



# Fertilizer: Subdued fertilizer offtake to weigh on 3QCY22 profitability

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## Subdued fertilizer offtake to weigh on 3QCY22 profitability

With the onset of result season, we present 3QCY22 result previews of Akseer's fertilizer universe. We expect profitability of our sample companies to increase by 1.9% YoY to PKR 18.3bn during 3QCY22.

### Lower fertilizer offtake to dampen sector's revenue despite higher prices

- As per the provisional numbers, Urea offtake is expected to decline by 13% YoY to 1.5mn tons in 3QCY22 as compared to 1.7mn tons in 3QCY21. This could be attributable to higher rains and flash floods during the outgoing quarter as compared to last year. This takes 9MCY22 urea offtake to 4.8mn tons, up 2% YoY.
- During 3QCY22, average urea prices stood at PKR 2,284/bag as compared to PKR 1,747/bag in 3QCY21.
- On the other hand, DAP offtake is expected to clock in at 141k tons in 3QCY22 compared to 601k tons in 3QCY21. Decline in offtake can be attributable to delay in Rabi crops sowing due to floods along with higher DAP prices.
- Local DAP prices averaged at PKR 12,606/bag in 3QCY22 vs PKR 6,040/bag in 3QCY21 due to higher international prices.
- Consequently, revenue of Akseer's fertilizer universe is expected to decline by 12.9% YoY to PKR 117.5bn in 3QCY22.

### Higher finance cost would also likely to restrict the sector's bottomline

- Finance cost of the Akseer fertilizer universe is expected to clock in at PKR 5.0bn during 3QCY22, up 130% YoY. This is due to higher borrowings along with higher interest rates as compared to last year.

Akseer Fertilizer Universe- Financial Estimates						
	3QCY21	3QCY22E	YoY	9MCY21	9MCY22E	YoY
Revenue	134,868	117,530	-12.9%	311,471	380,589	22.2%
Cost of goods sold	92,964	78,240	-15.8%	205,048	255,363	24.5%
<b>Gross profit</b>	<b>41,904</b>	<b>39,291</b>	<b>-6.2%</b>	<b>106,423</b>	<b>125,225</b>	<b>17.7%</b>
<i>Gross Margins</i>	31.1%	33.4%	2.4%	34.2%	32.9%	-1.3%
Selling & Admin	9,178	6,703	-27.0%	25,207	26,768	6.2%
<b>Operating Profits</b>	<b>32,726</b>	<b>32,587</b>	<b>-0.4%</b>	<b>81,215</b>	<b>98,457</b>	<b>21.2%</b>
Other Income	6,650	6,724	1.1%	18,408	23,872	29.7%
Other Expenses	8,043	5,116	-36.4%	13,929	16,730	20.1%
Finance Cost	2,198	5,060	130.1%	6,313	10,921	73.0%
<b>PBT</b>	<b>26,732</b>	<b>27,253</b>	<b>2.0%</b>	<b>74,307</b>	<b>88,540</b>	<b>19.2%</b>
Tax	8,817	8,994	2.0%	23,262	46,012	97.8%
<b>PAT</b>	<b>17,915</b>	<b>18,260</b>	<b>1.9%</b>	<b>51,044</b>	<b>42,528</b>	<b>-16.7%</b>

Akseer Fertilizer Universe- EPS								
	2QCY22	3QCY21	3QCY22E	QoQ	YoY	9MCY21	9MCY22E	YoY
<b>FFC</b>	2.64	5.07	4.21	59.3%	-17.1%	12.5	11.8	-5.9%
<b>FFBL</b>	1.38	1.76	1.35	-1.9%	-23.1%	4.76	3.99	-16.1%
<b>EFERT</b>	-0.07	3.30	3.40	-	2.9%	11.17	7.45	-33.3%
<b>FATIMA</b>	0.07	2.27	3.15	-37.3%	38.6%	6.71	5.94	-11.5%

Akseer Fertilizer Universe- DPS								
	2QCY22	3QCY21	3QCY22E	QoQ	YoY	9MCY21	9MCY22E	YoY
<b>FFC</b>	2.10	3.75	3.25	54.6%	-13.4%	9.85	9.05	-8.2%
<b>EFERT</b>	-	3.50	3.50	-	0%	11.50	9.00	-21.7%

## Fauji Fertilizer Company Limited (FFC)

- FFC is expected to announce an unconsolidated earnings of PKR 2.64bn (EPS PKR 4.21) in 3QCY22, down 17% YoY. This will take 9MCY22 EPS to 11.75, down 6% YoY.
- Along with the result, we expect the company to announce an interim DPS of PKR 3.25.
- Gross margin is expected to clock in at 43% in 3QCY22, up 5pp YoY on the back of higher urea prices (+27% YoY). Urea offtake of the company is expected to decline by 26% YoY to 510k tons.
- The company is likely to book higher repair & maintenance charges during 3Q due to break down at Plant-III, as a result plant was non productive for 16 days in the month of July.
- Other income of the company is anticipated to grow to PKR 3.5bn (+103.5% YoY) in 3QCY22 owing to higher income on short-term investments.
- Finance cost is expected to clock in at PKR 2.5bn (+280% YoY) in 3Q due to higher interest rates and increased borrowing.
- The effective tax rate is expected to reach 33% in 3QCY22 vs 26% in 3QCY21.

