remain high at PKR 1.6bn (up 2.9x YoY) due to increase in interest rates coupled with rising net borrowing. We expect dividend contribution of PKR 1.1bn from freshly acquired Foundation wind energy projects which is likely to offset the impact of absence of dividend income from Askari bank. Along with the result, we expect a DPS of PKR 3.75.

- **Fauji Fertilizer Bin Qasim Limited (FFBL)**
  - For 1QCY22, FFBL is expected to announce net EPS of PKR 1.90, up 94% YoY. Net revenue to clock in at PKR 25.5bn up 96% YoY as a result of higher DAP primary margin, which increased to USD 267/ton in 1QCY22 from USD 177/ton in 1QCY21. Other income of the company is expected to decline by 36% YoY, due to absence of dividend from FWEL projects and AKBL.

Relative Price Performance



EPS Estimates	1QCY21	4QCY21	1QCY22E	QoQ	YoY
FFC	4.57	4.72	4.71	-0.21%	3.06%
FFBL	0.98	0.19	1.90	NM	93.88%
EFERT	4.30	4.62	3.94	-14.72%	-8.37%
FATIMA	1.79	2.09	1.60	-23.44%	-10.61%

Source: PSX, Company Accounts, Akseer Research

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‘Market-Weight’ stance maintained

Engro Fertilizers Limited (EFERT)

- EFERT’s profitability is expected to decline by 8% YoY to PKR 5.3bn (EPS PKR 3.9). This is majorly due to higher gas prices as company is now accruing cost on normal gas pricing. Consequently, gross margins to decline to 33% in 1QCY22 compared to 39% in 1QCY21. Along with the result, we expect the company to announce DPS of PKR 3.50 in 1QCY22.

Fatima Fertilizer Company Limited (FATIMA)

- We expect FATIMA to report net profit of PKR 3.7bn (EPS PKR 1.8), down 10.6% YoY for 1QCY22 despite record Urea offtake of 240k tons up 65% YoY. Gross margins of the company is anticipated to decline to 21% in 1QCY22 from 27.5% in 1QCY21 due to the expiration of concessionary gas. Higher gas pricing for Pak-Arab plant and costly RLNG to Dawood Hercules plant also impacted the gross margins.

‘Market-Weight’ stance maintained

- We have a ‘Market-Weight’ stance on the fertilizer sector due to limited growth potential as the fertilizer manufacturers are already operating at historically higher gross margins. The sector is trading at CY22F PE and P/B of 4.9x and 1.9x, respectively, and is offering an attractive dividend yield of 14%.
- In the absence of any progress on GIDC payment issues, we believe that local fertilizer companies can further increase their payouts.
- FFC is our top pick with Dec-22 SOTP based PT of PKR 140/share. The stock offers an upside of 17.7% along with a dividend yield of 13.0%.

DPS Estimates

	1QCY21	4QCY21	1QCY22E	QoQ	YoY
FFC	3.50	4.65	3.75	-19.35%	7.14%
EFERT	4.00	5.00	3.50	-30.00%	-12.50%

Source: PSX, Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts’ assumptions or a combination of these factors.

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