Financial Estimates (PKR Mn)						
	3QCY21	3QCY22E	YoY	9MCY21	9MCY22E	YoY
Net Sales	29,574	23,207	-22%	73,592	77,912	6%
Cost of Sales	18,408	13,149	-29%	46,215	46,954	2%
<b>Gross Profit</b>	<b>11,166</b>	<b>10,058</b>	<b>-10%</b>	<b>27,377</b>	<b>30,958</b>	<b>13%</b>
Distri. & Admin. Exp.	2,087	1,733	-17%	6,051	6,040	0%
Other Income	1,701	3,461	104%	5,915	10,870	84%
Other Charges	810	692	-15%	2,103	2,334	11%
Finance Cost	647	2,462	280%	1,452	4,480	209%
Unwinding of GIDC	616	645	5%	1,815	1,820	0%
<b>Profit Before Taxation</b>	<b>8,706</b>	<b>7,987</b>	<b>-8%</b>	<b>21,871</b>	<b>26,805</b>	<b>23%</b>
Taxation	2,254	2,636	17%	5,983	11,855	98%
<b>Net Income</b>	<b>6,452</b>	<b>5,351</b>	<b>-17%</b>	<b>15,888</b>	<b>14,950</b>	<b>-6%</b>
EPS	5.07	4.21	-17%	12.49	11.75	-6%
DPS	3.75	3.25	-13%	9.85	9.05	-8%
<b>Key Ratios:</b>						
Gross Margin	38%	43%		37%	40%	
Operating Margin	31%	36%		29%	32%	
EBITDA Margin	32%	40%		31%	35%	
Pre-tax margin	29%	34%		30%	34%	
Net Margin	22%	23%		22%	19%	

## Engro Fertilizers Limited (EFERT)

- EFERT is scheduled to announce its financial results on 12<sup>th</sup> October 2022 for 3QCY22. The company is expected to report earnings of PKR 4.5bn (EPS PKR 3.40), up 3% YoY. This will take 9MCY22 EPS to 7.45, down 33% YoY.
- Along with the result, we expect the company to announce an interim cash dividend of PKR 3.5/share for 3QCY22.
- Gross margin is expected to increase by 4pp YoY to 30% owing to higher urea prices (+27% YoY).
- The company witnessed a production loss of 111k tons in the month of July due to unscheduled break down at its Enven plant. Consequently, we expect higher repair and maintenance charges during 3QCY22.
- Finance cost of the company is expected to reach at PKR 826mn (+94% YoY).
- The effective tax rate of the company is expected to clock in at 33% during 3QCY22 vs 30% in 3QCY21.

Financial Estimates (PKR Mn)						
	3QCY21	3QCY22E	YoY	9MCY21	9MCY22E	YoY
Net Sales	37,383	34,745	-7%	92,742	109,882	18%
Cost of Sales	27,768	24,179	-13%	61,718	76,763	24%
<b>Gross Profit</b>	<b>9,615</b>	<b>10,567</b>	<b>10%</b>	<b>31,024</b>	<b>33,118</b>	<b>7%</b>
Distri. & Admin. Exp.	2,586	2,456	-5%	7,356	7,630	4%
Other Income	458	407	-11%	1,429	1,506	5%
Other Charges	561	480	-14%	1,685	2,333	38%
Finance Cost	426	826	94%	1,266	1,883	49%
Unwinding of GIDC	(162)	(434)	169%	(513)	(1,180)	130%
<b>Profit Before Taxation</b>	<b>6,339</b>	<b>6,777</b>	<b>7%</b>	<b>21,632</b>	<b>21,599</b>	<b>0%</b>
Taxation	1,927	2,236	16%	6,711	11,645	74%
<b>Net Income</b>	<b>4,412</b>	<b>4,541</b>	<b>3%</b>	<b>14,921</b>	<b>9,954</b>	<b>-33%</b>
EPS	3.30	3.40	3%	11.17	7.45	-33%
DPS	3.50	3.50	0%	11.50	9.00	-22%
<b>Key Ratios:</b>						
Gross Margin	26%	30%		33%	30%	
Operating Margin	19%	23%		26%	23%	
EBITDA Margin	23%	26%		40%	25%	
Pre-tax margin	17%	20%		23%	20%	
Net Margin	12%	13%		16%	9%	

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## Fauji Fertilizer Bin Qasim Limited (FFBL)

- FFBL is scheduled to announce its 3QCY22 financial results on 25<sup>th</sup> October 2022. The company is expected to announce unconsolidated earnings of PKR 1.75bn (EPS 1.35), down 23% YoY in 3QCY22. This will take 9MCY22 EPS to 3.99, down 16% YoY.
- Revenue is anticipated to reach at PKR 24.2bn (-37% YoY) on the back of significant decline in DAP offtake by 74% YoY to 72k tons during 3QCY22. Urea offtake also went down by 28% YoY to 117k tons.
- Gross margins are expected to settle at 20% in 3Q (-2pp YoY) as phos-acid prices rose 64% YoY.
- The company is expected to book exchange loss of PKR ~1.0bn on its payables due to sharp PKR depreciation against the USD.
- Finance cost will likely clock in at PKR 1.0bn (+82% YoY) owing to interest rates hikes.
- Effective tax rate for 3QCY22 to clock in at 33% for the company vs 38% in 3QCY21.

Financial Estimates (PKR Mn)						
	3QCY21	3QCY22E	YoY	9MCY21	9MCY22E	YoY
Net Sales	38,449	24,223	-37%	68,367	95,156	39%
Cost of Sales	29,907	19,427	-35%	53,852	76,180	41%
<b>Gross Profit</b>	<b>8,542</b>	<b>4,796</b>	<b>-44%</b>	<b>14,515</b>	<b>18,976</b>	<b>31%</b>
Distri. & Admin. Exp.	1,920	1,453	-24%	4,782	5,213	9%
Other Income	4,167	2,195	-47%	8,216	6,562	-20%
Other Charges	4,175	1,534	-63%	4,736	5,404	14%
Finance Cost	560	1,022	82%	1,820	2,634	45%
Unwinding of GIDC	303	372	23%	972	864	-11%
<b>Profit Before Taxation</b>	<b>3,648</b>	<b>2,610</b>	<b>-28%</b>	<b>8,318</b>	<b>11,422</b>	<b>37%</b>
Taxation	1,373	861	-37%	2,168	6,263	189%
<b>Net Income</b>	<b>2,275</b>	<b>1,748</b>	<b>-23%</b>	<b>6,150</b>	<b>5,159</b>	<b>-16%</b>
EPS	1.76	1.35	-23%	4.76	3.99	-16%
DPS	-	-		-	-	
<b>Key Ratios:</b>						
Gross Margin	22%	20%		21%	20%	
Operating Margin	17%	14%		14%	14%	
EBITDA Margin	18%	15%		15%	15%	
Pre-tax margin	9%	11%		12%	12%	
Net Margin	6%	7%		9%	5%	

## Fatima Fertilizer Company Limited (FATIMA)

- FATIMA is expected to report an unconsolidated EPS of PKR 3.1 during 3QCY22, up 39% YoY. This will take 9MCY22 EPS to 5.94, down 11% YoY.
- Topline of the company is expected to grow by 20% YoY to PKR 35.3bn in 3QCY22. FATIMA is expected to witness the lowest decline in fertilizer offtake of 4.4% YoY amongst its peers, which is likely to be offset by the higher fertilizer prices during the quarter.
- Gross margins are expected to decline by 4pp YoY due to higher phos-acid prices, and higher gas prices for its Pak Arab plant which is linked to USD.
- Finance cost of the company is expected to grow by 33% YoY to PKR 749mn.
- The effective tax-rate of the company is expected to clock in at 33% in 3QCY22 vs 41% in 3QCY21.

Financial Estimates (PKR Mn)						
	3QCY21	3QCY22E	YoY	9MCY21	9MCY22E	YoY
Net Sales	29,462	35,355	20%	76,770	97,639	27%
Cost of Sales	16,881	21,485	27%	43,262	55,466	28%
<b>Gross Profit</b>	12,581	13,870	10%	33,508	42,173	26%
Distri. & Admin. Exp.	2,585	1,061	-59%	7,019	7,886	12%
Other Income	324	661	104%	2,848	4,935	73%
Other Charges	1,650	1,756	6%	2,848	4,935	73%
Finance Cost	565	749	33%	1,776	1,924	8%
Unwinding of GIDC	89	72	-20%	284	221	-22%
<b>Profit Before Taxation</b>	8,039	9,880	23%	22,485	28,714	28%
Taxation	3,262	3,260	0%	8,400	16,249	93%
<b>Net Income</b>	4,777	6,619	39%	14,085	12,465	-11%
EPS	2.27	3.15	39%	6.71	5.94	-11%
DPS	-	-		-	-	
<b>Key Ratios:</b>						
Gross Margin	43%	39%		44%	43%	
Operating Margin	34%	36%		35%	35%	
EBITDA Margin	43%	37%		41%	39%	
Pre-tax margin	27%	28%		29%	29%	
Net Margin	16%	19%		18%	13%	

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